

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No.: 001-38610

SAFE-T GROUP LTD.

(Exact name of registrant as specified in its charter)

Translation of registrant's name into English: Not applicable

State of Israel

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<i>Title of each class</i>	<i>Trading Symbol(s)</i>	<i>Name of each exchange on which registered</i>
American Depositary Shares each representing 40 Ordinary Shares, no par value per share(1)	SFET	Nasdaq Capital Market
Ordinary Shares, no par value per share(2)		

(1) Evidenced by American Depositary Receipts.

(2) Not for trading, but only in connection with the listing of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

726,103,611 Ordinary Shares, no par value, as of December 31, 2020.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act. ☐

†The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company.

Yes ☐ No ☒

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INTRODUCTION

We are a provider of access solutions and intelligent data collection. The group consists of two main operating arms: Cyber and IP Proxy Network, or IPPN.

Our Cyber arm relates to the ZoneZero™ cloud and on-premises solutions, empowered by our patented reverse-access technology and proprietary routing technology, and designed to mitigate attacks on enterprises' business-critical services and sensitive data, while ensuring uninterrupted business continuity. Organizations' access use cases, whether into the organization or from the organization out to the internet, are secured according our "validate first, access later" zero trust philosophy. This means that no one is trusted by default from inside or outside the network, and verification is required from everyone trying to gain access to resources on the network or in the cloud. Our ZoneZero™ solutions reduce organizations' attack surface and improve their ability to defend against modern cyberthreats.

Our IPPN arm offers an exclusive global proxy network solution, based on proprietary proxy traffic optimization and routing technology, and built on partnership agreements with tens of Internet Service Providers, or ISPs. Our IPPN solutions enable access to the Internet using the ISP network, through millions of end-points globally, as well as functionality, security, privacy, and multiple business use cases, including large-scale data mining and analysis. With our IPPN solutions, organizations can obtain access to undiscovered data from non-traditional data sources (like social media) and gain additional data-driven information that provide valuable insights with respect to predictive capabilities or behaviors thus assisting ongoing business management operation and decision making.

Unless otherwise indicated, all references to the "Company," "we," "our" and "Safe-T" refer to Safe-T Group Ltd. and its wholly owned Israeli subsidiaries NetNut Ltd., or Net Nut, and Safe-T Data A.R Ltd., or Safe-T Data, Safe-T Data's wholly owned subsidiary, Safe-T USA Inc., a Delaware corporation, and Safe-T USA Inc.'s wholly owned subsidiary, Chi Cooked LLC, an Illinois limited liability company.

References to "U.S. dollars" and "\$" are to currency of the United States of America, and references to "NIS" are to New Israeli Shekels. References to "Ordinary Shares" are to our Ordinary Shares, no par value per share. We report financial information under International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

All descriptions of our share capital in this annual report on Form 20-F, except the consolidated financial statements and the related notes included on this annual report on Form 20-F beginning on page F-1, assume the issuance of 260,000 ADSs (representing 10,400,000 Ordinary Shares) upon the exercise of pre-funded warrants, outstanding as of March 21, 2021.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this annual report on Form 20-F may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “plans,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified.

These forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, statements that contain projections of results of operations or of financial condition, expected capital needs and expenses, statements relating to the research, development, completion and use of our products, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future.

Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We have based these forward-looking statements on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

Important factors that could cause actual results, developments and business decisions to differ materially from those anticipated in these forward-looking statements include, among other things:

- our planned level of revenues and capital expenditures;
- our ability to market and sell our products;
- our plans to continue to invest in research and development to develop technology for both existing and new products;
- our ability to maintain our relationships with channel partners;
- our ability to maintain or protect the validity of our European, U.S. and other patents and other intellectual property;
- our ability to launch and penetrate markets in new locations, including taking steps to expand our activities in Europe and Southeast Asia and to enter into engagements with new business partners in those markets;
- our intention to increase marketing and sales activities;
- our intention to establish partnerships with industry leaders;
- our ability to implement on-line distribution channels and to generate sales from such channels;
- our ability to retain key executive members;
- our ability to internally develop new inventions and intellectual property;
- our expectations regarding future changes in our cost of revenues and our operating expenses;
- our expectations regarding our tax classifications;
- interpretations of current laws and the passages of future laws;
- acceptance of our business model by investors; and
- those factors referred to in “Item 3. Key Information – D. Risk Factors,” “Item 4. Information on the Company,” and “Item 5. Operating and Financial Review and Prospects”, as well as in this annual report on Form 20-F generally.

Readers are urged to carefully review and consider the various disclosures made throughout this annual report on Form 20-F which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

You should not put undue reliance on any forward-looking statements. Any forward-looking statements in this annual report on Form 20-F are made as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

In addition, the section of this annual report on Form 20-F entitled “Item 4. Information on the Company” contains information obtained from independent industry sources and other sources that we have not independently verified.

Summary Risk Factors

The risk factors described below are a summary of the principal risk factors associated with an investment in us. These are not the only risks we face. You should carefully consider these risk factors, together with the risk factors set forth in Item 3D. of this Report and the other reports and documents filed by us with the SEC.

Risks Related to Our Financial Condition and Capital Requirements

- We are a development-stage company and have a limited operating history, have incurred losses since the date of inception of Safe-T Data and anticipate that we will continue to incur significant losses until we are able to commercialize our products globally;
- We expect we may need to raise additional capital before we expect to become profitable from the sale of our products;
- The report of our independent registered public accounting firm contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern, which could prevent us from obtaining new financing on reasonable terms or at all.

Risks Related to Our Business and Industry

- If we are unable to sell additional products and services to our existing customers and/or to acquire new customers, our future revenues and operating results will be harmed;
- We face intense competition from IT security and IPPN vendors, some of which are larger and better known than we are, and we may lack sufficient financial or other resources to maintain or improve our competitive position;
- If our internal network system is compromised by cyber attackers or other data thieves, or if our hosting and infrastructure fails, public perception of our products and services will be harmed;
- We rely on original equipment manufacturer partners, channel partners, including systems integrators, distributors and value-added resellers, to generate a significant portion of our revenue;
- We face business disruption and related risks resulting from the outbreak and continuous effects of the COVID-19, which could have a material adverse effect on our business and results of operations.

Risks Related to Our Intellectual Property

- If we are unable to obtain and maintain effective patent and trademark rights for our products, we may not be able to compete effectively in our markets;
- Third-party claims of intellectual property infringement may prevent or delay our development and commercialization efforts;
- We may be involved in lawsuits to protect or enforce our intellectual property.

Risks Related to the Ownership of Our ADSs or Ordinary Shares

- Issuance of a significant amount of additional Ordinary Shares on exercise or conversion of outstanding warrants and/or substantial future sales of our Ordinary Shares may depress our share price;
- Our warrants are speculative in nature and holders of our warrants will have no rights as shareholders until such holders exercise their warrants and acquire our ADSs;
- Holders of ADSs may not have the same voting rights as the holders of our Ordinary Shares;
- Holders of ADSs must act through the depository to exercise their rights as shareholders of our company.

Risks Related to Israeli Law and Our Operations in Israel

- Provisions of Israeli law and our articles of association may delay, prevent or otherwise impede a merger with, or acquisition of, our company;
- The rights and responsibilities of a holder of our securities will be governed by Israeli law, which differs in some material respects from the rights and responsibilities of U.S. companies;
- Our headquarters and other significant operations are located in Israel, and, therefore, our results may be adversely affected by political, economic and military instability in Israel;
- Certain of our research and development activities and programs were supported by Israeli Governmental grants, some of which were sold or we are in the process of selling. The terms of such grants may require us, in the future, to pay royalties and to satisfy specific conditions if and to the extent we receive future royalties or in order to complete the sale of such grant-based technologies and programs. We may be required to pay penalties in addition to payment of the royalties.

General Risk Factors

- Raising additional capital would cause dilution to holders of our equity securities, and may affect the rights of existing holders of equity securities;
- We are subject to a number of risks associated with global sales and operations;
- The price of the ADSs may be volatile;
- We may be subject to securities litigation, which is expensive and could divert management attention.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [Removed and reserved.]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks described below, together with all of the other information in this annual report on Form 20-F. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of these risks actually occurs, our business and financial condition could suffer and the price of our ADSs could decline.

Risks Related to Our Financial Condition and Capital Requirements

We are a development-stage company and have a limited operating history on which to assess the prospects for our business, have incurred losses since the date of inception of Safe-T Data, and anticipate that we will continue to incur significant losses until we are able to successfully commercialize our products globally.

From June 2011 until June 2016, we were a “shell corporation” and did not have any business activity, excluding administrative management. On June 15, 2016, we closed a merger transaction, or the Merger Transaction, with Safe-T Data, whereby we acquired 100% of the share capital of Safe-T Data. Since the date of the Merger Transaction, we have devoted substantially all of our financial resources to develop and commercialize our products and to extend our business by acquisitions. We have financed our operations primarily through the issuance of equity securities. The amount of our future net losses will depend, in part, on on-going development of our products, the rate of our future expenditures and our ability to obtain funding through the issuance of our securities, strategic collaborations or grants. We expect to continue to incur significant losses until we are able to successfully commercialize our products globally. We anticipate that our expenses will increase substantially if and as we:

- continue the development of our products;
- establish and reinforce a sales, marketing and distribution infrastructure to commercialize our products;
- seek to identify, assess, acquire, license and/or develop other products and subsequent generations of our current products;
- seek to maintain, protect and expand our intellectual property portfolio;
- seek to attract and retain skilled personnel; and
- continue to support our operations as a public company, our product development and planned future commercialization efforts.

Our ability to generate future revenue from product sales depends heavily on our success in many areas, including but not limited to:

- completing development of some of our products;
- addressing any competing technological and market developments;
- negotiating favorable terms in any collaboration, licensing or other arrangements into which we may enter;
- establishing and maintaining resale and distribution relationships with third parties that can provide adequate (in amount and quality) infrastructure to support market demand for our products;
- launching and commercializing current and future products, either directly or with a collaborator or distributor;
- maintaining, protecting and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how; and
- identifying, assessing, acquiring and/or developing new products.

Given our limited revenue and lack of positive cash flow, we expect that we may need to raise additional capital before we can expect to become profitable from sales of our products. This additional financing may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development efforts or other operations.

According to our management's estimates, based on our current cash on hand and further based on our budget, we believe that we have sufficient resources to continue our activities for at least the next 12 months. Since we might be unable to generate sufficient revenue or cash flow to fund our operations for the foreseeable future, we may need to seek additional equity or debt financing to provide the capital required to maintain or expand our operations. We expect we will also need additional funding for developing products and services and other related activities, increasing our sales and marketing capabilities, and promoting brand identity, as well as for working capital requirements and other operating and general corporate purposes.

There can be no assurance that we will be able to raise sufficient additional capital on acceptable terms, or at all. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back or eliminate the development of business opportunities, research or development programs and our operations and financial condition may be materially adversely affected. If we raise additional funds through collaborations and licensing arrangements, we may be required to relinquish some rights to our technologies or candidate products, or to grant licenses on terms that are not favorable to us.

The report of our independent registered public accounting firm contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern, which could prevent us from obtaining new financing on reasonable terms or at all.

The report of our independent registered public accounting firm on our audited consolidated financial statements as expected for the period ended December 31, 2020 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainty regarding our ability to continue as a going concern. This going concern opinion could materially limit our ability to raise additional funds through the issuance of equity or debt securities or otherwise. Further reports on our consolidated financial statements may include an explanatory paragraph with respect to our ability to continue as a going concern. Until we can generate significant recurring revenues, we expect to satisfy our future cash needs through debt or equity financing. We cannot be certain that additional funding will be available to us on acceptable terms, if at all. If funds are not available, we may be required to delay, reduce the scope of, or eliminate research or development plans for, or commercialization efforts with respect to our products. This may raise substantial doubts about our ability to continue as a going concern.

Risks Related to Our Business and Industry

The IT markets are rapidly evolving within the increasingly challenging landscape. If the industry does not continue to develop as we anticipate, our sales will not grow as quickly as expected and our share price could decline.

We operate in a rapidly evolving industry focused on securing organizations' IT systems and sensitive business data. Our solution focuses on protecting an organization's sensitive data, in terms of how internal/external users access the data and use the data. While theft, leakage, and ransomware have gained media attention in recent years, IT security spending within enterprises is often concentrated on endpoint and web security products designed to stop threats from penetrating corporate networks. Organizations that use these security products may allocate all or most of their IT security budgets to these products and may not adopt our solution in addition to such products. Further, a security solution such as ours, which is focused on disrupting cyber-attacks by insiders and external perpetrators that have penetrated an organization's perimeter, is a relatively new technology that has been developed to respond to advanced threats and more rigorous compliance standards and audit requirements. However, advanced cyber attackers are skilled at adapting to new technologies and developing new methods of gaining access to organizations' sensitive business data. Changes in the nature of advanced cyber threats could result in a shift in IT budgets away from solutions such as ours. In addition, any changes in compliance standards or audit requirements that deemphasize the types of controls, storage, monitoring and analysis that our solution provides would adversely impact demand for our offerings. It is therefore difficult to predict how large the market will be for our solution. If solutions such as ours are not viewed by organizations as necessary, or if customers do not recognize the benefit of our solution as a critical layer of an effective security strategy, then our revenues may not grow as quickly as expected, or may decline, and our share price could suffer.

We are engaged in on-going development of our current and future products. Our research and development efforts may not produce successful products or enhancements to our solution that result in significant revenue or other benefits in the near future, if at all.

We expect to continue to dedicate significant financial and other resources to our research and development efforts in order to continuously evolve the development of our products and maintain our competitive position. As a result, our business is significantly dependent on our ability to successfully complete the development of our next generation products. Investing in research and development personnel, developing new products and enhancing existing products is expensive and time consuming, and there is no assurance that such activities will result in successful development of our products, significant new marketable products or enhancements to our products, design improvements, cost savings, revenues or other expected benefits. If we spend significant time and effort on research and development and are unable to generate an adequate return on our investment, our business and results of operations may be materially and adversely affected.

If we fail to effectively manage our growth, our business and operations will be negatively affected, and as we invest in the growth of our business, we expect our operating and net profit margins to decline in the near-term.

We have experienced a more rapid growth in the last two years and intend to continue to grow our business. Our annual operating expenses may continue to increase as we invest in sales, marketing, research and development. Our growth to date has placed significant demands on our management, sales, operational and financial infrastructure, and our growth will continue to place significant demands on these resources. We may not be able to successfully implement these improvements in a timely or efficient manner, and our failure to do so may materially impact our projected growth rate. We may also not be able to effectively manage the expansion of our operations, which may result in weaknesses in our infrastructure, operational mistakes, loss of business opportunities, failure to deliver and timely deliver our products to customers, loss of employees and reduced productivity among remaining employees. Our expected growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of current and additional new products. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our ability to generate and/or grow revenue could be reduced, and we may not be able to implement our business strategy.

As we invest in the growth of our business, we expect that these investments will result in increased costs and may impact our short and mid-term operating and net profit margins. A failure to meet market expectations regarding our profitability could have an adverse effect on the price of our Ordinary Shares and ADSs.

Our quarterly and annual results of operations may fluctuate for a variety of reasons, including our failure to close significant sales before the end of a particular quarter.

Our operating results and financial condition may fluctuate from quarter to quarter and year to year and are likely to continue to vary due to a number of factors, many of which will not be within our control. If our operating results do not meet the guidance that we provide to the market or the expectations of securities analysts or investors, the market price of our Ordinary Shares and the ADSs will likely decline. Fluctuations in our operating results and financial condition may be due to a number of factors:

- the degree of market acceptance of our products and services;
- long sales cycles in the cyber business, and as a result of the COVID-19 pandemic effects;
- our ability to attract and retain new customers;
- our ability to sell additional products to current customers;
- changes in customer or channel partner requirements or market needs;
- changes in the growth rate of the secure access solutions market, data center infrastructure and IPPN services;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of the information security market, including consolidation among our customers or competitors;
- a disruption in, or termination of, our relationship with channel partners;
- our ability to successfully expand our business globally;
- reductions in maintenance renewal rates;
- changes in our pricing policies or those of our competitors and our responses to price competition;
- general economic conditions in our markets;
- future accounting pronouncements or changes in our accounting policies or practices;
- the amount and timing of our operating costs;
- a change in our mix of products and services; and
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates.

Any of the above factors, individually or in the aggregate, may result in significant fluctuations in our financial and other operating results from period to period. These fluctuations could result in our failure to meet our operating plan or the expectations of investors or analysts for any period. If we fail to meet such expectations for these or other reasons, the market price of our Ordinary Shares and the ADSs could fall substantially, and we could face costly lawsuits, including securities class action suits.

Our reputation and business could be harmed based on real or perceived shortcomings, defects or vulnerabilities in our solution or the failure of our solution to meet customers' expectations.

Organizations are facing increasingly sophisticated and targeted cyber threats, including the growing threat of cyber terrorism throughout the world. If we fail to identify and respond to new and increasingly complex methods of attack and update our products to detect or prevent such threats, our business and reputation will suffer. In particular, we may suffer significant adverse publicity and reputational harm if a significant breach occurs generally or if any breach occurs at a high-profile customer. Moreover, if our solution is adopted by an increasing number of enterprises and governmental entities, it is possible that attackers will begin to focus on finding ways to defeat our solutions. An actual or perceived security breach or theft of our customers' sensitive business data, regardless of whether the breach or theft is attributable to the failure of our products, could adversely affect the market's perception of the efficacy of our solution and current or potential customers may look to our competitors for alternatives to our solutions. The failure of our products may also subject us to lawsuits and financial losses stemming from indemnification of our partners and other third parties, as well as the expenditure of significant financial resources to analyze, correct or eliminate any vulnerabilities. Any claim brought against us, regardless of its merit, could result in material expense, diversion of management time and attention, and damage to our reputation, and could cause us to fail to retain or attract customers. Costs or payments made in connection with warranty and product liability claims and product recalls or other claims could materially affect our financial condition and results of operations. It could also cause us to suffer reputational harm, lose existing customers or deter them from purchasing additional products and services and prevent new customers from purchasing our solution.

False detection of threats, while typical in our industry, may reduce perception of the reliability of our products and may therefore adversely impact market acceptance of our products. If our solution restricts legitimate privileged access by authorized personnel to IT systems and applications by falsely identifying those users as an attack or otherwise unauthorized, our customers' businesses could be harmed. There can be no assurance that, despite testing by us, errors will not be found in existing and new versions of our products, resulting in loss of or delay in market acceptance. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

If we are unable to acquire new customers, our future revenues and operating results will be harmed.

Our success depends on our ability to acquire new customers. The number of customers that we add in a given period impacts both our short-term and long-term revenues. If we are unable to attract a sufficient number of new customers, we may be unable to generate revenue growth at desired rates. The markets we operate in are competitive and many of our competitors have substantial financial, personnel, and other resources that they utilize to develop products and attract customers. As a result, it may be difficult for us to add new customers to our customer base. Competition in the marketplace may also lead us to win fewer new customers or result in us providing discounts and other commercial incentives. Additional factors that impact our ability to acquire new customers include the perceived need for IT security, the size of our prospective customers' IT budgets, the utility and efficacy of our existing and new offerings, whether proven or perceived, and general economic conditions. These factors may have a meaningful negative impact on future revenues and operating results. With respect to our IPPN business, while many companies understand the problem of doing competitive analysis, data collection, and other IPPN use cases, widespread awareness of IPPNs is still lacking. Proxy networks are well understood, and virtual private networks are gaining in popularity, but IPPNs are still in the early adopter phase among companies who stand to benefit from them. This restraint accounts for not all IPPN vendors having the marketing budgets to promote themselves, through the total market should be helped by larger vendor advertising. This restraint counterbalances the increasing awareness driver.

If we are unable to sell additional products and services to our existing customers, our future revenues and operating results will be harmed.

Our revenues are also generated from sales to existing customers. Our future success depends, in part, on our ability to obtain recurring licenses and services to our existing customers. We devote significant efforts to developing, marketing and selling additional licenses and associated maintenance and support to existing customers and rely on these efforts for a portion of our revenues. These efforts require a significant investment in building and maintaining customer relationships, as well as significant research and development efforts in order to provide product upgrades and launch new products. The rate at which our existing customers purchase additional products and services depends on a number of factors, including, but not limited to, the perceived need for additional IT security or IPPN services, the fit and efficacy of our solutions and the utility of our new offerings, whether proven or perceived, our customers' IT and IPPN activity budgets, general economic conditions, our customers' overall satisfaction with the maintenance and professional services we provide and the continued growth and economic health of our customer base to require incremental users and servers to be covered. If our efforts to sell additional products and services to our customers are not successful, our future revenues and operating results will be harmed.

We face intense competition from IT security and IPPN vendors, some of which are larger and better known than we are, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

The markets in which we operate are characterized by intense competition, constant innovation and evolving security threats. We compete with companies that offer a broad array of IT security products. Our current and potential future competitors include Luminate Security (formerly known as Brocade), AppGate, Akamai Technologies, Inc. and Zscaler, Inc. in the software defined perimeter and application access market, and also include providers of IPPNs, such as Luminati Networks Ltd., Oxylabs Networks Pvt. Ltd., BiScience Inc. and others. Some of our competitors are large companies that have the technical and financial resources and broad customer bases needed to bring competitive solutions to the market and already have existing relationships as a trusted vendor for other products. Such companies may use these advantages to offer products and services that are perceived to be as effective as ours at a lower price or for free as part of a larger product package or solely in consideration for maintenance and services fees. They may also develop different products to compete with our current solution and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements. Additionally, from time to time we may compete with smaller regional vendors that offer products with a more limited range of capabilities that purport to perform functions similar to our solution. Such companies may enjoy stronger sales and service capabilities in their particular regions. With respect to the IPPN market, we face the emergence of small competitors in this field due to high profitability margins, which can result in pressure on prices to decline. Furthermore, these margins can lead also to competition from bigger companies that can invest larger human, cash and technological resources into this industry. Such increased competition can lead to lower margins and, consequently, impact our revenues, profitability and business.

Our competitors may enjoy potential competitive advantages over us, such as:

- greater name recognition, a longer operating history and a larger customer base, notwithstanding the increased visibility of our brand following our initial public offering;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with channel and distribution partners and customers;
- greater customer support resources;
- greater resources to make acquisitions;
- larger intellectual property portfolios; and
- greater financial, technical and other resources.

Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. Current or potential competitors may be acquired by third parties with greater available resources. As a result of such acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. Larger competitors with more diverse product offerings may reduce the price of products that compete with ours in order to promote the sale of other products or may bundle them with other products, which would lead to increased pricing pressure on our products and could cause the average sales prices for our products to decline.

In addition, other IT security technologies exist or could be developed in the future by current or future competitors, and our business could be materially and adversely affected if such technologies are widely adopted.

We may not be able to successfully anticipate or adapt to changing technology or customer requirements on a timely basis, or at all. If we fail to keep up with technological changes or to convince our customers and potential customers of the value of our solution even in light of new technologies, our business, results of operations and financial condition could be materially and adversely affected.

If our internal network system is compromised by cyber attackers or other data thieves, or if our hosting and infrastructure fails, public perception of our products and services will be harmed.

We will not succeed unless the marketplace is confident that we provide effective IT security protection. We provide zero trust access products, and as such we may be an attractive target for attacks by cyber attackers or other data thieves since a breach of our network could provide data information regarding not only us, but potentially regarding the customers who purchased our solutions. Further, we may be targeted by cyber terrorists because we are an Israeli company. If we experience an actual or perceived breach of our network and our internal systems, it could adversely affect the market perception of our products and services. In addition, we may need to devote more resources to address security vulnerabilities in our solution, and the cost of addressing these vulnerabilities could reduce our operating margins. If we do not address security vulnerabilities or otherwise provide adequate security features in our products, certain customers, particularly government customers, may delay or stop purchasing our products. Further, a security breach could impair our ability to operate our business, including our ability to provide maintenance and support services to our customers. If this happens, our revenues could decline, and our business could suffer. With respect to the IPPN services, if we will experience short period hosting/infrastructure failures, or longer periods of disconnection blocking of our network of Internet Protocol addresses, or IPs, to access certain websites, and do not offer our customers various immediate alternatives, some customers may choose to delay or stop purchasing our IPPN products.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, personal information and our proprietary business information. The secure maintenance and transmission of this information is critical to our operations and business strategy. We rely on commercially available systems, software, tools, and domestically available monitoring to provide security for processing, transmitting and storing this sensitive data.

Hackers may attempt to penetrate our computer systems, and, if successful, misappropriate personal or confidential business information. In addition, an associate, contractor or other third-party with whom we do business may attempt to circumvent our security measures to obtain such information and may purposefully or inadvertently cause a breach involving such information. While we continue to implement additional protective measures to reduce the risk of and detect cyber incidents, cyber-attacks are becoming more sophisticated and frequent, and the techniques used in such attacks change rapidly.

Also, our information technology networks and infrastructure may still be vulnerable to damage, disruptions, or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. Any such compromise could disrupt our operations, damage our reputation, and subject us to additional costs and liabilities, any of which could adversely affect our business.

If we do not effectively expand, train and retain our sales force, we may be unable to acquire new customers or sell additional products and services to existing customers, and our business will suffer.

We depend significantly on our sales force to attract new customers and expand sales to existing customers. In 2020 and 2019, we generated 92% and 81%, respectively, of our revenues from direct sales. As a result, our ability to grow our revenues depends in part on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth. During 2020, we invested in a new go-to-market strategy by building a strong network of channel partners around the world. Nevertheless, we expect to continue to expand our sales personnel and face a number of challenges in achieving our hiring and integration goals. There is intense competition for individuals with sales training and experience. In addition, the training and integration of a large number of sales personnel in a short time requires the allocation of internal resources. We invest significant time and resources in training new sales force personnel to understand our solutions and growth strategy. Based on our past experience, it takes an average of approximately six to nine months before a new sales force member operates at target performance levels. However, we may be unable to achieve or maintain our target performance levels with large numbers of new sales personnel as quickly as we have done in the past. Our failure to hire a sufficient number of qualified sales force members and train them to operate at target performance levels may materially and adversely impact our projected growth rate.

We rely on original equipment manufacturer, or OEM, partners, channel partners, including systems integrators, distributors and value-added resellers, to generate a significant portion of our revenue. If we fail to maintain successful relationships with our OEM and channel partners, or if our channel partners fail to perform, our ability to market, sell and distribute our solution will be limited, and our business, financial position and results of operations will be harmed.

In addition to our direct sales force especially in the Secure Internet Access service network business, we rely on our OEM and channel partners to sell and support our solutions in North, Central and South America, Europe, Asia, Africa, Australia and Israel. In 2020 and 2019, we generated approximately 8% and 19%, respectively, of our revenues from sales to channel partners and IPPN services resellers. We expect that channel partners will represent a more substantial portion of our revenues for the foreseeable future. Most of our agreements with channel partners are non-exclusive, meaning our partners may offer customers IT security products from other companies, including products that compete with our solution. If our channel partners do not effectively market and sell our solution, or choose to use greater efforts to market and sell their own products and services or the products and services of our competitors, our ability to grow our business will be adversely affected. Our channel partners may cease or deemphasize the marketing of our solution with limited or no notice and with little or no penalty. Further, new channel partners require training and may take several months or more to achieve productivity. The loss of a substantial number of our channel partners, the inability to replace them or the failure to recruit additional OEM or channel partners could materially and adversely affect our results of operations. Our reliance on channel partners could also subject us to lawsuits or reputational harm if, for example, a channel partner misrepresents the functionality of our solution to customers or violates laws or our corporate policies. Our ability to grow revenues in the future will depend in part on our success in maintaining successful relationships with our OEM and channel partners and training our OEM and channel partners to independently sell and install our solution. If we are unable to maintain our relationship with OEM and channel partners or otherwise develop and expand our indirect sales channel, or if our OEM and/or channel partners fail to perform, our business, financial position and results of operations could be adversely affected.

If our products fail to help our customers achieve and maintain compliance with certain government regulations and industry standards, our business and results of operations could be materially and adversely affected.

We generate a portion of our revenues from our products and services because they enable our customers to achieve and maintain compliance with certain government regulations and industry standards, and we expect that will continue for the foreseeable future. Examples of industry standards and government regulations include the European Union General Data Protection Regulation, or GDPR; the Payment Card Industry Data Security Standard, or PCI-DSS; the Health Insurance Portability and Accountability Act, or HIPAA; the Sarbanes-Oxley Act; the Gramm-Leach-Bliley Act, or GLBA; and the international banking regulations of the Basel Committee on Bank Supervision.

On the IPPN side of our business, NetNut primarily engages directly with ISPs in order to gain access to their networks. The legality of scraping publicly available web data was reaffirmed by the Ninth Circuit Court of Appeals (hiQ vs LinkedIn) in late 2019, but the way in which some of the IPPNs are being built is still questionable. For example, recently we started to offer access also through a network of dynamic residential proxy, like other vendors in the industry. This access offering is based on agreements with third party companies and applications publishers that are deploying their software proxy along their applications. The access to this network can be limited in case of changes in regulations regarding installing third party code components in the publisher's applications.

A similar trend can be seen in Europe, where the European Banking Authority has issued directives regarding the security of online payments, and other information security requirements were put in place under the Data Protection Directive. In addition, in July 2016, the European Parliament approved the new cyber directive – The Directive on Security of Network and Information Systems – that is designed to set binding principles for tackling cyber threats in EU countries. This development in cyber regulation in the European Union constitutes another layer of regulation in addition to the GDPR, which came into effect in May 2018. The directive makes it obligatory for EU countries to pass as laws certain cyber security requirements in connection with operators of essential services that rely heavily on cyber infrastructures, such as companies and organizations that provide essential services to the public and suppliers of energy, transport, water, banking, financial market infrastructures, healthcare and digital infrastructure. Also, over the course of 2018, the European Union put into action significant legislative and regulatory measures that motivate companies to take steps that will enable them to be better prepared to face cyber threats. These regulatory and legislative measures also motivate organizations to take active measures to increase their information security.

These industry standards may change with little or no notice, including changes that could make them more or less onerous for businesses. In addition, governments may also adopt new laws or regulations, or make changes to existing laws or regulations, that could impact whether our solution enables our customers to maintain compliance with such laws or regulations. If we are unable to adapt our solution to changing government regulations and industry standards in a timely manner, or if our solution fails to expedite our customers' compliance initiatives, our customers may lose confidence in our products and could switch to products offered by our competitors. In addition, if government regulations and industry standards related to IT security and/or the IPPN sector are changed in a manner that makes them less onerous, our customers may view compliance as less critical to their businesses, and our customers may be less willing to purchase our products and services. In either case, our sales and financial results would suffer.

Our model for long-term growth depends upon the introduction of new products. If we are unable to develop new products or if these new products are not adopted by customers, our growth will be adversely affected.

Our business depends on the successful development and marketing of new products, including adding complementary offerings to our current products. For example, in June 2020, we completed the development and successful deployment of the first generally available version of our Secure File Access solution, which is designed to control access to sensitive files storages. In addition, during 2020, we released our generally available version of our ZoneZero™ VPN solution. ZoneZero™ VPN is designed to add zero trust capabilities on exiting Virtual Private Network, or VPN, infrastructures. Development and marketing of new products require significant up-front research, development and other costs, and the failure of new products we develop to gain market acceptance may result in a failure to achieve future sales and adversely affect our competitive position. There can be no assurance that any of our new or future products will achieve market acceptance or generate revenues at forecasted rates or that the margins generated from their sales will allow us to recoup the costs of our development efforts.

Failure by us or our partners to maintain sufficient levels of customer support could have a material adverse effect on our business, financial condition and results of operations.

Our customers depend in large part on customer support delivered through our partners or by us to resolve issues relating to the use of our solution. However, even with our support and that of our partners, our customers are ultimately responsible for effectively using our solution and ensuring that their IT staff is properly trained in the use of our products and complementary security products. The failure of our customers to correctly use our solution, or our failure to effectively assist customers in installing our solution and providing effective ongoing support, may result in an increase in the vulnerability of our customers' IT systems and sensitive business data. Additionally, if our partners do not effectively provide support to the satisfaction of our customers, we may be required to provide support to such customers, which would require us to invest in additional personnel, which in turn would require significant time and resources. We may not be able to keep up with demand, particularly if the sales of our solution exceed our internal forecasts. To the extent that we or our partners are unsuccessful in hiring, training and retaining adequate support resources, our ability and the ability of our partners to provide adequate and timely support to our customers will be negatively impacted, and our customers' satisfaction with our products will be adversely affected. Accordingly, our failure to provide satisfactory maintenance and technical support services could have a material and adverse effect on our business and results of operations.

If we do not successfully anticipate market needs and enhance our existing products or develop new products that meet those needs on a timely basis, we may not be able to compete effectively and our ability to generate revenues will suffer.

Our customers operate in markets characterized by rapidly changing technologies and business plans, which require them to adapt to increasingly complex IT infrastructures that incorporate a variety of hardware, software applications, operating systems and networking protocols. As our customers' technologies and business plans grow more complex, we expect them to face new and increasingly sophisticated methods of attack. We face significant challenges in ensuring that our solution effectively identifies and responds to these advanced and evolving attacks without disrupting the performance of our customers' IT systems. As a result, we must continually modify and improve our products in response to changes in our customers' IT and industrial control infrastructures.

We cannot guarantee that we will be able to anticipate future market needs and opportunities or be able to develop product enhancements or new products to meet such needs or opportunities in a timely manner, if at all. Even if we are able to anticipate, develop and commercially introduce enhancements and new products, there can be no assurance that enhancements or new products will achieve widespread market acceptance.

Our product enhancements or new products could fail to attain sufficient market acceptance for many reasons, including:

- delays in releasing product enhancements or new products;
- failure to accurately predict market demand and to supply products that meet this demand in a timely fashion;
- inability to interoperate effectively with the existing or newly introduced technologies, systems or applications of our existing and prospective customers;
- inability to protect against new types of attacks or techniques used by cyber attackers or other data thieves;
- defects in our products, errors or failures of our solutions to secure privileged accounts;
- negative publicity about the performance or effectiveness of our products;
- introduction or anticipated introduction of competing products by our competitors;
- installation, configuration or usage errors by our customers; and
- easing or changing of regulatory requirements related to IT / cyber security / IPPN.

If we fail to anticipate market requirements or fail to develop and introduce product enhancements or new products to meet those needs in a timely manner, it could cause us to lose existing customers and prevent us from gaining new customers, which would significantly harm our business, financial condition, and results of operations.

If our products do not effectively interoperate with our customers' existing or future IT infrastructures, installations could be delayed or cancelled, which would harm our business.

Our products must effectively interoperate with our customers' existing or future IT infrastructures, which often have different specifications, utilize multiple protocol standards, deploy products from multiple vendors and contain multiple generations of products that have been added over time. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure or problematic network configurations or settings, we may have to modify our software so that our products will interoperate with our customers' infrastructure and business processes. In addition, to stay competitive within certain markets, we may be required to make software modifications in future releases to comply with new statutory or regulatory requirements. These issues could result in longer sales cycles for our products and order cancellations, either of which would adversely affect our business, results of operations and financial condition.

Defects and bugs in products could give rise to product returns, cancellation of orders or product liability, warranty or other claims that could result in material expenses, diversion of management time and attention, and damage to our reputation.

Even if we are successful in introducing our products to the market, our products may contain undetected defects or errors that, despite testing, are not discovered until after a product has been used. Our software is complex and could have, or could be alleged to have, defects, bugs or other errors or failures. This could result in cancellation of orders, difficulties in maintaining business relations with customers that use our software, delayed market acceptance of those products, claims from distributors, end-users or others, increased end-user service and support costs and warranty claims, damage to our reputation and business and the ability to attract new customers, or significant costs to correct the defect or error. We may from time to time become subject to warranty or product liability claims that could lead to significant expenses as we need to compensate affected end-users for costs incurred related to product quality issues.

Any claim brought against us, regardless of its merit, could result in material expense, diversion of management time and attention, and damage to our reputation, and could cause us to fail to retain or attract customers.

We face business disruption and related risks resulting from the outbreak and continuous effects of the COVID-19 pandemic, which could impact our business and results of operations.

Our operations and business have been impacted and may continue to be impacted by COVID-19. The pandemic has caused states of emergency to be declared in various countries, travel restrictions imposed globally, quarantines established in certain jurisdictions, and various institutions and companies being closed. The COVID-19 outbreak has forced us to modify our business practices, and we have adopted early and strict prevention measures to protect the health of our employees (including employees' travel, employees' work locations and cancellation of physical participation in meetings, events, and conferences), which led to a slowdown in sales in some verticals of our IPPN services segment, while experiencing an increase in the sales cycles of new products in the cybersecurity segment. In addition, the Ministry of Health in the State of Israel issued guidelines in March 2020, which were most recently updated in March 2021, recommending people avoid gatherings in one space and providing that no gathering of more than 20 people should be held under any circumstances.

Employers (including us) are also required to prepare and increase as much as possible the capacity and arrangement for employees to work remotely. In addition, the U.S. government has restricted travel to the United States from foreign nationals who have recently been in China, Iran, South Africa, and certain European and Latin America countries. Although to date these restrictions have not impacted our operations, the effect on our business, from the spread of COVID-19 and the actions implemented by the governments of the State of Israel, the United States and elsewhere across the globe, may worsen over time and could have a material adverse impact on our business.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. Our inability to attract or retain qualified personnel or delays in hiring required personnel, particularly in sales and software engineering, may seriously harm our business, financial condition and results of operations. Any of our employees may terminate their employment at any time. Competition for highly skilled personnel is frequently intense, especially in Israel, where we are headquartered. Moreover, certain of our competitors or other technology businesses may seek to hire our employees. There is no assurance that any equity or other incentives that we grant to our employees will be adequate to attract, retain and motivate employees in the future. If we fail to attract, retain and motivate highly qualified personnel, our business will suffer. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Our functional and reporting currency is the U.S. dollar and we generate a majority of our revenues in U.S. dollars. A material portion of our operating expenses is incurred outside the United States, mainly in NIS and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in NIS. Our foreign currency-denominated expenses consist primarily of personnel, rent and other overhead costs. Since a significant portion of our expenses is incurred in NIS and is substantially greater than our revenues in NIS, any appreciation of the NIS relative to the U.S. dollar would adversely impact our net loss or net income, as relevant. During 2020, the NIS appreciated by nearly 7% against the dollar. We are therefore exposed to foreign currency risk due to fluctuations in exchange rates. This may result in gains or losses with respect to movements in exchange rates which may be material and may also cause fluctuations in reported financial information that are not necessarily related to its operating results. We expect that the majority of our revenues will continue to be generated in U.S. dollars with the balance in NIS for the foreseeable future, and that a significant portion of our expenses will continue to be denominated in NIS and partially in U.S. dollar. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions. See "Item 11. Quantitative and Qualitative Disclosure About Market Risk—Foreign Currency Exchange Risk."

A portion of our revenues is generated by sales to government entities, which are subject to a number of challenges and risks.

A portion of our revenues is generated by sales to federal, state and local governmental customers as well as security agencies, and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time, special customizations and expense without any assurance that we will complete a sale. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Government entities are typically considered opinion makers. Dissatisfaction of such entities from our services and/or products might harm our market reputation or future sales.

We may acquire other businesses, which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our results of operations.

As part of our business strategy and in order to remain competitive, we are evaluating acquiring or making investments in complementary companies, products or technologies on an on-going basis. We have completed three acquisitions to date – our Telepath technology purchased from Cykick Labs Ltd., as well as NetNut Ltd. and Chi Cooked LLC with the business IPPN server solution (Secure Internet Access). Going forward, we may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our customers, analysts and investors. In addition, if we are unsuccessful at integrating such acquisitions or the technologies associated with such acquisitions, our revenues and results of operations could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our Ordinary Shares. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

We have identified material weaknesses in our internal control over financial reporting, which can possibly result in a material misstatement of our annual financial statements not to be prevented or detected on a timely basis. We may also fail to comply with the rules that apply to public companies, including Section 404 of the Sarbanes-Oxley Act. This may result in a further deficiency in our internal control over financial reporting, as well as sanctions or other penalties that would harm our business.

We have identified material weaknesses in our internal control over financial reporting as of December 31, 2020, 2019 and 2018. As defined in Regulation 12b-2 under the Securities Exchange Act of 1934, or the Exchange Act, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented, or detected on a timely basis. Specifically, we determined that currently we do not have sufficient qualified staff to provide for effective control over a number of aspects of our accounting and financial reporting process under IFRS.

We have implemented measures to remediate identified material weaknesses. Those remediation measures are ongoing and include working with accounting and finance employees with a requisite level of experience and the implementation of additional control activities related to the period-end financial reporting process. While we believe that these efforts will improve our internal control over financial reporting, the implementation of our remediation is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles.

Although we believe there has been some progress in remediating this weakness, the implementation of these initiatives may not fully address any material weakness or other deficiencies that we may have in our internal control over financial reporting.

Even if we develop effective internal control over financial reporting, these controls may become inadequate because of changes in conditions or the degree of compliance with these policies or procedures may deteriorate, and material weaknesses and deficiencies may be discovered in them. The determination of whether our internal controls are sufficient, and any remedial actions required could result in us incurring additional costs that we did not anticipate, including the hiring of outside consultants. We may also fail to complete our evaluation, testing and any required remediation needed to comply with Section 404 in a timely fashion.

Irrespective of compliance with Section 404, any additional failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently or are required to do so earlier than anticipated, it could adversely affect our operations, financial reporting or results of operations and could result in an adverse opinion on internal controls from our independent auditors.

Furthermore, if we are unable to certify that our internal control over financial reporting is effective and in compliance with Section 404, we may be subject to sanctions or investigations by regulatory authorities, such as the SEC or stock exchanges, and we could lose investor confidence in the accuracy and completeness of our financial reports, which could hurt our business, the price of our Ordinary Shares and our ability to access the capital markets.

We are subject to governmental export and import controls that could subject us to liability in the event of non-compliance or impair our ability to compete in international markets.

We are subject to U.S. and Israeli export control and economic sanctions laws, which prohibit the delivery and sale of certain products to embargoed or sanctioned countries, governments and persons. Our products could be exported to these sanctioned targets by our channel partners despite the contractual undertakings they have given us and any such export could have negative consequences, including government investigations, penalties and reputational harm. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and results of operations.

In addition, in the future we may be subject to defense-related export controls. For example, currently our solution is not subject to supervision under the Israeli Defense Export Control Law, 5767-2007, but if it was used for purposes that are classified as defense-related or if it falls under “dual-use goods and technology” as referred to below, we could become subject to such regulation. In particular, under the Israeli Defense Export Control Law, 5767-2007, an Israeli company may not conduct “defense marketing activity” without a defense marketing license from the Israeli Ministry of Defense, or the MOD, and may be subject to a requirement to obtain a specific license from the MOD for any export of defense related products and/or knowhow. The definition of defense marketing activity is broad and includes any marketing of “defense equipment,” “defense knowhow” or “defense services” outside of Israel, which includes “dual-use goods and technology,” (material and equipment intended in principle for civilian use and that can also be used for defensive purposes, such as our cybersecurity solutions) that is specified in the list of Goods and Dual-Use Technology annexed to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, if intended for defense use only, or is specified under Israeli legislation. “Dual-use goods and technology” will be subject to control by the Ministry of Economy if intended for civilian use only. In December 2013, regulations under the Wassenaar Arrangement included for the first time a chapter on cyber-related matters. We believe that our products do not fall under this chapter; however, in the future we may become subject to this regulation or similar regulations, which would limit our sales and marketing activities and could therefore have an adverse effect on our results of operations. Similar issues could arise under the U.S. defense/military export controls under the Arms Export Control Act and the International Traffic in Arms Regulations.

Our use of third-party software and other intellectual property may expose us to risks.

Some of our products and services include software or other intellectual property licensed from third parties, and we otherwise use software and other intellectual property licensed from third parties in our business. This exposes us to risks over which we may have little or no control. For example, a licensor may have difficulties keeping up with technological changes or may stop supporting the software or other intellectual property that it licenses to us. There can be no assurance that the licenses we use will be available on acceptable terms, if at all. In addition, a third party may assert that we or our customers are in breach of the terms of a license, which could, among other things, give such third party the right to terminate a license or seek damages from us, or both. Our inability to obtain or maintain certain licenses or other rights or to obtain or maintain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in releases of new products, and could otherwise disrupt our business, until equivalent technology can be identified, licensed or developed.

Our use of open-source software could negatively affect our ability to sell our software and subject us to possible litigation.

We use open-source software and expect to continue to use open-source software in the future. Some open-source software licenses require users who distribute or make available as a service open-source software as part of their own software product to publicly disclose all or part of the source code of the users' software product or to make available any derivative works of the open-source code on unfavorable terms or at no cost. We may face ownership claims of third parties over, or seeking to enforce the license terms applicable to, such open-source software, including by demanding the release of the open-source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have a negative effect on our business and results of operations. In addition, if the license terms for the open-source code change, we may be forced to re-engineer our software or incur additional costs.

Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We generally enter into non-disclosure and non-competition agreements with our employees. These agreements prohibit our employees from competing directly with us or working for our competitors or customers for a limited period after they cease working for us. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work, and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed while working for us. For example, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company's confidential commercial information or the protection of its intellectual property. If we cannot demonstrate that such interests will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our ability to remain competitive may be diminished.

Risks Related to Our Intellectual Property

If we are unable to obtain and maintain effective patent rights for our products, we may not be able to compete effectively in our markets. If we are unable to protect the confidentiality of our trade secrets or know-how, such proprietary information may be used by others to compete against us.

Our reverse access technology is patent protected in several jurisdictions: United States, Europe (including Austria, Switzerland, Germany, Spain, France, United Kingdom and Italy), Israel, China and Hong-Kong.

We have filed a petition to revive a patent application underlying our Telepath technology, which we obtained as part of the technology purchased from Cykick Labs Ltd. The petition was granted in November 2018 and the application is undergoing examination processes. We also filed a continuation application, published as U.S. Patent Application Publication No. 20200394661A1 on December 17, 2020. There is no guarantee that pending or future patent applications will result in patent grants. Failure to file patent applications or obtain patent grants may allow other entities to manufacture our products and compete with them.

Further, there is no assurance that all potentially relevant prior art relating to our patent applications has been found, which can invalidate a patent or prevent a patent from issuing from a pending patent application. Even if patents do successfully issue, and even if such patents cover our products, third parties may challenge their validity, enforceability, or scope, which may result in such patents being narrowed, found unenforceable or invalidated. Furthermore, even if they are unchallenged, our patent applications and any future patents may not adequately protect our intellectual property, provide exclusivity for our new products, or prevent others from designing around our claims. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business.

If we cannot obtain and maintain effective patent rights for our products, we may not be able to compete effectively, and our business and results of operations may be harmed.

If our trademarks and trade names are not adequately protected, we may not be able to build name recognition in our markets of interest and our business may be affected.

We have filed for trademark registration of certain marks relating to our current branding. If our unregistered trademarks and trade names are not adequately protected, we may not be able to build name recognition in our markets of interest and our business may be affected. Our trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. Competitors may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our trademarks or trade names. In the long term, if we are unable to successfully register trademarks and trade names and establish name recognition based on such trademarks and trade names, then we may not be able to compete effectively and our business may be affected. Our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources and could impact our financial condition or results of operations.

If we are unable to maintain effective proprietary rights for our products, we may not be able to compete effectively in our markets.

Historically, we have relied on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable or that we elect not to patent; processes that are not easily known, knowable or easily ascertainable, and for which patent infringement is difficult to monitor and enforce; and any other elements of our product candidate discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. However, trade secrets can be difficult to protect. We seek to protect our proprietary technology and processes, in part, by entering into confidentiality agreements with our employees, consultants, advisors, and contractors. We also seek to preserve the integrity and confidentiality of our data, trade secrets and intellectual property by maintaining physical security of our premises and physical and electronic security of our IT systems. Agreements or security measures may be breached, and we may not have adequate remedies for any breach. In addition, our trade secrets and intellectual property may otherwise become known or be independently discovered by competitors.

We cannot provide any assurances that our trade secrets and other confidential proprietary information will not be disclosed in violation of our confidentiality agreements or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Also, misappropriation or unauthorized and unavoidable disclosure of our trade secrets and intellectual property could impair our competitive position and may have a material adverse effect on our business. Additionally, if the steps taken to maintain our trade secrets and other confidential information are deemed inadequate, we may have insufficient recourse against third parties for misappropriating any trade secret.

Intellectual property rights of third parties could adversely affect our ability to commercialize our products, and we might be required to litigate or obtain licenses from third parties in order to develop or market our product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

It is inherently difficult to conclusively assess our freedom to operate without infringing on third party rights. Our competitive position may be adversely affected if existing patents or patents resulting from patent applications issued to third parties or other third-party intellectual property rights are held to cover our products or elements thereof, or uses relevant to our development plans. In such cases, we may not be in a position to develop or commercialize products or our product candidates unless we successfully pursue litigation to nullify or invalidate the third-party intellectual property right concerned, or enter into a license agreement with the intellectual property right holder, if available on commercially reasonable terms. There may also be pending patent applications that if they result in issued patents, could be alleged to be infringed by our new products. If such an infringement claim should be brought and be successful, we may be required to pay substantial damages, be forced to abandon our new products, or seek a license from any patent holders. No assurances can be given that a license will be available on commercially reasonable terms, if at all.

It is also possible that we have failed to identify relevant third-party patents or applications. For example, U.S. patent applications filed before November 29, 2000 and certain U.S. patent applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Patent applications in the United States and elsewhere are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Therefore, patent applications covering our new products or technology could have been filed by others without our knowledge. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our technologies, our new products, or the use of our new products. Third party intellectual property right holders may also actively bring infringement claims against us. We cannot guarantee that we will be able to successfully settle or otherwise resolve such infringement claims. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in or continue costly, unpredictable and time-consuming litigation and may be prevented from or experience substantial delays in pursuing the development of and/or marketing our new products. If we fail in any such dispute, in addition to being forced to pay damages, we may be temporarily or permanently prohibited from commercializing our new products that are held to be infringing. We might, if possible, also be forced to redesign our new products so that we no longer infringe the third-party intellectual property rights. Any of these events, even if we were ultimately to prevail, could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business.

Third-party claims of intellectual property infringement may prevent or delay our development and commercialization efforts.

Our commercial success depends in part on our avoiding infringement of the patents and proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are developing our products. As our industries expand and more patents are issued, the risk increases that our products may be subject to claims of infringement of the patent rights of third parties.

Third parties may assert that we are employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to systems, apparatuses or methods related to the use of our products. There may be currently pending patent applications that may later result in issued patents that our products may infringe. In addition, third parties may obtain patents in the future and claim that the use of our technologies infringes upon these patents.

If any third-party patents were held by a court of competent jurisdiction to cover aspects of our formulations, processes for designs, or methods of use, the holders of any such patents may be able to block our ability to develop and commercialize the applicable product candidate unless we obtain a license or until such patent expires or is finally determined to be invalid or unenforceable. In either case, such a license may not be available on commercially reasonable terms or at all.

Parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our products. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, pay royalties, redesign our infringing products or obtain one or more licenses from third parties, which may be impossible or require substantial time and monetary expenditure.

On June 11, 2020, Luminati Networks Ltd. filed an action alleging infringement by NetNut Ltd. of U.S. Patent Nos. 10,484,511 and 10,637,968, as well as claims of alleged trade secret misappropriation. The action was filed in the United States District Court for the Eastern District of Texas, Marshal Division. This ongoing litigation may potentially result in costs or liability that we will absorb, as well as restrictions and/or cessation of NetNut's operations and services in the United States. There can be no assurance that we will prevail in any legal proceedings instituted by Luminati Networks Ltd., or that such proceedings will not have a material adverse effect on our business, financial condition or results of operations.

Patent policy and rule changes could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of any issued patents.

Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of any patents that may issue from our patent applications or narrow the scope of our patent protection. Publications of discoveries in the scientific literature often lag the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. We therefore cannot be certain that we were the first to file the inventions claimed in our patents or pending applications, or that we were the first to file for patent protection of such inventions. Assuming all other requirements for patentability are met, in the United States prior to 2013, the first patent applicant to invent the claimed invention without undue delay in filing, is entitled to the patent, while for the most part outside the United States, the first inventor to file a patent application is entitled to the patent. After 2013, the United States has moved to a first-inventor-to-file system. The United States patent system is frequently changing, however, as are other international patent systems, and thus we may experience uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of any issued patents, all of which could have a material adverse effect on our business and financial condition.

We may be involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time consuming, and unsuccessful.

Competitors may infringe our intellectual property. If we were to initiate legal proceedings against a third party to enforce a patent covering one of our products, the defendant could counterclaim that the patent covering our product candidate is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement, among others. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the U.S. Patent and Trademark Office, or the USPTO, or made a misleading statement, during prosecution. The validity of U.S. patents may also be challenged in post-grant proceedings before the USPTO. The outcome following legal assertions of invalidity and unenforceability is unpredictable.

In 2014, the U.S. Supreme Court addressed the question of whether patents related to software are patent eligible subject matter. The Supreme Court did not rule that patents related to software were per se invalid or that software-related inventions were unpatentable. The Supreme Court outlined a test that the courts and the USPTO must apply in determining whether software-related inventions qualify as patent eligible subject matter. The decision and other decisions following that decision have resulted in many software patents having been found invalid as not claiming patent eligible subject matter. Our U.S. patents, like all U.S. patents, are presumed valid, but that does not mean that our issued patents cannot be challenged on grounds of patent eligibility, or other grounds.

Derivation proceedings initiated by third parties or brought by us may be necessary to determine the priority of inventions and/or their scope with respect to our patents or patent applications or those of our licensors. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Our defense of litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. In addition, the uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to effectively market our products, continue our research programs, license necessary technology from third parties, or enter into development partnerships that would help us bring our new products to market.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our Ordinary Shares.

We may be subject to claims challenging the inventorship of our intellectual property.

We may be subject to claims that former employees, collaborators or other third parties have an interest in, or right to compensation, with respect to our current patent and patent applications, future patents or other intellectual property as an inventor or co-inventor. For example, we may have inventorship disputes arise from conflicting obligations of consultants or others who are involved in developing our products. Litigation may be necessary to defend against these and other claims challenging inventorship or claiming the right to compensation. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

In addition, under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee in the course and as a result of or arising from his or her employment with a company are regarded as “service inventions,” which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. Recent case law clarifies that the right to receive consideration for “service inventions” can be waived by the employee and that in certain circumstances, such waiver does not necessarily have to be explicit. The Committee will examine, on a case-by-case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration (but rather uses the criteria specified in the Patent Law). Although we generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us, we may face claims demanding remuneration in consideration for assigned inventions. Because of such claims, we could be required to pay additional remuneration or royalties to our current and former employees, or be forced to litigate such claims, which could negatively affect our business.

We may not be able to protect our intellectual property rights.

Filing, prosecuting, and defending patents on products, as well as monitoring their infringement in all countries throughout the world, would be prohibitively expensive, and our intellectual property rights in some countries can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States.

Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and may also export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products. Future patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, which could make it difficult for us to stop the marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions, whether successful, could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our future patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to monitor and enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

Because of the expense of litigation, we may be unable to enforce our intellectual property rights, unless we obtain the agreement of a third party to provide funding in support of our litigation. We cannot assure that we will be able to obtain third party funding, and the failure to obtain such funding may impair our ability to monetize our intellectual property portfolio. Since we do not have funds to pursue litigation to enforce our intellectual property rights, we are dependent upon the valuation which potential funding sources give to our intellectual property. In determining whether to provide funding for intellectual property litigation, the funding sources need to make an evaluation of the strength of our patents, the likelihood of success, the nature of the potential defendants and a determination as to whether there is a sufficient potential recovery to justify a significant investment in intellectual property litigation. Typically, such funding sources receive a percentage of the recovery after litigation expenses and seek to generate a sufficient return on investment to justify the investment. Unless that funding source believes that it will generate a sufficient return on investment, it will not fund litigation. We cannot assure that we will be able to negotiate funding agreements with third party funding sources on terms reasonably acceptable to us, if at all. Because of our financial condition, we may only be able to obtain funding on terms which are less favorable to us than we would otherwise be able to obtain. Furthermore, even if we enter into funding agreements, there is no assurance that we will generate revenue from the funded litigation. Although the funding source makes its evaluation as to the likelihood of success, patent litigation is very uncertain, and we cannot assure that, just because we obtain litigation funding, we will be successful or that any recovery we may obtain will be significant. In addition, defending our intellectual property rights may depend upon our ability to retain the qualified legal counsel to prosecute patent infringement litigation. It may be difficult to find the preferred choice for legal counsel to handle our cases because many of these firms may have a conflict of interest that prevents their representation of us or because they are not willing to represent us on a contingent or partial contingent fee basis. It is difficult to predict the outcome of patent enforcement litigation at a trial level as it is often difficult for juries and trial judges to understand complex, patented technologies, and, as a result, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Regardless of whether we prevail in the trial court, appeals are expensive and time consuming, resulting in increased costs and delayed revenue, and attorneys may be less likely to represent us in an appeal on a contingency basis especially if we are seeking to appeal an adverse decision. Although we may diligently pursue enforcement litigation, we cannot predict the decisions made by juries and trial courts. In connection with patent enforcement actions, it is possible that a defendant may file counterclaims against us, or a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorney's fees and/or expenses to the counterclaiming defendant, which could be material, and if we or our operating subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results, our financial position and our ability to continue in business.

Risks Related to the Ownership of Our ADSs or Ordinary Shares

Issuance of a significant amount of additional Ordinary Shares on exercise or conversion of outstanding warrants and/or substantial future sales of our Ordinary Shares may depress our share price.

As of March 17, 2021, we had approximately 1,045 million Ordinary Shares issued and outstanding and approximately 274 million of additional Ordinary Shares which are issuable upon exercise of outstanding warrants and employee options. The issuance of a significant amount of additional Ordinary Shares on account of these outstanding securities will dilute our current shareholders' holdings and may depress our share price. If these or other shareholders sell substantial amounts of our Ordinary Shares and/or ADSs, including shares issuable upon the exercise or conversion of outstanding warrants or employee options, or if the perception exists that our shareholders may sell a substantial number of our Ordinary Shares and/or ADSs, we cannot foresee the impact of any potential sales on the market price of these additional Ordinary Shares, but it is possible that the market price of our Ordinary Shares would be adversely affected. Any substantial sales of our shares in the public market might also make it more difficult for us to sell equity or equity related securities in the future at a time and on terms we deem appropriate. Even if a substantial number of sales do not occur, the mere existence of this "market overhang" could have a negative impact on the market for, and the market price of, our Ordinary Shares.

Holders of ADSs may not receive the same distributions or dividends as those we make to the holders of our Ordinary Shares, and, in some limited circumstances, holders of ADSs may not receive dividends or other distributions on our Ordinary Shares and may not receive any value for them, if it is illegal or impractical to make them available to holders of ADSs.

The depositary for the ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Ordinary Shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. Although, we do not currently anticipate paying any dividends, if we do, you will receive these distributions in proportion to the number of Ordinary Shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act of 1933, as amended, or the Securities Act, but that are not properly registered or distributed under an applicable exemption from registration. In addition, conversion into U.S. dollars from foreign currency that was part of a dividend made in respect of deposited Ordinary Shares may require the approval or license of, or a filing with, any government or agency thereof, which may be unobtainable. In these cases, the depositary may determine not to distribute such property and hold it as "deposited securities" or may seek to effect a substitute dividend or distribution, including net cash proceeds from the sale of the dividends that the depositary deems an equitable and practicable substitute. We have no obligation to register under U.S. securities laws any ADSs, Ordinary Shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, Ordinary Shares, rights, or anything else to holders of ADSs. In addition, the depositary may withhold from such dividends or distributions its fees and an amount on account of taxes or other governmental charges to the extent the depositary believes it is required to make such withholding. This means that you may not receive the same distributions or dividends as those we make to the holders of our Ordinary Shares, and, in some limited circumstances, you may not receive any value for such distributions or dividends if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the ADSs.

Our warrants are speculative in nature.

Our warrants do not confer any rights of ownership of Ordinary Shares or ADSs on their holders, such as voting rights or the right to receive dividends, but only represent the right to acquire ADSs at a fixed price and for a limited period. Specifically, commencing on the date of issuance, holders of the warrants may exercise their right to acquire ADSs and pay an exercise price per ADS ranging between \$1.20 and \$287, subject to adjustment upon certain events, prior to five years from the date of issuance, after which date any unexercised warrants will expire and have no further value.

Holders of our warrants will have no rights as shareholders until such holders exercise their warrants and acquire our ADSs.

Until holders of the warrants acquire our ADSs upon exercise of the warrants, they will have no rights with respect to our ADSs or Ordinary Shares underlying such warrants. Upon exercise of the warrants the holders thereof will be entitled to exercise the rights of a holder of ADSs only as to matters for which the record date occurs after the exercise date.

We do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid cash dividends, and we do not anticipate paying cash dividends in the foreseeable future. In addition, Israeli law limits our ability to declare and pay dividends, and may subject our dividends to Israeli withholding taxes, and our payment of dividends (out of tax-exempt income) may subject us to certain Israeli taxes, to which we would not otherwise be subject.

Holders of ADSs may not have the same voting rights as the holders of our Ordinary Shares and may not receive voting materials in time to be able to exercise the right to vote.

Holders of the ADSs may not be able to exercise voting rights attaching to the Ordinary Shares underlying the ADSs on an individual basis. Instead, holders of the ADSs appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the Ordinary Shares in the form of ADSs. Holders of ADSs may not receive voting materials in time to instruct the depositary to vote, and it is possible that they, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Furthermore, the depositary will not be liable for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise voting rights and may lack recourse if your ADSs are not voted as requested.

Holders of ADSs must act through the depositary to exercise their rights as shareholders of our company.

Holders of our ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Ordinary Shares in accordance with the provisions of the deposit agreement for the ADSs. Under Israeli law and our articles of association, the minimum notice period required to convene a shareholders meeting is generally no less than 35 calendar days, but in some instances, 21 or 14 calendar days, depending on the proposals on the agenda for the shareholders meeting. When a shareholder meeting is convened, holders of our ADSs may not receive sufficient notice of a shareholders' meeting to permit them to withdraw their Ordinary Shares to allow them to cast their vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of our ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of our ADSs in a timely manner, but we cannot assure holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their Ordinary Shares underlying the ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of our ADSs may not be able to exercise their right to vote and they may lack recourse if their ADSs are not voted as they requested. In addition, in the capacity as a holder of ADSs, they will not be able to call a shareholders' meeting.

The Jumpstart Our Business Startups Act of 2012, or the JOBS Act, allows us to postpone the date by which we must comply with some of the laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC, which could undermine investor confidence in our company and adversely affect the market price of our ADSs or Ordinary Shares.

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we intend to take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies” including:

- the provisions of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting; and
- any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor’s report on the consolidated financial statements.

We intend to take advantage of these exemptions until we are no longer an “emerging growth company.” We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the date of our first sale of common equity securities pursuant to an effective registration statement under the Securities Act, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Ordinary Shares that is held by non-affiliates exceeds \$700 million as of the prior June 30, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

We cannot predict if investors will find our ADSs or Ordinary Shares less attractive because we may rely on these exemptions. If some investors find our ADSs or Ordinary Shares less attractive as a result, there may be a less active trading market for our ADSs or Ordinary Shares, and our market prices may be more volatile and may decline.

As a “foreign private issuer” we are permitted to follow certain home country corporate governance practices instead of otherwise applicable SEC and Nasdaq requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.

Our status as a foreign private issuer also exempts us from compliance with certain SEC laws and regulations and certain regulations of the Nasdaq Stock Market, including the proxy rules, the short-swing profits recapture rules, and certain governance requirements such as independent director oversight of the nomination of directors and executive compensation. In addition, we will not be required under the Exchange, to file current reports and consolidated financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we will generally be exempt from filing quarterly reports with the SEC. Also, although the Israeli Companies Law, or the Companies Law, requires us to disclose the annual compensation of our five most highly compensated senior officers on an individual basis, this disclosure is not as extensive as that required of a U.S. domestic issuer. For example, the disclosure required under Israeli law would be limited to compensation paid in the immediately preceding year without any requirement to disclose option exercises and vested stock options, pension benefits or potential payments upon termination or a change of control. Furthermore, as a foreign private issuer, we are also not subject to the requirements of Regulation FD (Fair Disclosure) promulgated under the Exchange Act.

These exemptions and leniencies will reduce the frequency and scope of information and protections to which you are entitled as an investor.

We may be a “passive foreign investment company”, or PFIC, for U.S. federal income tax purposes in the current taxable year or may become one in any subsequent taxable year. There generally would be negative tax consequences for U.S. taxpayers that are holders of our ADSs or Ordinary Shares if we are or were to become a PFIC.

Based on the projected composition of our income and valuation of our assets, we do not expect to be a PFIC for 2020, and we do not expect to become a PFIC in the future, although there can be no assurance in this regard. The determination of whether we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. We will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which either (1) at least 75% of our gross income is “passive income” or (2) on average at least 50% of our assets by value produce passive income or are held to produce passive income. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. Passive income also includes amounts derived by reason of the temporary investment of funds, including those raised in a public offering. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is considered. The tests for determining PFIC status are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. In addition, our PFIC status may depend in part on the market value of our ADSs or Ordinary Shares. Accordingly, there can be no assurance that we currently are not or will not become a PFIC in the future. If we are a PFIC in any taxable year during which a U.S. taxpayer holds our ADSs or Ordinary Shares, such U.S. taxpayer would be subject to certain adverse U.S. federal income tax rules. In particular, if the U.S. taxpayer did not make an election to treat us as a “qualified electing fund,” or QEF, or make a “mark-to-market” election, then “excess distributions” to the U.S. taxpayer, and any gain realized on the sale or other disposition of our ADSs or Ordinary Shares by the U.S. taxpayer: (1) would be allocated ratably over the U.S. taxpayer’s holding period for the ADSs or Ordinary Shares; (2) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (3) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. In addition, if the U.S. Internal Revenue Service, or the IRS, determines that we are a PFIC for a year with respect to which we have determined that we were not a PFIC, it may be too late for a U.S. taxpayer to make a timely QEF or mark-to-market election. U.S. taxpayers that have held our ADSs or Ordinary Shares during a period when we were a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC in subsequent years, subject to exceptions for U.S. taxpayer who made a timely QEF or mark-to-market election. A U.S. taxpayer can make a QEF election by completing the relevant portions of and filing IRS Form 8621 in accordance with the instructions thereto. We do not intend to notify U.S. taxpayers that hold our ADSs or Ordinary Shares if we believe we will be treated as a PFIC for any taxable year to enable U.S. taxpayers to consider whether to make a QEF election. In addition, we do not intend to furnish such U.S. taxpayers annually with information needed to complete IRS Form 8621 and to make and maintain a valid QEF election for any year in which we or any of our subsidiaries are a PFIC. U.S. taxpayers that hold our ADSs or Ordinary Shares are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ADSs or Ordinary Shares if we are a PFIC. See “Item 10.E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Companies” for additional information.

ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable results to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Ordinary Shares provides that holders and beneficial owners of ADSs irrevocably waive the right to a trial by jury in any legal proceeding arising out of or relating to the deposit agreement or the ADSs, including claims under federal securities laws, against us or the depository to the fullest extent permitted by applicable law. If this jury trial waiver provision is prohibited by applicable law, an action could nevertheless proceed under the terms of the deposit agreement with a jury trial. To our knowledge, the enforceability of a jury trial waiver under the federal securities laws has not been finally adjudicated by a federal court. However, we believe that a jury trial waiver provision is generally enforceable under the laws of the State of New York, which govern the deposit agreement, by a court of the State of New York or a federal court, which have non-exclusive jurisdiction over matters arising under the deposit agreement, applying such law. In determining whether to enforce a jury trial waiver provision, New York courts and federal courts will consider whether the visibility of the jury trial waiver provision within the agreement is sufficiently prominent such that a party has knowingly waived any right to trial by jury. We believe that this is the case with respect to the deposit agreement and the ADSs. In addition, New York courts will not enforce a jury trial waiver provision in order to bar a viable setoff or counterclaim sounding in fraud or one which is based upon a creditor’s negligence in failing to liquidate collateral upon a guarantor’s demand, or in the case of an intentional tort claim (as opposed to a contract dispute), none of which we believe are applicable in the case of the deposit agreement or the ADSs. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any provision of the federal securities laws. If you or any other holder or beneficial owner of ADSs brings a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and / or the depository. If a lawsuit is brought against us and / or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different results than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action, depending on, among other things, the nature of the claims, the judge or justice hearing such claims, and the venue of the hearing.

Risks Related to Israeli Law and Our Operations in Israel

Provisions of Israeli law and our articles of association may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

As a company incorporated under the law of the State of Israel, we are subject to Israeli law. Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company's issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital and a majority of the offerees that do not have a personal interest in the tender offer approves the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company's outstanding shares. Under the Israeli law, a potential bidder for the company's shares, who would as a result of a purchase of shares hold either 25% of the voting rights in the company when no other party holds 25% or more, or 45% of the voting rights in the company where no other shareholders holds 45% of the voting rights, would be required to make a special purchase offer as set out in the provisions of the Israeli law. The Israeli law requires a special purchase offer to be submitted to shareholders for a pre-approval vote. A majority vote is required to accept the offer. An offeror who is regarded as a 'controlling shareholder' under Israeli law cannot vote on the resolution and the procedure includes a secondary vote of the non-voting shareholders and the shareholders who rejected the offer at pre-approval level. A special purchase offer may not be accepted unless shares that carry 5% of the voting rights in the target company are acquired. Furthermore, the shareholders may, at any time within six months following the completion of the tender offer, claim that the consideration for the acquisition of the shares does not reflect their fair market value, and petition an Israeli court to alter the consideration for the acquisition accordingly, other than those who indicated their acceptance of the tender offer in case the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights, and the acquirer or the company published all required information with respect to the tender offer prior to the tender offer's response date. In addition, our articles of association provide for a staggered board of directors, which mechanism may delay, defer or prevent a change of control of the Company. See "Item 10.B Memorandum and Articles of Association — Provisions Restricting Change in Control of Our Company" for additional information.

Israeli tax considerations also may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including, in some cases, a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies may be subject to certain restrictions and additional terms. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of the shares has occurred. See "Item 10.E. Taxation—Israeli Tax Considerations and Government Programs" for additional information.

The rights and responsibilities of a holder of our securities will be governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our Ordinary Shares (and therefore indirectly, the ADSs and the warrants) are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in typical U.S.-based corporations. In particular, a shareholder of an Israeli company has certain duties to act in good faith in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger of the company, and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of an officer of the company has a duty to act in fairness towards the company with regard to such vote or appointment. However, Israeli law does not define the substance of this duty of fairness. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations on holders of our Ordinary Shares that are not typically imposed on shareholders of U.S. corporations. See "Item 6.C. Board Practices—Duties of Shareholders" for additional information.

It may be difficult to enforce a judgment of a U.S. court against us and our officers and directors and the Israeli experts named in this annual report in Israel or the United States, to assert U.S. securities laws claims in Israel or to serve process on our officers and directors and these experts.

We were incorporated in Israel and our corporate headquarters are located in Israel. The vast majority of our executive officers and directors and the Israeli experts named in this annual report on Form 20-F are located in Israel. All of our assets and most of the assets of these persons are located in Israel. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not necessarily be enforced by an Israeli court. It also may be difficult to affect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Additionally, it may be difficult for an investor, or any other person or entity, to initiate an action with respect to U.S. securities laws in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court.

Our headquarters and other significant operations are located in Israel, and, therefore, our results may be adversely affected by political, economic and military instability in Israel.

Our executive offices, corporate headquarters and research and development facilities are located in Israel. In addition, all of our key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring Arab countries, the Hamas militant group (an Islamist militia and political group that controls the Gaza strip) and the Hezbollah (an Islamist militia and political group based in Lebanon). Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect business conditions in Israel in general and our business in particular, and adversely affect our product development, our operations and results of operations. Ongoing and revived hostilities or other Israeli political or economic factors, such as, an interruption of operations at the Tel Aviv airport, could prevent or delay our regular operation, product development and delivery of products.

Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions, could harm our results of operations and could make it more difficult for us to raise capital. Parties with whom we do business may sometimes decline to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. Several countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continues or increases. Similarly, Israeli companies are limited in conducting business with entities from several countries. For instance, in 2008 the Israeli legislature passed a law forbidding any investments in entities that transact business with Iran. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements.

Our employees and consultants in Israel, including members of our senior management, may be obligated to perform one month, and in some cases longer periods, of military reserve duty until they reach the age of 40 (or older, for citizens who hold certain positions in the Israeli armed forces reserves) and, in the event of a military conflict or emergency circumstances, may be called to immediate and unlimited active duty. In the event of severe unrest or other conflict, individuals could be required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists. It is possible that there will be similar large-scale military reserve duty call-ups in the future. Our operations could be disrupted by the absence of a significant number of our officers, directors, employees and consultants related to military service. Such disruption could materially adversely affect our business and operations. Additionally, the absence of a significant number of the employees of our Israeli suppliers and contractors related to military service or the absence for extended periods of one or more of their key employees for military service may disrupt their operations.

Our insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East or for any resulting disruption in our operations. Although the Israeli government has in the past covered the reinstatement value of direct damages that were caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or, if maintained, will be sufficient to compensate us fully for damages incurred and the government may cease providing such coverage or the coverage might not suffice to cover potential damages. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions generally and could harm our results of operations and product development.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial conditions or the expansion of our business. Similarly, Israeli corporations are limited in conducting business with entities from several countries.

In addition, Israel is experiencing a level of unprecedented political instability. The Israeli government has been in a transitional phase since December 2018, when the Israeli Parliament, or the Knesset, first resolved to dissolve itself and call for new general elections. Since then, Israel held general elections three times – in April and September of 2019 and in March of 2020. A fourth election is due to take place on March 23, 2021. The Knesset has not passed a budget for the year 2021, and certain government ministries, which may be critical to the operation of our business, are without necessary resources and may not receive sufficient funding moving forward. In the event that the current political stalemate is not resolved during 2021, our ability to conduct our business effectively may be adversely affected.

Certain of our research and development activities and programs were supported by Israeli Governmental grants, some of which were sold or are in the process of selling. The terms of such grants may require us, in the future, to pay royalties and to satisfy specific conditions if and to the extent we receive future royalties or in order to complete the sale of such grant-based technologies and programs. We may be required to pay penalties in addition to payment of the royalties.

Our research and development efforts with respect to some of our past activities, including development of Secure Cloud Storage Access, were financed in part through royalty-bearing grants from the Israel Innovation Authority, or the IIA. On March 2020, we have completed the payment of royalties derived from the aggregate amount of \$146,000 we received from the IIA for the development of our abovementioned technologies. Nevertheless, we are still bound by certain aspects of the Israeli Industrial Research and Development Law, or the Research and Development Law. Furthermore, pursuant to the technology purchase agreement between Safe-T Data and Cykick Labs Ltd., approved by the IIA in July 2018, we are committed to pay royalties on grants received from the IIA in connection with the technology purchased under this agreement in the amount of approximately \$0.4 million from our income generated from products incorporating such technology. Additionally, in July 2018, we received a notice from the IIA regarding an obligation at the approximate amount of \$0.5 million, made by an incubator center, which Cykick Labs Ltd. was a part of. According to the IIA, in order to receive the IIA's approval to export the technology purchased from Cykick Labs Ltd., we would be required to obtain a commitment from the incubator center, taking the obligation upon themselves. If we do not obtain such commitment, we would be required to take this obligation upon our self, otherwise, the IIA will not approve any future export of the technology purchased from Cykick Labs Ltd. We have sent a letter to the IIA, rejecting its claims. As of the date of this annual report on Form 20-F, the IIA has not responded to our letter. We cannot be sure that the IIA will accept our arguments, which, if not accepted, may result in the expenditure of financial resources or may impair our ability to transfer or sell our technology outside of Israel.

We are committed to pay royalties with respect to aforesaid grants until 100% of the U.S. dollar-linked grant plus annual London Interbank Offered Rate, or LIBOR, interest is repaid. Nonetheless, the amount of royalties that we may be required to pay, may be higher in certain circumstances, such as when the manufacturing activity / know how is transferred outside of Israel. The United Kingdom's Financial Conduct Authority, which regulates the LIBOR, announced in July 2017 that it will no longer persuade or require banks to submit rates for LIBOR after 2021. Accordingly, there is considerable uncertainty regarding the publication of LIBOR beyond 2021. While it is not currently possible to determine precisely whether, or to what extent, the withdrawal and replacement of LIBOR would affect us, the implementation of alternative benchmark rates to LIBOR may increase our financial liabilities to the IIA. Management continues to monitor the status and discussions regarding LIBOR. We are not yet able to reasonably estimate the expected impact.

We are required to comply with the requirements of the Israeli Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984, as amended, and related regulations, or the Innovation Law, with respect to these past grants. The abovementioned restrictions and requirements for payments may impair our ability to sell our technology outside of Israel or to outsource manufacturing or otherwise transfer our know-how outside Israel and may require us to obtain the approval of the IIA for certain actions and transactions and pay additional royalties or other payments to the IIA. We may not receive such approvals. Although we do not believe that these requirements will materially restrict us in any way, the IIA may impose certain conditions on any arrangement under which it permits us to transfer or assign technology or development out of Israel. If we fail to comply with the Innovation Law, we may be required to refund certain grants previously received and/or to pay interest and penalties and we may become subject to criminal charges. None of our current projects are supported by the IIA, yet if eligible, we may apply for such support in the future. The IIA may establish new guidelines regarding the Innovation Law, which may affect our existing and/or future IIA programs and incentives for which we may be eligible. We cannot predict what changes, if any, the IIA may make.

General Risk Factors

Raising additional capital would cause dilution to holders of our equity securities, and may affect the rights of existing holders of equity securities.

We may seek additional capital through a combination of private and public equity offerings, debt financings and collaborations and strategic and licensing arrangements. To the extent that we raise additional capital through the issuance of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a holder of the ADSs.

We are subject to a number of risks associated with global sales and operations.

Business practices in the global markets that we serve may differ from those in the United States and may require us to include non-standard terms in customer contracts, such as extended payment or warranty terms. To the extent that we enter into customer contracts that include non-standard terms related to payment, warranties, or performance obligations, our results of operations may be adversely impacted.

Additionally, our global sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and managing collections, as well as longer collection periods;
- higher costs of doing business globally, including costs incurred in maintaining office space, securing adequate staffing and localizing our contracts;
- fluctuations in exchange rates between the NIS and foreign currencies in markets where we do business;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platform that may be required in foreign countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- compliance with anti-bribery laws, including, without limitation, compliance with the U.S. Foreign Corrupt Practices Act and the U.K. Anti-Bribery Act;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, consolidated financial statements;
- the impact of COVID-19 and resulting government actions on us;
- reduced or uncertain protection of intellectual property rights in some countries;
- social, economic and political instability, terrorist attacks and security concerns in general;
- an outbreak of a contagious disease, such as coronavirus, which may cause us, third party vendors and manufacturers and/or customers to temporarily suspend our or their respective operations in the affected city or country;
- laws and business practices favoring local competition;
- being subject to the laws, regulations and the court systems of many jurisdictions; and
- potentially adverse tax consequences.

These and other factors could harm our ability to generate future global revenues and, consequently, materially impact our business, results of operations and financial condition.

Weakened global economic conditions may affect our industry, business and results of operations.

Our overall performance depends on worldwide economic conditions. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our secure access solutions, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect renewal rates, all of which could adversely affect our operating results. In addition, in a weakened economy, companies that have competing products may reduce prices which could also reduce our average selling prices and harm our operating results.

The price of the ADSs may be volatile.

The market price of the ADSs has fluctuated in the past. Consequently, the current market price of the ADSs may not be indicative of future market prices, and we may be unable to sustain or increase the value of your investment in the ADSs. During the first quarter of 2021 and up to March 21, 2021, the market price of our ADSs has fluctuated from a low of \$1.2 per ADS to a high of \$2.98 per ADS, and our ADS price continues to fluctuate, as does the daily volume of trading of our ADSs. The market price of our ADSs and volume of trading may continue to fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- our ability to grow our revenue and customer base;
- the announcement of new products or product enhancements by us or our competitors;
- variations in our and our competitors' results of operations;
- successes or challenges in our funding sources;
- developments in the industries we operate;
- future issuances of ADSs or other securities;
- the addition or departure of key personnel;
- announcements by us or our competitors of acquisitions, investments or strategic alliances; and
- general market conditions and other factors, including factors unrelated to our operating performance.

Further, the stock market in general, and the market for technology companies in particular, has recently experienced extreme price and volume fluctuations. The volatility of our ADSs is further exacerbated due to its low trading volume, which has only recently increased. Continued market fluctuations could result in extreme volatility in the price of our ADSs which could cause a decline in the value of our ADSs and the loss of some or all of your investment.

We may be subject to securities litigation, which is expensive and could divert management attention.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could seriously hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they adversely change their recommendations or publish negative reports regarding our business or our shares, the share price and trading volume of our Ordinary Shares and ADSs could decline.

The trading market for our ADSs or Ordinary Shares will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. We do not have any control over these analysts, and we cannot provide any assurance that analysts will cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our ADSs or Ordinary Shares, or provide more favorable relative recommendations about our competitors, our share price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the share price or trading volume of our ADSs or Ordinary Shares to decline.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Safe-T Group Ltd. We were incorporated in the State of Israel in December 1989, and are subject to the Companies Law. From June 2011 until June 2016, we were a “shell corporation” and did not have any business activity, excluding administrative management. On June 15, 2016, we completed a merger transaction, or the Merger Transaction, with Safe-T Data A.R Ltd., or Safe-T Data, whereby we acquired 100% of the share capital of Safe-T Data. Since the date of the Merger Transaction, we have devoted substantially all of our financial resources to develop and commercialize our products and to extend our business organically as well as by acquisitions. Our Ordinary Shares have been trading on the Tel Aviv Stock Exchange, or TASE, since January 2000. As of July 7, 2016, and following the change of our name in the course of the Merger Transaction, our symbol on the TASE has been “SAFE.” ADSs representing our Ordinary Shares have been trading on the Nasdaq Capital Market under the symbol “SFET” since August 17, 2018.

Our principal executive offices are located at 8 Abba Eban Avenue, Herzliya, 4672526 Israel. Our telephone number in Israel is +972-9-8666110.

Our website address is <http://www.safe-t.com>. The information contained on our website or available through our website is not incorporated by reference into and should not be considered a part of this annual report on Form 20-F, and the reference to our website in this annual report on Form 20-F is an inactive textual reference only. Safe-T USA Inc. is our agent in the United States, and its address is 51 John F. Kennedy Parkway, First Floor West at Regus, Short Hills, NJ 07078. NetNut Ltd. is our cloud-based business IPPN solutions company, and Chi Cooked LLC is our cloud-based global IPPN services provider.

We are an emerging growth company, as defined in Section 2(a) of the Securities Act, as implemented under the JOBS Act. As such, we are eligible to, and intend to, take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies including but not limited to not being required to comply with the auditor attestation requirements of the SEC rules under Section 404 of the Sarbanes-Oxley Act. We could remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the date of our first sale of common equity securities pursuant to an effective registration statement under the Securities Act, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Ordinary Shares that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

We are a foreign private issuer as defined by the rules under the Securities Act and the Exchange Act. Our status as a foreign private issuer also exempts us from compliance with certain laws and regulations of the SEC and certain regulations of the Nasdaq Stock Market, including the proxy rules, the short-swing profits recapture rules, and certain governance requirements such as independent director oversight of the nomination of directors and executive compensation. In addition, we will not be required to file annual, quarterly and current reports and consolidated financial statements with the SEC as frequently or as promptly as U.S. domestic companies registered under the Exchange Act.

Our capital expenditures for 2020, 2019 and 2018 amounted to \$141,000, \$46,000 and \$352,000, respectively. These expenditures were primarily for purchases of fixed assets and development expenditures capitalized as intangible assets. Our purchases of fixed assets primarily include leasehold improvements, computers, and equipment used for the development of our products, and we financed these expenditures primarily from cash on hand.

B. Business Overview

We are a provider of access solutions and intelligent data collection. The group consists of two main operating arms: Cyber and IP Proxy Network, or IPPN.

Our Cyber arm relates to the ZoneZero™ cloud and on-premises solutions, empowered by our patented reverse-access technology and proprietary routing technology, and designed to mitigate attacks on enterprises' business-critical services and sensitive data, while ensuring uninterrupted business continuity. Organizations' access use cases, whether into the organization or from the organization out to the internet, are secured according our "validate first, access later" zero trust philosophy. This means that no one is trusted by default from inside or outside the network, and verification is required from everyone trying to gain access to resources on the network or in the cloud. Our ZoneZero™ solutions reduce organizations' attack surface and improve their ability to defend against modern cyberthreats.

Our IPPN arm offers an exclusive global proxy network solution, based on proprietary proxy traffic optimization and routing technology, and built on partnership agreements with tens of Internet Service Providers, or ISPs. Our IPPN solutions enable access to the Internet using the ISP network, through millions of end-points globally, as well as functionality, security, privacy, and multiple business use cases, including large-scale data mining and analysis. With our proxy network solutions, organizations can obtain access to undiscovered data from non-traditional data sources (like social media) and gain additional data-driven information that provide valuable insights with respect to predictive capabilities or behaviors thus assisting ongoing business management operation and decision making. The IPPN arm currently generates most of our revenues.

We offer the following access solutions:

Secure Cyber Solutions	IPPN Solutions
ZoneZero™ SDP	Static Residential proxy network cloud service
ZoneZero™ VPN	Dynamic Residential proxy network cloud service
ZoneZero™ MFA	Data Center proxy network cloud service
Secure File Access (SFA)	Data collection API cloud service
	Proxy-in-a-Box
	Consumer VPN application
	Premium dedicated static residential proxies

Secure Cyber Solutions

- **ZoneZero™**
 - o **ZoneZero™ SDP** - a solution based on Software Defined Perimeter and Zero Trust Network Access concepts. It grants access to applications on a need-to-know basis only, while giving our clients' users fast and seamless access to the resources they need. Designed to support non-VPN users.
 - o **ZoneZero™ VPN** – a solution designed on Zero Trust Network Access concepts. It is designed to add zero trust capabilities to existing VPN solutions. It grants access for VPN users to applications on a need-to-know basis only, while giving our clients' users fast and seamless access to the resources they need.
 - o **ZoneZero™ MFA** – a solution designed to add centralized multi-factor authentication, or MFA, capabilities for all types of internal applications. The solution does not require any modification to the end-user or application.
- **Secure File Access (SFA)** – reduces insider threats by transforming standard network drives into secure, encrypted and access-controlled drives, exposing sensitive information on a "need-to-know" basis only. Eliminates the need to rely on insecure file permissions and vulnerable Server Message Broker, or SMB, protocols.

IPPN Solutions

- o **Static Residential proxy network cloud service** – a proxy network which is based on our unique technology and presence in tens of ISPs as partners around the world.
- o **Dynamic Residential proxy network cloud service** – a proxy network which is based on routing traffic through millions of end points in Europe, Asia, South America and Canada.
- o **Data Center proxy network cloud service** – a proxy network which is based on routing traffic through servers located in data centers in leading carriers in the United States. The recent acquisition of Chi Cooked LLC will help us accelerate the deployment of internet data center infrastructure and IP proxy services.
- o **Data collection API cloud service** - a service which allows our customers to use our application programming interface, or API, to request content from any public source on the internet.
- o **Proxy-in-a-Box** - on premise solution of private proxy access network for customers who wish to deploy and maintain their own proxy network.
- o **Consumer VPN application** - an application and a network of VPN servers which allows our users to access the internet securely through tens of countries around the world, based on NetNut's residential proxy network.
- o **Premium dedicated static residential proxies** – a solution that creates a dedicated static IP for each user. The end result is a highly effective proxy, that will remain stable during heavy traffic and will save the customer additional bandwidth charges.

In addition, we have a legacy product, the Secure Data Exchange, or SDE, which is designed to unify all data exchange scenarios of an organization, for example secure email, data vaults, secure file transfer protocol, or SFTP, replacements, automated file transfer scenarios and more. In the beginning of 2020, we decided to stop actively selling the SDE product, and only support existing customers. Nevertheless, this product still generates revenues, from renewal of support contracts.

We have a customer base spanning several industries, including finance, healthcare, government agencies, commercial companies, online companies, retail, educational institutions, and more. Our initial engagements with our customers either follow: (i) a license sale model, (ii) a lease subscription model between one to three years, which are renewable upon expiration, at our customers' discretion, or (iii) in the case of the IP Proxy solution, short-term services model based on bandwidth utilization.

In its April 2019 Market Guide for Zero Trust Network Access, or ZTNA, Gartner¹ identified Safe-T as a Representative Vendor for a stand-alone ZTNA offering. In June 2020, we were named as a Representative Vendor in Gartner's June 2020 Market Guide for Zero Trust Network Access. In October 2020, we were listed in Forrester's Q3 2020 Tech Tide™: Zero Trust Threat Prevention Report. In December 2020, we were named a Representative Vendor in Gartner's December 2020 report titled, "SASE Will Improve Your Distributed Security Everywhere."²

Zero Trust Access Industry Background

General

In view of the public's extensive use of the internet and its various applications, many businesses opt to use the internet as a business platform. Information systems' computing and communication capabilities, as well as their global inter-connected distribution, expose entities to various threats from hostile persons, competing businesses or governments. The relatively new field of information security is designed to protect such information from various threats from inside and outside an organization, including protecting the security of an organization's hardware and software systems, as well as the security of the information stored on them or transmitted electronically.

¹ Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

² Gartner, Inc. "SASE Will Improve Your Distributed Security Everywhere" by Richard Bartley, December 8, 2020.

One of the principal elements of the field of information security and of our activities is the protection of data and applications from unauthorized access to information by, among others, sharing management and monitoring an organization's information in a secure manner. According to a report by Verizon Communications Inc. from 2020³, 70% of breaches were conducted by 'outsiders.' This statistic indicates that the authentication and access solutions currently utilized by enterprises are inadequate. Current solutions first provide access and then authenticate, which means that the attacker has gained access to the service or is on the network before he is authenticated. In addition, many current solutions do not control data access for internal users, creating a higher risk of attack. Our ZoneZero™ family of secure access solutions authenticates both external and internal users before providing access, and also controls what an authenticated user may do with the data. This prevents un-authenticated users from accessing internal services, and ensures authenticated users do not misuse data or services.

The exponential increase in high-risk data, the shift to cloud-based storage and distributed data centers connected by the internet contributes to increasing information security risks. The proliferation of external users, such as employees, work from home (WFH) users, business partners, contractors, internet of things, or IoT, devices, etc., exacerbates the existing potential for cyberattacks because enterprise applications and data are often "visible" outside the enterprise.

Another driver of information security solutions stems from increasingly complex regulatory requirements. In recent years, regulatory bodies in major markets around the world have introduced various requirements to maintain information security mechanisms. Such requirements apply to various entities, mainly in the field of banking, insurance, credit card processing, medical institutions, energy, and government agencies. Other regulatory changes are designed to make it obligatory for entities to provide online services and make services more digitally accessible. Our solutions help our customers meet these regulatory compliance requirements.

Vast amounts of data, including sensitive, personal and commercial information, are stored electronically and are typically connected to external networks, including the internet and in cloud storage. This information architecture has enabled threats that all organizations face, including:

- distributed 'denial of service' attacks on published services and applications;
- access to an organization's data by unauthorized internal personnel;
- access to an organization's data and networks by outside hackers; and
- unsecure transfer of information and files within an organization, and to and from third parties.

The data security market offers a variety of information security products that provide specific protection for a certain market or aspect of information security. Our products, however, offer various security capabilities to organizations designed to ensure full security of intra-organizational and inter-organizational data access. Further, our unique open extensible and customizable architecture integrates with many third-party security and identity provider vendors, ensuring a smooth integration into our customers' networks.

Our products are designed to provide Zero-Trust access, by ensuring only trusted parties can access and use data and services. They surpass current access, authentication and encryption strategies by unifying and streamlining all systems while consolidating data exchange and connectivity.

Additional Market Trends

Mobile Devices and Unmanaged Devices. In recent years there has been an increase in the use of mobile devices (bring your own device - BYOD) and personal laptops and desktops (bring your own PC - BYOPC), which allow users within an organization or out of the organization to use business information accessed through mobile devices and personal-owned computers and store information in the cloud through those mobile devices. These trends increase the need to find secure connectivity solutions, both for an organization's systems and for the cloud storage services.

Other Market Trends. Generally, in view of the increase in the number of internet users in the last decade, many organizations invest heavily in the launch of new digital services, the expansion of their network infrastructures and their existing business infrastructures and the upgrading of their information security systems.

³ <https://enterprise.verizon.com/resources/reports/dbir/>

In recent years, an increasing number of organizations have experienced hacking and information theft. This trend is the result of old network architectures, and legacy access solutions, which do not provide adequate information security solutions for accessing the organization's data. The built-in weakness of these architectures is that the more services an organization wants to make publicly available, the more its networks are exposed. In addition, many organizations have not added any MFA capabilities to internal applications, as current technologies are complex and require much customization.

The foundations that support our customers' systems are built with connectivity, and not security, as an essential feature. Transmission control protocol, or TCP, connects before it authenticates. Security policy and user access based on IP lack context and allow architectures that exhibit overly permissive access. Most likely, this will result in a brittle security posture.

Many of our customers' environments have changed considerably. For example, data and files which used to reside on-premises only, have now moved and also reside in private or public clouds. This shift makes traditional network and security architectures not relevant to current defense requirements, and makes networks vulnerable to attack. The threat to landscape is unpredictable. Our customers are getting hit by external threats from all over the world. However, the environment is not just limited to external threats. There are insider threats also within a user group, and insider threats across user group boundaries.

We summarize the current network challenges as follows:

- Connect First and Then Authenticate

Current access models are built for the past, when trust was assumed. When clients want to communicate and have access to an application: they first connect to the access gateway. It is only after the access stage has been carried out, that the authentication stage can be accomplished. Unfortunately, with this model, we have no idea who the client is until they have completed the access phase. There is a possibility that the requesting client is not trustworthy.

- The Network Perimeter

Networks began with static domains, whereby internal and external segments are separated by a fixed perimeter. Public IP addresses are assigned to the external host and private addresses to the internal. If a host is assigned a private IP, it is thought to be more trustworthy than if it has a public IP address. Therefore, trusted hosts operate internally, while untrusted hosts operate external to the perimeter. Here, the significant factor that needs to be considered is that IP addresses lack user-knowledge to assign and validate trust.

Today, IT has become more diverse since it now supports hybrid architectures with a variety of different user types, humans, applications and the proliferation of connected devices. Cloud adoption has become the norm these days since there is an abundance of remote workers accessing the corporate network from a variety of devices and places.

The perimeter approach no longer reflects the typical topology of users and servers accurately. It was actually built for a different era where everything was inside the walls of the organization and corporate users were trusted. However, today, the organizations are required provide access for a multitude of users – employees in the network, employees out of the network connected from managed devices via VPN, employees connecting from home, third party contractors and suppliers. In addition, organizations are increasingly deploying applications in the public clouds that are located in geographical locations. These are the locations that are remote from an organization's trusted firewalls and the perimeter network. This certainly stretches the network perimeter.

Our customers have a fluid network perimeter where data and users are located everywhere. Hence, now we operate in a completely new environment. But the security policy controlling user access is built for static corporate-owned devices, within the supposed trusted local area network, or LAN.

- Lateral Movements

A major concern with the perimeter approach is that it assumes a trusted internal network. However, evidently, 80% of threats are from internal malware or a malicious employee that will often go undetected.

Besides, with the rise of phishing emails, an unintentional click will give a bad actor the broad-level access. And once on the LAN, the bad actors can move laterally from one segment to another. They are likely to navigate undetected between, or within the segments.

Eventually, the bad actor can steal the credentials and use them to capture and exfiltrate valuable assets. Even social media accounts can be targeted for data exfiltration since they are not often inspected by the firewall as a file transfer mechanism.

- Issues with the VPN

With traditional VPN access, the encrypted link tunnel creates an extension between the client's device and the application's location. The VPN rules are static and do not dynamically change with the changing levels of trust on a given device. They provide only network information which is a crucial limitation.

Therefore, from a security standpoint, the traditional method of VPN access enables the clients to have broad network-level access. This makes the network susceptible to undetected lateral movements. Also, the remote users are authenticated and authorized but once permitted to the LAN they have the coarse-grained access. This obviously creates a high level of risk as undetected malware on a user's device can spread to an inner network.

Another significant challenge is that VPNs generate administrative complexity and cannot easily handle cloud, or multiple network environments. They require installation of end-user VPN software clients and to know where the application that they are accessing is located. Users would have to make changes to their VPN client software to gain access to the applications situated at different locations. In a nutshell, traditional VPNs are complex for administrators to manage and for users to operate.

Also, poor user experience will often occur as organizations will have to backhaul the user traffic to a regional data center. This adds latency and bandwidth costs.

In addition, VPNs are vulnerable technologies, with new hacks of VPNs occurring on a monthly basis.

IP Proxy Industry Background

A proxy server provides a gateway between users and the internet. It is a server, referred to as an "intermediary" because it goes between end-users and the web pages they visit online. When a computer connects to the internet, it uses an IP address. This is similar to a home street address, telling incoming data where to go and marking outgoing data with a return address for other devices to authenticate. A proxy server is essentially a computer on the internet that has an IP address of its own. Proxy servers provide varying levels of functionality, security, and privacy depending on the use case, needs, or user policy.

A growing commercial use case of IPPN services is the use by businesses to gather data over the Internet using residential IP addresses from various locations around the world. The service supports a wide variety of use cases and provides several significant benefits to its business users. For example, cyber and web intelligence companies can collect data anonymously and infinitely from any public online source, advertising or ad networks can view their advertisers' landing pages anonymously to ensure they do not contain malware or improper advertising, online retailers can gather comparative pricing information from competitors, and businesses may utilize these IP addresses to test their websites from different cities in the world.

According to research conducted by Frost and Sullivan, IPPN providers are defined as companies that offer products that place an extra IP address from a rotating pool of addresses between a customer and any website they visit on the public internet. Instead of getting data directly from a website, an IPPN customer's request first passes through a separate device, a proxy server, before going to and receiving a response from the target website. From the target website's perspective, no information about the original machine is sent. Only the proxy device's IP address gets transmitted. As many websites place limits on the amount of information sent to any one IP address, gathering additional, openly available data from any one website, often involves using proxy servers to make it appear as if the requests come from different users, thus requiring the need for a rotating pool of IP addresses to be used by proxy servers.

The rotating pool of IP addresses derive from proxy software installed on residential users' computers and mobile devices, while data centers use dedicated proxy servers. Based on the IP address it receives, a target website can distinguish whether a request comes from a residence, mobile device or data center and display different information accordingly based on location and demographic attributes. Companies tailoring information based on such attributes led to competitors needing IPPNs to simulate being actual customers. Proxy servers are intermediaries between devices requesting information from other servers. Proxy servers have many purposes, such as anonymizing identities, filtering information, getting around filters, and improving information retrieval performance.

Rotating IPPN servers tend to be used by companies to simulate actual customers in different locations and to collect data, also known as web scraping. Ever since the commercialization of the web, companies have developed increasingly better ways to target consumers via advertising and marketing to the point of adjusting pricing based on a location or even per customer basis. As companies put more of their product information online, this customer targeting made it very difficult for competitors and customers to monitor and/or compare pricing and product availability that can vary so much because of targeting. Websites today recognize customers to show different advertising, content and pricing based on location and other identifiable information. Companies further evolved to prevent competitors from accessing their data via blocking their company's entire range of IP addresses. This prevents companies from comparing pricing, security companies from conducting audits for or detecting malware on malicious sites, and even website owners themselves from verifying their advertising is safe and being delivered properly from their ad vendors.

The global IPPN market includes a variety of vendors in addition to Safe-T, including Luminati Networks Ltd. which was acquired in August 2017 by EMK Capital for \$200 million, Oxylabs Networks Pvt. Ltd., BiScience Inc. and others. According to the research conducted by Frost and Sullivan, the total addressable market in 2019 for IPPN was estimated at \$960.5 million with an estimated revenue in the Service Obtainable Market, or SOM, of \$102.5 million. The SOM is forecasted to grow from 2018 to 2025 at a compound annual growth rate of 16.8%, reaching revenues of \$259.7 million by 2025.

Our Solutions

1. ZoneZero™ - Zero Trust Access

According to a report published in August 2020 by 360iResearch, the Software Defined Perimeter (SDP) market is expected to reach \$10 billion by 2025. In addition, according to Gartner, by 2023, 60% of enterprises will phase out most of their remote access VPNs in favor of ZTNA.

We offer a unique solution that decouples security from the physical network and also decouples application access from the network. Our solutions are based the concepts of Zero Trust, SDP and ZTNA which presents a revolutionary development. It provides an updated approach that current security architectures fail to address.

Our family of secure access solutions is named Safe-T ZoneZero™. We offer a phased deployment model, enabling our customers to progressively migrate to zero trust network architecture while lowering the risk of technology adoption. Safe-T's ZoneZero™ is flexible to meet today's diverse hybrid IT requirements. It satisfies the zero-trust principles that are used to combat today's network security challenges.

The Safe-T ZoneZero™ capabilities are in line with zero trust principles. With Safe-T ZoneZero™, clients requesting access must go through authentication and authorization stages before they can access the resource. Any network resource that has not passed these steps is blackened, ensuring backend services are hidden from unauthenticated users.

This reduces the attack surface to an absolute minimum and follows the Safe-T's axiom: If you can't be seen, you can't be hacked. In a normal operating environment, for the users to get access to services behind a firewall, they have to open ports on the firewall. This presents security risks as a bad actor could directly access that service via the open port and exploit any vulnerabilities of the service.

ZoneZero™ is designed to provide secure application access, by changing the way organizations grant secure external and internal access to their services.

The solution offers secure and transparent access for all types of entities (people, applications and connected devices) to any internal application, service and data, for example HTTP/S, SMTP, SMB, SFTP, SSH, APIs, RDP and WebDAV.

The solution implements Safe-T's patented reverse access (outbound) technology which eliminates the need to open incoming ports in the organization's firewall.

The solution forces users to authenticate into resources first and then they are granted access by the solution. Configurable policies define the orchestrated authentication steps that each user or group member must perform. Now, backend services are not visible to unauthenticated users and the probability of suffering a successful attack is minimized.

Our patented, unique and ground-breaking reverse access technology aims to enable secure access to communication networks and services by, among other things, protecting online business services from attacks, protecting the firewall from attacks, protecting the internal organizational networks from internal attacks and protecting the whole organization from external attacks.

Based on product comparisons that we have conducted, we believe that our ZoneZero™ product, which includes our patented reverse access technology, and that supports all access use cases (internal, external VPN, external non-VPN), is currently the broadest data access solution available within the SDP/ZTNA market. The benefit of utilizing our patented technology allows installing our solution in the intra-organizational network without opening any ports in the firewall, thus reducing dramatically the risk of security breaches by "hiding" an organization's applications from unauthorized parties.

In addition, our ZoneZero™ product is unique in the variety of models in which our customers can purchase it:

- **On-premise deployment** – our customers purchase the product and deploy the different components in their data centers. The customer fully owns and manages the product.
- **Cloud service** – our customers download from the Safe-T web site our Access Controller, while Safe-T manages the gateways in the Safe-T cloud.
- **Sales via Amazon AWS Marketplace** - our customers purchase the product via the Amazon AWS Marketplace and deploy the different components in their AWS networks. The customer fully owns and manages the product.

Our product is unique because, unlike other vendors who encourage customers to "rip," or remove, their VPN deployment from their network and replace it with a SDP solution, Safe-T takes a different approach. While we support the option of fully replacing a VPN solution, we also offer our customers an option of deploying our product together with the organization's existing VPN infrastructure, enhancing VPN security by adding SDP capabilities while yielding a more fortified SDP and VPN infrastructure together.

In addition, our product can also be deployed within the network to add Zero Trust Access capabilities for internal users trying to connect to internal services. By sitting within the network between the users and applications, ZoneZero™ can control access and provide MFA capabilities for all internal applications.

The main benefits of ZoneZero™ are:

- Any setup: on-premise, on cloud or hybrid;
- Flexible - Client, Clientless and IoT versions with a VPN, instead of a VPN or next to a VPN;
- Creates true separation of the data and control planes;
- Applies application-level policies for all of your users;
- Introduces MFA to any VPN, service or application;
- Based on Safe-T's patented Reverse-Access technology;
- Enables achieve true ZTNA;
- Seamless implementation and rapid deployment;
- Optimized cost of deployment and ownership; and
- Central management for full transparency and efficacy.

Another paramount capability of Safe-T ZoneZero™ is that it implements a patented technology called reverse access to eliminate the need to open incoming ports in the internal firewall. This also eliminates the need to store sensitive data in the DMZ. It has the ability to extend to on-premise, public, hybrid cloud, and meeting the IT requirements. ZoneZero™ can be deployed on-premises, as part of Safe-T's hybrid-cloud service, or on AWS, Azure and other cloud infrastructures, thereby protecting both cloud and on-premise resources.

ZoneZero™ is designed to achieve the following:

- Provide zero trust access, by ensuring only trusted parties can access and use data and services;
- Reduce the outward-facing attack surface by locking down and closing the incoming ports in the firewall using our patented technology;
- Unify and streamline all applications and security systems and modernize the security environment on the premises and in the cloud;
- Protect and control access by separating the access layer from the authentication layer, which permits initial authentication of the user outside of an organization's perimeter or in the network and only after authentication, connects the user to the desired service; a similar approach is used to segment internal networks;
- Grant access transparently to an authenticated user without requiring any special end user client software;
- Control file access, preventing data exfiltration, leakage, malware and ransomware;
- Secure and control access to internet web sites; and
- Monitor and report on all user actions, in order to detect anomalous behavior and risk.

ZoneZero™ is available via a variety of options (e.g. on-premises, via AWS Marketplace, via our Managed Security Service Provider partners, or MSSP, and via the cloud as a service), enabling us to market them to all types of organizations, including cloud based companies, and those that are unable to use cloud-based data access services for various reasons, such as regulatory requirements (for example, energy companies, banks, insurance companies, investment firms and health organizations).

ZoneZero™ is also available as a white label via OEM partners, as a bundled solution together with our channel partners' complementary products, and as a bundled solution with companies which offer complementary anti-malware solutions. For example, we have integrated our secure data access solution as part of K2.com RPA SaaS service, and we receive a mid-to-high double-digit percentage of such proceeds, subject to a minimum end user price.

We have similarly integrated our solution with other OEM partners and intend to pursue similar partnerships in the future.

Later in 2021, Safe-T is planning to release a new ZTNA solution called TrustWall. TrustWall will be designed to provide identity-based segmentation for organizations, ensuring new levels of application security for corporate users.

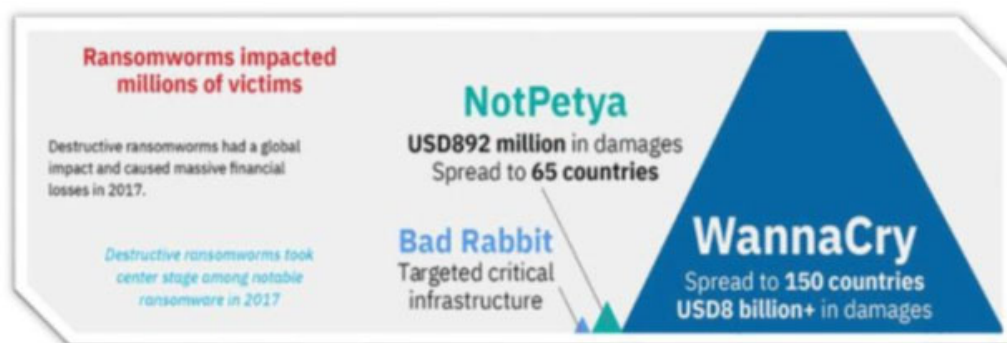
2. Secure File Access (SFA)

SFA is the secure and smart way to access files internally without fear of data leakage. With SFA, you'll transform your standard network drive to a secure, encrypted and access-controlled drive, exposing sensitive information on a "need to know basis" only, while eliminating the need to rely on insecure file permissions and vulnerable SMB protocols.

SFA acts as a secure file gateway between users and remote file servers, while enforcing policies to help prevent any unauthorized access or usage (changing file original format, encrypting files, Ransomware attacks, etc.). It enables internal users to gain transparent and secure access to sensitive information over the standard HTTP/S protocol and integrates with an organization's authentication solution (e.g., Active Directory).

Research conducted by Digital Shadows concluded that the number of internet exposed files increased by 50% from March 2018 through May 2019, and in addition detected over 1 billion files exposed by SMB.

Today the SMB protocol is regarded as highly vulnerable to ransomware like the notorious NotPetya, WannaCry and NamPoHyu.



(Source: <https://www.bleepingcomputer.com/news/security/one-year-after-wannacry-eternalblue-exploit-is-bigger-than-ever/>)

Our SFA product provides the following unique advantages:

- Ensures “need to know” basis access, preventing the next “Edward Snowden”;
- Users do not need to change their normal behavior;
- Adds layer of security missing from current file storages;
- Tracks all user actions on files;
- Switches from vulnerable SMB protocol to secure Web protocol; and
- Prevents ransomware attacks.

The SFA main business benefits are:

- Full segregation of duties, Isolating IT from business users
- Seamless integration, and hassle-free unification with current file storage solutions
- Control over sensitive information, keeping data in the right hands
- Simple and easy deployment, no client installation
- Enhanced risk reduction, preventing data theft and leakage
- Minimized overall network attack footprint, by removing the insecure SMB protocol

3. IPPN – IP Proxy

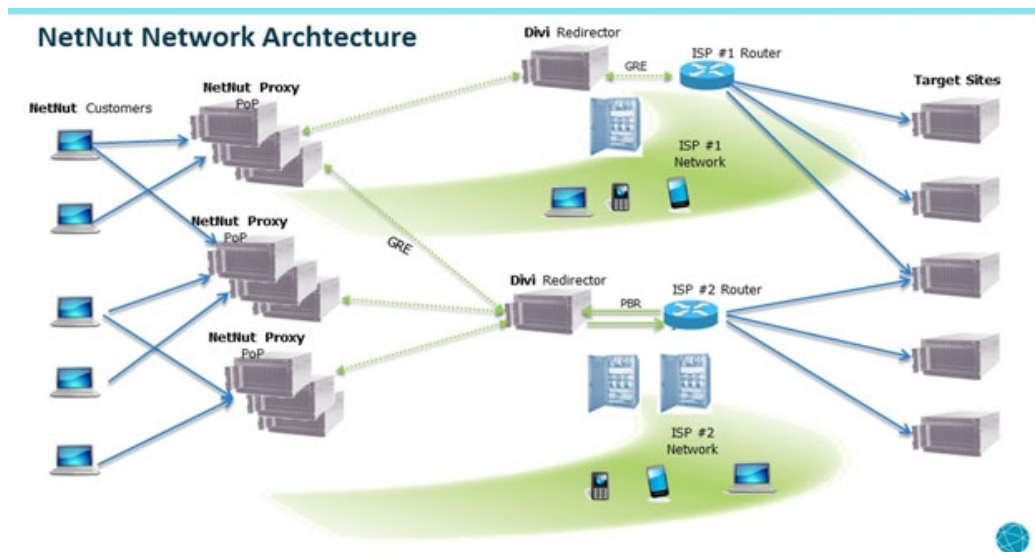
Following the acquisition of NetNut in June 2019, as further detailed below, we launched our IPPN service. The service network is based on partnership agreements with tens of ISPs and technology which enables our customers to access the internet using the ISPs’ networks through millions of end points globally, and collect valuable data for their needs. The service’s performance and scalability are enhanced by our proprietary proxy traffic optimization and routing technology.

Customers in the IPPN market use the proxy service for various needs and for wide variety of use cases, as mentioned above. To address all these use cases, different types of proxy networks are needed. For some of the use cases, the network needs to be fast and stable, and allowed to use the same IP address for long time periods, while for others, the most important factor of a proxy network would be its ability to provide a different IP address for each request in order to be able to get full picture of the collected data. For these reasons, providers in the IPPN market are required to provide wide selection and network types. We have invested heavily in the last year in expanding our offering in order to become a leading provider in this market.

Currently we are offering five different solutions in the IPPN Market:

- Static Residential proxy network cloud service – proxy network which is based on our unique technology and presence in tens of ISPs as partners around the world.
- Dynamic Residential proxy network cloud service – proxy network which is based on routing traffic through millions of end points in Europe, Asia, South America and Canada.
- DataCenter proxy network cloud service – proxy network which is based on routing traffic through servers located in data centers in leading carriers in the United States. The recent acquisition of Chi Cooked LLC will help us accelerate the deployment of internet data center infrastructure and IPPN services.
- Data collection API cloud service – service which allows our customers to use our API to request content from any public source on the internet.
- Proxy-in-a-Box – on premise solution of private proxy access network for customers who wish to deploy and maintain their own proxy network.
- Consumer VPN application – an application and a network of VPN servers which allows our users to access the internet securely through tens of countries around the world, based on NetNut's residential proxy network.
- Premium dedicated static residential proxies - a solution that eliminates the need to have a bandwidth limit and creates a dedicated static IP for each user. The end result is a highly effective proxy, that will remain stable during heavy traffic and will save the customer additional bandwidth charges.

The uniqueness of most of our services is based on the fact that unlike our competitors which are host-based solutions only, which requires installation of software on third-party uncontrolled end user devices, most of our solutions are based on routing the customer's traffic through residential ISP routers which are partners in the NetNut network as shown below:



Our IPPN solutions main advantages over the competition, include:

- Highest level of security as all customer traffic is routed exclusively through the network; no third-party computers are utilized;
- Guaranteed quality of service, by controlling all of their customer's servers which are located on major internet routes or at ISPs around the world; and
- Fastest solution, since our architecture is unique in its ability to provide residential IPs with one hop connectivity to the target site. Traffic is not routed through end users' machines.
- Diversity – now we offer a variety of different access networks for our customers to choose from or combine. We can provide dynamic or static true residential networks along with DataCenter networks. These combinations address all customer types' needs and allow us to become a one-stop shop for their data collection infrastructure.

Strategy

Our main goal is to become one of the leading vendors in the fields of cyber, data protection, information security and internet access. We operate in Israel, North, central and south America, Europe, Southeast Asia, Australia, the Middle East and Africa. We intend to continue our penetration efforts into the U.S. market. Among the steps that we have taken in order to penetrate the U.S. market was the recruitment of a U.S. based team that is being assisted by an advisory board consisting of industry professionals who serve in leading information security positions of big and medium sized U.S. companies. The main purpose of the team is the entering into engagements with channel partners in the U.S. market and form collaborative engagements with other technology suppliers.

In addition, we are taking steps to expand our activities in Europe and Southeast Asia, the Middle East, Africa and Australia, and to enter into engagements with new business partners in those markets. We intend to continue investing resources in research and development in order to improve our existing products, and develop new and cutting-edge products and technologies to maintain our innovative position in the market.

We also intend to continue to:

- engage with additional OEMs, resellers, distributors, system integrators, MSSP and ISPs;
- invest materially in marketing and sales activities; and
- establish partnerships with industry leaders.

In the IPPN market, following the launch of our latest solutions and the acquisition of Chi Cooked LLC, we plan to increase our investment in sales and marketing in 2021 to significantly accelerate our growth and to leverage our diverse offering to become a one-stop shop for all proxy-related business requirements. We also plan to use our new Proxy-in-a-Box solution to penetrate the defense security market and to start providing competitive solutions to law enforcement organizations in this market.

While we invest in further developing and marketing of our current solutions, we maintain a strict control over our expenditures and budgets in order to reduce operating costs, streamline operations and improve our efficiency. We intend to continue our burn rate reduction, so we are better poised to achieve profitability.

Competition

The IT security market in which we operate is characterized by intense competition, constant innovation and evolving security threats. We compete with companies that offer a broad array of IT security products. Our current and potential future competitors include Luminate (formerly known as Brocade), AppGate, Akamai Technologies, Inc. and Zscaler, Inc. in the software defined perimeter and application access market, and also include providers of IPPN such as Luminati Networks Ltd., Oxylabs Networks Pvt. Ltd., GeoSurf Inc. and others.

Since we compete with well-established companies, which have an existing customer base, we invest significant efforts to obtain technological advantages in combination with the ability to offer more cost-effective solutions than the ones offered by our competitors, aiming to attract customers of established companies that operate in our industry.

We are constantly working to improve our competitive standing by using the following measures:

- Entering into engagements with large and leading customers, since such engagements establish our status and reputation in the field of information security and open up new opportunities to enter into engagements with other customers;
- Entering into engagements with distributors, marketing entities and technological partners (for example by OEM contracts) in order to strengthen our position in existing markets and to penetrate new markets, in accordance with our business strategy;
- Providing high level maintenance and support services to existing customers in order to retain and encourage them to consume other services offered by us, thereby increasing revenues and preventing customer attrition; and
- Meeting with customers in order to maintain our relationships.

We believe that our penetration into the U.S. market will have a positive effect on our competitive prominence, since according to Security Degree Hub⁴, approximately 40% of global spending on information security is spent in the U.S. market. We also believe that penetration into the U.S. market will have an effect on European customers, as a number of organizations in Europe often regard U.S. organizations as trusted references. In addition, since U.S. organizations are required by regulators to have in place information security solutions, many American financial institutions, healthcare organizations and government agencies dedicate large budgets to information security.

Competitive Strengths

We believe that our strengths include the following:

- Our Zero Trust Access unique technology, which addresses all access use cases (internal users, external VPN users, and external non-VPN users) with a single solution which can be deployed on-premises or in the cloud;
- Our Zero Trust Access solutions utilize our reverse-access patent which is a unique outbound based technology for any TCP based application;
- These solutions also provide a client-less, greatly simplifying user adoption;
- The scalability of our Zero Trust Access solutions and the seamless integration of them into the client's data center with minimal disruption to an organization's ongoing work;
- Our solutions can integrate with other systems – a solution's ability to interface with IDP solutions, MFA solutions, information security systems, databases, business systems and other systems in an organization is a highly important factor for the client when selecting a security solution:
 - Our IPPN solutions includes high levels of security, guarantee quality of service, are fast because of our unique architecture;
 - The IPPN solutions are now offered in variety of different access networks for our customers to choose from or combine.
- Prior knowledge and experience of our personnel in the field of information access, sharing and security, as well as an experienced workforce that has the ability to develop our products in accordance with client requirements, as well as with variable market conditions and technological developments in the market;
- Our ability to adapt to the frequent changes and developments in our area of activity as well as our ability to reply quickly to such changes and developments;

⁴ <https://www.securitydegreehub.com/security-spending/>

- We are engaging with large and leading domestic and foreign customers and partners. Engagements with large customers and partners establish our status as a prominent player in the information security market and give us recognition and a reputation for reliability, which open up opportunities to engagements with other customers; and
- We sign business and technological collaboration agreements – business distribution agreements or technology-based agreements that provide access to more markets and customers.

Our Unique IP

Our unique IP serves as the foundation for our solutions, providing it the technology components required to create a true secure access solution.

Our unique IP is comprised of the following modules:

- Reverse access
- User behavior analysis
- Carrier grade routing technology for sharing of local ISP's networks with remote customers at any scale.

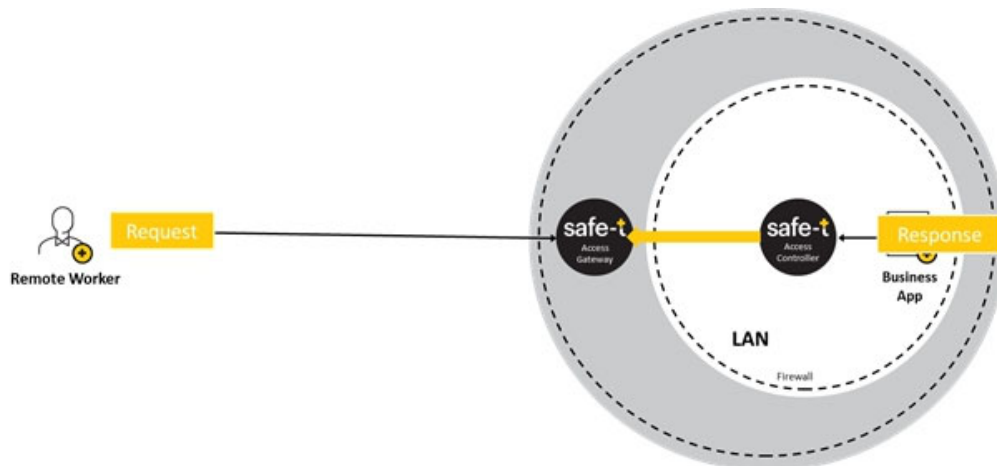
Reverse Access

Reverse access is our unique dual server patented technology, which is designated to remove the need to open any ports within a firewall, while allowing secure access between networks (through the firewall).

- Access Gateway – installed in the external network.
- Access Controller – installed in the internal secured segment.

Located in an organization's external network (on-premises or in the cloud), the role of the Access Gateway is to act as a front-end to all services and applications published to the internet. It operates without the need to open any ports within the internal firewall and ensures that only legitimate session data can pass through into the internal network. The Access Gateway performs TCP, offloading, allowing it to support any TCP based application without the need to perform secure sockets layer offloading and traffic processing.

As illustrated in the diagram below, the Access Controller pulls the session data into the internal network from the Access Gateway, and only if the session is legitimate, performs advanced user requests processing (for example decrypting the user's request in order to scan it for potential attacks), and then pass it to the destination application server.



We believe our reverse access technology allows us to provide our customers with unique capabilities which do not exist in the market today, such as:

- Access to applications and networks without opening incoming ports in the firewall;
- Support any TCP-based application;
- Bi-directional traffic is handled on outbound connections from the local area network to the outside world;
- Client-less and VPN-less application access; and
- Logically segment networks.

User Behavior Analysis

Our solution supports a built-in user and web behavior analysis engine, which is designed to detect anomalies on actions performed by a user accessing, using, and exchanging data using our solutions. The module provides granular reports and alerts on any user behavior (file access, web access, file exchange, file usage, etc.) which is flagged as an anomaly.

Carrier grade routing technology

Our unique carrier grade routing technology system is based on software which is installed both on our global access servers' network and on servers at the premises of ISPs which are part of our global network platform. This software allows the ISPs to share the existing IP addresses with external customers (our customers) without any effect on their current users and without the need to allocate these IPs specifically for our customers. The software can handle the connectivity between hundreds of our global access servers and the ISPs networks and able to manage the routing on the TCP level of hundreds of thousands of concurrent connections without any degradation in the network performance.

Customers

In the last several years, our customer base has steadily increased. On December 31, 2018, we had approximately 80 customers. On December 31, 2019, including customers who purchased NetNut's services, we had approximately 160 customers. As of December 31, 2020, following the acquisition of Chi Cooked LLC, we also serve thousands of end users in the field of internet data center infrastructure and IPPN services.

We initially addressed the Israeli market, and accordingly the majority of our customers were Israeli based. However, in the past three years we have been operating globally and our customer base has expanded. Following the acquisition of NetNut in June 2019 and Chi Cooked in December 2020, our main stream of revenue is coming from the United States. Our customers include banks and financial organizations, insurance companies, healthcare organizations, industrial and commercial companies, online companies, education institutions and government agencies on the cyber security business, and mainly individuals with respect to the IPPN services. We are not dependent on any one of our customers.

Our initial engagements with our customers in the Zero Trust Access solutions business either follow a license sale model, or a lease subscription model between one to three years, which are renewable upon expiration, at our customers' discretion. In some cases, after our solutions are purchased, satisfied customers enter into further engagements in order to increase the number of users, in order to purchase updated and new versions of the products and in order to purchase ongoing maintenance and technical support services.

Our average renewal rate for subscriptions of maintenance and support contracts in the SDE product line is decreasing as we decided to stop developing this product and stop actively selling it. With respect to our ZoneZero™ products that were launched during 2020, we expect to have high renewal rates in the future due to the significant value we believe the new ZoneZero™ and SFA products add to the customers' information security. In addition to our efforts to ensure customer satisfaction, in order to grow our business, we intend to also focus on generating revenue from new customers, ideally medium to large organizations.

The solutions and services we offer are normally priced in accordance with the number of users, bandwidth required, the nature of the supplied solutions, the number of solutions and services provided by us to our customers, the number of features that we sell to our customers, the sale of upgrades and the provision of ongoing maintenance and support services.

We have two models of engagement with respect to the ZoneZero™ and Secured File Access products: (1) sale of a license for the use of our solutions, with no time limitation and limited to a certain number of users. The customer may renew the engagement for maintenance and support services every year or every few years (this model is called the sale model); and (2) engagement for a specific period of time. As part of this engagement, the customer receives a license to use our solutions for a year or a number of years. Under this type of engagement, the customer is entitled to use our products and to receive maintenance and support services and upgrades over the relevant engagement period (lease model). Today, our engagements are divided roughly equally between the two models. Moving forward, we intend to use the lease model as the leading model.

Regarding the Secure Internet Access products, most of the customers are buying the services using packages for periods ranging between 1 day to 2 months or actual consumption. The packages can be either renewed by the customers or automatically, based on the customer's preferences.

Marketing

Our internal marketing and sales staff consist of three persons as of the date of this annual report on Form 20-F. We also work through marketing and distribution channels.

We enter into engagements with ISPs in the IPPN services business, as well as distributors, resellers and channel partners (all of them hereinafter – “partners”) for the purpose of distributing our products. The partners and marketing entities are in charge, among other things, for identifying potential customers, integration of the products in an organization's systems and providing support services to our customers. We have entered into engagements with ISPs, distributors and resellers for the purpose of distributing our products in North America, Israel, and variety of countries in Europe, Asia-Pacific, Africa and South America. We have more than 100 active ISPs and partners. The engagement with each partner/marketing entity is limited to a specific territory and/or specific customers and is not exclusive. Normally, the term of engagement with partners/marketing entities is one year and it is extended automatically, unless cancelled by one of the parties. The consideration in respect of those engagements is paid to us from time to time when sales are made by the distributors.

We have also entered into consultancy agreements with several sales agents for the marketing and promotion of our products in order to increase the scope of our sales. The term of those agreements is normally one to two years and they focus on the marketing and promotion of our sales in specific territories and to specific potential customers. We currently have eight active sales representatives, who operate in Israel, Europe, Asia and the United States. Some of the sales agents are entitled to receive commissions based on sales. Other sales agents are entitled to a fixed monthly payment or a single payment upon placement of a purchase order.

The COVID-19 pandemic halted any physical and public trade shows and conferences around the world, but generally in a more normal environment we do participate from time to time in information security exhibitions and conferences, such as GISEC and the RSA Conference, regional events held by information security partners and integrators. We market our products through our website <http://www.safe-t.com> and digital media.

Regulation

The trends described in the field of information security and cyber protection are the underlying factors of the regulatory developments globally, which affect the information security and cyber protection requirements applicable to our customers. In many instances, regulation started with making information security obligatory for certain industries, such as critical infrastructures, and the health and finance sectors. In recent years, information security regulation has been expanded to many types of organizations that hold information or run infrastructures that have commercial or other value (including information of customers, employees and their internal systems). Regulations may impose on organizations various requirements regarding integration of corporate procedures, enforcement plans, reporting duties, office holders' duties in connection with cyber security, etc. Regulation also requires organizations to integrate into their systems physical and technological security measures in order to protect their information assets and computer systems.

The United States has a number of information security regulatory schemes, in the fields of healthcare, finance, education, and government, such as the PCI-DSS, HIPAA, the Sarbanes-Oxley Act and GLBA, and the international banking regulations of the Basel Committee on Bank Supervision, which are applicable to the fields of credit cards, healthcare, securities and banking. Furthermore, many states in the United States have passed legislation regarding reporting duties on information security breaches. Moreover, there is a clear trend of increased enforcement in organizations and companies in order to increase information security.

Many organizations in the United States and Europe are subject to information security standards set by industry sectors and other non-governmental entities. This applies, for instance, to healthcare organizations, and organizations operating in the finance sector. We believe that our products will assist organizations to comply with the information security requirements of the relevant laws, such as HIPAA (for healthcare organizations), GLBA (for the finance sector) and the Sarbanes-Oxley Act (for publicly traded companies). Other countries around the world, including Israel, have similar stringent regulations relating to information security.

Further to our abovementioned efforts to penetrate the U.S. market, we plan to also certify our secure data access product. FIPS 140-2 certification is a federal U.S. government security standard used to approve cryptographic modules for secure communication and encryption, and mandatory for any vendor selling in the federal sector.

Our Intellectual Property

We seek patent protection as well as other effective intellectual property rights for our products and technologies in the United States and internationally. Our policy is to pursue, maintain and defend intellectual property rights developed internally and to protect the technology, inventions and improvements that are commercially important to the development of our business.

Our reverse access technology is patent protected in several jurisdictions: United States (patent number US9935958 (in re-issue) and US10110606 titled "Reverse Access Method for Securing Front-End Applications and Others"), Europe (patent number EP2815554A1, including Austria, Switzerland, Germany, Spain, France, United Kingdom and Italy, titled "Reverse access method for securing front-end applications and others"), Israel (patent number 218185 titled "Reverse Access System for Securing Front-End Applications"), China (patent number ZL2013800207104, titled "Reverse Access Method for Securing Front-End Applications and Others") and Hong-Kong (patent number HK1207766, titled "Reverse Access Method for Securing Front-End Applications and Others"). We have filed a petition to revive a patent application underlying the Telepath technology, which we obtained as part of the technology purchased from Cykick Labs Ltd. The petition was granted in November 2018 and the application is undergoing examination. In addition, we filed a continuation application, published as U.S. Patent Application Publication No. 20200394661A1 on December 17, 2020. We also have several trademarks registered in the United States, Israel, the European Union and China. To date, we have several trademarks registered in the United States, Israel, the European Union and China - "SAFE-T", "SmarTransfer", "SAFE-T BOX", "IF YOU CAN'T BE SEEN, YOU CAN'T BE HACKED", "ZoneZero" and "Zero+" are our registered trademarks, and our logo, and the logos of our subsidiaries are our and our subsidiaries' unregistered trademarks.

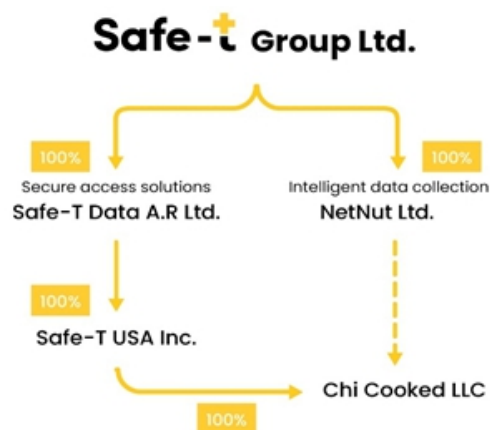
Grants from the Israeli Innovation Authority

Our research and development efforts with respect to some of our past activities, including development of Secure Cloud Storage Access, were financed in part through royalty-bearing grants from the IIA. As of March 29, 2020, we have completed the payment of royalties derived from the aggregate amount of \$146,000 we received from the IIA for the development of our abovementioned technologies. Nevertheless, we are still bound by certain aspects of the Research and Development Law. Furthermore, pursuant to the technology purchase agreement between Safe-T Data and Cykick Labs Ltd., approved by the IIA in July 2018, we are committed to pay royalties on grants received from the IIA in connection with the technologies purchased under this agreement in the amount of approximately \$0.4 million from our income generated from products incorporating such technology. Additionally, in July 2018, we received a notice from the IIA regarding an obligation at the approximate amount of \$0.5 million, made by an incubator center, which Cykick Labs Ltd. was a part of. According to the IIA, in order to receive the IIA's approval to export the technology purchased from Cykick Labs Ltd., we would be required to obtain a commitment from the incubator center, taking the obligation upon themselves. If we do not obtain such commitment, we would be required to take this obligation upon our self, otherwise, the IIA will not approve any future export of the technology purchased from Cykick Labs Ltd. We have sent a letter to the IIA, rejecting its claims. As of the date of this annual report on Form 20-F, the IIA has not responded to our letter. We cannot be sure that the IIA will accept our arguments, which, if not accepted, may result in the expenditure of financial resources or may impair our ability to transfer or sell our technology outside of Israel.

We are committed to pay royalties with respect to aforesaid grants until 100% of the U.S. dollar-linked grant plus LIBOR interest is repaid. Regardless of any royalty payments, we are further required to comply with the requirements of the Innovation Law, with respect to know-how which was developed with those past grants. When a company develops know-how, technology or products using IIA grants, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the IIA. We do not believe that these requirements will materially restrict us in any way.

C. Organizational Structure

We have two wholly-owned subsidiaries: NetNut Ltd. and Safe-T Data A.R Ltd. In addition, Safe-T Data A.R Ltd. has one wholly-owned subsidiary, Safe-T USA Inc, which owns 100% of Chi Cooked LLC.



NetNut Ltd. is our wholly-owned subsidiary incorporated in Israel. NetNut operates in the field of IPPN services, which enables customers to access the internet through multiple ISP networks.

Safe-T Data A.R Ltd. is our wholly-owned subsidiary incorporated in Israel. Safe-T Data A.R Ltd. operates in the field of information security, specifically in the development and marketing of information security solutions for organizations that will allow secure and controlled sharing of information.

Safe-T USA Inc. is a wholly-owned subsidiary of Safe-T Data A.R Ltd. Safe-T USA Inc. is incorporated in the State of Delaware, and is engaged in selling and marketing our products in North America.

Chi Cooked LLC is a wholly-owned subsidiary of Safe-T USA Inc. Chi Cooked is incorporated in the State of Illinois, and is engaged in the field of IPPN services.

D. Property, Plant and Equipment

Our headquarters are located at 8 Abba Eban Avenue, Herzliya, 4672526, Israel, where we currently occupy approximately 3,900 square feet. We lease our facilities and our lease ends on December 31, 2022. Our monthly rent payment is approximately NIS 28,500 (approximately \$8,500). NetNut's offices are located at 30 HaArba'a St., Tel Aviv, 6473926, Israel, where it currently occupies approximately 3,200 square feet. The current lease ends on October 20, 2023, and the monthly rent is approximately NIS 38,000 (\$11,500). We also rent small spaces of 200 square feet in Short Hills, New Jersey, for our U.S. team needs. The monthly rent payment for the New Jersey space is approximately \$1,400, the lease ends in April 2021 and we intend to renew the lease for additional year.

We believe that our current office space is sufficient to meet our anticipated needs for the foreseeable future and is suitable for the conduct of our business.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report on Form 20-F. This discussion and other parts of this annual report on Form 20-F contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under "Risk Factors" and elsewhere in this annual report on Form 20-F. We report financial information under IFRS as issued by the IASB. Our discussion and analysis for the year ended December 31, 2019 can be found in our annual report on Form 20-F for the fiscal year ended December 31, 2019, filed with the SEC on March 31, 2020.

Our Business Model

We generate revenue from sales of our ZoneZero™ and SFA families of secure access solutions – perpetual or subscribed licenses of our products, and related services. Also, we generate Software-as-a-Service, or SaaS, revenues from our SIA solution and from product maintenance and customer support.

Our product license revenue consists primarily of revenue generated from the sale of our main products – ZoneZero™ and SFA. We offer this portfolio as a complete suit to protect customers' data, services and networks from internal and external threats, such as unauthorized access to data, services and networks, as well as data-related threats that include data exfiltration, leakage, malware, ransomware and fraud. We also offer each of the products for sale as a stand-alone solution for customers that are seeking protection for a certain aspect of their network.

License revenue can be generated through the sale of either perpetual licenses or subscribed licenses. In a perpetual license sale, the customer purchases our product, usually accompanied with one to three years of maintenance and support services. Thereafter, the customer is not obligated to continue the engagement with us, but in order to maintain maintenance and support services, including receiving updates and upgrades for our products, which are essential in order to monitor and successfully block any potential threats, they will usually purchase additional and continuous periods of maintenance and support services.

A subscribed license sale is generated when the customer elects to use our product as a service, usually for periods ranging from one to three years. This service also includes maintenance and support throughout the subscribed period, which after its expiration the customer is not entitled to use the products unless the subscription is renewed for additional periods. The price of a one-year subscription is lower than the same license sold as a perpetual license, but the cash flow renewals in later years is higher than the renewal of maintenance and support services in the perpetual licenses' method.

Maintenance and support service renewals from the ZoneZero™, SFA and Secure Data Exchange products are usually 15%-25% of the perpetual license price, depending mainly on the supporting hours and response times, and are important, as they represent, like subscription renewals, steady and visible cash flow growth.

Our average renewal rate for subscriptions of maintenance and support contracts in the SDE product line is decreasing as we decided to stop developing this product and stop actively selling it. With respect to our ZoneZero™ products that were launched during 2020, we expect to have high renewal rates in the future due to the significant value we believe the new ZoneZero™ and SFA products add to the customers' information security. In addition to our efforts to ensure customer satisfaction, in order to grow our business, we intend to also focus on generating revenue from new customers, ideally medium to large organizations.

SaaS revenues are generated when customers are subscribing to our NetNut or Chi Cooked's IPPN solution which we refer to as our IPPN service, from the two companies' websites, and paying for the bandwidth package they choose. The packages are usually for the earlier of one day to two months or maximum bandwidth usage. Our revenue is recognized on a straight-line basis over the package period or the date when the package is fully consumed.

Recently we have started to market an on-premise solution of our IPPN service (proxy-in-a-box), for customers who wish to deploy and maintain the proxy network by themselves. The revenues from selling such solutions are recognized upon delivery of the system to the customer.

We also generate minor revenues from other services, such as implementation services or product development services requested by our customers to enhance the security of specific processes or applications. The services to the customer can be provided by either specific product developments or support/implementation services, which are provided at the customer's premises.

Key Business Metric

We monitor the key business metric set forth below to help us evaluate and establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. Our key business metric is Non-IFRS net loss.

Non-IFRS net loss. This is a non-IFRS financial measure that we define as a loss which excludes: (i) amortization of intangible assets as well as impairment losses of intangible assets and goodwill related to acquisitions; (ii) share-based compensation expenses; (iii) issuance and acquisition expenses in connection with the acquisitions of NetNut and Chi Cooked and with capital issuances including payments made in consideration for a waiver of certain Most Favored Nation Rights with respect to a public offering of our ADSs on November 5, 2019; and (iv) financial income/expenses resulting from the valuation of convertible debentures or warrants to purchase Ordinary Shares and the measurement of contingent consideration with respect to the NetNut and Chi Cooked acquisitions. Due to accounting standards, we are required to record non-cash expenses and non-core expenses, such as issuance expenses and contingent consideration measurement, which have a material effect on our profitability.

We believe that this non-IFRS financial measure is useful in evaluating our business because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, and because they exclude non-core cash expenditures such as the expenses mentioned above, that do not reflect the performance of our core business. The following tables show the reconciled effect of the non-cash expenses/income on our net loss for the years ended December 31, 2020 and 2019:

U.S. dollars in thousands	December 31,	
	2020	2019
Net loss for the year	7,845	12,998
Amortization and impairment of intangible assets and goodwill	3,781	2,105
Share-based compensation	742	454
Issuance and acquisition expenses	156	790
Finance liabilities at fair value, including measurement of contingent consideration	(2,987)	2,596
Total adjustment	1,692	5,945
Non-IFRS net loss	6,153	7,053

We believe that the exclusion of these items will provide us with valuable information regarding our expenses and profitability. We believe that providing non-GAAP financial measures that exclude non-cash share-based compensation expense allow for more meaningful comparisons between our operating results from period to period. Additionally, excluding financial expenses with respect to revaluations of debentures and warrants to purchase Ordinary Shares also allows for more meaningful comparison between our net income from period to period.

Factors Affecting our Performance

Market Adoption. We rely on market education to raise awareness of today's next-generation cyber-attacks, articulate the need for our ZoneZero™ solutions and, in particular, the reasons to purchase our products. In addition, our IPPN solution relies on businesses requiring gathering data over the Internet using residential and Data Center IP addresses from various localities around the world.

Our prospective customers often do not have a specific portion of their IT budgets allocated for products that address the next generation of advanced cyber-attacks or IPPN solutions. We invest in sales and marketing efforts to increase market awareness, educate prospective customers and drive the adoption of our solution. We believe that we will need to invest additional resources in targeted international markets to drive awareness and market adoption. The degree to which prospective customers recognize the mission critical need for next-generation protection solutions against threats, and subsequently allocate budgets for our platform, will drive our ability to acquire new customers, increase renewals and follow-on sales opportunities, which, in turn, will affect our future financial performance.

Sales Productivity and Cycles. Our sales organization consists of an indirect channel sales teams to support our channel partner sales, and sales engineers to support the sales teams and partner sales teams. We utilize a direct-touch sales model whereby we work with our channel partners to secure prospects, convert prospects to customers, and pursue follow-on sales opportunities. To date, we have on the Zero Trust Access business line primarily targeted mid and large enterprises as well as government customers, that typically operate sales cycles ranging from three to nine months.

Our growth strategy is based on investment in building international indirect sales and marketing channels. Newly appointed distributors and resellers will require several months to establish prospect relationships and drive overall sales productivity. In addition, sales teams in international regions will face local markets that are not necessarily aware or educated with respect to advanced security threats that our solutions address. All of these factors will influence the timing and overall levels of sales productivity, impacting the rate at which we will be able to convert prospects into sales and drive revenue growth.

Follow-On Sales. Following an initial sale to a new customer, we focus on expanding our relationship with such customer, through the respective channel partner, to promote the sale of additional and complementary products, subscriptions and services. Our revenue growth depends partially on our customers making additional or repeated purchases of our solutions. Sales to our existing customer-base can take the form of incremental sales of subscriptions and services, either to deploy our solutions into additional parts of their network or to protect additional threat vectors. The opportunity to expand our customer relationships through follow-on sales will increase as we add new customers, broaden our product portfolio to support more threat vectors, increase network performance and enhance functionality. Follow-on sales lead to increased revenue over the lifecycle of a customer relationship and can increase the return on our sales and marketing investments.

5.A Operating Results

Components of Operating Results

Revenue

We generate revenue from the sales of our perpetual or subscribed licenses of products, and related services. Also, we generate revenues from SaaS revenues and product maintenance customer support.

Our total revenue consists of the following:

- *Perpetual license revenue.* We recognize perpetual license revenue at the time of delivery, provided that all other revenue recognition criteria have been met.
- *Term license revenue.* We recognize term license revenue at the time at which the license is granted to the customer, provided that all other revenue recognition criteria have been met.
- *Maintenance & Support revenue.* We recognize revenue from maintenance and support services over the contract term.
- *SaaS revenue.* We recognize revenue over the contractual period for which the service is provided.
- *Professional services revenue.* We recognize revenue from professional services as they are rendered to the customer.

Quarterly Revenue Trend

We believe that the comparison of our year-over-year total revenue provides a more significant insight of our activity than a comparison of our quarterly results, predominately due to seasonality in the sale of our products, subscriptions and services. Our fourth quarter has historically been our strongest quarter for revenues as a result of large enterprises purchase patterns. Nevertheless, since the acquisition of NetNut and the consolidation of the SaaS revenues, we believe that the effect of these seasonal trends on our quarterly results have been reduced. Overall, historical patterns in our business may not be a reliable indicator of our future sales activity or performance.

Cost of Revenues

Our total cost of revenue consists mainly of payments to ISPs and servers' costs related to our Secure Internet Access solution, as well as personnel costs associated with our operations and global customer support, including salaries, benefits, bonuses and share-based compensation. Overhead costs consist of certain facilities, depreciation, benefits and IT costs. The personnel consist of post-sales engineers who assist our customers with installations and implementation, as well as other professional services on-site, such as support teams that provide our customers with on-line support according to the customer's contract.

Cost of revenue may also include the cost of third-party products that may be sold to our customers as a standalone product which integrates with our solution. Cost of revenue also includes amortization of intangible assets purchased by the Company, Safe-T Data and Safe-T US in February 2013, July 2018, June 2019 and December 2020.

Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products and services, the mix of products sold including third parties' products, the costs related to our Secure Internet Access solution and the personnel costs involved in the generation of the revenue. We expect our gross margins to increase over time as revenues continue to grow, subject to the factors described above.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of our operating expenses and consist of salaries, benefits, bonuses, share-based compensation and, with regards to sales and marketing expenses, also sales commissions. Operating expenses also include contractors, consultants and other professional services costs, overhead costs for facilities, IT and depreciation.

- *Research and development.* Research and development expenses consist primarily of personnel costs and allocated overhead, as well as the costs of subcontractors assisting our research and development team. We expect research and development expenses to continue to increase in absolute dollars as we continue to invest in our research and product development efforts to enhance our product capabilities, address new threat vectors and access new customer markets.
- *Sales and marketing.* Sales and marketing expenses consist primarily of personnel costs, incentive commission costs and allocated overhead. We expense commission costs as incurred. Sales and marketing expenses also includes costs for market development programs, promotions and other marketing activities, travel, and outside consulting costs. We expect sales and marketing expenses to continue to increase in absolute dollars as we increase the size of our sales and marketing activities and expand our international sales and marketing operations.
- *General and administrative.* General and administrative expenses consist mainly of personnel costs, professional services and allocated overhead. General and administrative personnel include our executive, finance, legal, human resources and administration. Professional services included in our general and administrative expenses consist primarily of legal, auditing, accounting and other consulting costs. We expect general and administrative expenses to continue to increase in absolute dollars, and expect to continue to incur additional general and administrative expenses as we grow our operations and comply with public company regulations, including higher legal, corporate insurance, and accounting expenses.

Finance Expense/Income

Finance expense/income consists primarily of the changes in financial liabilities at fair value through profit or loss as well as exchange rate differences. Our financial liabilities at fair value through profit or loss in our consolidated statement of financial position consist of derivative financial instruments and liability in respect of convertible debentures (through April 2020) and anti-dilution feature which were re-measured to fair value with the corresponding change recorded as finance expense or finance income. We report our financial results in dollars and most of our revenues are recorded in dollars, while substantially all of the research and development expenses, as well as a portion of our cost of revenues, sales and marketing and general and administrative expenses are incurred in NIS. As a result, we are exposed to fluctuations in exchange rates which affect our finance expense or finance income.

Comparison of the year ended December 31, 2020 to the year ended December 31, 2019

Results of Operations

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Consolidated Statements of Profit or Loss		
Revenues	4,886	3,284
Cost of revenues	2,499	1,889
Gross profit	2,387	1,395
Research and development expenses	2,202	2,485
Selling and marketing expenses	4,215	3,783
General and administrative expenses	4,197	3,757
Impairment of goodwill	2,759	1,002
Contingent consideration measurement	345	159
Operating loss	(11,331)	(9,791)
Financial income (expenses), net	3,240	(3,184)
Loss before taxes on income	(8,091)	(12,975)
Tax benefit (taxes on income)	246	(23)
Net loss for the year	(7,845)	(12,998)

Revenues

The following table summarizes our revenues through types for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Revenues from IPPN services	3,839	1,976
Revenues from licenses	447	625
Revenues from provision of maintenance & support services	587	655
Revenues from provision of other services	13	28
Total Revenues	4,886	3,284

Our revenues for the year ended December 31, 2020 amounted to \$4,886,000, representing an increase of \$1,602,000 or 49%, compared to \$3,284,000 for the year ended December 31, 2019. The increase is mainly attributed to the \$3,839,000 of IPPN services revenues generated by NetNut, compared to \$1,976,000 of IPPN services in 2019, starting from its acquisition on June 12, 2019, offset by \$261,000 or a 29% decrease in revenues from sales of the legacy SDE product as part of our strategic plan to focus on the SDP market with our Zero Trust solutions.

Revenues generated in North America constituted 38% of the total revenues for 2020, while revenues generated in Israel constituted 20% and revenues generated in the rest of the world constituted 42%, compared to 43%, 33% and 24%, respectively, during 2019.

Cost of Revenues

The following table summarizes our cost of revenues for the periods presented, as well as presenting the gross profit as a percentage of total revenues. The period-to-period comparison of results is not necessarily indicative of results for future periods.

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Cost of internet services providers	973	360
Cost of networks and servers	129	88
Payroll, related expenses and share-based payment	262	237
Depreciation, amortization and impairment of intangible assets	1,084	1,133
Other	51	71
Total cost of revenues	2,499	1,889
Gross profit	2,387	1,395
Gross profit %	49%	42%

Our cost of revenues for the year ended December 31, 2020 amounted to \$2,499,000, representing an increase of \$610,000 or 32%, compared to \$1,889,000, for the year ended December 31, 2019. The increase is primarily attributed to the consolidation of the IPPN services cost of revenues for the whole year 2020 (\$1,149,000) as well as amortization of NetNut's intangible assets (\$1,032,000), compared to 2019 consolidation of the IPPN services costs which started only from NetNut's acquisition date on June 12, 2019 and amounted to \$529,000 and the respective amortization of the intangible assets during 2019 which summed to \$569,000. The increase was partially offset by a decrease of costs resulting from the streamlining of support and post sales teams in Safe-T Data and the goodwill impairment of the SDE product in 2019.

Gross Profit

As a result of a higher increase in revenues compared to cost of revenues, gross profit grew by \$992,000 representing a 71% increase during 2020, compared to gross profit in 2019.

Research and Development Expenses, net

The following table summarizes our research and development costs for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Payroll, related expenses and share-based payment	1,123	1,489
Subcontractors	911	668
Other	168	328
Total Research and development expenses	2,202	2,485

Our research and development costs for the year ended December 31, 2020 amounted to \$2,202,000, representing a decrease of \$283,000 or 11%, compared to \$2,485,000 for the year ended December 31, 2019. Salary costs were reduced due to ceasing of SDE solution development, such that total development costs on the cyber security business dropped from \$1,415,000 in 2019 to \$596,000 in 2020. These reduced costs were partially offset by the consolidation of NetNut's development work force and contractors for the whole year 2020 as well as an extension of its IPPN solutions activity (a total of \$824,000) compared to consolidation in 2019 only since the acquisition date of June 12, 2019 (\$266,000). In addition, cost of overhead research and development expenses was reduced due to scale down of SDE related development team by \$184,000 in 2020 compared to 2019, resulting in \$76,000.

Sales and Marketing Expenses

The following table summarizes our sales and marketing costs for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Payroll, related expenses and share-based payment	2,308	2,187
Professional fees	461	363
Marketing	440	452
Selling commissions	692	378
Other	314	403
Total selling and marketing expenses	4,215	3,783

Our sales and marketing expenses totaled \$4,215,000 for the year ended December 31, 2020, an increase of \$432,000 or 11%, compared to \$3,783,000 for the year ended December 31, 2019. Selling commissions increased by \$314,000 due to the consolidation of NetNut's sales for the whole year 2020 (\$692,000) compared to consolidation in 2019 only since the acquisition date of June 12, 2019 (\$378,000). Also, there was a \$119,000 increase in share-based compensation due to larger non-cash incentives to our sales force.

General and Administrative Expenses

The following table summarizes our general and administrative costs for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

U.S. dollars in thousands	Year ended December 31,	
	2020	2019
Payroll, related expenses and share-based payment	1,456	1,234
Professional fees including share-based payment	2,184	2,018
Office expenses & other	557	505
Total general and administration expenses	4,197	3,757

Our general and administrative expenses totaled \$4,197,000 for the year ended December 31, 2020, an increase of \$440,000 or 12%, compared to \$3,757,000 for the year ended December 31, 2019. The increase was mainly attributed to a \$292,000 increase in salaries as a result of the full consolidation of NetNut's financials compared to the partial 2019 consolidation, as well as increased salary and benefits. Professional fees increased by \$166,000 due to the full consolidation of NetNut and costs related to financing activities.

Impairment of Goodwill and Contingent Consideration Measurement

We recorded in 2020 and 2019 impairment losses at the amounts of \$2,759,000 and \$1,002,000, respectively, related to the IPPN services segment. The amount for 2019 also includes amounts related to an impairment loss attributed to the cyber security segment. Also, we recorded expenses of \$345,000 and \$159,000 for 2020 and 2019, respectively, resulting from the adjustment of the contingent consideration to NetNut's former shareholders, compared to the amount that was evaluated on the date of acquisition closing.

Operating Loss

As a result of the foregoing, our operating loss for the year ended December 31, 2020 was \$11,331,000, compared to an operating loss of \$9,791,000 in the year ended December 31, 2019.

Financial Expense, net

We had net financial income of \$3,240,000 for the year ended December 31, 2020, compared to net financial expense of \$3,184,000 for the year ended December 31, 2019. The change is mainly related to changes in financial liabilities at fair value such as derivative instruments, resulting from the conversion of all convertible debentures (through April 2020) and a lower share price as of December 31, 2020 compared to December 31, 2019 which reduced the recorded accounting liability of warrants.

Taxes on income

We had a tax benefit of \$246,000 for the year ended December 31, 2020 stemming from the reduction of deferred tax liabilities from the NetNut acquisition, compared to taxes on income of \$23,000 for the year ended December 31, 2019.

Net loss for the year

As a result of the foregoing, our net loss for the year ended December 31, 2020 was \$7,845,000, compared to a loss of \$12,998,000 during the year ended December 31, 2019.

Critical Accounting Policies and Estimates

We describe our significant accounting policies more fully in Note 2 to our consolidated financial statements for the year ended December 31, 2020 included elsewhere in this annual report in Form 20-F. We believe that the accounting policies below are critical in order to fully understand and evaluate our financial condition and results of operations.

We prepare our consolidated financial statements in accordance with IFRS, as issued by the IASB. At the time of the preparation of the consolidated financial statements, our management is required to use estimates, evaluations, and assumptions which affect the application of the accounting policy and the amounts reported for assets, obligations, income, and expenses. Any estimates and assumptions are continually reviewed. The changes to the accounting estimates are credited during the period in which the change in the estimate is made.

Going Concern

We have a shareholders' equity of \$16,216,000 as of December 31, 2020, and negative operating cash flows in recent years. We expect to continue incurring losses and negative cash flows from operations until our products reach commercial profitability. Our plans to reduce the going concern risk include the continued commercialization of our products, maintaining cost efficiency and raising capital through the sale of additional equity securities, debt or capital inflows from strategic partnerships.

Revenue Recognition

We apply the provisions of IFRS 15 in respect of revenue recognition.

Accounting for perpetual and term licenses of software

Our promise to the customer in granting a license is to provide a right to use our intellectual property as intellectual property exists (in terms of form and functionality), at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the license at the point in time at which the license transfers. Therefore, revenue in respect of the license component in such transactions shall be recognized at the time at which the license is granted to the customer.

Accounting for software as a service

Our revenues from our renewable short-period (up to 3 months) contracts with our customers are recognized ratably over the respective contract periods, since the customers consume benefits from these services. Costs to obtain a contract are expensed as incurred since commissions payable upon renewals are commensurate with the initial commission.

Presentation of revenue and revenue related balances

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the company controls the specified goods or services before the transfer to its customers. In determining this, the company follows the accounting guidance for principal-agent considerations. This determination involves judgment and is based on an evaluation of the terms of each arrangement, considering the party that is primarily responsible in the arrangement, whether it bears inventory risk and whether it determines the prices charged to the customers. When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the goods or services transferred.

Sales to resellers are recognized on a net basis which means that the reseller is considered the ultimate customer in such arrangements.

The Company recognizes obligations in respect of sale contracts at the total amount equal to the total amount of transactions invoiced, net of transactions in respect of which revenues were recognized.

Allocation of revenue to multiple performance obligations

The Company allocates revenue to licenses, post contract customer support and professional services on a relative stand-alone selling price basis, except in cases in which a stand-alone selling price of an individual performance obligation is highly uncertain or variable, in which case the residual method is used.

Goodwill impairment

Goodwill arising from a business combination represents the excess of the overall amount of the consideration transferred, the amount of any non-controlling interests in the acquired company over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed.

Impairment reviews of the cash-generating-unit (“CGU”) to which goodwill was allocated are undertaken annually and whenever there is any indication of impairment of a CGU. The carrying amount of our assets, including goodwill, is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment loss is allocated to reduce the carrying amount of the assets at the following order: first to reduce the carrying amount of any goodwill allocated to a CGU and subsequently to the remaining assets we have, which fall within the scope of the IAS 36, “Impairment of Assets,” on a proportionate basis based on the carrying amount of each of our assets.

Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

Classification of financial liabilities

We adopted the amendment to IAS 1. Accordingly, we classify in the statement of financial position convertible debentures (through April 2020) and derivative financial instruments as part of current liabilities based on the rights that exist at the end of the reporting period including the right to convert into equity. The amendment was applied retrospectively and as a result we reclassified derivative financial instruments presented in comparative periods to current liabilities.

Financial liabilities at fair value

We designated the convertible debentures we had until April 2020 as a financial liability at fair value through profit or loss, given the conversion option derivative embedded in such instrument. Changes in our own credit risk from the date of initial recognition were negligible. The convertible debentures were measured at fair value as reflected in a valuation carried out as of the date of the transaction, and were adjusted until totally converted or returned on April 2020, to reflect the difference between the fair value at initial recognition and the transaction price (“Day 1 Loss”). Changes were recorded to profit or loss on a periodic basis while unrecognized Day 1 Loss was amortized over the contractual life of each instrument.

We account for contingent consideration as financial liability at fair value through profit or loss. The contingent consideration is measured at fair value as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis.

Unrecognized Day 1 Loss

A financial liability, in which upon initial recognition the transaction price is different than its fair value is initially recognized at fair value, adjusted to reflect the Day 1 Loss. After initial recognition, the unrecognized Day 1 Loss of the said financial liability is amortized over the contractual life of each financial liability. Upon conversion or exercise of convertible debentures or warrants for which an unrecognized Day 1 Loss exists, the carrying amounts were classified to equity.

Derivatives

We account for warrants with a cashless exercise mechanism, compensation and anti-dilution features as financial liabilities. The warrants, compensation and anti-dilution features are measured at fair value as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis.

We also account for warrants and rights to purchase additional debentures, which are often referred to as greenshoe options, as derivatives. The warrants and greenshoe options are measured at fair value as reflected in a valuation carried out as of the date of the transaction, adjusted to reflect the Day 1 Loss. Changes are recorded to profit or loss on a periodic basis while unrecognized Day 1 Loss is amortized over the contractual life of each instrument.

Business combination

We account for business combinations by applying the acquisition method.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, and the liabilities incurred by the acquirer to former owners of the acquiree, in exchange for control of the acquiree. The consideration transferred also includes the fair value of any asset or liability arising from a contingent consideration arrangement.

Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Identified assets acquired and liabilities assumed as part of a business combination are initially measured at fair value at the acquisition date, except for certain exceptions in accordance with IFRS 3 “Business Combinations” (Revised).

Contingent consideration incurred as a part of a business combination is initially measured at fair value at the acquisition date. Subsequent changes in fair value of contingent consideration are classified as assets or liabilities, are recognized in accordance with the IFRS 9 in profit or loss.

5.B Liquidity and Capital Resources

Overview

As of March 17, 2021, our cash and cash equivalents of approximately \$21.8 million were held for working capital, capital expenditures, investment in technology and business acquisition purposes. We believe that our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product and service offerings, and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected, and there is substantial doubt about our ability to continue as a going concern.

U.S. dollars in thousands	December 31,	
	2020	2019
Net cash used in operating activities	(6,612)	(6,733)
Net cash used in investing activities	(1,189)	(5,596)
Net cash provided by financing activities	14,710	13,112
Exchange rate differences	(233)	(159)
Net increase in cash and cash equivalents	6,676	624

During the year ended December 31, 2020, net cash used in operating activities was \$6,612,000, primarily attributed to operational costs which exceeded cash flows from customers’ payments. The decrease of \$121,000 compared to \$6,733,000 used in operating activities during the year ended December 31, 2019, is attributed to increased sales, offset by increased costs, both resulting primarily from the full consolidation of NetNut’s operations, compared to financial consolidation in 2019 only from the acquisition date on June 12, 2019.

Cash Flows Used in Investing Activities

During the year ended December 31, 2020, net cash used in investing activities was \$1,189,000, compared to net cash used in investing activities of \$5,596,000 during the year ended December 31, 2019. The decrease is attributed mainly to the acquisition of NetNut in 2019, compared to a lower amount that was invested in the acquisition of Chi Cooked LLC in 2020.

On April 4, 2019, we entered into the Share and Asset Purchase Agreement with NetNut, pursuant to which we acquired 100% of the fully diluted share capital of NetNut, a private Israeli company engaged in the business IPPN solution industry, and certain assets of DiViNetworks Ltd., or DiVi, NetNut's former controlling shareholder which assets are required for the ongoing operations of NetNut, in exchange to a total consideration of \$9,700,000 upon the deal closing (including equity payments in the amount of approximately \$3,900,000 and contingent consideration based on certain milestones. See "Item 10.C. Material Contracts - NetNut Acquisition" for additional information.

On December 8, 2020, we entered into an Equity Purchase Agreement with Chi Cooked LLC and its sole shareholder, pursuant to which the Company acquired all (100%) of the outstanding share capital, or the Purchased Shares, of Chi Cooked LLC, a private U.S. company, based in Illinois, specializing in cloud-based global IPPN services, or Chi Cooked in exchange to a cash payment of approximately \$1,050,000 and a future earn out payment based Chi Cooked's financial results for the year 2021. See "Item 10.C. Material Contracts— Chi Cooked Acquisition" for additional information.

Cash Flows Received from Financing Activities

During the year ended December 31, 2020, net cash provided by financing activities was \$14,710,000, primarily attributed to net proceeds from public and private offerings, as well as proceeds from the exercise of warrants, in the aggregate amount of \$17,128,000, which was slightly offset by the contingent consideration payment of \$1,600,000 from the NetNut acquisition and debenture repayment in the amount of \$680,000.

During the year ended December 31, 2019, net cash provided by financing activities was \$13,112,000, primarily attributed to net proceeds from public and private offerings as well as proceeds from the issuance of convertible debentures, in the amount of \$13,728,000.

Between April and December 2019, we raised approximately \$8,232,000 through the issuance of convertible debentures and warrants to purchase our ADSs, in a series of private placements. See "Item 10.C. Material Contracts—April 2019 Financing and Related Matters" for additional information.

On November 1, 2019, pursuant to an underwriting agreement with A.G.P./Alliance Global Partners, as the underwriters for a public offering of our ADSs that were offered pursuant to a registration statement on Form F-1 (No. 333-233976), we issued (a) 121,400 units, with each unit consisting of (i) one ADS, and (ii) a warrant to purchase one and one-half ADSs, and (b) 368,500 pre-funded units, with each pre-funded unit consisting of a pre-funded warrant to purchase one ADS and a warrant. The net proceeds to us from the sale of the units were approximately \$3,500,000.

On December 26, 2019, pursuant to a securities purchase agreement with respect to a registered direct offering pursuant to a shelf takedown under a registration statement on Form F-3 (Registration No. 333- 235367), we issued to certain accredited investors (i) 269,272 ADSs at a purchase price of \$3.15 per ADS, and (ii) 260,281 pre-funded warrants each to purchase one ADS at a price of \$3.15 each, including the Pre-Funded Warrant exercise price of \$0.001 per full ADS. Additionally, in a concurrent private placement, we issued to the investors unregistered warrants to purchase an aggregate of 529,553 ADSs at an exercise price of \$3.30 per ADS. The net proceeds to us from the sale of the securities were approximately \$1,667,000.

On April 3, 2020, pursuant to a securities purchase agreement with respect to a registered direct offering pursuant to a shelf takedown under a registration statement on Form F-3 (Registration No. 333-235367), we issued to certain accredited investors 450,000 ADSs at a purchase price of \$1.60 per ADS. The net proceeds to us from the sale of the securities were approximately \$650,000.

On April 23, 2020, pursuant to an underwriting agreement with A.G.P./Alliance Global Partners, as the underwriters for a public offering of our ADSs that were offered pursuant to a registration statement on Form F-1 (No. 333-237629), we issued (a) 858,600 units at a price of \$1.10 per unit, with each unit consisting of (i) one ADS, and (ii) a warrant to purchase one ADS, and (b) 6,777,500 pre-funded units, with each pre-funded unit consisting of a pre-funded warrant to purchase one ADS and a warrant, at a price per unit of \$1.10, including an exercise price of \$0.001. The net proceeds to us from the sale of the units were approximately \$7,300,000.

During 2020, we also raised approximately \$3,700,000 from the exercise of the warrants issued under the April 23, 2020 public offering.

On July 20, 2020, pursuant to a securities purchase agreement with respect to a registered direct offering pursuant to a shelf takedown under a registration statement on Form F-3 (Registration No. 333-235367), we issued (a) 3,075,000 ADSs at a purchase price of \$1.40 per ADS and (b) 1,145,000 pre-funded warrants at a purchase price of \$1.40 per warrant, including an exercise price of \$0.001 per warrant. The net proceeds to us from the sale of the securities were approximately \$5,500,000.

On February 16, 2021, pursuant to a securities purchase agreement with respect to a registered direct offering pursuant to a shelf takedown under a registration statement on Form F-3 (Registration No. 333-235367), we issued (a) 4,615,000 ADSs at a purchase price of \$2.00 per ADS and (b) 260,000 pre-funded warrants at a purchase price of \$2.00 per warrant, including an exercise price of \$0.001 per warrant. The net proceeds to us from the sale of the securities were approximately \$9,350,000.

Change in cash and cash equivalents

As a result of the foregoing, our cash and cash equivalents increased in the amount of \$6,676,000 during the year ended December 31, 2020, compared to an increase in the amount of \$624,000 during the year ended December 31, 2019.

Current Outlook

We have financed our operations to date primarily through proceeds from sales of our Ordinary Shares. We have incurred losses and generated negative cash flows from operations since Safe-T Data's inception in February 2013.

As of March 17, 2021, our cash and cash equivalents, including short-term bank deposits, were approximately \$21.8 million. We expect that our current resources will be sufficient to meet our anticipated cash needs for at least the next 12 months; however, we expect that we will require additional substantial capital to continue the development of, and to commercialize, our products. In addition, our operating plans may change as a result of many factors that may currently be unknown to us, and we may need to seek additional funds sooner than planned. Our future capital requirements will depend on many factors, including:

- the progress and costs of our research and development activities;
- the potential costs of contracting with third parties to provide marketing and distribution services for us or for building such capacities internally; and
- the scope of our general and administrative expenses.

Until we can generate significant recurring revenues, we expect to satisfy our future cash needs through equity financings. Currently, we cannot be certain that additional funding will be available to us on acceptable terms, if at all. If funds are not available, we may be required to delay, reduce the scope of, or eliminate research or development plans for, or commercialization efforts with respect to our products. This raises substantial doubts about our ability to continue as a going concern.

5.C Research and development, patents and licenses, etc.

For a description of our research and development programs and the amounts that we have incurred over the last two years pursuant to those programs, please see “Item 5. Operating and Financial Review and Prospects— A. Operating Results— Operating Expenses” and “Item 5. Operating and Financial Review and Prospects— A. Operating Results— Comparison of the year ended December 31, 2020 to the year ended December 31, 2019— Research and Development Expenses, net.”

5.D Trend Information

The COVID-19 pandemic has impacted companies in Israel and around the world, and as its trajectory remains highly uncertain, we cannot predict the duration and severity of the outbreak and its containment measures. Further, we cannot predict impacts, trends and uncertainties involving the pandemic’s effects on economic activity, the size of our labor force, our third-party partners, our investments in marketable securities, and the extent to which our revenue, income, profitability, liquidity, or capital resources may be materially and adversely affected. See also “Item 3.D. – Risk Factors– We face business disruption and related risks resulting from the COVID-19 pandemic, which could impact our business and results of operations.”

5.E Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

5.F Tabular Disclosure of Contractual Obligations

The following table summarizes our significant contractual obligations at December 31, 2020:

	<u>Total</u>	<u>Less than 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
		(in thousands of U.S. dollars)			
<u>Operating leases:</u>					
Facility	646	263	383	-	-
Motor vehicles	130	62	68	-	-

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our executive officers, key employees and directors as of the date of this annual report in Form 20-F:

Name	Age	Position
Chen Katz	49	Chairman of the Board of Directors
Shachar Daniel	43	Chief Executive Officer, Director
Shai Avnit	56	Chief Financial Officer
Amir Mizhar	46	President, Chief Software Architect, Director
Eitan Bremner	43	Vice President, Corporate Development
Avi Rubinstein	55	Chief Business Officer
Barak Avitbul	48	Chief Executive Officer, NetNut Ltd.
Dafna Lipowicz	46	Vice President, Human Resources
Yehuda Halfon	42	Director ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾
Rakefet Remigolski	49	Director ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾
Moshe Tal	60	Director ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee and Financial Statements Examination Committee
- (3) External Director (as defined under Israeli law)
- (4) Independent Director (as defined under Israeli law)
- (5) Independent Director (as defined under Nasdaq Stock Market rules)

Chen Katz, Chairman of the Board of Directors

Mr. Chen Katz has served as our Chairman of the Board of Directors since January 2019. Mr. Katz currently resides on the board of Nanomed Technologies Ltd. and Nicast Ltd., where he serves as the chairman, Aminach Furniture and Mattresses Industry Ltd., CompuLap Ltd., NCK Capital Ltd and RapiDx Ltd. Between 2006 and 2020, Mr. Katz served as the chief executive officer of TechnoPlus Ventures Ltd. (TASE: TNPV), an Israeli investment firm. From 2010 to 2018, Mr. Katz served on the board of directors of D-Led Illumination Technologies Ltd. Mr. Katz is a member of the Israel Bar Association. Mr. Katz holds a European Master-in-Law and Economics (EMLE) from the Complutense University of Madrid and an LL.B. from the University of Haifa.

Shachar Daniel, Chief Executive Officer and Director

Mr. Shachar Daniel is one of our co-founders and has served as our Chief Executive Officer and director since June 2016. Mr. Daniel has also served as the Chief Executive Officer of our subsidiary Safe-T Data A.R Ltd. since May 2015 and as a director of our other wholly owned subsidiary, NetNut Ltd., since June 2019. Prior to serving as the Chief Executive Officer of Safe-T Data, he served as Safe-T Data's Chief Operating Officer from November 2013. Mr. Daniel has more than 10 years of experience in various managerial roles in operations and project management. From 2012 to 2013, he served as head of program at PrimeSense Ltd., which was acquired by Apple Inc. for \$360 million on November 24, 2013. Prior to that, and from 2009 to 2012, he was head of operations project managers at Logic Industries Ltd., and from 2004 to 2009, he was a project manager at Elbit Systems Ltd. (Nasdaq/TASE: ESLT). Mr. Daniel holds a B.Sc. in Industrial Engineering from the Holon Institute of Technology, Israel and an M.B.A. from the College of Management Academic Studies, Israel and an executive post M.B.A from the Hebrew University.

Shai Avnit, Chief Financial Officer

Mr. Shai Avnit has served as our Chief Financial Officer since June 2016, and as the Chief Financial Officer of Safe-T Data since May 2013. Mr. Avnit has extensive experience in managing financial, operational, administrative and legal affairs in companies within the software, medical device and consumer electronics, as well as vast experience in public and private fund raising, mergers and acquisitions and structural reorganization. Mr. Avnit served as the chief financial officer and other leading financial positions in several hi-tech companies, both public and private including as the chief financial officer during 2001-2002 in Valor Computerized Systems (then a public company traded on the German stock exchange *Neuer Markt*), a controller during 1996-2000 in Card Guard Scientific Survival, a then public company then traded in the Six Swiss Exchange under the name LifeWatch (symbol LIFE), a part time chief financial officer during 2007-2017 in EnzySurge Ltd., a part time chief financial officer during 2011-2017 in BioProtect Ltd., a part time chief financial officer during 2008-2011 in BriefCam Ltd., a part time chief financial officer during 2006-2010 in Lumio Inc. and a part time Finance Director in Primavera-Prosight Ltd. (acquired by Oracle) during 2002-2011. Mr. Avnit holds a B.A. in Accounting & Economics as well as an M.B.A. with majors in Finance and Marketing, both from the Tel Aviv University.

Amir Mizhar, President, Chief Software Architect, Director

Mr. Amir Mizhar is one of our co-founders and has served as our Chief Software Architect since February 2013, on our board of directors since June 2016 and as our President since January 2019. Mr. Mizhar has served as our Chairman of the board of directors from June 2016 to January 2019 and as the Chairman of the board of directors of Safe-T Data since January 2013, and of Safe-T USA Inc., since March 2015. From February 2013 until June 2015, Mr. Mizhar also served as the Chief Executive Officer of Safe-T Data. In 2006, Mr. Mizhar founded eTouchware 2005 Inc., and served as its chief software architect until 2013. Mr. Mizhar also founded M-Technologies in 2000, and served as its chief executive officer from 2000 to 2006, where he led the vision and creation of online collaboration tools, and online merchandising systems for retail markets. Mr. Mizhar began developing commercial software programs at the age of 13, and is an expert ethical hacker. Mr. Mizhar holds multiple patents in the area of data transfer over communication networks. Mr. Mizhar leads our vision, research and development operations.

Eitan Bremner, Vice President, Corporate Development

Mr. Eitan Bremner is one of our co-founders and served as our Vice President, Product Management from June 2016 through 2018 and in January 2019 was appointed as our Vice President, Technology, and as the Vice President, Product Management of Safe-T Data since 2014. In March 2020, he was appointed as our Vice President of Corporate Development. Mr. Bremner has more than 18 years of experience in marketing, product marketing and product management roles. From 2001 to 2012, Mr. Bremner held multiple product management and product marketing positions at Radware Ltd. (Nasdaq: RDWR) and Radvision Ltd., an Avaya company. Prior to that, he served as an officer in the Israeli Intelligence Corps, Unit 8200. Mr. Bremner has diverse technological, field engineering, product management and marketing experience including design, implementation and launching networking, collaboration, and security solutions. Mr. Bremner holds a B.A. in Business Administration from the Ono Academic College in Israel.

Barak Avitbul, Chief Executive Officer, NetNut Ltd.

Mr. Barak Avitbul is the chief executive officer of NetNut Ltd., and has been a member of senior management since the completion of the acquisition of NetNut in June 2019. Mr. Avitbul brings to NetNut over twelve years of experience in entrepreneurship, product development and business development. In the last few years Mr. Avitbul founded and led several successful Internet and software companies among them DiVi, where he built global Network optimization as a service operation in over fifty countries around the world and was the first Israeli company to raise investment from the World Bank. Before founding DiVi, Mr. Avitbul founded Key2Peer, a provider of anti-piracy and promotional services for the P2P market, leading it to a net profit in less than twelve months. Prior to that, Mr. Avitbul served as a consultant for several premier technology companies in diverse sectors, among them Rosetta Genomics (NASDAQ:ROSG), where he served as the head of algorithm research. Mr. Avitbul also served as Director of research and development at iMDsoft, playing an instrumental role in creating and launching successful products in the healthcare clinical information management market. Mr. Avitbul holds an L.L.B in Law and B.Sc. in Computer Science, both from Tel Aviv University.

Avi Rubinstein, Chief Business Officer

Mr. Avi Rubinstein has served as our Chief Business Officer since February 2020. Prior to joining Safe-T, Mr. Rubinstein co-founded Inpedio BV, a provider of cyber solutions and served as its chief executive officer between 2016 and 2019. After serving as co-founder of Ectel Ltd., and general manager of Ectel US Inc. he led Ectel's IPO in Nasdaq in 1999 and was the co-founder of StorWiz in 2004, which was acquired by IBM in 2010. He also was the co-founder and chief executive officer of VideoCodes in 2004, which was acquired by Thompson in 2008. In addition, Mr. Rubinstein served as Vice President Product Marketing and Business Development of Nice Systems (NASDAQ: NICE) and participated in the 2014-2015 turn-around of its Intelligence Division, which transformed into a cyber player and was thereafter acquired by Elbit Systems Ltd. (TASE & NASDAQ: ESLT) in 2015. Mr. Rubinstein also served as an advisory board member for Safe-T and CyberX (cyber defense for critical infrastructure) since 2014.

Dafna Lipowicz, Vice President, Human Resources

Ms. Dafna Lipowicz has served as our Vice President, Human Resources since October 2018. Prior to that Ms. Lipowicz served as the director of Human Resources at Mantis Vision from 2014 to 2017. In addition, from 2009 to 2013, Ms. Lipowicz served as the Human Resources business partner at Logic Industries Ltd. Ms. Lipowicz holds a L.L.B. from the Tel Aviv University and an M.A. from the Tel Aviv University in Human Resources.

Yehuda Halfon, External Director

Mr. Yehuda Halfon has served on our board of directors since March 2016. He was appointed for a first three-year term as an external director on March 27, 2016 and a second three-year term commencing in May 2019. Since 2009, Mr. Halfon had served as the chief executive officer at Cooperica Property Ltd., which owns and manages real estate properties in Israel. In addition, and since 2010, Mr. Halfon has served as the chief financial officer of Local Developing Germany GmbH, which owns a large portfolio of residential assets in Germany. Mr. Halfon holds a B.A. in Accounting & Economics from the Hebrew University in Jerusalem and an M.B.A from the Open University of Israel. Mr. Halfon is a certified public accountant in Israel.

Rakefet Remigolski, Director

Ms. Rakefet Remigolski has served on our Board of Directors since September 2020. Since 2018, Ms. Remigolski has served as Chief Finance Officer at Arazim Investments Ltd., an Israeli real-estate company publicly traded on the Tel Aviv Stock Exchange. Between 2015 and 2020, Ms. Remigolski served as a director and head of the audit committee at the Israeli National Sport Center, Tel Aviv. Since 2008, Ms. Remigolski has taught advanced courses in financial accounting at the Interdisciplinary Center in Herzliya, Israel. Between 1995 and 2019, Ms. Remigolski taught advanced courses in financial accounting at the College of Management Academic Studies in Israel. Ms. Remigolski holds a B.A. in Business and an M.B.A. (Cum Laude) with a major in finance and accountancy, both from the College of Management Academic Studies in Israel. Ms. Remigolski is a certified public accountant and is a member of the Institute of Certified Public Accountants in Israel.

Moshe Tal, External Director

Mr. Moshe Tal has served on our board of directors since May 2019. Mr. Tal serves as a partner with Shtainmetz Aminoach & Co. accounting, a CPA (Isr.) Israeli Certified Public Accountant, Investment and Consulting firm 2011. Mr. Tal is also a lecturer at the College of Management, Academic Studies and Department of Accounting at the Interdisciplinary Center in Herzliya. Mr. Tal served in the Israeli tax Authority for 13 years and has vast experience with tax regulations and laws, both in Israel and outside of Israel. Between 2011 and 2013, Mr. Tal served as a director of Dash Ipax Holdings Ltd. and from 2010 until 2018 as a director at Netz Group Ltd. Mr. Tal is a certified Israeli public accountant.

Family Relationships

There are no family relationships between any members of our executive management and our directors.

Arrangements for Election of Directors and Members of Management

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of our executive management or our directors were selected. See “Item 7.B. Related Party Transactions” for additional information.

B. Compensation

Compensation

The following table presents in the aggregate all compensation we paid to all of our directors and senior management as a group for the year ended December 31, 2020. The table does not include any amounts we paid to reimburse any of such persons for costs incurred in providing us with services during this period.

All amounts reported in the tables below reflect the cost to the Company, in thousands of U.S. Dollars, for the year ended December 31, 2020. Amounts paid in NIS are translated into U.S. dollars at the rate of NIS 3.4424 = \$1.00, based on the average representative rate of exchange between the NIS and the U.S. dollar as reported by the Bank of Israel in the year ended December 31, 2020.

	Salary, bonuses and Related Benefits	Pension, Retirement and Other Similar Benefits	Share Based Compensation*
All directors and senior management as a group, consisting of 13 persons**	\$ 1,983	\$ 134	\$ 330

* Resulting from options to purchase an aggregate of 57,031,751 Ordinary Shares granted to all directors and senior management as a group, at exercise prices between \$0.04 and \$7.97 per share with expiration dates between May 13, 2024 and September 15, 2030.

** Includes Mr. Lior Vider, an independent director whose term of office expired in September 2020 and Mr. Eylon Geda, a director whose term of office expired in September 2020.

In accordance with the Companies Law, the table below reflects the compensation granted to our five most highly compensated officers during or with respect to the year ended December 31, 2020.

Annual Compensation- in thousands of USD

Executive Officer	Salary, Fees and Related Benefits	Pension, Retirement and Other Similar Benefits	Share Based Compensation	Total
Shachar Daniel	\$ 404	41	44 ⁽¹⁾	\$ 489
Barak Avitbul	\$ 434	-	41 ⁽²⁾	\$ 475
Amir Mizhar	\$ 258	-	61 ⁽³⁾	\$ 319
Chen Katz	\$ 291	-	22 ⁽⁴⁾	\$ 313
Shai Avnit	\$ 172	31	41 ⁽⁵⁾	\$ 244

- (1) Resulting from options to purchase an aggregate of 10,820,592 Ordinary Shares, at exercise prices ranges between \$0.04 to \$7.97 with expiration dates between May 13, 2024 and September 15, 2030.
- (2) Resulting from options to purchase an aggregate of 5,400,000 Ordinary Shares, at an exercise price of \$0.04 with an expiration date on August 2, 2030.
- (3) Resulting from options to purchase an aggregate of 15,000,000 Ordinary Shares, at an exercise price of \$0.04 with an expiration date on August 2, 2030.
- (4) Resulting from options to purchase an aggregate of 5,400,000 Ordinary Shares, at an exercise price of \$0.04 with an expiration date on August 2, 2030.
- (5) Resulting from options to purchase an aggregate of 5,405,267 Ordinary Shares, at exercise prices ranges between \$0.04 to \$7.97 with expiration dates between May 13, 2024 and August 2, 2030.

Employment and Services Agreements with Executive Officers

We have entered into written employment or services agreements with each of our executive officers. All of these agreements contain customary provisions regarding noncompetition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law. In addition, we have entered into agreements with each executive officer and director pursuant to which we have agreed to indemnify each of them up to a certain amount and to the extent that these liabilities are not covered by directors and officer's insurance, subject to certain exclusions. Members of our senior management may be eligible for bonuses. Generally, such bonuses are in accordance with our compensation policy and are payable upon meeting objectives and targets that are set by our Chief Executive Officer and approved annually by our board of directors that also set the bonus targets for our Chief Executive Officer.

For a description of the terms of our options and option plans, see "Item 6.E. Share Ownership" below.

Directors' Service Contracts

Other than with respect to our directors that are also executive officers, we do not have written agreements with any director providing for benefits upon the termination of his directorship with our company.

C. Board Practices

Introduction

Our board of directors presently consists of six members, including two external directors required to be appointed under the Companies Law. We believe that Mr. Moshe Tal, Mr. Yehuda Halfon and Ms. Rakefet Remigolski are “independent” for purposes of the Nasdaq Stock Market rules. Our amended and restated articles of association provide that the number of board of directors’ members (including external directors) shall be set by our board of directors provided that it will consist of not less than three and not more than twelve. Pursuant to the Companies Law, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our Chief Executive Officer and all other executive officers are appointed by, and serve at the discretion of, our board of directors, subject to the employment or services agreement that we have entered into with them. Their terms of employment are subject to the approval of the board of directors’ compensation committee and of the board of directors, and are subject to the terms of any applicable employment agreements that we may enter into with them.

Each director, except external directors, will hold office in accordance with our articles of association, or until he or she resigns or unless he or she is removed by a 65% majority vote of our shareholders at an annual general meeting of our shareholders, provided that such majority constitutes more than 50% of the our then issued and outstanding share capital, or upon the occurrence of certain events, in accordance with the Companies Law and our amended and restated articles of association. Our articles of association provide for a split of the board of directors (except with respect to external directors) into three classes with staggered three-year terms. At each annual general meeting of our shareholders, the election or re-election of directors (other than external directors) following the expiration of the term of office of the directors of that class of directors will be for a term of office that expires on the third annual general meeting following such election or re-election, such that each year the term of office of only one class of directors will expire.

In addition, our amended and restated articles of association allow our board of directors to appoint directors to fill vacancies on our board of directors or in addition to the acting directors (subject to the limitation on the number of directors), to serve for the remaining period of time during which the director whose service has ended would have held office, or in case of an addition to the board of directors, in accordance with the class assigned to such appointed director, as determined by the board of directors at the time of such appointment. External directors may be elected for up to two additional three-year terms after their initial three-year term under the circumstances described below, with certain exceptions as described in “External Directors” below. External directors may be removed from office only under the limited circumstances set forth in the Companies Law. See “—External Directors” below.

Under the Companies Law, any shareholder holding at least one percent of our outstanding voting power may nominate a director. However, any such shareholder may make such a nomination only if a written notice of such shareholder’s intent to make such nomination has been given to our board of directors. Any such notice must include certain information, including the consent of the proposed director nominee to serve as our director if elected, and a declaration that the nominee signed declaring that he or she possesses the requisite skills and has the availability to carry out his or her duties. Additionally, the nominee must provide details of such skills, and demonstrate an absence of any limitation under the Companies Law that may prevent his or her election, and affirm that all of the required election-information is provided to us, pursuant to the Companies Law.

Under the Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. In determining the number of directors required to have such expertise, our board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that the minimum number of directors of our company who are required to have accounting and financial expertise is two.

The board of directors must elect one director to serve as the chairman of the board of directors to preside at the meetings of the board of directors, and may also remove that director as chairman. Pursuant to the Companies Law, neither the chief executive officer nor any of his or her relatives is permitted to serve as the chairman of the board of directors, and a company may not vest the chairman or any of his or her relatives with the chief executive officer's authorities. In addition, a person who reports, directly or indirectly, to the chief executive officer may not serve as the chairman of the board of directors; the chairman may not be vested with authorities of a person who reports, directly or indirectly, to the chief executive officer; and the chairman may not serve in any other position in the company or a controlled company, but he or she may serve as a director or chairman of a controlled company. However, the Companies Law permits a company's shareholders to determine, for a period not exceeding three years from each such determination, that the chairman or his or her relative may serve as chief executive officer or be vested with the chief executive officer's authorities, and that the chief executive officer or his or her relative may serve as chairman or be vested with the chairman's authorities. Such determination of a company's shareholders requires either: (1) the approval of at least a majority of the shares of those shareholders present and voting on the matter (other than controlling shareholders and those having a personal interest in the determination) (shares held by abstaining shareholders shall not be considered); or (2) that the total number of shares opposing such determination does not exceed 2% of the total voting power in the company. Currently, we have a separate chairman and chief executive officer.

The board of directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees of the board, and it may, from time to time, revoke such delegation or alter the composition of any such committees, subject to certain limitations. Unless otherwise expressly provided by the board of directors, the committees shall not be empowered to further delegate such powers. The composition and duties of our audit committee, financial statement examination committee and compensation committee are described below.

The board of directors oversees how management monitors compliance with our risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by us. The board of directors is assisted in its oversight role by an internal auditor. The internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to our audit committee.

External Directors

Under the Companies Law, an Israeli company whose shares have been offered to the public or whose shares are listed for trading on a stock exchange in or outside of Israel is required to appoint at least two external directors to serve on its board of directors. External directors must meet stringent standards of independence. As of the date hereof, our external directors are Mr. Moshe Tal, appointed for a first three-year term as an external director on May 23, 2019 and Mr. Yehuda Halfon, appointed for a second three-year term as an external director on May 23, 2019. The terms of service of both of our external directors will expire on May 22, 2022.

According to regulations promulgated under the Companies law, at least one of the external directors is required to have "financial and accounting expertise," unless another member of the audit committee, who is an independent director under the Nasdaq Stock Market rules, has "financial and accounting expertise," and the other external director or directors are required to have "professional expertise." An external director may not be appointed unless: (1) such director has "accounting and financial expertise;" or (2) he or she has "professional expertise," and on the date of appointment for another term there is another external director who has "accounting and financial expertise" and the number of "accounting and financial experts" on the board of directors is at least equal to the minimum number determined appropriate by the board of directors. We have determined that our current external directors have accounting and financial expertise.

A director with accounting and financial expertise is a director who, due to his or her education, experience and skills, possesses a high degree of proficiency in, and an understanding of, business – accounting matters and consolidated financial statements, such that he or she is able to understand the consolidated financial statements of the company in depth and initiate a discussion about the manner in which financial data is presented. A director is deemed to have "professional expertise" if he or she holds an academic degree in certain fields or has at least five years of experience in certain senior positions.

External directors are elected by a special majority vote at a shareholders' meeting. The term "Special Majority" is defined in the Companies Law as:

- at least a majority of the shares held by shareholders who are not controlling shareholders and do not have personal interest in the appointment (excluding a personal interest that did not result from the shareholder's relationship with the controlling shareholder) have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered); or
- the total number of shares voted by non-controlling shareholders and by shareholders who do not have a personal interest in the election of the external director, against the election of the external director, does not exceed 2% of the aggregate voting rights of the company.

The term "control" is defined in the Companies Law as the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder "holds" (within the meaning of the Companies Law) 50% or more of the voting rights in a company or has the right to appoint 50% or more of the directors of the company or its general manager. With respect to certain matters, a controlling shareholder is deemed to include a shareholder that holds 25% or more of the voting rights in a public company if no other shareholder holds more than 50% of the voting rights in the company, but excludes a shareholder whose power derives solely from his or her position as a director of the company or from any other position with the company.

The Companies Law provides for an initial three-year term for an external director. Thereafter, an external director may be reelected by shareholders to serve in that capacity for up to two additional three-year terms, provided that:

- (1) his or her service for each such additional term is recommended by one or more shareholders holding at least one percent of the company's voting rights and is approved at a shareholders meeting by a disinterested majority, where the total number of shares held by non-controlling, disinterested shareholders voting for such reelection exceeds two percent of the aggregate voting rights in the company and subject to additional restrictions set forth in the Companies Law with respect to the affiliation of the external director nominee as described below;
- (2) his or her service for each such additional term is recommended by the board of directors and is approved at a shareholders meeting by the same disinterested majority required for the initial election of an external director (as described above); or
- (3) the external director offered his or her service for each such additional term and was approved in accordance with the provisions of section (1) above.

The term of office for external directors for Israeli companies traded on certain foreign stock exchanges, including the Nasdaq Stock Market, may be extended indefinitely in increments of additional three-year terms, in each case provided that the audit committee and the board of directors of the company confirm that, in light of the external director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period(s) is beneficial to the company, and provided that the external director is reelected subject to the same shareholder vote requirements as if elected for the first time (as described above). Prior to the approval of the reelection of the external director at a general shareholders meeting, the company's shareholders must be informed of the term previously served by him or her and of the reasons why the board of directors and audit committee recommended the extension of his or her term.

Each committee of the board of directors that exercises the powers of the board of directors must include at least one external director, except that the audit committee and the compensation committee must include all external directors then serving on the board of directors and an external director must serve as the chair thereof. Under the Companies Law, external directors of a company are prohibited from receiving, directly or indirectly, any compensation from the company other than for their services as external directors pursuant to the Companies Law and the regulations promulgated thereunder. Compensation of an external director is determined prior to his or her appointment and may not be changed during his or her term subject to certain exceptions.

The Companies Law provides that a person is not qualified to serve as an external director if (i) the person is a relative of a controlling shareholder of the company, or (ii) if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subordinate, or any entity under the person's control, has or had, during the two years preceding the date of appointment as an external director: (a) any affiliation or other disqualifying relationship with the company, with any person or entity controlling the company or a relative of such person, or with any entity controlled by or under common control with the company; or (b) in the case of a company with no shareholder holding 25% or more of its voting rights, had at the date of appointment as an external director, any affiliation or other disqualifying relationship with a person then serving as chairman of the board or chief executive officer, with a holder of 5% or more of the issued share capital or voting power in the company or with the most senior financial officer.

The term "relative" is defined under the Companies Law as a spouse, sibling, parent, grandparent or descendant; spouse's sibling, parent or descendant; and the spouse of each of the foregoing persons.

Under the Companies Law, the term "affiliation" and the similar types of disqualifying relationships include (subject to certain exceptions):

- an employment relationship;
- a business or professional relationship even if not maintained on a regular basis (excluding insignificant relationships);
- control; and
- service as an office holder, excluding service as a director in a private company prior to the initial public offering of its shares if such director was appointed as a director of the private company in order to serve as an external director following the initial public offering.

The term "office holder" is defined under the Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person's title, a director and any other manager directly subordinate to the general manager.

In addition, no person may serve as an external director if that person's position or professional or other activities create, or may create, a conflict of interest with that person's responsibilities as a director or otherwise interfere with that person's ability to serve as a director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an external director if he or she received direct or indirect compensation from the company including amounts paid pursuant to indemnification and/or exculpation contracts or commitments and insurance coverage, other than for his or her service as an external director as permitted by the Companies Law and the regulations promulgated thereunder.

Following the termination of an external director's service on a board of directors, such former external director and his or her spouse and children may not be provided a direct or indirect benefit by the company, its controlling shareholder or any entity under its controlling shareholder's control. This includes engagement as an office holder or director of the company or a company controlled by its controlling shareholder or employment by, or provision of services to, any such company for consideration, either directly or indirectly, including through a corporation controlled by the former external director. This restriction extends for a period of two years with regard to the former external director and his or her spouse or child and for one year with respect to other relatives of the former external director.

External directors may be removed only by a special general meeting of shareholders called by the board of directors after the board has determined the occurrence of circumstances allow such dismissal, at the same Special Majority of shareholders required for their election or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to our company. In the event of a vacancy created by an external director which causes the company to have fewer than two external directors, the board of directors is required under the Companies Law to call a shareholders' meeting as soon as possible to appoint such number of new external directors in order that the company thereafter has two external directors.

If at the time at which an external director is appointed all members of the board of directors who are not controlling shareholders or relatives of controlling shareholders of the company are of the same gender, the external director to be appointed must be of the other gender. A director of a company may not be appointed as an external director of another company if at the same time a director of such other company is acting as an external director of the first company.

Under regulations promulgated pursuant to the Companies Law, a company with no controlling shareholder whose shares are listed for trading on specified exchanges outside of Israel, including the Nasdaq Capital Market, may adopt exemptions from various corporate governance requirements of the Companies Law, so long as such company satisfies the requirements of applicable foreign country laws and regulations, including applicable stock exchange rules, that apply to companies organized in that country and relating to the appointment of independent directors and the composition of audit and compensation committees. Such exemptions include an exemption from the requirement to appoint external directors and the requirement that an external director be a member of certain committees, as well as exemption from limitations on directors' compensation. We may use these exemptions in the future if we do not have a controlling shareholder.

Independent Directors Under the Companies Law

An "independent director" is either an external director or a director who meets the same non-affiliation criteria as an external director (except for (i) the requirement that the director be an Israeli resident (which does not apply to companies such as ours whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications), as determined by the audit committee, and who has not served as a director of the company for more than nine consecutive years. For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director's service.

Regulations promulgated pursuant to the Companies Law provide that a director in a public company whose shares are listed for trading on specified exchanges outside of Israel, including the Nasdaq Capital Market, who qualifies as an independent director under the relevant non-Israeli rules and who meets certain non-affiliation criteria, which are less stringent than those applicable to independent directors as set forth above, would be deemed an "independent" director pursuant to the Companies Law provided: (i) he or she has not served as a director for more than nine consecutive years; (ii) he or she has been approved as such by the audit committee; and (iii) his or her remuneration shall be in accordance with the Companies Law and the regulations promulgated thereunder. For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director's service.

Furthermore, pursuant to these regulations, such company may reappoint a person as an independent director for additional terms, beyond nine years, which do not exceed three years each, if each of the audit committee and the board of directors determine, in that order, that in light of the independent director's expertise and special contribution to the board of directors and its committees, the reappointment for an additional term is in the company's best interest.

Alternate Directors

Our amended and restated articles of association provide, as allowed by the Companies Law, that any director may, subject to the conditions set thereto including approval of the nominee by our board of directors, appoint a person as an alternate to act in his place, to remove the alternate and appoint another in his place and to appoint an alternate in place of an alternate whose office is vacated for any reason whatsoever. Under the Companies Law, a person who is not qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as an alternate director for another director, may not be appointed as an alternate director. Nevertheless, a director who is already serving as a director may be appointed as an alternate director for a member of a committee of the board of directors so long as he or she is not already serving as a member of such committee, and if the alternate director is to replace an external director, he or she is required to be an external director and to have either "financial and accounting expertise" or "professional expertise," depending on the qualifications of the external director he or she is replacing. A person who does not have the requisite "financial and accounting experience" or the "professional expertise," depending on the qualifications of the external director he or she is replacing, may not be appointed as an alternate director for an external director. A person who is not qualified to be appointed as an independent director, pursuant to the Companies Law, may not be appointed as an alternate director of an independent director qualified as such under the Companies Law. Unless the appointing director limits the time or scope of the appointment, the appointment is effective for all purposes until the appointing director ceases to be a director or terminates the appointment.

Committees of the Board of Directors

Our board of directors has established three standing committees, the audit committee, the compensation committee and the Financial Statements Examination Committee.

Audit Committee

Under the Companies Law, we are required to appoint an audit committee. The audit committee must be comprised of at least three directors, including all of the external directors (one of whom must serve as chair of the committee). The audit committee may not include the chairman of the board; a controlling shareholder of the company or a relative of a controlling shareholder; a director employed by or providing services on a regular basis to the company, to a controlling shareholder or to an entity controlled by a controlling shareholder; or a director who derives most of his or her income from a controlling shareholder.

In addition, a majority of the members of the audit committee of a publicly traded company must be independent directors under the Companies Law. Our audit committee is comprised of Mr. Moshe Tal, Mr. Yehuda Halfon and Ms. Rakefet Remigolski.

Under the Companies Law, our audit committee is responsible for:

- (i) determining whether there are deficiencies in the business management practices of our company, and making recommendations to the board of directors to improve such practices;
- (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is extraordinary or material under Companies Law) and establishing the approval process for certain transactions with a controlling shareholder or in which a controlling shareholder has a personal interest (see “—Approval of Related Party Transactions under Israeli Law”);
- (iii) determining the approval process for transactions that are “non-negligible” (i.e., transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee;
- (iv) examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities;
- (v) examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is considering the appointment of our auditor;
- (vi) establishing procedures for the handling of employees’ complaints as to deficiencies in the management of our business and the protection to be provided to such employees; and
- (vii) where the board of directors approves the working plan of the internal auditor, examining such working plan before its submission to the board of directors and proposing amendments thereto.

Our audit committee may not conduct any discussions or approve any actions requiring its approval (see “—Approval of Related Party Transactions under Israeli Law”), unless at the time of the approval a majority of the committee’s members are present, which majority consists of independent directors under the Companies Law, including at least one external director.

Our board of directors adopted an audit committee charter, which became effective upon the listing of the ADSs on the Nasdaq Capital Market setting forth, among others, the responsibilities of the audit committee consistent with the rules of the SEC and Nasdaq Listing Rules (in addition to the requirements for such committee under the Companies Law), including, among others, the following:

- oversight of our independent registered public accounting firm and recommending the engagement, compensation or termination of engagement of our independent registered public accounting firm to the board of directors in accordance with Israeli law;
- recommending the engagement or termination of the person filling the office of our internal auditor, reviewing the services provided by our internal auditor and reviewing effectiveness of our system of internal control over financial reporting;
- recommending the terms of audit and non-audit services provided by the independent registered public accounting firm for pre-approval by our board of directors; and
- reviewing and monitoring, if applicable, legal matters with significant impact, finding of regulatory authorities' findings, receive reports regarding irregularities and legal compliance, acting according to "whistleblower policy" and recommend to our board of directors if so required.

Nasdaq Stock Market Requirements for Audit Committee

Under the Nasdaq Stock Market rules, we are required to maintain an audit committee consisting of at least three members, all of whom are independent and are financially literate and one of whom has accounting or related financial management expertise.

As noted above, the members of our audit committee include Mr. Moshe Tal (the chairman) and Mr. Yehuda Halfon who are external directors, and Ms. Rakefet Remigolski, each of whom is "independent," as such term is defined in under Nasdaq Stock Market rules. All members of our audit committee meet the requirements for financial literacy under the Nasdaq Stock Market rules. Our board of directors has determined that each member of our audit committee is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by the Nasdaq Stock Market rules.

Financial Statements Examination Committee

Under the Companies Law, the board of directors of a public company in Israel must appoint a financial statements examination committee, which consists of members with accounting and financial expertise or the ability to read and understand financial statements. Our financial statements examination committee is comprised of Mr. Moshe Tal, Mr. Yehuda Halfon and Ms. Rakefet Remigolski. The function of a financial statements examination committee is to discuss and provide recommendations to its board of directors (including the report of any deficiency found) with respect to the following issues: (1) estimations and assessments made in connection with the preparation of financial statements; (2) internal controls related to the financial statements; (3) completeness and propriety of the disclosure in the financial statements; (4) the accounting policies adopted and the accounting treatments implemented in material matters of the company; and (5) value evaluations, including the assumptions and assessments on which evaluations are based and the supporting data in the financial statements. Our independent registered public accounting firm and our internal auditor are invited to attend all meetings of our financial statements' examination committee.

Compensation Committee

Under the Companies Law, the board of directors of any public company must establish a compensation committee. The compensation committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of the compensation committee. Each compensation committee member that is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director. The compensation committee is subject to the same Companies Law restrictions as the audit committee as to: (a) who may not be a member of the committee; and (b) who may not be present during committee deliberations as described above.

Our compensation committee is acting pursuant to a written charter, and consists of Mr. Moshe Tal, Mr. Yehuda Halfon and Ms. Rakefet Remigolski. Our compensation committee complies with the provisions of the Companies Law, the regulations promulgated thereunder, and our amended and restated articles of association, on all aspects referring to its independence, authorities and practice. Our compensation committee follows home country practice as opposed to complying with the compensation committee membership and charter requirements prescribed under the Nasdaq Stock Market rules.

Our compensation committee reviews and recommends to our board of directors: with respect to our executive officers' and directors': (1) annual base compensation (2) annual incentive bonus, including the specific goals and amounts; (3) equity compensation; (4) employment agreements, severance arrangements, and change in control agreements and provisions; (5) retirement grants and/or retirement bonuses; and (6) any other benefits, compensation, compensation policies or arrangements.

The duties of the compensation committee include the recommendation to the company's board of directors of a policy regarding the terms of engagement of office holders, to which we refer as a compensation policy. Such policy must be adopted by the company's board of directors, after considering the recommendations of the compensation committee. The compensation policy is then brought for approval by our shareholders, which requires a Special Majority (see "—Approval of Related Party Transactions under Israeli Law"). Under the Companies Law, the board of directors may adopt the compensation policy if it is not approved by the shareholders, provided that after the shareholders oppose the approval of such policy, the compensation committee and the board of directors revisit the matter and determine that adopting the compensation policy would be in the best interests of the company. Our compensation policy was approved by our shareholders on May 8, 2016, and amendments thereto were approved by our shareholders on August 8, 2017, September 26, 2019, and September 15, 2020.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of executive officers and directors, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the education, skills, expertise and accomplishments of the relevant director or executive;
- the director's or executive's roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the cost of the terms of service of an office holder and the average median compensation of the other employees of the company, including the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the board of directors; and the possibility of setting a limit on the exercise value of non-cash variable compensation; and
- as to severance compensation, the period of service of the director or executive, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- with the exception of office holders who report directly to the chief executive officer, the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation at the time of its grant;
- the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's consolidated financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

The compensation policy must also consider appropriate incentives from a long-term perspective.

The compensation committee is responsible for: (1) recommending the compensation policy to a company's board of directors for its approval (and subsequent approval by the shareholders); and (2) duties related to the compensation policy and to the compensation of a company's office holders, including:

- recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years);
- recommending to the board of directors' periodic updates to the compensation policy;
- assessing implementation of the compensation policy;
- determining whether the terms of compensation of certain office holders of the company need not be brought to approval of the shareholders; and
- determining whether to approve the terms of compensation of office holders that require the committee's approval.

Our compensation policy is designed to promote our long-term goals, work plan and policy, retain, motivate and incentivize our directors and executive officers, while considering the risks that our activities involve, our size, the nature and scope of our activities and the contribution of an officer to the achievement of our goals and maximization of profits, and align the interests of our directors and executive officers with our long-term performance. To that end, a portion of an executive officer compensation package is targeted to reflect our short and long-term goals, as well as the executive officer's individual performance. On the other hand, our compensation policy includes measures designed to reduce the executive officer's incentives to take excessive risks that may harm us in the long-term, such as limits on the value of cash bonuses and equity-based compensation, limitations on the ratio between the variable and the total compensation of an executive officer and minimum vesting periods for equity-based compensation.

Our compensation policy also addresses our executive officer's individual characteristics (such as his or her respective position, education, scope of responsibilities and contribution to the attainment of our goals) as the basis for compensation variation among our executive officers, and considers the internal ratios between compensation of our executive officers and directors and other employees. Pursuant to our compensation policy, the compensation that may be granted to an executive officer may include: base salary, annual bonuses, equity-based compensation, benefits and retirement and termination of service arrangements. All cash bonuses are limited to a maximum amount linked to the executive officer's base salary. In addition, our compensation policy provides for maximum permitted ratios between the total variable (cash bonuses and equity-based compensation) and non-variable (base salary) compensation components, in accordance with an officer's respective position with the company.

An annual cash bonus may be awarded to executive officers upon the attainment of pre-set periodic objectives and individual targets. The annual cash bonus that may be granted to executive officers other than our chairman or Chief Executive Officer may be based entirely on a discretionary evaluation. Our Chief Executive Officer will be entitled to recommend performance objectives to such executive officers, and such performance objectives will be approved by our compensation committee (and, if required by law, by our board of directors).

The performance measurable objectives of our chairman and Chief Executive Officer will be determined annually by our compensation committee and board of directors. A less significant portion of the chairman's and/or the Chief Executive Officer's annual cash bonus may be based on a discretionary evaluation of the chairman's or the Chief Executive Officer's respective overall performance by the compensation committee and the board of directors based on quantitative and qualitative criteria.

The equity-based compensation under our compensation policy for our executive officers and members of our board of directors is designed in a manner consistent with the underlying objectives in determining the base salary and the annual cash bonus, with its main objectives being to enhance the alignment between the executive officers' interests with our long-term interests and those of our shareholders and to strengthen the retention and the motivation of executive officers in the long term. Our compensation policy provides for executive officer compensation in the form of share options or other equity-based awards, such as restricted shares and phantom, options, in accordance with our share incentive plan then in place. Share options granted to executive officers shall be subject to vesting periods in order to promote long-term retention of the awarded executive officers. The equity-based compensation shall be granted from time to time and be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, role and the personal responsibilities of the executive officer.

In addition, our compensation policy contains compensation recovery provisions which allow us under certain conditions to recover bonuses paid in excess, enables our Chief Executive Officer to approve an immaterial change in the terms of employment of an executive officer (provided that the changes of the terms of employment are in accordance our compensation policy) and allows us to exculpate, indemnify and insure our executive officers and directors subject to certain limitations set forth thereto.

Our compensation policy also provides for compensation to the members of our board of directors either: (i) in accordance with the amounts provided in the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) of 2000, as amended by the Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel) of 2000, as such regulations may be amended from time to time; or (ii) in accordance with the amounts determined in our compensation policy.

Nasdaq Stock Market Requirements for Compensation Committee

Under Nasdaq rules, we are required to maintain a compensation committee consisting of at least two members, all of whom are independent. In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of a board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member.

As noted above, the members of our compensation committee include Mr. Moshe Tal, Mr. Yehuda Halfon and Ms. Rakefet Remigolski, each of whom is "independent," as such term is defined under Nasdaq rules. Mr. Moshe Tal serves as the chairman of our compensation committee.

Internal Auditor

Under the Companies Law, the board of directors of an Israeli public company must appoint an internal auditor nominated by the audit committee. Our internal auditor is Ms. Dana Gottesman CPA, CIA, MA and partner of Risk Advisory Services Group, BDO Consulting Group. The role of the internal auditor is to examine, among other things, whether a company's actions comply with the law and proper business procedure. The audit committee is required to oversee the activities, and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. An internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company's independent accounting firm or its representative. The Companies Law defines an interested party as a holder of 5% or more of the outstanding shares or voting rights of a company, any person or entity that has the right to appoint at least one director or the general manager of the company or any person who serves as a director or as the general manager of a company. Our internal auditor is not our employee, but partner of a firm which specializes in internal auditing.

Remuneration of Directors

Under the Companies Law, remuneration of directors is subject to the approval of the compensation committee, thereafter by the board of directors and thereafter, unless exempted under the regulations promulgated under the Companies Law or under our compensation policy, by the general meeting of the shareholders. In case the remuneration of the directors is in accordance with regulations applicable to remuneration of the external directors then such remuneration shall be exempt from the approval of the general meeting. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply.

Fiduciary Duties of Office Holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care of an office holder includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder requires an office holder to act in good faith and for the benefit of the company, and includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and his performance of his other duties or personal affairs;
- refrain from any action that is competitive with the company's business;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

Insurance

Under the Companies Law, a company may obtain insurance for any of its office holders against the following liabilities incurred due to acts he or she performed as an office holder, if and to the extent provided for in the company's articles of association:

- breach of his or her duty of care to the company or to another person, to the extent such a breach arises out of the negligent conduct of the office holder;
- a breach of his or her duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; and
- a financial liability imposed upon him or her in favor of another person.

We currently have directors' and officers' liability insurance, providing total coverage of \$10 million for the benefit of all of our directors and officers, in respect of which we paid a twelve-month premium of \$182,500, which expires on August 14, 2021 as well as Public Offering of Securities Insurance (POSI) providing a total coverage of \$10 million for the benefit of all of our directors and officers, and covering a public offerings of our securities on Nasdaq in August 2018, in respect of which we paid a seven-year premium of approximately \$120,000, which expires on August 21, 2025.

Indemnification

The Companies Law and the Israeli Securities Law, 5728-1968, or the Securities Law, provide that a company may indemnify an office holder against the following liabilities and expenses incurred for acts performed by him or her as an office holder, either pursuant to an undertaking made in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

- a financial liability imposed on him or her in favor of another person by any judgment concerning an act performed in his or her capacity as an office holder, including a settlement or arbitrator's award approved by a court;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder (a) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (1) no indictment (as defined in the Companies Law) was filed against such office holder as a result of such investigation or proceeding; and (2) no financial liability as a substitute for the criminal proceeding (as defined in the Companies Law) was imposed upon him or her as a result of such investigation or proceeding, or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; or (b) in connection with a monetary sanction;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder or imposed on him or her by a court: (1) in proceedings that the company institutes, or that another person institutes on the company's behalf, against him or her; (2) in a criminal proceedings of which he or she was acquitted; or (3) as a result of a conviction for a crime that does not require proof of criminal intent; and
- expenses incurred by an office holder in connection with an Administrative Procedure under the Securities Law, including reasonable litigation expenses and reasonable attorneys' fees. An "Administrative Procedure" is defined as a procedure pursuant to chapters H3 (Monetary Sanction by the ISA), H4 (Administrative Enforcement Procedures of the Administrative Enforcement Committee) or H1 (Arrangement to prevent Procedures or Interruption of procedures subject to conditions) to the Securities Law.

The Companies Law also permits a company to undertake in advance to indemnify an office holder, provided that if such indemnification relates to financial liability imposed on him or her, as described above, then the undertaking should be limited and shall detail the following foreseen events and amount or criterion:

- to events that in the opinion of the board of directors can be foreseen based on the company's activities at the time that the undertaking to indemnify is made; and
- an amount or criterion determined by the board of directors, at the time of the giving of such undertaking to indemnify, to be reasonable under the circumstances.

We have entered into indemnification agreements with all of our directors and with all members of our senior management. Each such indemnification agreement provides the office holder with indemnification permitted under applicable law and up to a certain amount, and to the extent that these liabilities are not covered by directors and officer's insurance.

Exculpation

Under the Companies Law, an Israeli company may not exculpate an office holder from liability for a breach of his or her duty of loyalty, but may exculpate in advance an office holder from his or her liability to the company, in whole or in part, for damages caused to the company as a result of a breach of his or her duty of care (other than in relation to distributions), but only if a provision authorizing such exculpation is included in its articles of association. Our amended and restated articles of association provide that we may exculpate, in whole or in part, any office holder from liability to us for damages caused to the company as a result of a breach of his or her duty of care, but prohibit an exculpation from liability arising from a company's transaction in which our controlling shareholder or officer has a personal interest. Subject to the aforesaid limitations, under the indemnification agreements, we exculpate and release our office holders from any and all liability to us related to any breach by them of their duty of care to us to the fullest extent permitted by law.

Limitations

The Companies Law provides that we may not exculpate or indemnify an office holder nor enter into an insurance contract that would provide coverage for any liability incurred as a result of any of the following: (1) a breach by the office holder of his or her duty of loyalty unless (in the case of indemnity or insurance only, but not exculpation) the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice us; (2) a breach by the office holder of his or her duty of care if the breach was carried out intentionally or recklessly (as opposed to merely negligently); (3) any act or omission committed with the intent to derive an illegal personal benefit; or (4) any fine, monetary sanction, penalty or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders in a public company must be approved by the compensation committee and the board of directors and, with respect to certain office holders or under certain circumstances, also by the shareholders.

Our amended and restated articles of association permit us to exculpate (subject to the aforesaid limitation), indemnify and insure our office holders to the fullest extent permitted or to be permitted by the Companies Law.

The foregoing descriptions summarize the material aspects and practices of our board of directors. For additional details, we also refer you to the full text of the Companies Law, as well as of our amended and restated articles of association, which articles are an exhibit to this annual report on Form 20-F, and are incorporated herein by reference.

There are no service contracts between us or Safe-T Data, on the one hand, and our directors in their capacity as directors, on the other hand, providing for benefits upon termination of service.

Approval of Related Party Transactions under Israeli Law

General

Under the Companies Law, we may approve an action by an office holder from which the office holder would otherwise have to refrain, as described above, if:

- the office holder acts in good faith and the act or its approval does not cause harm to the company; and
- the office holder disclosed the nature of his or her interest in the transaction (including any significant fact or document) to the company at a reasonable time before the company's approval of such matter.

Disclosure of Personal Interests of an Office Holder

The Companies Law requires that an office holder disclose to the company, promptly, and, in any event, not later than the board meeting at which the transaction is first discussed, any direct or indirect personal interest that he or she may have and all related material information known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

- the office holder's relatives; or
- any corporation in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or general manager or has the right to appoint at least one director or the general manager.

An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction. Under the Companies Law, an extraordinary transaction is a transaction:

- not in the ordinary course of business;
- not on market terms; or
- that is likely to have a material effect on the company's profitability, assets or liabilities.

The Companies Law does not specify to whom within us or the manner in which required disclosures are to be made. We require our office holders to make such disclosures to our board of directors.

Under the Companies Law, once an office holder complies with the above disclosure requirement, the board of directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest, unless the articles of association provide otherwise and provided that the transaction is in the company's interest. If the transaction is an extraordinary transaction in which an office holder has a personal interest, first the audit committee and then the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholder approval may also be required. Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee may not be present at such a meeting unless the chairman of the audit committee or board of directors (as applicable) determines that he or she should be present in order to present the transaction that is subject to approval. A director who has a personal interest in a transaction, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless a majority of members of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the board of directors has a personal interest, then shareholder approval is generally also required.

Disclosure of Personal Interests of a Controlling Shareholder

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, as well as transactions for the provision of services whether directly or indirectly by a controlling shareholder or his or her relative, or a company such controlling shareholder controls, and transactions concerning the terms of engagement and compensation of a controlling shareholder or a controlling shareholder's relative, whether as an office holder or an employee, require the approval of the audit committee or the compensation committee, as the case may be, the board of directors and a majority of the shares voted by the shareholders of the company participating and voting on the matter in a shareholders' meeting, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or
- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2% of the voting rights in the company.

In addition, any extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest with a term of more than three years requires the abovementioned approval every three years; however, such transactions not involving the receipt of services or compensation can be approved for a longer term, provided that the audit committee determines that such longer term is reasonable under the circumstances.

The Companies Law requires that every shareholder that participates, in person, by proxy or by voting instrument, in a vote regarding a transaction with a controlling shareholder, must indicate in advance or in the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate will result in the invalidation of that shareholder's vote.

The term “controlling shareholder” is defined in the Companies Law as a shareholder with the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint 50% or more of the directors of the company or its general manager. In the context of a transaction involving a related party, a controlling shareholder also includes a shareholder who holds 25% or more of the voting rights in the company if no other shareholder holds more than 50% of the voting rights in the company. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated.

Approval of the Compensation of Directors and Executive Officers

The compensation of, or an undertaking to indemnify, insure or exculpate, an office holder who is not a director requires the approval of the company’s compensation committee, followed by the approval of the company’s board of directors, and, if such compensation arrangement or an undertaking to indemnify, insure or exculpate is inconsistent with the company’s stated compensation policy, or if the said office holder is the chief executive officer of the company (subject to a number of specific exceptions), then such arrangement is subject to the approval of our shareholders, subject to a Special Majority .

Directors. Under the Companies Law, the compensation of our directors requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law or under our compensation policy, the approval of the general meeting of our shareholders. If the compensation of our directors is inconsistent with our stated compensation policy, then, provided that those provisions that must be included in the compensation policy according to the Companies Law have been considered by the compensation committee and board of directors, shareholder approval by a Special Majority will be required.

Executive officers other than the chief executive officer. The Companies Law requires the approval of the compensation of a public company’s executive officers (other than the chief executive officer) in the following order: (i) the compensation committee, (ii) the company’s board of directors, and (iii) only if such compensation arrangement is inconsistent with the company’s stated compensation policy, the company’s shareholders by a Special Majority. However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company’s stated compensation policy, the compensation committee and board of directors may override the shareholders’ decision if each of the compensation committee and the board of directors provide detailed reasons for their decision.

Chief executive officer. Under the Companies Law, the compensation of a public company’s chief executive officer is required to be approved by: (i) the company’s compensation committee; (ii) the company’s board of directors, and (iii) the company’s shareholders by a Special Majority. However, if the shareholders of the company do not approve the compensation arrangement with the chief executive officer, the compensation committee and board of directors may override the shareholders’ decision if each of the compensation committee and the board of directors provide detailed reasons for their decision. In addition, the compensation committee may exempt the engagement terms of a candidate to serve as the chief executive officer from shareholders’ approval, if the compensation committee determines that the compensation arrangement is consistent with the company’s stated compensation policy, that the chief executive officer did not have a prior business relationship with the company or a controlling shareholder of the company, and that subjecting the approval to a shareholder vote would impede the company’s ability to attain the candidate to serve as the company’s chief executive officer (and provide detailed reasons for the latter).

The approval of each of the compensation committee and the board of directors, with regard to the office holders and directors above, must be in accordance with the company’s stated compensation policy; however, under special circumstances, the compensation committee and the board of directors may approve compensation terms of a chief executive officer that are inconsistent with the company’s compensation policy provided that they have considered those provisions that must be included in the compensation policy according to the Companies Law and that shareholder approval was obtained by a Special Majority requirement.

Duties of Shareholders

Under the Companies Law, a shareholder has a duty to refrain from abusing his power in the company and to act in good faith and in an acceptable manner in exercising his rights and performing his obligations toward the company and other shareholders, including, among other things, in voting at general meetings of shareholders (and at shareholder class meetings) on the following matters:

- amendment of the articles of association;
- increase in the company's authorized share capital;
- merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from oppressing other shareholders. The remedies generally available upon a breach of contract will also apply to a breach of the above-mentioned duties, and in the event of oppression of other shareholders, additional remedies are available to the injured shareholder.

In addition, any controlling shareholder, any shareholder that knows that its vote can determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or has another power with respect to a company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness, taking the shareholder's position in the company into account.

D. Employees.

On December 31, 2018, we had 36 full-time employees and fully dedicated consultants and 4 part-time employees and consultants. On December 31, 2019, we had 41 full-time employees and fully dedicated consultants and 4 part-time employees and consultants.

As of December 31, 2020, we had six senior management positions on a full-time basis and one executive on part-time basis. All are engaged as employees with the exception of two consultants. In addition to our senior management, we had world-wide 56 employees and consultants, on full and part time basis.

As of December 31, 2020, the majority of our employees and consultants were located in Israel, while 15 employees and consultants were located in Ukraine, United States, Spain, Germany, Turkey and India. None of our employees is represented by labor unions or covered by collective bargaining agreements.

E. Share Ownership.

The following table lists as of March 21, 2021, the number of our shares beneficially owned by each of our directors, our executive officers and our directors and executive officers as a group:

	No. of Shares Beneficially Owned(1)	Percentage Owned(2)
Chen Katz ⁽³⁾	1,350,000	*
Shachar Daniel ⁽⁴⁾	2,720,592	*
Barak Avitbul ⁽⁵⁾	1,408,957	*
Shai Avnit ⁽⁶⁾	1,355,267	*
Eitan Bremner ⁽⁷⁾	1,355,892	*
Rakefet Remigolski ⁽⁸⁾	262,500	*
Yehuda Halfon ⁽⁹⁾	262,500	*
Dafna Lipowicz ⁽¹⁰⁾	262,500	*
Amir Mizhar ⁽¹¹⁾	4,005,796	*
Avi Rubinstein ⁽¹²⁾	1,550,000	*
Moshe Tal ⁽¹³⁾	262,500	*
All directors and senior management as a group (11 persons)	14,796,504	1.4%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

- (2) The percentages shown are based on 1,044,795,182 Ordinary Shares as issued and outstanding as of March 21, 2021.
- (3) Mr. Katz holds options to purchase 4,050,000 Ordinary Shares at an exercise price of NIS 0.151 per share that are not exercisable within 60 days. Mr. Katz's options have expiration date of September 15, 2030.
- (4) Mr. Daniel holds options to purchase 8,100,000 Ordinary Shares at an exercise price of NIS 0.151 per share that are not exercisable within 60 days. Mr. Daniel's options have expiration dates ranging from May 13, 2024 to September 15, 2030.
- (5) Mr. Avitbul holds options to purchase 4,050,000 Ordinary Shares at an exercise price of NIS 0.151 per share that are not exercisable within 60 days. Mr. Avitbul's options have expiration date of August 2, 2030.
- (6) Mr. Avnit holds options to purchase 4,050,000 Ordinary Shares at an exercise price of NIS 0.151 per share that are not exercisable within 60 days. Mr. Avnit's options have expiration dates ranging from May 13, 2024 to August 2, 2030.
- (7) Mr. Bremler holds options to purchase 4,050,000 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Mr. Bremler's options have expiration dates ranging from May 13, 2024 to August 2, 2030.
- (8) Ms. Remigolski holds options to purchase 787,500 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Ms. Remigolski's options have expiration date of September 15, 2030.
- (9) Mr. Halfon holds options to purchase 787,500 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Mr. Halfon's options have expiration date of September 15, 2030.
- (10) Ms. Lipowicz holds options to purchase 787,500 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Ms. Lipowicz's options have expiration date of August 2, 2030.
- (11) Includes 94,113 Ordinary Shares held by eTouchware 2005 Inc., a company wholly owned by Amir Mizhar. Also includes 3,750 dormant shares which do not carry any rights. In addition, Mr. Mizhar holds options to purchase 11,250,000 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Mr. Mizhar's options have expiration date of September 15, 2030.
- (12) Mr. Rubinstein holds options to purchase 4,050,000 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Mr. Rubinstein's options have expiration date of August 2, 2030.
- (13) Mr. Tal holds options to purchase 787,500 Ordinary Shares at an exercise price of 0.151 per share that are not exercisable within 60 days. Mr. Tal's options have expiration date of September 15, 2030.

Stock Option Plan – *Global Equity Plan*

We maintain one equity incentive plan – the Safe-T Group Global Equity Plan, or the Global Equity Plan. As of March 21, 2021, the number of Ordinary Shares reserved for the exercise of options granted under the plan was 29,134,212. In addition, options to purchase 100,478,007 Ordinary Shares were issued and outstanding, with exercise prices ranging between NIS 0.00 and NIS 139.52 (approximately \$42) per share.

Our Global Equity Plan was adopted by our board of directors in July 2016, and expires in July 2026. Our employees, directors, officers, and services providers, including those who are our controlling shareholders, as well as those of our affiliated companies, are eligible to participate in this plan.

Our Global Equity Plan is administered by our board of directors, regarding the granting of options and the terms of option grants, including exercise price, method of payment, vesting schedule, acceleration of vesting and the other matters necessary in the administration of this plan. Eligible Israeli employees, officers and directors, would qualify for provisions of Section 102(b)(2) of the Israeli Income Tax Ordinance of 1961 (New Version), or the Tax Ordinance. Pursuant to such Section 102(b)(2), qualifying options and shares issued upon exercise of such options are held in trust and registered in the name of a trustee selected by the board of directors. The trustee may not release these options or shares to the holders thereof for two years from the date of the registration of the options in the name of the trustee. Under Section 102, any tax payable by an employee from the grant or exercise of the options is deferred until the transfer of the options or ordinary shares by the trustee to the employee or upon the sale of the options or ordinary shares, and gains may qualify to be taxed as capital gains at a rate equal to 25%, subject to compliance with specified conditions. Our Israeli non-employee service providers and controlling shareholders may only be granted options under Section 3(9) of the Tax Ordinance, which does not provide for similar tax benefits. The Global Equity Plan also permits granting options to Israeli grantees who do not qualify under Section 102(b)(2).

As a default, our Global Equity Plan provides that upon termination of employment for any reason, other than in the event of death, retirement, disability or cause, all unvested options will expire and all vested options will generally be exercisable for 90 days following such termination, subject to the terms of the Global Equity Plan and the governing option agreement. Notwithstanding the foregoing, in the event the employment is terminated for cause (including, inter alia, due to dishonesty toward the Company or its affiliate, substantial malfeasance or nonfeasance of duty, unauthorized disclosure of confidential information, and conduct substantially prejudicial to the business of the Company or affiliate; or any substantial breach by the optionee of his or her employment or service agreement) all options granted to such employee, whether vested or unvested, will not be exercisable and will terminate on the date of the termination of his employment.

Upon termination of employment due to death or disability, all the options vested at the time of termination and within 60 days after the date of such termination, will generally be exercisable for 12 months, or such other period as determined by the plan administrator, subject to the terms of the Global Equity Plan and the governing option agreement.

On January 20, 2019, our board of directors adopted an appendix to the Global Equity Plan for U.S. residents. Under this appendix, the Global Equity Plan will provide for the granting of options to U.S. residents. The U.S. Global Equity Plan and appendix have been approved by our shareholders on May 23, 2019.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table presents as of March 21, 2021 (unless otherwise noted below), the beneficial ownership of our Ordinary Shares by each person who is known by us to be the beneficial owner of 5% or more of our outstanding Ordinary Shares (to whom we refer as our Major Shareholders). The data presented is based on information provided to us by the Major Shareholders or disclosed in public regulatory filings.

Except where otherwise indicated, and except pursuant to community property laws, we believe, based on information furnished by such owners, that the beneficial owners of the shares listed below have sole investment and voting power with respect to, and the sole right to receive the economic benefit of ownership of, such shares. The shareholders listed below do not have any different voting rights from any of our other shareholders. We know of no arrangements that would, at a subsequent date, result in a change of control of our Company.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percent of Class (2)
Alpha Capital Anstalt ⁽³⁾	103,330,520	9.99%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person.
- (2) The percentage of outstanding ordinary shares is based on 1,034,395,182 Ordinary Shares outstanding as of March 17, 2021.
- (3) Based on a Schedule 13G/A filed with the SEC on February 19, 2021, and which reflects holdings as of February 18, 2021. The address of Alpha Capital Anstalt, or Alpha, is Lettstrasse 32, FL-9490 Vaduz, Fürstentums, Liechtenstein.

Changes in Percentage Ownership by Major Shareholders

Over the course of 2020 and until March 17, 2021, there were decreases in the percentage ownership of some of our former major shareholders: (i) the entities affiliated with Anson Funds Management LP, or Anson (from 5.2% to 3.9%), and (ii) the entities affiliated with Morgan Stanley (from 5.7% to 4.0%).

Over the course of 2019, there was a decrease in the percentage ownership of the entities affiliated with Iroquois Capital Management L.L.C. (from 6.0% to 0.1%), while there were increases in the percentage ownership of Alpha (from 4.9% to 9.9%) and Anson (from 4.9% to 5.2%).

Over the course of 2018, there were decreases in the percentage ownership of some of our former major shareholders: (i) the entities affiliated with CVI Investments, Inc. (from 8.9% to 4.9%), (ii) the entities affiliated with Ayalim Mutual Funds Ltd. (from 9.5% to 8.4%), (iii) the entities affiliated with Anson (from 8.9% to 4.9%), and (iv) the entities affiliated with Alpha (from 8.4% to 4.9%).

Record Holders

The number of record holders is not representative of the number of beneficial holders of our Ordinary Shares, as the shares of all shareholders for a publicly traded company such as ours which is listed on the Tel Aviv Stock Exchange are recorded in the name of our Israeli share registrar, The Tel Aviv Stock Exchange Nominee Company Ltd. Accordingly, as of March 21, 2021, there was one shareholder of record of our Ordinary Shares, which was located in Israel. Based upon a review of the information provided to us by The Bank of New York Mellon, the depository of the ADSs, as of March 15, 2021, there were 76 holders of record of the ADSs on record with the Depository Trust Company.

These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside, since many of these shares were held of record by brokers or other nominees.

The Company is not controlled by another corporation, by any foreign government or by any natural or legal persons except as set forth herein, and there are no arrangements known to the Company which would result in a change in control of the Company at a subsequent date.

B. Related Party Transactions

Employment and Services Agreements

We have entered into written employment or services agreements with each of our executive officers. All of these agreements contain customary provisions regarding noncompetition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law. In addition, we have entered into agreements with each executive officer and director pursuant to which we have agreed to indemnify each of them up to a certain amount and to the extent that these liabilities are not covered by directors' and officers' insurance. Members of our senior management are eligible for bonuses each year. The bonuses are payable upon meeting objectives and targets that are set by our Chief Executive Officer and approved annually by our board of directors that also set the bonus targets for our Chairman and Chief Executive Officer, all in accordance with our compensation policy. Mr. Barak Avitbul, NetNut's chief executive officer, is entitled to certain earnout payments, as well as to certain revenue-based fee payments, as part of the NetNut acquisition.

Options

Since our inception, we have granted options to purchase our Ordinary Shares to our officers and directors. Such option agreements may contain acceleration provisions upon certain merger, acquisition, or change of control transactions. We describe our option plans under "Share Ownership—Stock Option Plans." If the relationship between us and an executive officer or a director is terminated, except for cause (as defined in the various option plan agreements), options that are vested will generally remain exercisable for three months after such termination.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information.

See "Item 18. Financial Statements."

Legal Proceedings

On June 11, 2020, Luminati Networks Ltd., or Luminati, filed an action alleging infringement by our wholly owned subsidiary, NetNut Ltd., of U.S. Patent Nos. 10,484,511 and 10,637,968, as well as claims of trade secret misappropriation. The action was filed in the United States District Court for the Eastern District of Texas, Marshal Division. The case is in its early stages and Luminati has not yet identified an alleged damage amount it may seek.

NetNut believes that Luminati's complaint is without merit and intends to vigorously defend itself against this action. Nevertheless, there can be no assurance that NetNut will prevail in any legal proceedings instituted by Luminati, or that such proceedings will not have a material adverse effect on our business, financial condition or results of operations.

Dividends

We have never declared or paid any cash dividends on our Ordinary Shares and do not anticipate paying any cash dividends in the foreseeable future. Payment of cash dividends, if any, in the future will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Payment of dividends may be subject to Israeli withholding taxes. See "Item 10.E. Taxation", for additional information.

B. Significant Changes

No significant change, other than as otherwise described in this annual report on Form 20-F, has occurred in our operations since the date of our consolidated financial statements included in this annual report on Form 20-F.

ITEM 9. THE OFFER AND LISTING**A. Offer and Listing Details**

Our Ordinary Shares have been trading on the TASE since January 2000. As of July 7, 2016, and following the change of our name in the course of the Merger Transaction, our symbol on the TASE has been “SAFE.” Our ADSs traded on the OTCQB under the symbol “SFTTY” from June 27, 2017 until August 16, 2018. On August 17, 2018, our ADSs, each representing 40 of our Ordinary Shares, commenced trading on the Nasdaq Capital Market under the symbol “SFET.”

B. Plan of Distribution

Not applicable.

C. Markets

Our Ordinary Shares are listed on the TASE. Our ADSs are listed on the Nasdaq Capital Market.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION**A. Share Capital**

Not applicable.

B. Memorandum and Articles of Association

A copy of our amended and restated articles of association is attached as Exhibit 1.1 to this annual report on Form 20-F. The information called for by this Item is set forth in Exhibit 2(d) to this annual report on Form 20-F and is incorporated by reference into this annual report on Form 20-F.

C. Material Contracts

Except as set forth below, we have not entered into any material contract within the two years prior to the date of this annual report on Form 20-F, other than contracts entered into in the ordinary course of business, or as otherwise described herein in “Item 4.A. History and Development of the Company” above, “Item 4.B. Business Overview” above, or “Item 7.A. Major Shareholders” above.

Chi Cooked Acquisition

On December 8, 2020, the Company entered into an Equity Purchase Agreement with Chi Cooked and its sole shareholder, pursuant to which the Company acquired all the Purchased Shares, of Chi Cooked.

The initial consideration paid on the closing of the transaction for the sale and purchase of the Purchased Shares was \$1.1 million in cash, subject to customary post-closing adjustments, that subsequently reduced the price by \$50 thousand. The consideration may be increased by an additional earn-out payment which is expected to be paid in April 2022, calculated as the excess of Chi Cooked's 2021 revenues over \$1 million, subject to an operating margin of at least 37.5%. Safe-T may decide, at its sole discretion, to pay up to 25% of the earn-out consideration in shares. As part of the transaction terms, it was agreed that Chi Cooked's founder and former sole shareholder will continue to lead Chi Cooked's operations as its chief executive officer.

NetNut Acquisition

On April 4, 2019, we entered into the Share and Asset Purchase Agreement with NetNut, pursuant to which we acquired 100% of the fully diluted share capital of NetNut, or the Purchased Shares, a private Israeli company engaged in the business IPPN solution industry, and certain assets of DiVi, NetNut's former controlling shareholder which assets are required for the ongoing operations of NetNut, or the Purchased Assets, and the NetNut Transaction, respectively. The NetNut Transaction closed on June 12, 2019. In addition, following the closing of the NetNut Transaction, Mr. Barak Avitbul, NetNut's chief executive officer and a former shareholder of NetNut, became a member of our senior management.

The Share and Asset Purchase Agreement included the following elements, as modified and amended to-date:

In consideration for the Purchased Shares, we paid NetNut's selling shareholders an amount equal to \$3,400,000. Also, for the sale, delivery, transfer and assignment of the Purchased Assets, we paid DiVi at closing an aggregate amount equal to \$6,300,000, such that the total initial consideration summed to \$9,700,000. Part of the consideration was paid by issuance of the Company's Ordinary Shares.

In addition, as part of the Share and Asset Purchase Agreement it was agreed that an amount of up to \$5,000,000 will be payable in contingent consideration, or the Earn-Out Amount, to the selling shareholders of NetNut subject to and upon NetNut achieving certain revenue milestones during fiscal year 2019. As a result of a commercial dispute relating to the Share and Asset Purchase Agreement, on June 25, 2020 and February 24, 2021, respectively, the Company and the selling shareholders of NetNut, or the Settling Shareholders, entered into a settlement agreement, or the Settlement Agreement, pursuant to which the parties agreed to substitute the Earn-Out Amount with an amount that shall not exceed \$2,515,000. By March 21, 2021, the Company paid an aggregate amount of \$2,000,000 to the Settling Shareholders, and is expected to pay by April 30, 2021 an additional amount of \$515,000 as final and complete payment of the transaction contemplated by the Share and Asset Purchase Agreement.

Pursuant to the terms of the Share and Asset Purchase Agreement, because our working capital following the closing was less than zero, we were entitled to receive an adjustment amount to the Initial Shares Purchase Price on a dollar-for-dollar basis in accordance with such negative amount of working capital. Therefore, on October 2, 2019, we received an amount of \$233,000 from the Escrow Amount as a result of an adjustment to the Initial Shares Purchase Price. On June 25, 2020, the parties to the Share and Asset Purchase Agreement instructed the escrow agent to hold the remaining balance of the Escrow Amount until the earlier of (i) April 30, 2021 or (ii) the receipt of a joint written notice from the parties to the Share and Asset Purchase Agreement.

On April 9, 2019, we entered into a convertible loan transaction, or the April 2019 Financing, with certain institutional investors, or the Lenders, whereby we obtained a convertible loan in an aggregate amount of \$6,000,000, for the issuance of convertible debentures, or the April 2019 Financing Debentures, and warrants to purchase our ADSs, or the April 2019 Financing Warrants. The Lenders had a right to purchase additional debentures on the same terms until December 4, 2019, or the Greenshoe Option, which was extended until January 4, 2020, and has now expired. Pursuant to Greenshoe Option, the Lenders purchased additional debentures in the aggregate of \$2,232,000. In connection with the April 2019 Financing and the Greenshoe Option exercises, we also entered into registration rights agreements, or the Registration Rights Agreement. The April 2019 Financing Warrants currently have an exercise price per ADS of \$8.00. The Warrants have a five-year term and are exercisable for cash or on a cashless basis if no resale registration statement is available for resale of the ADSs issuable upon exercise of the April 2019 Financing Warrants. The April 2019 Financing Warrants contain customary beneficial ownership blockers for the Lenders, which will prevent a Lender from acquiring a controlling block in us. The holders of the April 2019 Financing Debentures and the April 2019 Financing Warrants continue to have certain rights under the Registration Rights Agreements with respect to the ADSs received upon conversion or exercise, respectively. All of the April 2019 Financing Debentures and the debentures issued pursuant to the Greenshoe Options and any accrued interest, were converted into an aggregate of approximately 2.66 million ADSs.

D. Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our Ordinary Shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our Ordinary Shares by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel, is not restricted in any way by our memorandum of association or amended and restated articles of association or by the laws of the State of Israel.

E. Taxation.

ISRAELI TAX CONSIDERATIONS AND GOVERNMENT PROGRAMS

The following is a summary of the material Israeli income tax consequences of the ownership of our Ordinary Shares. The following also contains a description of material relevant provisions of the current Israeli income tax aspects applicable to companies in Israel, with reference to its effect on us. To the extent that the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, there can be no assurance that the tax authorities will accept the views expressed in the discussion in question. This summary is based on laws and regulations in effect as of the date hereof, and should not be taken, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

The following description is not intended to constitute a complete analysis of all tax consequences relating to the ownership or disposition of our Ordinary Shares and ADSs. Shareholders should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Ordinary Shares, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

General Corporate Tax Structure in Israel

Israeli resident companies are generally subject to corporate tax, currently at the rate of 23%. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as discussed below) may be considerably less.

Capital gains derived by an “Israeli resident company” are subject to tax at the regular corporate tax rate. Under Israeli tax legislation, a corporation will be considered as an “Israeli resident company” if it meets one of the following: (i) it was incorporated in Israel; or (ii) the control and management of its business are exercised in Israel.

Tax Benefits under the Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets).

The Investment Law was significantly amended several times over the recent years, with the three most significant changes effective as of April 1, 2005, or “the 2005 Amendment”, as of January 1, 2011, or “the 2011 Amendment”, and as of January 1, 2017, or “the 2017 Amendment”. Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and have the benefits of the 2011 Amendment apply. The 2017 Amendment introduces a new tax incentives regime mainly for Technological Enterprises. According to a transitional provision stipulated by the Investment Law, the new tax incentives regime that will apply alongside the existing tax benefits under the 2011 Amendment for a transition period ending on June 30, 2021, after which the new tax regime shall apply exclusively.

Tax Benefits under the 2011 Amendment

On December 29, 2010, the Israeli Parliament approved the 2011 Amendment. The 2011 Amendment significantly revised the tax incentive regime in Israel and commenced on January 1, 2011.

The 2011 Amendment canceled the availability of the tax benefits granted under the Investment Law prior to 2011 and, instead, introduced new tax benefits for income generated by a “Preferred Company” through its “Preferred Enterprise” (as such terms are defined in the Investment Law) as of January 1, 2011, or “the Preferred Enterprise Regime”. The definition of a Preferred Company includes, *inter alia*, a company incorporated in Israel that (i) is not wholly owned by a governmental entity (ii) owns a Preferred Enterprise, and (iii) is controlled and managed from Israel.

A Preferred Company is entitled to a reduced corporate tax rate of 16% with respect to its income derived from its Preferred Enterprise, unless the Preferred Enterprise is located in development area A, in which case the rate will be 7.5% (our operations are currently not located in development area A).

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at the source at the rate of 20%, or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority, or the ITA, allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if the funds are subsequently distributed to individuals or to non-Israeli residents (individuals and corporations), the withholding tax would apply).

If in the future we generate taxable income, to the extent that we qualify as a “Preferred Company,” the benefits provided under the Investment Law could potentially reduce our corporate tax liabilities.

Tax Benefits under the 2017 Amendment

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 9, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefit to Preferred companies for two types of “Technological Enterprises” – “Preferred Technological Enterprises,” or PTEs and “Special Preferred Technological Enterprises,” or SPTEs, as described below.

According to the new incentives regime, a company that complies with the terms under the PTE or SPTE regime may be entitled to certain tax benefits with respect to its preferred technological income, which is income that is generated during the company’s regular course of business and derived from a benefitted intangible asset (as determined in the Investments Law), excluding income derived from intangible assets used for marketing and income attributed to production activity.

In order to calculate the preferred technological income, the PTE or the SPTE is required to take into account the income and the research and development expenses that are attributed to each single preferred intangible asset, product or group of products (as defined in the Investment Law). Nevertheless, it should be noted that the transitional provisions allow companies to take into account the income and research and development expenses attributed to all of the benefitted intangible assets they have, until December 31, 2021.

A PTE is a Preferred Technological Enterprise that meets certain conditions, including the following: (i) the company's average research and development expenses in the three years prior to the current tax year must be greater than or equal to 7% of its total revenue or exceed NIS 75 million per year; and (ii) the company must also satisfy at least one of the following conditions: (a) at least 20% of the workforce (or at least 200 employees) are employed in research and development; (b) a venture capital investment of an amount equivalent to at least NIS 8 million (approximately \$2.3 million) was previously made in the company and the company has not changed its field of business since this investment was made; (c) during the three years prior to the tax year, the number of employees or the company's revenue grew on average by 25% in relation to the preceding year and the company had at least 50 employees in each tax year or the company's revenue was equivalent to at least NIS 10 million (approximately \$2.9 million) in each year, respectively; (d) conditions sets by the IIA; (e) the company is part of a group of companies having aggregate annual revenues of equivalent to less than NIS 10 billion (approximately \$2.9 billion); and (f) the enterprise is a Competitive Enterprise according to the Investment Law.

An SPTE is an enterprise that meets the qualification terms of PTE (as stated above), except as provided in paragraph (e) of the above definition, i.e. is part of a group of companies having aggregate annual revenues equivalent to at least NIS 10 billion (approximately \$ 2.9 billion).

Preferred Technological income of a PTE, which is the portion of technological income derived from the benefitted intangible asset developed in Israel, satisfying the required conditions, will be subject to a corporate tax rate of 12% unless the PTE is located in certain peripheral parts of Israel in which case the rate will be 7.5%. Preferred Technological income of an SPTE, satisfying the required conditions, will be subject to a corporate tax rate of 6% with respect to the portion of technological income derived from benefitted intangible asset developed in Israel, regardless of the company's geographical location within Israel.

In addition, a PTE will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain benefitted intangible assets (as defined in the Investment Law) to a related foreign company if the benefitted intangible asset was acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale received prior approval from the IIA. An SPTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain benefitted intangible asset (as defined in the Investment Law) to a related foreign company if the benefitted intangible asset was created by the SPTE or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from the IIA. An SPTE that acquires Benefitted Intangible assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

The withholding tax on dividends distributed by PTE or SPTE will be 4% for dividends paid to a foreign parent company holding at least 90% of the shares of the distributing company and other conditions are met. For other dividend distributions, the withholding tax rate will be 20% (or a lower rate under a tax treaty, if applicable, subject to receiving an approval from the ITA). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if the funds are subsequently distributed to individuals or to non-Israeli residents – i.e. individuals and corporations, the withholding tax would apply).

The Regulations for the Encouragement of Capital Investments (Preferred Technology Income and Capital Profits for a Technological Enterprise), 5717 – 2017, or Regulations, describe, inter alia, the mechanism used to determine the calculation of the benefits under the PTE and under the SPTE Regime. According to the Regulations, a company that complies with the terms under the PTE/SPTE regime may be entitled to certain tax benefits with respect to income generated during the company's regular course of business and derived from the preferred benefitted intangible asset (as determined in the Investments Law), excluding income derived from intangible assets used for marketing and income attributed to production activity.

In the event that intangible assets used for marketing purposes generate income, which exceeds 10% of the technological income from the benefitted intangible asset, the relevant portion, calculated using a transfer pricing study, would be subject to regular corporate income tax. If such income does not exceed 10%, the PTE or SPTE will not be required to attribute income to the marketing intangible asset.

The Regulations set a presumption of direct production expenses plus 10% with respect to income related to production, which can be countered by the results of a supporting transfer pricing study. Tax rates applicable to such production income expenses will be similar to the tax rates under the Preferred Enterprise regime, to the extent such income would be considered as eligible (as discussed above).

We are continuously examining the impact of the 2017 Amendment and the degree to which we will qualify as a Preferred Technology Enterprise, and the amount of Preferred Technology Income that we may have, or other benefits that we may receive from the 2017 Amendment, upon becoming an entity that generates a taxable income.

Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for “Industrial Companies.” The Industry Encouragement Law defines an “Industrial Company” as an Israeli resident-company that was incorporated in Israel, of which 90% or more of its income in any tax year, other than income from defense loans, is derived from an “Industrial Enterprise” that it owns and located in Israel or in the “Area”, in accordance with the definition under section 3A of the Ordinance. An “Industrial Enterprise” is defined as an enterprise whose principal activity in a given tax year is industrial production. The following corporate tax-related benefits, among others, are available to Industrial Companies:

- amortization of the cost of purchased a patent, rights to use a patent, and know-how, which are used for the development or promotion of the Industrial Enterprise, over an eight-year period;
- the right to elect, under limited conditions, to file consolidated tax returns with related Israeli Industrial Companies;
- A straight-line deduction of expenses related to a public offering over a three-year period commencing in the year of the offering; and
- Accelerated depreciation rates on certain equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon approval of any governmental authority. There is no assurance that we qualify as an Industrial Company or that the benefits described above will be available in the future.

The Encouragement of Research, Development and Technological Innovations in the Industry Law, 5722-1984

We have in the past received royalty-bearing grants from the IIA for research and development programs that meet specified criteria pursuant to the Innovation Law. We were eligible for grants of 50% of the project’s expenditure, as determined by the research committee, in exchange for the payment of royalties from the revenues generated from the sale of products and related services developed, in whole or in part pursuant to, or as a result of, a research and development program funded by the IIA. Due to the grant we are subject to certain conditions and limitations as set in the IIA’s approval and the Innovation Law, and among others, we are obligated to pay royalties to the IIA from the revenues generated from the sale of products and related services developed, in whole or in part, pursuant to, or as a result of, a research and development program funded by the IIA, until 100% of the U.S dollar-linked grants we received from the IIA plus annual LIBOR interest is repaid. Nonetheless, the sum of royalties that we may be required to pay, may be higher in certain circumstances, such as when the manufacturing activity/ know-how is transferred outside of Israel.

Nonetheless, the restrictions under the Innovation Law (as generally specified below) will continue to apply even after our company has repaid the grants, including accrued interest, in full.

The main obligations under the Innovation Law which are applicable to us as a grant recipient are:

Local manufacturing obligation: The terms of the Innovation Law require that the manufacture of products developed with IIA grants be performed in Israel correspondingly to the original manufacture percentage in Israel in the approved grant application. Manufacturing activity may not be transferred outside of Israel, unless the prior approval of the IIA is received. However, this does not restrict the export of products that incorporate the funded technology. Ordinarily, as a condition to obtaining approval to manufacture outside Israel, we would be required to pay royalties at an increased rate and increased royalties cap between 120% and 300% of the grants, depending on the manufacturing volume that is performed outside Israel. The transfer of no more than 10% of the manufacturing capacity in the aggregate outside of Israel requires submission of a notification to the IIA and is exempt under the Innovation Law from obtaining the prior approval of the IIA. A company requesting funds from the IIA also has the option of declaring in its IIA grant application its intention to perform part of its manufacturing outside Israel, thus avoiding the need to obtain additional approval.

Transfer of know-how outside of Israel: The know-how developed with support of the IIA grants may not be transferred to third parties outside Israel without the prior approval of the IIA. The approval, however, is not required for the export of any products developed using grants received from the IIA. The IIA approval to transfer know-how created, in whole or in part, in connection with an IIA-funded project, to a third party outside Israel is subject to payment of a redemption fee to the IIA calculated according to a formula provided under the Innovation Law that is based, in general, on the ratio between the aggregate IIA grants received by the grant recipient (including the accrued interest) and the aggregate investments by the grant recipient in the project that was funded by these IIA grants, multiplied by the value of the funded know how (taking into account any depreciation in accordance with a formula set forth in the Innovation Law) less any royalties already paid to IIA. The regulations promulgated under the Innovation Law establish a cap of the redemption fee payable to the IIA under the above mentioned formulas and differentiate between two situations: (i) in the event that the funded company sells its IIA funded know-how, in whole or in part, or is sold as part of a merger and acquisition transaction, and subsequently ceases to conduct business in Israel, the maximum redemption fee under the above mentioned formulas will be no more than six times the total grants received from the IIA, plus accrued interest; and (ii) in the event that following the transactions described above the company undertakes to continue its research and development activity in Israel for at least three years following such transfer and maintain at least 75% of its research and development staff employees it had for the six months before the know-how was transferred, while keeping the same scope of employment for such research and development staff, then the company is eligible for a reduced cap of the redemption fee of no more than three times the amounts received (plus accrued interest) for the applicable know-how being transferred, or the entire amount received from the IIA, as applicable. Upon payment of such redemption fee, the know-how and the production rights for the products supported by such funding cease to be subject to the Innovation Law.

Transfer of such funded know-how to an Israeli entity is subject to the IIA approval and to an undertaking of the recipient Israeli entity to comply with the provisions of the Innovation Law and related regulations, including the restrictions on the transfer of know-how and the obligation to pay royalties, as further described in the Innovation Law and related regulations.

A recipient of grants under the Innovation Law is allowed to enter into licensing arrangements or grant other rights in know-how developed under IIA programs outside of Israel, subject to the prior consent of IIA and payment of license fees, calculated in accordance with the relevant rules, of not more than six times the amount of the grants received by the grant's recipient (plus accrued interest) for the applicable know-how being transferred. In cases where the payment for the license to use the intellectual property is made in instalments, a portion of each instalment will be paid as a license fee in accordance with relevant rules. The payment of the license fees will not discharge the grant recipient from the obligations to pay royalties or other payments to the IIA.

Certain reporting obligations: A recipient of grants under the Innovation Law is required to notify to IIA of certain events enumerated in the Innovation Law. In addition, the IIA may from time to time audit sales of products by companies which received funding from the IIA and this may lead to additional royalties being payable on additional product candidates.

Tax Benefits for Research and Development under Income Tax Ordinance of 1961 (New Version)

The Tax Ordinance allows, under certain conditions, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. Expenditures are deemed related to scientific research and development projects, if:

- The research was approved by the relevant Israeli government ministry, determined by the field of research;
- The research and development must be for the promotion of the company; and
- The research and development is carried out by or on behalf of the company seeking such tax deduction.

The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. No deduction under these research and development deduction rules is allowed if such deduction is related to an expense invested in an asset depreciable under the general depreciation rules of the Ordinance. Expenditures not so approved are deductible in equal amounts over three years.

Taxation of our Shareholders

The following is a summary of the material Israeli tax consequences concerning the ownership and disposition of our Ordinary Shares by our shareholders. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

Capital Gains

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident, and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance, distinguishes between “Real Capital Gain” and the “Inflationary Surplus” Real Capital Gain is the excess of the total capital gain over Inflationary Surplus, which is computed generally on the basis of the increase in the Israeli Consumer Price Index or the foreign exchange rate differences in certain cases, between the date of purchase and the date of disposal. Inflationary Surplus generally is not subject to tax in Israel.

Capital Gains Taxes Applicable to Israeli Resident Shareholders

Real Capital Gain accrued by Israeli individuals on the sale of our Ordinary Shares will be taxed at the rate of 25%, unless the individual shareholder is a “Substantial Shareholder” (i.e., a person who holds, directly or indirectly, alone or together with such person’s relative or another person who collaborates with such person on a permanent basis, 10% or more of one of the Israeli resident company’s means of control (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company’s liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12 months period, such real capital gain will be taxed at the rate of 30%.

Furthermore, where an individual claimed real interest expenses and linkage differences on securities, the capital gain on the sale of the securities will be liable to a rate of 30%, this, until the determination of provisions and conditions for the deduction of real interest expenses and linkage differences under section 101A(a)(9) and 101A(b) of the Tax Ordinance.

Real Capital Gain derived by corporations will be generally subject to the regular corporate tax rate (23% in 2018 and thereafter).

Individual shareholders whose income from the sale of securities considered as business income are taxed at the marginal tax rates applicable to business income – up to 47% in 2018 (not including the excess tax).

Either the purchaser, the Israeli stockbrokers or financial institution through which the shares are held, is obliged to withhold tax in the amount of consideration paid upon the sale of securities (or the Real Capital Gain realized on the sale, if known) at the Israeli corporate tax rate (23% in 2018 and thereafter) or 25% in case the seller is an individual. The individual or the company may provide an approval from the ITA for a reduced tax withholding rate, according to the applicable rate.

At the sale of securities traded on a stock exchange, a detailed return, including a computation of the tax due, must be filed and an advance payment must be made on January 31 and July 31 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Ordinance and regulations promulgated thereunder, the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders.

Non-Israeli resident shareholders are generally exempt from Israeli capital gains tax on any capital gains from the sale, exchange or disposition of our Ordinary Shares, provided that the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of the securities on the stock exchange in Israel, and (ii) the seller does not have a permanent establishment in Israel to which the derived capital gain is attributed. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have, directly or indirectly, along or together with another, a controlling interest of more than 25% of any of the means of control in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, such exemption would not be available to a person whose gains from selling or otherwise disposing of the securities are deemed to be business income.

Additionally, a sale of shares by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA). For example, under Convention Between the Government of the United States of America and the Government of the State of Israel with respect to Taxes on Income, as amended, or the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares by a shareholder who is (i) a United States resident (for purposes of the treaty); (ii) holding the shares as a capital asset and (iii) is entitled to claim the benefits afforded to such a resident by the U.S.-Israel Tax Treaty, or a Treaty U.S. Resident, is generally exempt from Israeli capital gains tax unless either: (i) the capital gain arising from the such sale, exchange or disposition is attributed to a permanent establishment of the Treaty U.S. Resident maintained in Israel, under certain terms; (ii) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding the sale, exchange or disposition, subject to certain conditions; (iii) such Treaty U.S. Resident is an individual and was present in Israel for 183 days or more during the relevant taxable year; or (iv) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel. In any of these cases, the sale, exchange or disposition of our Ordinary Shares would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for the tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

In some instances where our shareholders may be liable for Israeli tax on the sale of their Ordinary Shares or ADSs, the payment of the consideration may be subject to the withholding of Israeli tax at source. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the ITA to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale.

Dividends

A distribution of dividends from income, which is not attributed to a Preferred Enterprise, to an Israeli resident individual, will generally be subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a “Substantial Shareholder” (as defined above) at the time of distribution or at any time during the preceding 12 months period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be exempt from income tax provided the income from which such dividend is distributed was derived or accrued within Israel.

Non-Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our Ordinary Shares or ADSs at the rate of 25%, which tax will be withheld at source, unless relief is provided in a treaty between Israel and the shareholder’s country of residence.

With respect to a person who is a Substantial Shareholder at the time of receiving the dividend or on any time during the preceding 12 months, the applicable tax rate is 30%, unless a reduced tax rate is provided under an applicable tax treaty.

For example, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our Ordinary Shares or ADSs who is a Treaty U.S. Resident is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by a Preferred Enterprise, that are paid to a U.S. corporation holding 10% or more of the outstanding voting capital throughout the tax year in which the dividend is distributed as well as during the previous tax year, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest and if a certificate for a reduced withholding tax rate is obtained in advance from the ITA. We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders’ tax liability.

A non-Israeli resident who receives dividend income derived from or accrued in Israel, from which the full amount of tax was withheld at source is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the taxpayer is not obliged to pay excess tax (as further explained below).

Payers of dividends on our common shares, including the Israeli stockbroker effectuating the transaction, or the financial institution through which the securities are held, are generally required, subject to any of the foregoing exemptions, reduced tax rates and the demonstration of a shareholder regarding his, her or its foreign residency, and subject to a certificate for a reduced withholding tax rate from the ITA, to withhold tax upon the distribution of dividend at the rate of 25%, so long as the shares are registered with a Nominee Company (for corporations and individuals).

Excess Tax

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding a certain threshold (NIS 651,600 for 2020) which amount is linked to the annual change in the Israeli CPI), including, but not limited to income derived from dividends, interest and capital gains.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

THE FOLLOWING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES AND AMERICAN DEPOSITARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

Subject to the limitations described in the next paragraph, the following discussion summarizes the material U.S. federal income tax consequences to a “U.S. Holder” arising from the purchase, ownership and sale of the Ordinary Shares and ADSs. For this purpose, a “U.S. Holder” is a holder of Ordinary Shares or ADSs that is: (1) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) or a partnership (other than a partnership that is not treated as a U.S. person under any applicable U.S. Treasury regulations) created or organized under the laws of the United States or the District of Columbia or any political subdivision thereof; (3) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of source; (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; or (5) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase our Ordinary Shares or ADSs. This summary generally considers only U.S. Holders that will own our Ordinary Shares or ADSs as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, nor does it describe the rules applicable to determine a taxpayer’s status as a U.S. Holder. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the U.S./Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. We will not seek a ruling from the IRS with regard to the U.S. federal income tax treatment of an investment in our Ordinary Shares or ADSs by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder based on such holder’s particular circumstances and in particular does not discuss any estate, gift, generation-skipping, transfer, state, local, excise or foreign tax considerations. In addition, this discussion does not address the U.S. federal income tax treatment of a U.S. Holder who is: (1) a bank, life insurance company, regulated investment company, or other financial institution or “financial services entity;” (2) a broker or dealer in securities or foreign currency; (3) a person who acquired our Ordinary Shares or ADSs in connection with employment or other performance of services; (4) a U.S. Holder that is subject to the U.S. alternative minimum tax; (5) a U.S. Holder that holds our Ordinary Shares or ADSs as a hedge or as part of a hedging, straddle, conversion or constructive sale transaction or other risk-reduction transaction for U.S. federal income tax purposes; (6) a tax-exempt entity; (7) real estate investment trusts or grantor trusts; (8) a U.S. Holder that expatriates out of the United States or a former long-term resident of the United States; or (9) a person having a functional currency other than the U.S. dollar. This discussion does not address the U.S. federal income tax treatment of a U.S. Holder that owns, directly or constructively, at any time, Ordinary Shares or ADSs representing 10% or more of our voting power. Additionally, the U.S. federal income tax treatment of partnerships (or other pass-through entities) or persons who hold Ordinary Shares or ADSs through a partnership or other pass-through entity are not addressed.

Each prospective investor is advised to consult his or her own tax adviser for the specific tax consequences to that investor of purchasing, holding or disposing of our Ordinary Shares or ADSs, including the effects of applicable state, local, foreign or other tax laws and possible changes in the tax laws.

Taxation of Dividends Paid on Ordinary Shares or ADSs

We do not intend to pay dividends in the foreseeable future. In the event that we do pay dividends, and subject to the discussion under the heading “Passive Foreign Investment Companies” below and the discussion of “qualified dividend income” below, a U.S. Holder, other than certain U.S. Holder’s that are U.S. corporations, will be required to include in gross income as ordinary income the amount of any distribution paid on Ordinary Shares or ADSs (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder’s tax basis for the Ordinary Shares to the extent thereof, and then capital gain. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles and, therefore, U.S. Holders should expect that the entire amount of any distribution generally will be reported as dividend income.

In general, preferential tax rates for “qualified dividend income” and long-term capital gains are applicable for U.S. Holders that are individuals, estates or trusts. For this purpose, “qualified dividend income” means, inter alia, dividends received from a “qualified foreign corporation.” A “qualified foreign corporation” is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement, and we believe we are eligible for the benefits of that treaty.

In addition, our dividends will be qualified dividend income if our Ordinary Shares or ADSs are readily tradable on the Nasdaq Capital Market or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a PFIC, as described below under “Passive Foreign Investment Companies.” A U.S. Holder will not be entitled to the preferential rate: (1) if the U.S. Holder has not held our Ordinary Shares or ADSs for at least 61 days of the 121 day period beginning on the date which is 60 days before the ex-dividend date, or (2) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar property. Any days during which the U.S. Holder has diminished its risk of loss on our Ordinary Shares or ADSs are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as “investment income” pursuant to Code section 163(d)(4) will not be eligible for the preferential rate of taxation.

The amount of a distribution with respect to our Ordinary Shares or ADSs will be measured by the amount of the fair market value of any property distributed, and for U.S. federal income tax purposes, the amount of any Israeli taxes withheld therefrom. Cash distributions paid by us in NIS will be included in the income of U.S. Holders at a U.S. dollar amount based upon the spot rate of exchange in effect on the date the dividend is includible in the income of the U.S. Holder, and U.S. Holders will have a tax basis in such NIS for U.S. federal income tax purposes equal to such U.S. dollar value. If the U.S. Holder subsequently converts the NIS into U.S. dollars or otherwise disposes of it, any subsequent gain or loss in respect of such NIS arising from exchange rate fluctuations will be U.S. source ordinary exchange gain or loss.

Taxation of the Disposition of Ordinary Shares or ADSs

Except as provided under the PFIC rules described below under “Passive Foreign Investment Companies,” upon the sale, exchange or other disposition of our Ordinary Shares or ADSs, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder’s tax basis for the Ordinary Shares or ADSs in U.S. dollars and the amount realized on the disposition in U.S. dollar (or its U.S. dollar equivalent determined by reference to the spot rate of exchange on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss realized on the sale, exchange or other disposition of Ordinary Shares or ADSs will be long-term capital gain or loss if the U.S. Holder has a holding period of more than one year at the time of the disposition. Individuals who recognize long-term capital gains may be taxed on such gains at reduced rates of tax. The deduction of capital losses is subject to various limitations.

Passive Foreign Investment Companies

Special U.S. federal income tax laws apply to U.S. taxpayers who own shares of a corporation that is a PFIC. We will be treated as a PFIC for U.S. federal income tax purposes for any taxable year that either:

- 75% or more of our gross income (including our pro rata share of gross income for any company, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive; or
- At least 50% of our assets, averaged over the year and generally determined based upon fair market value (including our pro rata share of the assets of any company in which we are considered to own 25% or more of the shares by value) are held for the production of, or produce, passive income.

For this purpose, passive income generally consists of dividends, interest, rents, royalties, annuities and income from certain commodities transactions and from notional principal contracts. Cash is treated as generating passive income.

We believe that we will not be a PFIC for the current taxable year and do not expect to become a PFIC in the foreseeable future. The tests for determining PFIC status are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. In addition, our PFIC status may depend in part on the market value of our Ordinary Shares. Accordingly, there can be no assurance that we currently are not or will not become a PFIC.

If we currently are or become a PFIC, each U.S. Holder who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain distributions by us and upon disposition of our Ordinary Shares or ADSs at a gain: (1) have such distribution or gain allocated ratably over the U.S. Holder's holding period for the Ordinary Shares or ADSs, as the case may be; (2) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (3) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent's death, but instead would be equal to the decedent's basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to these special U.S. federal income tax rules.

The PFIC rules described above would not apply to a U.S. Holder who makes a QEF election for all taxable years that such U.S. Holder has held the Ordinary Shares or ADSs while we are a PFIC, provided that we comply with specified reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder's pro rata share of our ordinary earnings as ordinary income and such U.S. Holder's pro rata share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. We do not intend to notify U.S. Holders if we believe we will be treated as a PFIC for any tax year. In addition, we do not intend to furnish U.S. Holders annually with information needed in order to complete IRS Form 8621 and to make and maintain a valid QEF election for any year in which we or any of our Subsidiaries are a PFIC. Therefore, the QEF election will not be available with respect to our Ordinary Shares or ADSs.

In addition, the PFIC rules described above would not apply if we were a PFIC and a U.S. Holder made a mark-to-market election. A U.S. Holder of our Ordinary Shares or ADSs which are regularly traded on a qualifying exchange, including the Nasdaq Capital Market, can elect to mark the Ordinary Shares or ADSs to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the Ordinary Shares or ADSs and the U.S. Holder's adjusted tax basis in the Ordinary Shares or ADSs. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

U.S. Holders who hold our Ordinary Shares or ADSs during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules.

Tax on Net Investment Income

For taxable years beginning after December 31, 2013, U.S. Holders who are individuals, estates or trusts will generally be required to pay a 3.8% Medicare tax on their net investment income (including dividends on and gains from the sale or other disposition of our Ordinary Shares or ADSs), or in the case of estates and trusts on their net investment income that is not distributed. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder's total adjusted income exceeds applicable thresholds.

Tax Consequences for Non-U.S. Holders of Ordinary Shares or ADSs

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder referred to below as a non-U.S. Holder, generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our Ordinary Shares or ADSs.

A non-U.S. Holder may be subject to U.S. federal income tax on a dividend paid on our Ordinary Shares or ADSs or gain from the disposition of our Ordinary Shares or ADSs if: (1) such item is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States and, if required by an applicable income tax treaty is attributable to a permanent establishment or fixed place of business in the United States; or (2) in the case of a disposition of our Ordinary Shares or ADSs, the individual non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and other specified conditions are met.

In general, non-U.S. Holders will not be subject to backup withholding with respect to the payment of dividends on our Ordinary Shares or ADSs if payment is made through a paying agent, or office of a foreign broker outside the United States. However, if payment is made in the United States or by a U.S. related person, non-U.S. Holders may be subject to backup withholding, unless the non-U.S. Holder provides an applicable IRS Form W-8 (or a substantially similar form) certifying its foreign status, or otherwise establishes an exemption.

The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

Information Reporting and Withholding

A U.S. Holder may be subject to backup withholding at a rate of 24% with respect to cash dividends and proceeds from a disposition of Ordinary Shares or ADSs. In general, backup withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

Pursuant to recently enacted legislation, a U.S. Holder with interests in "specified foreign financial assets" (including, among other assets, our Ordinary Shares or ADSs, unless such Ordinary Shares or ADSs are held on such U.S. Holder's behalf through a financial institution) may be required to file an information report with the IRS if the aggregate value of all such assets exceeds \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year (or such higher dollar amount as may be prescribed by applicable IRS guidance); and may be required to file a Report of Foreign Bank and Financial Accounts, or FBAR, if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year. You should consult your own tax advisor as to the possible obligation to file such information report.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain information reporting requirements of the Exchange Act, applicable to foreign private issuers and under those requirements will file reports with the SEC. The SEC maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC will also be available to the public through the SEC's website at www.sec.gov.

As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and consolidated financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act. However, we will file with the SEC, within 120 days after the end of each fiscal year, or such applicable time as required by the SEC, an annual report on Form 20-F containing consolidated financial statements audited by an independent registered public accounting firm, and may submit to the SEC, on a Form 6-K, unaudited quarterly financial information.

In addition, since our Ordinary Shares are traded on the TASE, we have filed Hebrew language periodic and immediate reports with, and furnish information to, the TASE and the ISA, as required under Chapter Six of the Securities Law. Copies of our filings with the ISA can be retrieved electronically through the MAGNA distribution site of the ISA (www.magna.isa.gov.il) and the TASE website (www.maya.tase.co.il).

We maintain a corporate website <http://www.safe-t.com>. Information contained on, or that can be accessed through, our website and the other websites referenced above do not constitute a part of this annual report on Form 20-F. We have included these website addresses in this annual report on Form 20-F solely as inactive textual references.

I. Subsidiary Information.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our operations, we are exposed to certain market risks, primarily changes in foreign currency exchange rates and interest rates.

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our current investment policy is to invest available cash in bank deposits with banks that have a credit rating of at least A-minus. Accordingly, a substantial majority of our cash is held in deposits that bear interest. Given the current low rates of interest we receive, we will not be adversely affected if such rates are reduced. Our market risk exposure is primarily a result of NIS/U.S. dollar exchange rates, which is discussed in detail in the following paragraph.

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars. A material portion of our operating expenses is incurred outside the United States and can be denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the NIS. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. The effect of a hypothetical 10% adverse change in foreign exchange rates on monetary assets and liabilities at December 31, 2020 can be material to our financial condition or results of operations. To date, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. dollar can increase the costs of our non-U.S. expansion as well as the Israeli headquarters costs.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**A. Debt Securities.**

Not applicable.

B. Warrants and Rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares**Fees and Expenses**

Persons depositing or withdrawing shares or ADS holders must pay:

For:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs).

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property.

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates.

\$.05 (or less) per ADS.

Any cash distribution to ADS holders.

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs.

Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders.

\$.05 (or less) per ADS per calendar year.

Depositary services.

Registration or transfer fees.

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares.

Expenses of the depositary.

Cable and facsimile transmissions (when expressly provided in the deposit agreement).

Converting foreign currency to U.S. dollars.

Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes.

As necessary.

Any charges incurred by the depositary or its agents for servicing the deposited securities.

As necessary.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2020, or the Evaluation Date. Based on the material weaknesses identified in the Company's internal control over financial reporting as described below as of the Evaluation Date, our disclosure controls and procedures were not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be included in periodic filings under the Exchange Act and that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that assessment, our management concluded that our internal control over financial reporting was not effective as of December 31, 2020, due to the following material weaknesses: (i) inadequate segregation of duties consistent with control objectives; and (ii) ineffective controls over period end financial reporting. Specifically, we determined that currently we do not have sufficient qualified staff to provide for effective control over a number of aspects of our accounting and financial reporting process under IFRS.

As defined in Regulation 12b-2 under the Securities Exchange Act, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented, or detected on a timely basis.

We have implemented measures to remediate identified material weaknesses. Those remediation measures are ongoing and include working with accounting and finance employees with a requisite level of experience and the implementation of additional control activities related to the period-end financial reporting process, such as assigning clear roles and responsibilities for accounting and financial reporting staff enhance internal controls related to accounting and financial reporting and hire a qualified consultant to assess compliance of the Company's financial reporting processes, as well as the design and implementation of effective internal controls over period end financial reporting and in order to create adequate segregation of duties. While we believe that these efforts will improve our internal control over financial reporting, the implementation of our remediation is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles.

Although we believe there has been some progress in remediating this weakness, the implementation of these initiatives may not fully address any material weakness or other deficiencies that we may have in our internal control over financial reporting.

(c) Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting due to an exemption for emerging growth companies provided in the JOBS Act.

(d) Changes in Internal Control over Financial Reporting

As described above, we have implemented measures to remediate identified material weaknesses. Nevertheless, these improvements may not be sufficient to have materially affected or reasonably likely to materially affect our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that each member of our audit committee is an audit committee financial expert, as defined under the rules under the Exchange Act, and is independent in accordance with applicable Exchange Act rules and Nasdaq Stock Market rules.

ITEM 16B. CODE OF ETHICS

We have adopted a written code of ethics that applies to our directors, executive officers and employees. Our Code of Business Ethics is posted on our website at <https://www.safe-t.com/investor-relations/#corporate-governance>. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report on Form 20-F and is not incorporated by reference herein. If we make any amendment to the Code of Business Ethics or grant any waivers, including any implicit waiver, from a provision of the code, we will disclose the nature of such amendment or waiver on our website to the extent required by the rules and regulations of the SEC including the instructions to Item 16B of Form 20-F. We have not granted any waivers under our Code of Business Ethics.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, has served as our principal independent registered public accounting firm for each of the two years ended December 31, 2019 and 2020.

The following table provides information regarding fees paid by us to Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited for all services, including audit services, for the years ended December 31, 2019 and 2020:

	Year Ended December 31,	
	2019	2020
Audit fees ⁽¹⁾	\$ 282,975	\$ 115,750
Audit-related fees	-	-
Tax fees ⁽²⁾	3,500	32,500
All other fees	-	-
Total	<u>\$ 286,475</u>	<u>\$ 148,250</u>

(1) This category includes services such as consents and assistance with and review of documents filed with the SEC as well as fees related to our registration statements and public offering.

(2) Includes professional services rendered by our independent registered public accounting firm for tax compliance and tax advice on actual or contemplated transactions.

Pre-Approval of Auditors' Compensation

Our audit committee has a pre-approval policy for the engagement of our independent registered public accounting firm to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit services, audit-related services and tax services that may be performed by our independent registered public accounting firm. If a type of service, that is to be provided by our auditors, has not received such general pre-approval, it will require specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in applicable SEC rules.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a result of the listing of the ADSs on the Nasdaq Capital Market we are required to comply with the Nasdaq Stock Market rules. Under those rules, we may elect to follow certain corporate governance practices permitted under the Companies Law in lieu of compliance with corresponding corporate governance requirements otherwise imposed by the Nasdaq Stock Market rules for U.S. domestic issuers.

In accordance with Israeli law and practice and subject to the exemption set forth in Rule 5615 of the Nasdaq Stock Market rules, we have elected to follow the provisions of the Companies Law, rather than the Nasdaq Stock Market rules, with respect to the following requirements:

- *Distribution of periodic reports to shareholders; proxy solicitation.* As opposed to the Nasdaq Stock Market rules, which require listed issuers to make such reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute periodic reports directly to shareholders, and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition to making such reports available on a public website, we currently make our audited consolidated financial statements available to our shareholders at our offices and will only mail such reports to shareholders upon request. As a foreign private issuer, we are generally exempt from the SEC's proxy solicitation rules.
- *Quorum.* While the Nasdaq Stock Market rules require that the quorum for purposes of any meeting of the holders of a listed company's common voting stock, as specified in the company's bylaws, be no less than 33 1/3% of the company's outstanding common voting stock, under Israeli law, a company is entitled to determine in its articles of association the number of shareholders and percentage of holdings required for a quorum at a shareholders meeting. Our amended and restated articles of association provide that a quorum of two or more shareholders holding at least 15% of the voting rights in person or by proxy is required for commencement of business at a general meeting. However, the quorum set forth in our amended and restated articles of association with respect to an adjourned meeting consists of at least one shareholders present in person or by proxy.

- *Compensation of officers.* Israeli law and our amended and restated articles of association do not require that the independent members of our board of directors (or a compensation committee composed solely of independent members of our board of directors) determine an executive officer's compensation, as is generally required under the Nasdaq Stock Market rules with respect to the chief executive officer and all other executive officers. Instead, compensation of executive officers is determined and approved by our compensation committee and our board of directors, and in certain circumstances by our shareholders, either in consistency with our office holder compensation policy or, in special circumstances in deviation therefrom, taking into account certain considerations stated in the Companies Law.

Shareholder approval is generally required for officer compensation in the event (i) approval by our board of directors and our compensation committee is not consistent with our office holder compensation policy, or (ii) compensation required to be approved is that of our chief executive officer or an executive officer who is also the controlling shareholder of our company (including an affiliate thereof). Such shareholder approval shall require a majority vote of the shares present and voting at a shareholders meeting, provided either (i) such majority includes a majority of the shares held by non-controlling shareholders who do not otherwise have a personal interest in the compensation arrangement that are voted at the meeting, excluding for such purpose any abstentions disinterested majority, or (ii) the total shares held by non-controlling and disinterested shareholders voted against the arrangement does not exceed 2% of the voting rights in our company.

Additionally, approval of the compensation of an executive officer who is also a director requires a simple majority vote of the shares present and voting at a shareholders meeting, if consistent with our office holder compensation policy. Our compensation committee and board of directors may, in special circumstances, approve the compensation of an executive officer (other than a director or a controlling shareholder) or approve the compensation policy despite shareholders' objection, based on specified arguments and taking shareholders' objection into account. Our compensation committee may further exempt an engagement with a nominee for the position of chief executive officer, who meets the non-affiliation requirements set forth for an external director, from requiring shareholder approval, if such engagement is consistent with our office holder compensation policy and our compensation committee determines based on specified arguments that presentation of such engagement to shareholder approval is likely to prevent such engagement. To the extent that any such transaction with a controlling shareholder is for a period exceeding three years, approval is required once every three years.

A director or executive officer may not be present when the board of directors of a company discusses or votes upon a transaction in which he or she has a personal interest, except in case of ordinary transactions, unless the chairman of the board of directors determines that he or she should be present to present the transaction that is subject to approval.

- *Shareholder approval.* We will seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, rather than seeking approval for corporation actions in accordance with Nasdaq Listing Rule 5635. In particular, under this Nasdaq Stock Market rule, shareholder approval is generally required for: (i) an acquisition of shares/assets of another company that involves the issuance of 20% or more of the acquirer's shares or voting rights or if a director, officer or 5% shareholder has greater than a 5% interest in the target company or the consideration to be received; (ii) the issuance of shares leading to a change of control; (iii) adoption/amendment of equity compensation arrangements (although under the provisions of the Companies Law there is no requirement for shareholder approval for the adoption/amendment of the equity compensation plan); and (iv) issuances of 20% or more of the shares or voting rights (including securities convertible into, or exercisable for, equity) of a listed company via a private placement (and/or via sales by directors/officers/5% shareholders) if such equity is issued (or sold) below a specified minimum price. By contrast, under the Companies Law, shareholder approval is required for, among other things: (i) transactions with directors concerning the terms of their service or indemnification, exemption and insurance for their service (or for any other position that they may hold at a company), for which approvals of the compensation committee, board of directors and shareholders are all required, (ii) extraordinary transactions with controlling shareholders of publicly held companies, which require the Special Majority, and (iii) terms of employment or other engagement of the controlling shareholder of us or such controlling shareholder's relative, which require special approval. In addition, under the Companies Law, a merger requires approval of the shareholders of each of the merging companies.

- *Approval of Related Party Transactions.* All related party transactions are approved in accordance with the requirements and procedures for approval of interested party acts and transaction as set forth in the Companies Law, which requires the approval of the audit committee, or the compensation committee, as the case may be, the board of directors and shareholders, as may be applicable, for specified transactions, rather than approval by the audit committee or other independent body of our board of directors as required under the Nasdaq Stock Market rules.
- *Independent directors.* Israeli law does not require that a majority of the directors serving on our board of directors be “independent,” as defined under Nasdaq Stock Market Rule 5605(a)(2), and rather requires we have at least two external directors who meet the requirements of the Companies Law, as described above under “Item 6.C. Board Practices—External Directors.” We are required, however, to ensure that all members of our audit committee are “independent” under the applicable Nasdaq and SEC criteria for independence (as we cannot exempt ourselves from compliance with that SEC independence requirement, despite our status as a foreign private issuer), and we must also ensure that a majority of the members of our audit committee are “unaffiliated directors” as defined in the Companies Law. Furthermore, Israeli law does not require, nor do our independent directors conduct, regularly scheduled meetings at which only they are present, which the Nasdaq Stock Market rules otherwise require.
- *Annual Shareholders Meeting.* As opposed to the Nasdaq Stock Market Rule 5620(a), which mandates that a listed company hold its annual shareholders meeting within one year of the company’s fiscal year-end, we are required, under the Companies Law, to hold an annual shareholders’ meeting each calendar year and within 15 months of the last annual shareholders meeting.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide consolidated financial statements and related information pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements and the related notes required by this Item are included in this annual report on Form 20-F beginning on page F-1.

ITEM 19. EXHIBITS.

Exhibit	Description
1.1	Amended and Restated Articles of Association of Safe-T Group Ltd. (filed as Exhibit 99.2 to Form 6-K (File No. 001-38610) filed on September 15, 2020 and incorporated herein by reference).
2.1	Form of Amended and Restated Deposit Agreement (filed as Exhibit 1 to the Post-Effective Amendment No. 2 to Form F-6 (File No. 333-218251) filed on July 31, 2018, and incorporated herein by reference).
2(d)	Description of Securities (filed herewith).
4.1	Form of Indemnification Agreement (filed as Exhibit 99.1.B to Form 6-K (File No. 001-38610) filed on August 21, 2019, and incorporated herein by reference).
4.2	Safe-T Group Global Equity Plan (filed as Exhibit 10.2 to Form F-1 (File No. 333-226074) filed on July 5, 2018, and incorporated herein by reference).
4.2.1	U.S. Sub-Plan to the Safe-T Group Ltd. Global Equity Plan (filed as Exhibit 99.1.B to Form 6-K (File No. 001-38610) filed on April 11, 2019, and incorporated herein by reference).
4.3	Safe-T Group Compensation Policy (filed as Exhibit 10.4 to Form F-1 (File No. 333-226074) filed on July 5, 2018, as amended by shareholders on September 26, 2019 and on September 15, 2020, and incorporated herein by reference).
4.4	Equity Purchase Agreement, dated December 8, 2020, by and among Safe-T USA Inc., Chi Cooked LLC, and Mr. Kyle Exline (filed herewith).
4.5	Form of Share and Asset Purchase Agreement, dated April 4, 2019, by and among Safe-T Group Ltd., NetNut Ltd., DiViNetworks Ltd., and the shareholders of NetNut Ltd. (filed as Exhibit 99.1.C to Form 6-K (File No. 333-38610) filed on April 11, 2019, and incorporated herein by reference).
4.6	Registration Rights Agreement dated August 30, 2019, by and among Safe-T Group Ltd. and the Purchasers (filed as exhibit 99.4 to Form 6-K (File No. 001-38610) filed on August 30, 2019, and incorporated herein by reference).
4.7	Registration Rights Agreement dated October 31, 2019, by and among Safe-T Group Ltd. and the Purchasers (filed as exhibit 99.3 to Form 6-K (File No. 001-38610) filed on November 12, 2019, and incorporated herein by reference).
4.8	Registration Rights Agreement dated December 23, 2019, by and among Safe-T Group Ltd. and the Purchasers (filed as exhibit 10.2 to Form 6-K (File No. 001-38610) filed on December 30, 2019, and incorporated herein by reference).
8.1	List of Subsidiaries (filed herewith).
12.1	Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934 (filed herewith).
12.2	Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934 (filed herewith).
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, furnished herewith.
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, furnished herewith.
15.1	Consent of Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, with respect to the financial statements of Safe-T Group Ltd (filed herewith).
101	The following financial information from the Registrant's Annual Report on Form 20-F for the year ended December 31, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Position; (ii) Consolidated Statements of Profit or Loss; (iii) Consolidated Statements of Changes in Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F filed on its behalf.

SAFE-T GROUP LTD.

By: /s/ Shachar Daniel
Shachar Daniel
Chief Executive Officer

Date: March 22, 2021

SAFE-T GROUP LTD.
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020

SAFE-T GROUP LTD.
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Safe-T Group Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Safe-T Group Ltd. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of profit or loss, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 (d) to the consolidated financial statements, the Company has suffered recurring losses from operations, has negative working capital and cash outflows from operating activities that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1(d). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kesselman & Kesselman

Certified Public Accountants (Isr.)

A member firm of PricewaterhouseCoopers International Limited

Tel-Aviv, Israel

March 22, 2021

We have served as the Company's auditor since 2013.

SAFE-T GROUP LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2020	2019
		U.S. dollars in thousands	
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	4	11,017	4,341
Restricted deposits		-	29
Accounts receivable:			
Trade, net	5	645	680
Other		897	470
		12,559	5,520
NON-CURRENT ASSETS:			
Long-term restricted deposits		89	82
Long-term deposit		50	44
Property and equipment, net	6	144	266
Right of use assets		543	441
Intangible assets, net	7	4,201	4,607
Goodwill	7	5,387	6,877
		10,414	12,317
TOTAL ASSETS		22,973	17,837
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term loan		-	4
Accounts payable and accruals:			
Trade		274	237
Other	10	1,358	1,553
Contract liabilities		441	562
Contingent consideration	11(d),17(a)	915	2,170
Convertible debentures	3, 14, 2(l)	-	7,151
Derivative financial instruments	3, 14, 2(l)	1,448	1,637
Short-term lease liabilities		298	184
Liability in respect of the Israeli Innovation Authority		-	8
		4,734	13,506
NON-CURRENT LIABILITIES:			
Long-term contract liabilities		41	82
Long-term lease liabilities		365	324
Long-term contingent consideration	17(b)	684	-
Deferred tax liabilities		793	1,040
Liability in respect of the Israeli Innovation Authority		140	108
		2,023	1,554
TOTAL LIABILITIES		6,757	15,060
COMMITMENTS AND CONTINGENT LIABILITIES		11	
EQUITY:		16	
Ordinary shares		-	-
Share premium		71,492	52,394
Other equity reserves		15,256	13,070
Accumulated deficit		(70,532)	(62,687)
TOTAL EQUITY		16,216	2,777
TOTAL EQUITY AND LIABILITIES		22,973	17,837

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

SAFE-T GROUP LTD.
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Year ended December 31		
		2020	2019	2018
		U.S. dollars in thousands		
REVENUES	18	4,886	3,284	1,466
COST OF REVENUES	18	2,499	1,889	791
GROSS PROFIT		2,387	1,395	675
OPERATING EXPENSES:				
Research and development expenses	19	2,202	2,485	2,414
Selling and marketing expenses	20	4,215	3,783	5,542
General and administrative expenses	21	4,197	3,757	1,925
Impairment of goodwill		2,759	1,002	-
Contingent consideration measurement		345	159	-
TOTAL OPERATING EXPENSES		13,718	11,186	9,881
OPERATING LOSS		(11,331)	(9,791)	(9,206)
FINANCIAL INCOME (EXPENSES), net	22	3,240	(3,184)	(2,541)
LOSS BEFORE TAXES ON INCOME		(8,091)	(12,975)	(11,747)
TAX BENEFIT (TAXES ON INCOME)	9	246	(23)	(6)
NET LOSS FOR THE YEAR		(7,845)	(12,998)	(11,753)
BASIC LOSS PER SHARE (IN DOLLARS)	23, 1(c)	(0.02)	(0.96)	(6.66)
DILUTED LOSS PER SHARE (IN DOLLARS)	23, 1(c)	(0.02)	(1.03)	(6.99)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING USED TO COMPUTE (IN THOUSANDS):				
BASIC LOSS PER SHARE	1(c)	442,949	13,599	1,765
DILUTED LOSS PER SHARE	1(c)	519,419	14,020	1,782

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

SAFE-T GROUP LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares	Share premium	Other equity reserves	Accumulated deficit	Total
	U.S. dollars in thousands				
BALANCE AT JANUARY 1, 2018	-	28,494	12,583	(37,936)	3,141
CHANGES IN THE YEAR 2018:					
Exercise of options	-	791	(689)	-	102
Expiry of options	-	493	(493)	-	-
Share-based payments	-	-	381	-	381
Classification to equity of series B warrants, see Note 16 (c)	-	3,479	-	-	3,479
Placement of shares, net of issuance costs of \$187 thousand	-	2,200	23	-	2,223
Exercise of anti-dilution feature	-	2,302	-	-	2,302
Public offering, net of issuance costs of \$840 thousand	-	3,835	-	-	3,835
Net loss for the year	-	-	-	(11,753)	(11,753)
BALANCE AT JANUARY 1, 2019	-	41,594	11,805	(49,689)	3,710
CHANGES IN THE YEAR 2019:					
Exercise of options	-	30	(30)	-	-
Exercise of warrants and pre-funded warrants	-	1,517	(1,192)	-	325
Expiry of options	-	770	(770)	-	-
Share-based payments	-	129	483	-	612
Classification to equity of series B warrants, see Note 16 (c)	-	902	-	-	902
Conversion of convertible debentures	-	3,263	-	-	3,263
Issuance of shares in a business combination	-	3,568	-	-	3,568
Public offerings, net of issuance costs of \$661 thousand	-	621	2,774	-	3,395
Net loss for the year	-	-	-	(12,998)	(12,998)
BALANCE AT JANUARY 1, 2020	-	52,394	13,070	(62,687)	2,777
CHANGES IN THE YEAR 2020:					
Exercise of options	-	8	(8)	-	-
Exercise of warrants and pre-funded warrants	-	10,506	(6,835)	-	3,671
Expiry of options	-	9	(9)	-	-
Share-based payments	-	-	742	-	742
Conversion of convertible debentures	-	3,414	-	-	3,414
Public offerings, net of issuance costs of \$1,563 thousand	-	5,161	8,296	-	13,457
Net loss for the year	-	-	-	(7,845)	(7,845)
BALANCE AT DECEMBER 31, 2020	-	71,492	15,256	(70,532)	16,216

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

SAFE-T GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss for the year	(7,845)	(12,998)	(11,753)
Adjustments required to reflect the cash flows from operating activities:			
Effect of exchange rate differences on cash and cash equivalents balances	233	159	54
Issuance expenses	-	117	517
Depreciation and amortization	1,363	1,122	342
Impairment of goodwill and intangible assets	2,759	1,272	-
Change in financial liabilities at fair value through profit or loss	(2,987)	2,596	1,891
Share-based payments	742	612	381
Exchange rate differences on restricted deposits balances	(6)	(9)	6
Interest expenses related to convertible debentures	86	92	-
	<u>2,190</u>	<u>5,961</u>	<u>3,191</u>
Changes in operating asset and liability items:			
Decrease (increase) in trade receivables	46	304	(210)
Increase in other receivables	(315)	(64)	(68)
Increase (decrease) in trade payables	25	(36)	(75)
Increase (decrease) in other payables	(165)	285	84
Decrease in deferred issuance expenses	-	-	61
Increase (decrease) in deferred tax liabilities	(247)	14	-
Increase (decrease) in contract liabilities	(301)	(199)	34
	<u>(957)</u>	<u>304</u>	<u>(174)</u>
Net cash used in operating activities	<u>(6,612)</u>	<u>(6,733)</u>	<u>(8,736)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Business combination, net of cash acquired, see Note 17	(1,070)	(5,508)	-
Long-term deposit	(6)	(44)	-
Restricted deposits	28	2	(17)
Purchase of technology	(100)	-	(308)
Purchase of property and equipment	(41)	(46)	(44)
Net cash used in investing activities	<u>(1,189)</u>	<u>(5,596)</u>	<u>(369)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from public and private offerings, net of issuance expenses	13,457	4,391	9,231
Israeli Innovation Authority, net	(8)	(41)	29
Payment of loans	(4)	(20)	-
Proceeds from exercise of options, warrants and pre-funded warrants	3,671	1,177	102
Proceeds from issuance of convertible debentures	-	8,232	-
Payment contingent consideration	(1,600)	-	-
Repayment of convertible debentures	(680)	(470)	-
Payment of interest related to convertible debentures	-	(29)	-
Lease payments (interest and principal)	(126)	(128)	-
Net cash provided by financing activities	<u>14,710</u>	<u>13,112</u>	<u>9,362</u>

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

SAFE-T GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
INCREASE IN CASH AND CASH EQUIVALENTS	6,909	783	257
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(233)	(159)	(54)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,341	3,717	3,514
CASH AND CASH EQUIVALENTS AT END OF YEAR	11,017	4,341	3,717
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Classification to equity of series B warrants, see Note 16(c)	-	902	3,479
Issuance of options to consultants (issuance costs)	-	-	(23)
Classification to equity of liability in respect to anti-dilution feature	-	-	1,787
Conversion of convertible debenture into ordinary shares and warrants	4,778	3,199	-
Shares issued in a business combination, see Note 17	-	3,568	-
Contingent consideration assumed in a business combination, see Note 17	684	2,008	-
Inception of lease transaction	336	-	-

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

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

- a. Safe-T Group Ltd. (the “Company”) is engaged, as of the date hereof, (i) through its subsidiaries Safe-T Data A.R Ltd. (“Safe-T”) and Safe-T USA Inc. (“Safe-T Inc.”) in the development, marketing and sales of solutions which mitigate cyber-attacks on enterprises’ business-critical services and sensitive data, while ensuring uninterrupted business continuity as well as enabling smooth and efficient traffic flow, interruption-free service; and (ii) through its subsidiaries NetNut Ltd. (“NetNut”) and Chi Cooked LLC (“Chi Cooked”) in providing IP proxy network (“IPPN”) service to business customers. For further information regarding NetNut acquisition on June 12, 2019, and Chi Cooked acquisition on December 8, 2020, see Note 17.
- b. The Company’s ordinary shares are listed on the Tel Aviv Stock Exchange Ltd. (“TASE”) and as of August 17, 2018, the Company’s American Depositary Shares (the “ADSs”) are listed on the Nasdaq Capital Market (“Nasdaq”).
- c. Beginning in March 2020, Israel, where the Company’s headquarters office is located, began enforcing social distancing and other rules to limit the spread of infection of COVID-19, which forced the Company to modify the business practices. Due to the resilience of the Company’s operational capabilities, it has been able to continuously serve its clients during this crisis leveraging IT expertise to implement remote connections with employees, customers and vendors, to deliver a functional and productive work-from-home strategy.

As a result of the COVID-19, the Company experienced an increase in the sales cycles of new products in the cyber security segment, and a slowdown in sales in some verticals of its IPPN services segment (with respect to the goodwill impairment, refer to Note 7). Overall, the Company is closely monitoring all parts of the business to ensure that it can respond quickly to fluctuations in demand.

- d. The Company has suffered recurring losses from operations, has an accumulated deficit as of December 31, 2020, as well as negative operating cash flows in recent years. The Company expects to continue incurring losses and negative cash flows from operations until its products reach commercial profitability. The Company monitors its cash flow projections on a current basis and takes active measures to obtain the funding it requires to continue its operations. These cash flow projections are subject to various risks and uncertainties concerning their fulfilment. These factors and the risk inherent in the Company’s operations raise a substantial doubt as to the Company’s ability to continue as a going concern. These consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Management’s plans include the continued commercialization of the Company’s products and raising capital through the sale of additional equity securities, debt or capital inflows from strategic partnerships. There are no assurances however, that the Company will be successful in obtaining the level of financing needed for its operations. If the Company is unsuccessful in commercializing its products and raising capital, it may need to reduce activities, curtail or cease operations.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

The consolidated financial statements as of December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, are in compliance with International Financial Reporting Standards ("IFRS"), and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board.

In connection with the presentation of these consolidated financial statements, the following should be noted:

- 1) The significant accounting policies described below have been applied consistently to all the years presented, unless otherwise stated.
- 2) The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities (including derivatives) at fair value through profit or loss, which are presented at fair value.
- 3) The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise its judgment in the process of applying the Company's accounting policies. Actual results may differ materially from estimates and assumptions used by management. The Company's critical accounting estimates are revenue recognition, impairment of goodwill, valuation of financial liabilities and purchase price allocation (including contingent consideration). See Note 2 for further information.

b. Consolidated financial statements

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. Intercompany balances and transactions, including income and expenses on transactions between the Company's subsidiaries, are eliminated.

The accounting policies applied by the subsidiaries are consistent with the accounting policies adopted by the Company.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting, which are provided to the chief operating decision maker. The chief operating decision maker is the Company's Chief Executive Officer, who is responsible for allocating resources and assessing the performance of the operating segments. As of December 31, 2020, the Company has two operating segments. For further details, see Note 25.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Translation of foreign currency balances and transactions

1) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "Functional Currency"). The consolidated financial statements of the Company are presented in U.S. dollars, which is the Company's Functional Currency.

2) Transactions and balances

Transactions made in a currency which is different from the functional currency are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where the items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-year exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss as finance income (expense).

e. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in value.

f. Trade receivables

The trade receivables balance represents the unconditional right to consideration because only the passage of time is required before the payment is due from Company customers for licenses granted or services rendered in the ordinary course of business. If collection is expected within one year or less, trade receivables are classified as current assets. If not, trade receivables are presented as non-current assets.

Trade receivables are initially recognized based on their transaction price, and subsequently measured at amortized cost using the effective interest method, less a provision for expected credit losses. For further details, see Note 2(l).

g. Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, or in case of leasehold improvements, over the shorter of the related lease period or the life of the asset.

Depreciation is computed primarily over the following periods:

	Useful Life in Years
Computers and software	3
Office furniture and equipment	7-3

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Goodwill

Goodwill arising from a business combination represents the excess of the overall amount of the consideration transferred, the amount of any non-controlling interests in the acquired company over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed.

Impairment reviews of the cash-generating-unit (“CGU”) to which goodwill was allocated are undertaken annually and whenever there is any indication of impairment of a CGU. The carrying amount of the Company’s assets, including goodwill, is compared to its recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment loss is allocated to reduce the carrying amount of the Company’s assets at the following order: first to reduce the carrying amount of any goodwill allocated to a CGU and subsequently to the remaining assets of the Company, which fall within the scope of the International Accounting Standard (“IAS”) 36, “Impairment of Assets,” on a proportionate basis based on the carrying amount of each Company asset. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

For the years ended December 31, 2020 and 2019, the Company recognized an impairment loss of goodwill in a total amount of \$2,759 thousand and \$1,002 thousand, respectively. For the year ended December 31, 2018, no impairment loss of goodwill was recognized. For further details, see Note 7.

i. Intangible assets

1) Research and development

Through December 31, 2020 and 2019, the Company has not met the criteria for capitalizing development expenses as intangible assets, and accordingly, no asset has so far been recognized in the consolidated financial statements in respect of capitalized development expenses. Consequently, the research and development expenses of the Company are fully recognized as incurred.

2) Technology and customer relations

- a. Technology which was acquired either separately or as part of a business combination is initially measured at fair value at the acquisition date, and amortized between 5-8 years using the straight-line method, with such amortization classified as cost of revenues.
- b. Customer relations which were acquired as part of a business combination are initially measured at fair value at the acquisition date, and amortized over 7-7.5 years using the straight-line method, with such amortization classified as selling and marketing expenses.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Impairment of non-monetary assets other than goodwill

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (CGUs). The Company constitutes three CGUs. Non-monetary assets, other than goodwill, that were impaired, are reviewed annually for possible reversal of the impairment recognized at each balance sheet date.

For the years ended December 31, 2020 and 2018, no impairment loss was recognized. For the year ended December 31, 2019, the Company recognized an impairment loss related to technology in a total amount of \$270 thousand. For further details, see Note 7.

k. Government grants

Government grants received from the Israeli Innovation Authority (the "IIA") as a participation in research and development performed by Safe-T (the "IIA Grants") fall into the scope of "forgivable loans" as defined in IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance".

IIA Grants are recognized in accordance with IFRS 9, "Financial Instruments" ("IFRS 9"). If on the date on which the right for the IIA Grants is established, the Company's management concludes that there is no reasonable assurance that the IIA Grants, to which entitlement has been established, will not be repaid, the Company recognizes a financial liability on that date, which is accounted for under the provisions of IFRS 9 regarding financial liabilities measured at amortized cost.

l. Financial assets

1) Classification

The Company classifies its financial assets at amortized cost. The classification is determined, among other things, in accordance with the purpose for which the financial assets were acquired. The basis of classification depends on the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are classified as current assets, except for maturities of more than 12 months after the financial position date, which are classified as non-current assets.

The Company's financial assets at amortized cost are included as "accounts receivable," "restricted deposits," "deposits" and "cash and cash equivalents" in the consolidated statements of financial position (see sections e and f above).

2) Recognition and measurement

Financial assets, which are initially measured at fair value, including any transaction costs, are measured in subsequent periods at amortized cost using the effective interest method, except for trade receivables (see section f above).

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Impairment of financial assets - financial assets measured at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost. At each reporting date, the Company assesses whether the credit risk on a financial asset has increased significantly since initial recognition.

If the financial asset is determined to have low credit risk at the reporting date, the Company assumes that the credit risk on a financial asset has not increased significantly since initial recognition. The Company measures the loss allowance for expected credit losses on trade receivables that are within the scope of IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and on financial assets for which the credit risk has increased significantly since initial recognition based on lifetime expected credit losses. Otherwise, the Company measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

m. Financial liabilities

1) Classification

The Company early adopted the narrow-scope amendment to IAS 1, "Classification of Liabilities as Current or Non-Current" from January 1, 2019 using the retrospective approach. The amendment was published in January 2020 and issued to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period and specifically whether the entity has the right to defer settlement by at least twelve months. The amendment also affects the classification of liabilities, particularly for liabilities that can be converted into equity as it clarifies that settlement could also be considered through the entity's own equity instruments. Accordingly, the Company classified in the consolidated statements of financial position convertible debentures and derivative financial instruments as part of current liabilities.

Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights. The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right.

2) Financial liabilities at fair value through profit or loss

The Company designated its convertible debentures as a financial liability at fair value through profit or loss, given the conversion option derivative embedded in such instrument. Changes in the Company's own credit risk from the date of initial recognition are negligible. The convertible debentures are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction, and are adjusted to reflect the difference between the fair value at initial recognition and the transaction price ("day 1 loss"). Changes are recorded to profit or loss on a periodic basis while unrecognized day 1 loss is amortized over the contractual life of each instrument.

The Company accounts for contingent consideration as financial liability at fair value through profit or loss. The contingent consideration is measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Derivatives

The Company accounts for warrants with a cashless exercise mechanism and anti-dilution features issued in public and private offering, as financial liabilities. The warrants, compensation and anti-dilution features are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis.

The Company accounts for warrants and rights to purchase additional debenture (“green-shoe option”) issued pursuant to the 2019 securities purchase agreement, as financial liabilities. The warrants and green-shoe option are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction, adjusted to reflect the day 1 loss. Changes are recorded to profit or loss on a periodic basis while unrecognized day 1 loss is amortized over the contractual life of each instrument. See further details in Note 14.

o. Unrecognized day 1 loss

A financial liability in which upon initial recognition the transaction price is different than its fair value is initially recognized at fair value, adjusted to reflect the day 1 loss. After initial recognition, the unrecognized day 1 loss of the said financial liability is amortized over the contractual life of each financial liability. Upon conversion or exercise of convertible debentures or warrants for which an unrecognized day 1 loss exists, the carrying amounts are classified to equity.

p. Trade payables

Trade payables are the Company’s obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value, and in subsequent periods at amortized cost using the effective interest method.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Current and deferred income taxes

The tax expenses for the reported years comprise current and deferred taxes. Taxes are recognized in the consolidated statements of profit or loss, except to the extent that they relate to items recognized directly in equity. In that case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial position date in the countries where the Company operates and generates taxable income. The Company's management periodically evaluates the tax aspects applicable to its taxable income based on the relevant tax laws and makes provisions in accordance with the amounts payable to the Israeli Tax Authorities.

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not accounted for if they arise from initial recognition of goodwill. Also, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the financial position date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Company does not provide deferred income tax on temporary differences arising from investments in subsidiaries, since the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

r. Employee benefits

1) Severance pay and pension obligations

A defined contribution plan is a post-employment benefits scheme under which group companies pay fixed contributions into a separate and independent entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company's severance pay and pension obligations are generally funded through payments to insurance companies or trustee-administered funds. Under their terms, the said pension plans meet the criteria for defined contribution plan as above.

2) Vacation and recreation pay

Every employee is legally entitled to vacation and recreation benefits, which are computed on an annual basis. This entitlement is based on the term of employment. The Company charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Share-based payments

The Company operates a number of equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the date of each financial position, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statements of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

For plans that include conditions that are not vesting conditions, any relating expenses are immediately recognized in the consolidated statements of profit or loss. When the Company revises the conditions of an equity-settled grant, the Company recognizes an additional expense, in excess of the original expense calculated for every such revision that increases the overall fair value of the granted benefit or benefits the service provider, based on the fair value at the time of revision.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Revenue recognition

1) General

The Company accounts for revenue in accordance with IFRS 15. The model framework consists of five steps for analyzing transactions to determine the timing and amount of revenue recognition.

- a) Identify the contract with the customer.
- b) Identify the separate performance obligations in the contract.
- c) Determine the transaction price.
- d) Allocate the transaction price to each of the performance obligations in the contract.
- e) Recognize revenue as each performance obligation is satisfied, while making a distinction between satisfying an obligation on a certain date and satisfying an obligation over time.

2) Accounting for perpetual and term licenses of software and for software as a service

Perpetual and term licenses of software

The Company's promise to the customer in granting a license is to provide a right to use the entity's intellectual property as intellectual property exists (in terms of form and functionality), at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the license at the point in time at which the license transfers. Therefore, revenue in respect of the license component in such transactions shall be recognized at the time at which the license is granted to the customer.

Software as a Service

The Company's revenues from its renewable short-period (up to 3 months) contracts with its customers are recognized ratably over the respective contract periods, since the customers consume benefits from these services.

Costs to obtain a contract are expensed as incurred since commissions payable upon renewals are commensurate with the initial commission.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Presentation of revenue and revenue related balances

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company controls the specified goods or services before the transfer to its customers. In determining this, the Company follows the accounting guidance for principal-agent considerations. This determination involves judgment and is based on an evaluation of the terms of each arrangement, considering the party that is primarily responsible in the arrangement, whether it bears inventory risk and whether it determines the prices charged to the customers. When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the goods or services transferred.

Sales to resellers are recognized upon delivery of the license to the reseller as the reseller is considered the ultimate customer in such arrangements.

Revenue is recognized net of value added tax.

The Company recognized obligations in respect of sale contracts at the total amount equal to the total amount of transactions invoiced, net of transactions in respect of which revenues were recognized.

4) Allocation of revenue to multiple performance obligations

The Company allocates revenue to licenses, post contract customer support and professional services on a relative stand-alone selling price basis, except in cases in which a stand-alone selling price of an individual performance obligation is highly uncertain or variable, in which case the residual method is used.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Loss per share

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of ordinary shares (including pre-funded warrants).

When calculating the diluted loss per share, the Company adjusts the loss attributable to holders of ordinary shares and the weighted average number of shares in issue, to reflect the effect of all potentially dilutive ordinary shares, as follows:

The Company adds to the weighted average number of shares in issue that was used to calculate the basic loss per share the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares, and adjusts net loss attributable to holders of the Company's ordinary shares to exclude any profits or losses recorded during the year with respect to potentially dilutive shares.

The potential shares, as above, are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

v. Leases

Commencing January 1, 2019, the Company accounts for leases in accordance with International Financial Reporting Standard No. 16 "Leases" ("IFRS 16").

Accounting policies applied from January 1, 2019, under IFRS 16:

The Company's leases include property and motor vehicle leases. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date, including, *inter alia*, the exercise price of a purchase option if the Company is reasonably certain to exercise that option. Simultaneously, the Company recognizes a right-of-use asset in the amount of the lease liability.

The discount rate applied by the Company is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lease term is the non-cancellable period for which the Company has the right to use an underlying asset, together with both, the periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

After the commencement date, the Company measures the right-of-use asset applying the cost model, less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Assets are depreciated by the straight-line method over the estimated useful lives of the right of use assets or the lease period, which is shorter:

	<u>Years</u>
Property	1.3 - 6
Motor vehicles	3

Interest on the lease liability is recognized in profit or loss in each period during the lease term in an amount that produces a constant periodic rate of interest on the remaining balance of the lease liability

Accounting policies applied until December 31, 2018, under IAS 17:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

w. Business combination

The Company accounts for business combinations by applying the acquisition method.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, and the liabilities incurred by the acquirer to former owners of the acquiree, in exchange for control of the acquiree. The consideration transferred also includes the fair value of any asset or liability arising from a contingent consideration arrangement.

Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Identified assets acquired and liabilities assumed as part of a business combination are initially measured at fair value at the acquisition date, except for certain exceptions in accordance with IFRS 3, "Business Combinations" (Revised).

Contingent consideration incurred as a part of a business combination is initially measured at fair value at the acquisition date. Subsequent changes in fair value of contingent consideration are classified as assets or liabilities, are recognized in accordance with IFRS 9 in profit or loss.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

x. New international financial reporting standards and amendments to existing standards adopted in 2019 and 2020

1) IFRS 16

The Company adopted IFRS 16 on January 1, 2019 using a modified retrospective transition approach.

IFRS 16 replaced upon first-time implementation the existing guidance in IAS 17, “Leases” (“IAS 17”). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is updated mainly the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changed the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a “right-of-use asset” in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also changed the definition of a “lease” and the manner of assessing whether a contract contains a lease.

In respect of agreements in which the Company is the lessee, the Company elected to apply the standard for the first time by recognizing lease liabilities, for leases that were previously classified as operating leases, based on the present value of the remaining lease payments, discounted at the incremental interest rate of the lessee as at the date of first-time application. At the same time, the Company recognized a right-of-use asset at an amount equal to the amount of the lease liabilities, adjusted to reflect any prepaid or accrued lease payments in respect of those leases. As a result, the application of the standard had no effect on the retained earnings balance.

As part of the first-time application of the standard, the Company elected to apply the following practical expedients:

In respect of leases in which the Company is the lessee, to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

For leases in which the Company is the lessee, not to recognize a right-of-use asset and a lease liability in respect of leases whose lease period ends within 12 months of the date of initial application.

For leases in which the Company is the lessee, to exclude initial direct costs from the measurement of the right-of-use asset upon initial application.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

For leases in which the Company is the lessee, to use hindsight in determining the lease term where the contract includes extension or termination options.

Furthermore, it should be noted that the Company elected to apply the exemption regarding the recognition of short-term leases and leases in which the value of the underlying asset is low.

The weighted average of lessee's incremental annual borrowing rate applied to the lease liabilities was 13.70%.

The effect upon first-time implementation on the Company's consolidated statements of financial position were right-of-use lease assets of approximately \$166 thousand, current lease liabilities of approximately \$97 thousand and non-current lease liabilities of approximately \$69 thousand.

2) Amendments to IFRS 3 'Business Combinations' - Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendment also provides an optional test - the concentration test. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the acquired set of assets and activities are not considered a business. The Company applied the amendment to IFRS 3 prospectively as from January 1, 2020. See also Note 17 for the acquisition of Chi Cooked.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department in accordance with a policy approved by the Board of Directors. The Company's finance department identifies, evaluates and hedges the financial risks. The Board of Directors provides written principles for the overall management of the risks.

1) Credit risks

Most of the Company's credit risks arise from trade receivables. The Company mitigates the risk by ensuring its customer has sufficient funds to meet its needs and by selling to customers of high credit quality.

No credit limits were exceeded in 2020 and 2019 and management does not expect any losses from non-performance by these counterparties beyond those that have already been recognized.

2) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the New Israeli Shekel ("NIS"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in foreign currency.

The Company hedges and minimizes the foreign exchange risk by ensuring that the amounts of net current assets at a specific point in time correspond to the amount of current liabilities at that point in time.

3) Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash and cash equivalents. The Company works to maintain sufficient cash and cash equivalents, taking into account forecasts as to the cash flows required to fund its activities, in order to minimize the liquidity risk to which it is exposed.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Cash flow forecasting is performed by the Company's finance department on a consolidated basis. The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Surplus cash held by the operating entities of the Company over and above the balance required for working capital management are invested in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.

The table below categorizes non-derivative financial liabilities into relevant maturity groupings based on the remaining period at financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.

	Less than one year	Between one to two years
	U.S. dollars in thousands	
December 31, 2020:		
Contingent consideration	915	684
Lease liabilities	298	365
IIA liability	-	140
Trade payables and other payables	1,632	-
	<u>2,845</u>	<u>1,189</u>
December 31, 2019:		
Contingent consideration	2,170	-
Short-term loan	4	-
Convertible debentures	7,151	-
Lease liabilities	184	324
IIA liability	8	108
Trade payables and other payables	1,790	-
	<u>11,307</u>	<u>432</u>

b. Fair value estimation

Below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Level 1 and level 2 financial instruments:

As of December 31, 2020, and 2019 the Company has no financial assets or liabilities measured at level 1 or 2.

Level 3 financial instruments:

As of December 31, 2020 and 2019, the Company has several financial liabilities measured at fair value through profit or loss, which meet the level 3 criteria. As of December 31, 2020 and 2019, the Company has no financial assets at level 3.

c. Fair value measurements based on unobservable data (level 3)

The Company evaluated the fair value of convertible debentures, contingent consideration, derivative financial instruments and anti-dilution feature that were issued in connection with capital raising transactions.

The following table presents the changes in level 3 financial instruments for each of the three years in the period ended December 31, 2020:

	<u>Contingent consideration</u>	<u>Convertible debentures</u>	<u>Derivative financial instruments</u>	<u>Total</u>
	U.S. dollar in thousands			
Balance as of January 1, 2020	2,170	7,151	1,637	10,958
Initial recognition of financial liability	684	-	1,450	2,134
Conversion to equity of financial liability	-	(4,778)	-	(4,778)
Repayment of convertible debentures	-	(680)	-	(680)
Payment of contingent consideration	(1,600)	-	-	(1,600)
Recognition of day 1 loss within profit or loss	-	-	329	329
Changes in fair value recognized within profit or loss	345	(1,693)	(1,968)	(3,316)
Balance as of December 31, 2020	<u>1,599</u>	<u>-</u>	<u>1,448</u>	<u>3,047</u>

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

	Contingent consideration	Convertible debentures	Derivative financial instruments	Total
	U.S. dollar in thousands			
Balance as of January 1, 2019	-	-	-	-
Initial recognition of financial liability	2,008	13,257	9,980	25,245
Initial recognition of unrecognized day 1 loss	-	(5,836)	(4,856)	(10,692)
Conversion to equity of or other financial liability	-	(4,501)	(1,061)	(5,562)
Repayment of convertible debentures	-	(470)	-	(470)
Recognition of day 1 loss within profit or loss	-	4,198	2,551	6,749
Changes in fair value recognized within profit or loss	162	503	(4,977)	(4,312)
Balance as of December 31, 2019	2,170	7,151	1,637	10,958

	Anti-dilution feature	Derivative financial instruments	Total
	U.S. dollar in thousands		
Balance as of January 1, 2018	692	61	753
Initial recognition	497	2,678	3,175
Changes in fair value recognized within profit or loss	598	1,641	2,239
Classification to equity of Series B warrants	-	(3,479)	(3,479)
Classification to level 1, see Note 16(c)	-	(901)	(901)
Exercise of anti-dilution feature	(1,787)	-	(1,787)
Balance as of December 31, 2018	-	-	-

d. Financial instruments

	Financial assets at amortized cost U.S. dollars in thousands
December 31, 2020	
Assets:	
Cash and cash equivalents	11,017
Trade receivable and other receivables (excluding prepaid expenses)	981
Long-term deposit	50
	12,048
	Financial assets at amortized cost U.S. dollars in thousands
December 31, 2019	
Assets:	
Cash and cash equivalents	4,341
Trade receivable and other receivables (excluding prepaid expenses)	970
Long-term deposit	44
Restricted deposits	29
	5,384

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

	Liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
	U.S. dollars in thousands		
December 31, 2020			
Liabilities:			
Contingent consideration	1,599	-	1,599
Lease liabilities	-	663	663
Trade payables and other payables	-	1,632	1,632
IIA liability	-	140	140
Derivative financial instruments	1,448	-	1,448
	<u>3,047</u>	<u>2,435</u>	<u>5,482</u>
December 31, 2019			
Liabilities:			
Short-term loan	-	4	4
Contingent consideration	2,170	-	2,170
Convertible debentures	7,151	-	7,151
Lease liabilities	-	508	508
Trade payables and other payables	-	1,790	1,790
IIA liability	-	116	116
Derivative financial instruments	1,637	-	1,637
	<u>10,958</u>	<u>2,418</u>	<u>13,376</u>

Assets and liabilities, which are not measured on a recurring basis at fair value, are presented at their carrying amount, which approximates their fair value.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

e. Valuation processes of the Company

Set forth below are details regarding the valuation processes of the Company through the year ended 2020 and 2019 (for each initial recognition, financial position date and upon conversion or exercise of such instruments):

- 1) Convertible debentures - the Company used the binomial share price model, using the following principal assumptions (see Note 14):

	Year ended December 31,	
	2020	2019
Risk-free interest rate	0.16% - 0.4%	1.59% - 2.42%
Expected term (in years)	0.68 - 1.24	0.93 - 1.5
Expected volatility	84.52% - 125.97%	83.55% - 101.89%

- 2) Derivative financial instruments - the Company used the binomial share price model, using the following principal assumptions (see Note 14):

	Year ended December 31,	
	2020	2019
Risk-free interest rate	0.21 %	1.58% - 2.38%
Expected term (in years)	3.43	4.43 - 5
Expected volatility	104.47 %	83.32% - 85.42%

The Company also used the Black-Scholes model for its MFN Warrants, using the following principal assumptions:

	Year ended December 31,	
	2020	2019
Risk-free interest rate	0.23% - 0.37%	1.76%
Expected term (in years)	3.86 - 5	5.5
Expected volatility	95.43% - 101.48%	84.4%

- 3) Contingent considerations - the Company used the Monte Carlo method, using the following principal assumptions (see Note 17):

	Year ended December 31,	
	2020	2019
Risk-free interest rate	0.1%	1.88%
Expected term (in years)	1.06	0.55
Expected volatility of revenue or both revenue and variable expenses	50.1%	51.9%

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - CASH AND CASH EQUIVALENTS:

As of December 31, 2020 and 2019, the balance of cash and cash equivalents was comprised of cash at banks and at PayPal accounts.

NOTE 5 - ACCOUNTS RECEIVABLE - TRADE, net:

As of December 31, 2020 and 2019, the balance of accounts receivable - trade was comprised of open accounts.

As of December 31, 2020, the Company has no provision for credit losses. As of December 31, 2019, the Company has a provision for credit losses in an amount of \$95 thousand. The Company has no customers that exceed their customary credit terms.

For the year ended December 31, 2020 and 2019, the Company recorded a debt write-off in an amount of \$62 thousand and \$29 thousand, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT, NET:

	December 31,		
	2020	2019	2018
	U.S. dollars in thousands		
Cost:			
Computers and software	407	382	186
Office furniture and equipment	148	131	104
Leasehold improvements	56	56	46
	611	569	336
Less – accumulated depreciation	(467)	(303)	(193)
Property and equipment, net	144	266	143

Depreciation expenses for the years ended December 31, 2020, 2019 and 2018, were \$164 thousand, \$110 thousand and \$68 thousand, respectively.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - INTANGIBLE ASSETS:

a. Composition

	Cost				Accumulated amortization				Amortized balance December 31,
	Balance at beginning of year	Additions during the year	Impairment during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements During the year	Balance at end of year	
2020:	U.S. dollar in thousands								2020
Technology	4,959	100	-	5,059	592	983	-	1,575	3,484
Customer relations	259	515	-	774	19	38	-	57	717
Goodwill	6,877	1,269	(2,759)	5,387	-	-	-	-	5,387
	<u>12,095</u>	<u>1,884</u>	<u>(2,759)</u>	<u>11,220</u>	<u>611</u>	<u>1,021</u>	<u>-</u>	<u>1,632</u>	<u>9,588</u>
	Cost				Accumulated amortization				Amortized balance December 31,
	Balance at beginning of year	Additions during the year	Retirements and Impairment during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements During the year	Balance at end of year	
2019:	U.S. dollar in thousands								2019
Technology	2,263	4,651	(1,955)	4,959	1,469	808	(1,685)	592	4,367
Customer relations	38	259	(38)	259	36	21	(38)	19	240
Goodwill	523	7,356	(1,002)	6,877	-	-	-	-	6,877
	<u>2,824</u>	<u>12,266</u>	<u>(2,995)</u>	<u>12,095</u>	<u>1,505</u>	<u>829</u>	<u>(1,723)</u>	<u>611</u>	<u>11,484</u>
	Cost				Accumulated amortization				Amortized balance December 31,
	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements During the year	Balance at end of year	
2018:	U.S. dollar in thousands								2018
Technology	1,955	308	-	2,263	1,199	270	-	1,469	794
Customer relations	38	-	-	38	30	6	-	36	2
Goodwill	523	-	-	523	-	-	-	-	523
	<u>2,516</u>	<u>308</u>	<u>-</u>	<u>2,824</u>	<u>1,229</u>	<u>276</u>	<u>-</u>	<u>1,505</u>	<u>1,319</u>

Amortization expenses for the years ended December 31, 2020, 2019 and 2018 were \$1,021 thousand, \$829 thousand and \$276 thousand, respectively.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - INTANGIBLE ASSETS (continued):

b. Testing of goodwill impairment

As required by IAS 36 *Impairment of Assets*, the Company performed a goodwill impairment test for the years ended December 31, 2020, 2019 and 2018, for each of its CGU's.

For the year ended December 31, 2020

NetNut CGU

As of March 31, 2020, the Company performed a goodwill impairment test for its NetNut CGU. The indicators for the quantitative assessment for goodwill impairment included a decrease in forecasted operating results, among others, due to the COVID-19 implications. For the purpose of the goodwill impairment test, the recoverable amount was assessed by management based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections covering a six-year forecasted period alongside with a terminal value beyond such forecast period. Cash flows beyond the six-year period to be generated from continuing use are extrapolated using estimated growth rate. The growth rate represents the long-term average growth prospects of the CGU. As a result of the impairment test, the Company recognized an impairment loss of \$800 thousand. The key assumptions used as part purpose of the goodwill impairment test are terminal growth rate of 2%, after-tax discount rate of 20.9% and pre-tax discount rate of 22.9%.

As of December 31, 2020, the Company performed the annually goodwill impairment test for its NetNut CGU. The quantitative assessment for goodwill impairment included a decrease in forecasted operating results, among others, due to a potential substantial short-term legal affairs. For the purpose of the goodwill impairment test, the recoverable amount was assessed by management based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections covering a five-year forecasted period alongside with a terminal value beyond such forecast period. Cash flows beyond the five-year period to be generated from continuing use are extrapolated using estimated growth rate. The growth rate represents the long-term average growth prospects of the CGU. As a result of the impairment test, the Company recognized an additional impairment loss of \$1,959 thousand. The key assumptions used as part purpose of the goodwill impairment test are terminal growth rate of 2%, after-tax discount rate of 20.7% and pre-tax discount rate of 22.5%. A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would reduce the value-in-use by approximately \$317 thousand and \$639 thousand, respectively, and could trigger a potential impairment.

As of December 31, 2020, the balance of goodwill related to the NetNut CGU amounted to \$4,118 thousand.

Chi Cooked CGU

As of December 31, 2020, the balance of goodwill related to the Chi Cooked CGU amounted to \$1,269 thousand and was acquired as a part of Chi Cooked acquisition on December 8, 2020. For further information, see Note 17. As of December 31, 2020, the balance of goodwill related to the Chi Cooked CGU amounted to \$1,269 thousand.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - INTANGIBLE ASSETS (continued):

For the year ended December 31, 2019

NetNut CGU

As of December 31, 2019, the Company performed a goodwill impairment test for its NetNut CGU. The indicators for the quantitative assessment for goodwill impairment included a decrease in forecasted operating results. For the purpose of the goodwill impairment test, the recoverable amount was assessed by management based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections covering a six-year forecasted period alongside with a terminal value beyond such forecast period. Cash flows beyond the six-year period to be generated from continuing use are extrapolated using estimated growth rate. The growth rate represents the long-term average growth prospects of the CGU. As a result of the impairment test, the Company recognized an impairment loss of \$479 thousand. The key assumptions used as part purpose of the goodwill impairment test are terminal growth rate of 2%, after-tax discount rate of 20.5% and pre-tax discount rate of 22.8%. A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would reduce the value-in-use by approximately \$300 thousand and \$711 thousand, respectively, and could trigger a potential impairment.

As of December 31, 2019, the balance of goodwill related to the NetNut CGU amounted to \$6,877 thousand.

Safe-T CGU

As of December 31, 2019, the Company performed a goodwill impairment test for its Safe-T CGU. For the purpose of the goodwill impairment test, the recoverable amount was assessed by management based on financial performance and future strategies considering current and expected market and economic conditions. As a result of the impairment test, the Company recognized an impairment loss of \$523 thousand. As of December 31, 2019, the entire balance of goodwill related to the Safe-T CGU was written-off.

For the year ended December 31, 2018

Safe-T CGU

As of December 31, 2018, the Company performed a goodwill impairment test for its Safe-T CGU. For the purpose of the goodwill impairment test, the recoverable amount was calculated based on its fair value less cost to sell of Company's share. As of December 31, 2018, the recoverable amount exceeded the Company's equity and therefore no goodwill impairment existed.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - INTANGIBLE ASSETS (continued):

c. Intangible assets purchase

1. On June 12, 2019, the Company completed the acquisition of NetNut, and certain assets required for NetNut's operations. The intangible assets included are technology and customer supplier which are amortized over 5 years and classified to cost of revenues, and customer relations which are amortized over 7.5 years and classified to selling and marketing expenses. For further details, see Note 17.
2. On December 8, 2020, the Company completed the acquisition of Chi Cooked. The intangible assets included are customer relations which are amortized over 7 years and classified to selling and marketing expenses. For further details, see Note 17.
3. On December 24, 2020, NetNut signed an agreement for the purchase of a Virtual Private Network Platform in the amount of \$200 thousand and additional revenue share payments for a period of two years commencing the delivery date. As of December 31, 2020, such technology was not yet delivered, and as a such, the Company recognized an intangible asset of \$67 thousand, which represents the amount paid by the Company as of the financial position date.

On December 28, 2020, NetNut signed an additional agreement with the same seller, for the purchase of a customized open-source residential software in the amount of \$100 thousand. As of December 31, 2020, such technology was not yet delivered, and as such, the Company recognized an intangible asset of \$33 thousand, which represents the amount paid by the Company as of the financial position date.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - INTERESTS IN OTHER ENTITIES

Subsidiaries:

Set forth below are details regarding the Company's subsidiaries as of December 31, 2020 and 2019:

Name of company	Principal place of business	Nature of business activities	Percentage held directly by the Company	Rate of shares held by the Company
			%	
Safe-T Data A.R Ltd.	Israel	Development of data security software	100	100
Safe-T USA Inc.	USA	Business development and sales in the USA	-	100
NetNut Ltd.(1)	Israel	Business IPPN solution	100	100
Chi Cooked LLC (2)	USA	IPPN solution	-	100

(1) Acquired on June 12, 2019

(2) Acquired on December 8, 2020

NOTE 9 - TAXES ON INCOME:

a. Corporate taxation

The income of the Company, Safe-T and NetNut is taxed at the regular corporate tax rate in Israel, which is 23% for the year 2018 and thereafter.

Safe-T Inc. was taxed at a regular U.S. federal tax rate of 21% for the tax years 2020, 2019 and 2018. For the year ended December 31, 2020, Safe-T Inc and Chi Cooked will file a consolidated tax return, with Chi Cooked's taxation period starting from its acquisition date by Safe-T Inc.

b. Tax assessments

Tax assessments filed by the Company and Safe-T by 2015 are considered final. The tax assessment filed by the Safe-T Inc. by 2016 is considered final. NetNut and Chi Cooked have not received tax assessments since their incorporation.

c. Carryforward tax losses

Carryforward tax losses in Israel of the Company amounted to approximately \$3.9 million and \$1.8 million as of December 31, 2020 and 2019, respectively.

Carryforward tax losses in Israel of Safe-T amounted to approximately \$38.5 million and \$31.5 million as of December 31, 2020 and 2019, respectively.

Carryforward tax losses in Israel of NetNut amounted to approximately \$1.6 million and \$0.4 million as of December 31, 2020 and 2019, respectively.

The Company did not recognize deferred taxes for these losses since their utilization is not expected in the foreseeable future.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - TAXES ON INCOME (continued):

d. Deferred taxes

	Property, plant and equipment, net	Intangible assets, net	Total
Balance as of January 1, 2020	(33)	(1,007)	(1,040)
Changes during the year:			
Taxes on income	23	224	247
Balance as of December 31, 2020	(10)	(783)	(793)

	Property, plant and equipment, net	Intangible assets, net	Carryforward tax losses	Total
	U.S. dollar in thousands			
Balance as of January 1, 2019	-	-	-	-
Initial recognition due to business combination	(46)	(1,129)	149	(1,026)
Changes during the year:				
Taxes on income	13	122	(149)	(14)
Balance as of December 31, 2019	(33)	(1,007)	-	(1,040)

e. Theoretical tax reconciliation

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see section a above) and the actual tax expense:

	Year ended December 31,					
	2020		2019		2018	
	%	U.S. dollars in thousands	%	U.S. dollars in thousands	%	U.S. dollars in thousands
Loss before taxes on income, as reported in the statement of profit or loss	100	8,091	100	12,975	100	11,747
Theoretical tax saving on this profit or loss	(23)	(1,861)	(23)	(2,984)	(23)	(2,702)
Increase in taxes resulting from permanent differences - non-deductible expenses	1.1	86	8.0	1,039	4.5	524
Increase in taxes resulting from losses in the reported year for which deferred taxes were not recognized	18.9	1,529	15.2	1,968	18.6	2,184
Tax expenses	(3.04)	(246)	0.18	23	0.05	6

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10- ACCOUNTS PAYABLE AND ACCRUALS:

a. Accounts payable - other

	December 31	
	2020	2019
	U.S. dollars in thousands	
Employees and related institutions	698	654
Accrued expenses	660	899
	<u>1,358</u>	<u>1,553</u>

- b.** The carrying amount of accounts payable, which are financial liabilities, is a reasonable approximation of their fair value since the effect of discounting is immaterial.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES:

a. Royalties payable to the IIA

- 1) Under the terms of a plan with IIA, Safe-T is committed to pay royalties to the IIA on proceeds from sales of products in the research and development of which the IIA participated by way of grants. Royalties are payable at the rate of 3% to 3.5% of the proceeds from such sales.

Safe-T completed the performance of the plan on October 31, 2015, and filed a final report to the IIA, who approved the report. Since 2015, Safe-T received a total of \$146 thousand in grants. In February 2020, Safe-T paid final royalties and has no further royalties' payments obligation. Safe-T is still liable to certain limitations under the IIA law.

- 2) On July 2, 2018, Safe-T completed the purchase of the intellectual property of CyKick. As part of such purchase, Safe-T committed to take CyKick's liability of \$374 thousand to pay royalties to the IIA on proceeds from sales of products in the research and development of which the IIA participated by way of grants. Royalties are payable at the rate of 3% to 3.5% of the proceeds from such sales. For the year ended December 31, 2020, the Company paid royalties in an amount of \$9 thousand.

As of December 31, 2020 and 2019, the Company liability to pay the IIA royalties for future sales of CyKick's technology on the consolidated financial position amounted to approximately \$140 and 108 thousand, respectively.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

b. Luminati action

On June 11, 2020, Luminati Networks Ltd. ("Luminati") filed an action alleging infringement of patent against several companies, including against NetNut. The action was filed in the United States District Court, Eastern District of Texas, Marshal Division. The complaint was served to the Company on June 30, 2020.

Management is of the opinion that no violation was made by NetNut with respect to the asserted patents. NetNut denies any wrongdoing or liability and intends to defend itself against this complaint. The case is in its early stage and Luminati has not yet identified an alleged damage amount. As such, no amounts have been accrued related to the outcome of such claim.

c. Contingent consideration related to NetNut acquisition

As a result of a commercial dispute relating to the Share and Asset Purchase Agreement with respect to NetNut's acquisition (as further described in Note (17a)), on June 25, 2020, the Company entered into a settlement and release of claims agreement (the "Settlement Agreement") with certain former shareholders of NetNut (the "Settling Shareholders"), consisting of 80% of the holdings of the former shareholders of NetNut, pursuant to which the Company will make certain payments to the Settling Shareholders in lieu of paying the Earnout Amount. On June 29, 2020, the Company paid \$1.6 million on behalf of the Settlement Agreement. Also, based on the Settlement Agreement terms, the Company committed to pay by April 30, 2021 an additional earn-out payment ranging between \$440 thousand and \$800 thousand, depending on NetNut's financial results for 2020. As of December 31, 2020, based on NetNut's financial results, the final earn-out payment was set to \$440,000.

As for the remining shareholder of NetNut, which elected not to join the Settling Shareholders as of December 31, 2020, the Company recorded a contingent consideration of \$475 thousand, based on the same terms and amounts agreed with the Settling Shareholders within the Settlement Agreement. For further information regarding the settlement agreement signed with such shareholder after the financial position date, see Note 26(b).

As of December 31, 2020, the total contingent consideration related to NetNut acquisition amounted to \$915 thousand.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - LEASES:

a. Right-of-use assets

	Balance at beginning of year	Additions during year	Disposals during year	Balance at end of year
	U.S. dollars in thousands			
For the year ended December 31, 2020				
Cost				
Property	465	174	-	639
Motor vehicles	113	162	(104)	171
	578	336	(104)	810
	Balance at beginning of year	Additions during year	Disposals during year	Balance at end of year
	U.S. dollars in thousands			
For the year ended December 31, 2019				
Cost				
Property	19	446	-	465
Motor vehicles	147	26	(60)	113
	166	472	(60)	578

	Balance at beginning of year	Amortization during year	Additions during year	Disposals during year	Balance at end of year
	U.S. dollars in thousands				
For the year ended December 31, 2020					
Accumulated amortization					
Property	(106)	(98)	-	-	(204)
Motor vehicles	(31)	(81)	-	49	(63))
	(137)	(179)	-	49	(267)
	Balance at beginning of year	Amortization during year	Additions during year	Disposals during year	Balance at end of year
	U.S. dollars in thousands				
For the year ended December 31, 2019					
Accumulated amortization					
Property	-	(65)	(41)	-	(106)
Motor vehicles	-	(50)	-	19	(31)
	-	(115)	(41)	19	(137)

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - LEASES (continued):

b. Lease liabilities

	Balance at beginning of year	Additions during year	Interest expense during year	Termination during year	Payments during year	Balance at end of year
	U.S. dollars in thousands					
Composition in 2020						
Property	431	174	77	-	(148)	534
Motor vehicles	77	162	8	(52)	(66)	129
	508	336	85	(52)	(214)	663
Short-term lease liabilities:						
Property						235
Motor vehicles						63
Long-term lease liabilities:						
Property						299
Motor vehicles						66
						663
	Balance at beginning of year	Additions during year	Interest expense during year	Termination during year	Payments during year	Balance at end of year
	U.S. dollars in thousands					
Composition in 2019						
Property	19	443	49	-	(80)	431
Motor vehicles	147	26	27	(44)	(79)	77
	166	469	76	(44)	(159)	508
Short-term lease liabilities:						
Property						135
Motor vehicles						49
Long-term lease liabilities:						
Property						296
Motor vehicles						28
						508

Expense relating to short-term leases for the year ended December 31, 2020 and 2019 amounted to \$123 and \$211 thousand, respectively.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - RETIREMENT BENEFITS OBLIGATION:

a. Liability for employee rights upon retirement

Labor laws and agreements require the Company to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. The amounts of benefits those employees are entitled to upon retirement are based on the number of years of service and the last monthly salary.

Also, under labor laws and labor agreements in effect, including the Expansion Order (Combined Version) for Obligatory Pension under the Collective Agreements Law of 1957 (the "Expansion Order"), the Company is liable to make deposits with provident funds, pension funds or other such funds, to cover its employees' pension insurance as well as some of its severance pay liabilities.

Under the terms of the Expansion Order, the Company deposits for severance pay as required under the Expansion Order as well as other deposits made by those companies "in lieu of severance pay" and which were announced as such as required under the Expansion Order, replace all payment of severance pay under Section 14 of the Israeli Severance Pay Law, 1963 (the "Severance Pay Law") with respect to the wages, components, periods and rates for which the deposit alone was made.

b. Defined contribution plans

The Company's severance pay liability to Israeli employees for which the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the consolidated statements of financial position.

The amounts recognized as expense in respect of defined contribution plans in 2020, 2019 and 2018, are \$177 thousand, \$205 thousand and \$234 thousand, respectively.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - CONVERTIBLE DEBENTURES:

On April 9, 2019, the Company entered into a Securities Purchase Agreement (the “April 2019 SPA”) with certain lenders (the “Lenders”), according to which, the Company obtained a convertible loan in an aggregate amount of \$6 million (the “Transaction Price”), for the issuance of convertible debentures (the “Convertible Debentures,” or the “Debentures”) and 146,341 warrants (the “Warrants”) to purchase up to 146,341 ADSs. The first tranche of the loan, in the amount of \$1 million was received during April 2019, and the second tranche, in the amount of \$5 million, was received during June 2019.

The Convertible Debentures have an 18-month term from issuance and bear interest at 8% per annum payable quarterly in cash or ADSs. The Debentures’ initial conversion price was set to \$41 per ADS, and then was several times reset following triggering of an adjustment mechanism that was agreed upon in the April 2019 Agreement, setting forth that the conversion price will be reset, if there is a subsequent issuance of the Company’s securities, below the conversion price, to the price of the subsequent issuance. The Debentures contain other customary anti-dilution features, with the Black-Scholes value of the Debentures payable upon the occurrence of a fundamental transaction. The Company can redeem the Debentures after the effective date, which was set as June 4, 2019, upon a 20 trading days prior notice to the Lenders at 120% of the principal amount of the Debentures, plus accrued interest.

Upon issuance, the Warrants had an exercise price of \$47.15 per ADS, with 100% warrant coverage to the value of the Debentures. The Warrants have a five-year term and will be exercisable for cash or on a cashless basis if no resale registration statement is available for resale of the ADSs issuable upon exercise. The exercise price of the Warrants was reset several times, in accordance with the adjustment mechanism setting forth that if within 18-month from the issuance of the Warrants, there is a subsequent issuance of the Company’s securities below the exercise price, to the price of the subsequent issuance. The Warrants contain other customary anti-dilution features, with the Black-Scholes value of the Warrants payable upon the occurrence of a fundamental transaction.

Each Lender was granted a 12-month participation right in a subsequent financing, up to the amount equal to 50% of the subsequent financing, which expired on June 5, 2020. The Lenders had a right to purchase additional debentures on the same terms until six months from June 4, 2019 (“Greenshoe Option”), which was extended until January 4, 2020. The Lenders also have a most favored nation right (the “Most Favored Nation Right” or “MFN”) for the term of the debenture with respect to a subsequent financing on better terms, such that the Lenders may convert into the subsequent financing terms on a dollar-for-dollar basis. Each of the Company’s wholly owned subsidiaries guarantees the obligations under the April 2019 Agreement. The Debentures and Warrants contain customary beneficial ownership blockers for the Lenders, which will prevent a Lender from acquiring a controlling block in the Company.

On July 22, 2019, the Company signed a repricing agreement with the Lenders (the “Repricing Agreement”) pursuant to which in exchange for the exercise of 36,232 Warrants into ADSs, the Company reduced the exercise price of these Warrants to \$27.60 per ADS. The Repricing Agreement was considered as a dilutive issuance, and as a result triggered also the adjustment of the Debenture conversion price and the exercise price of other outstanding Warrants to \$27.60.

Following the execution of the Repricing Agreement, the Lenders exercised the Warrants into 36,232 ADSs (representing 1,449,280 ordinary shares of the Company) on July 24, 2019, for consideration of \$1 million.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - CONVERTIBLE DEBENTURES (continued):

On August 30, 2019, the Company signed an additional repricing agreement (the “Second Repricing Agreement”) with one of the Lenders pursuant to which in exchange for the exercise of 5,020 Warrants into ADSs, the Company reduced the exercise price of these Warrants to \$19.92 per ADS.

The Second Repricing Agreement was considered, again, as a dilutive issuance, and as a result triggered another adjustment of the Debenture conversion price and the exercise price of other outstanding Warrants to \$19.92.

Following the execution of the Second Repricing Agreement, the Lender exercised the said Warrants into 5,020 ADSs (representing 200,800 ordinary shares of the Company) on August 30, 2019 for consideration of \$100 thousand.

On August 30, 2019, pursuant to a partial exercise of such Lenders’ Greenshoe Option, the Company signed a second securities purchase agreement, according to which the Company obtained another convertible loan from one of the Lenders in the amount of \$400 thousand (the “August Greenshoe Debentures”). The August Greenshoe Debentures have an 18-month term from issuance and bear interest at 8% per annum payable quarterly in cash or ADSs. Upon issuance, the August Greenshoe Debentures were convertible at \$19.92. The conversion price of the August Greenshoe Debentures would reset, but not below \$8 per ADS, if there was a subsequent issuance of the Company’s securities below the conversion price per share, to the price of the subsequent issuance.

On October 31, 2019, the Company signed an additional securities purchase agreement, according to which the Company obtained another convertible loan from one of the Lenders, who partially exercised its Greenshoe Option in the amount of \$500 thousand (the “October Greenshoe Debentures”). The October Greenshoe Debentures had an 18-month term from issuance and bear interest at 8% per annum payable quarterly in cash or ADSs. The October Greenshoe Debentures’ initial conversion price was \$8.00 per ADS, subject to adjustments. The Company also signed an amendment to the April 2019 SPA with this Lender, that in exchange for waiving his Most Favored Nation Right with respect to the November 5, 2019 public offering, this Lender was able to exercise this right at any time following this offering, under the offering terms.

On November 5, 2019, the Company repaid Debentures in the amount of \$470 thousand to the other Lender. Also, the Company paid to the other Lender an amount of \$330 thousand for waiving his Most Favored Nation Right with respect only to the November 5, 2019 public offering. Following a public offering of the Company’s ADSs on November 5, 2019, the outstanding Warrants price of the said Lender was reset to \$8.00.

The Company also agreed with one of the Lenders that he may exercise his respective Most Favored Nation Rights at any time for their total outstanding Debenture balance, while the respective Debenture was outstanding, in connection with the Company’s November 2019 Public Offering. If the Lender decided to exercise his Most Favored Nation Rights in connection with the November 2019 Public Offering, then the Lender would exchange his debentures for (i) ADSs at an exchange rate equal to \$7.00, the per ADS offering price in the November 2019 Public Offering, and (ii) an even number of ADS purchase warrants at \$7.70 per ADS (the “\$7.70 MFN Warrants”), which \$7.70 MFN Warrants were to be in form and substance identical to the warrants issued in the concurrent private placement to the November 2019 Public Offering, except for also having cashless exercise mechanism.

During November 2019, the lender converted debentures at an aggregate amount of approximately \$1.6 million and was issued with 344,144 \$7.70 MFN Warrants at expiration terms of 5 years from issuance.

On December 4, 2019, the Company agreed to extend the Lenders’ Greenshoe Option, until January 4, 2020.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - CONVERTIBLE DEBENTURES (continued):

On December 26, 2019, the Company signed an additional securities purchase agreement, according to which the Company obtained another convertible loan from the Lenders, who partially exercised their Greenshoe Option in the approximate amount of \$666 thousand for each Lender, for a total of \$1,332 thousand (the "December Greenshoe Debentures"). The December Greenshoe Debentures had an 18-month term from issuance and bear interest at 8% per annum payable quarterly in cash or ADSs. According to the agreement, the December Greenshoe Debentures as well as all previous outstanding Debentures, are convertible at \$8.00, subject to adjustments. In addition, the Lenders had a Most Favored Nation Right for a subsequent financing on better terms, for the term of the Debentures, for the December Greenshoe Debentures as well as for all previous outstanding Debentures in the amount of \$3,854 thousand, such that the Lenders were able to convert into the subsequent financing on a dollar-for-dollar basis or at the terms of the Company's December 2019 registered direct offering.

The Company has also agreed with the Lenders that the Lenders may exercise their respective Most Favored Nation Rights at any time for their total outstanding Debenture balance, while the respective Debenture is outstanding, in connection with the Company's December 2019 Registered Direct Offering. If the Lenders decided to exercise their Most Favored Nation Rights in connection with the December 2019 Registered Direct Offering, then the Lenders would exchange their debentures for (i) ADSs at an exchange rate equal to \$3.15, the per ADS offering price in the December 2019 Registered Direct Offering, and (ii) an even number of ADS purchase warrants at \$3.30 per ADS (the "\$3.30 MFN Warrants"), which \$3.30 MFN Warrants would be in form and substance identical to the warrants issued in the concurrent private placement to the December 2019 Registered Direct Offering.

During 2019, the Lenders were issued 410,045 ADSs (16,401,808 ordinary shares) upon conversion of Debentures including interest, as well as exercises of Warrants, and as a result, a net amount of approximately \$3.3 million thousand was classified to equity. As of December 31, 2019, the actual outstanding amount of the Debentures principle summed to \$3,854 thousand.

On January 4, 2020, the Greenshoe Option of the Lenders expired, with no additional exercises of the right.

During the period from January 1, 2020 through April 1, 2020, the Lenders were issued 1,092,575 ADSs upon conversion of Debentures including interest at an aggregate amount of approximately \$3.3 million. Also, they were issued with 1,053,417 \$3.30 MFN Warrants, which can be exercised into 1,053,417 ADSs.

On April 1, 2020, one of the Lenders converted in full its outstanding Debenture, excluding periodical interest payment, which accrued up to such date. On June 1, 2020, the Company issued to this Lender 17,133 ADSs on behalf the final and last accrued interest payment.

On April 23, 2020, the Company retired in full its outstanding Debenture to the other Lender, by payment of \$836 thousand, which included redemption premium and accrued interest of \$680 thousand as well as issuance expenses of \$156 thousand.

For accounting purposes, these financial instruments were classified as financial liabilities in the consolidated statement of financial position as of December 31, 2020 and December 31, 2019 (the Warrants (including MFN Warrants) and Greenshoe Option as "derivative financial instruments" and the Debentures as "convertible debenture"). The Convertible Debentures were designated at fair value through profit or loss, given the conversion option derivative embedded in such instrument. Changes in the Company's own credit risk from the date of initial recognition are negligible. The Warrants (including MFN Warrants) and Greenshoe Option are derivative financial instruments measured at fair value through profit or loss. These financial liabilities were initially recognized at fair value, adjusted to reflect the day 1 loss and are measured at fair value in each period-end while unrecognized day 1 loss is amortized over the contractual life of each instrument.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SHARE BASED PAYMENT:

- a. The Company maintains a share-based payment plan for employees, directors and consultants (the "Plan"). According to the Plan, the options vest over a period of up to four years, and their term period is ten years. Nevertheless, the Board of Directors is qualified to resolve on different vesting terms. Below is a summary of the Company's grants under the Plan during 2018, 2019 and 2020:

Date of grant	Options amount	Exercise price	Fair value at the date of grant (2)	Volatility (3)	Risk free interest	Expected term
		in NIS	in thousand \$			In years
June 20, 2018	33,502	29.80-59.40	130	75.50 %	2.24 %	10
June 20, 2018	11,500	28.60	72	75.30 %	2.24 %	10
October 2, 2019	269,476	0.02-4.062	189	81.33 %	0.72 %	3
February 25, 2020 (1)	526,589	0.001	27			3
May 26, 2020 (1)	306,870	0.00	10			3
August 2, 2020	51,290,000	0.00-0.151	1,341	99.89-109.54 %	0.16-0.71 %	3-10
August 30, 2020	300,000	0.131	5	99.08 %	0.74 %	10
September 15, 2020	36,450,000	0.151	483	98.66-120.99 %	0.07-0.82 %	1.5-10
December 23, 2020 (1)	422,400	0.00	13			3

- (1) Fully vested at grant date, calculated according to the intrinsic value at the date of grant.
(2) The early exercise multiple used for the fair value calculations for grants during 2020, 2019 and 2018 is 2.5 for each offeree.
(3) Volatility is based on volatility data of the traded share price of the Company.

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

	2020		2019		2018	
	Number of options	Average exercise price	Number of options	Average Exercise Price	Number of options	Average Exercise Price
		\$		\$		\$
Outstanding at beginning of year:	261,276	6.20	173,628	22.19	202,763	25.20
Granted	89,296,128	0.03	269,476	0.88	45,002	9.20
Exercised	(251,299)	-	(66,330)	0.01	(8,963)	11.40
Forfeited	(1,050,000)	0.04	(20,720)	11.26	(47,767)	24.60
Expired	(3,281)	26.05	(15,476)	16.89	(17,407)	22.60
Cancelled	-	-	(79,302)	24.93	-	-
Outstanding at end of year	<u>88,252,824</u>	<u>0.05</u>	<u>261,276</u>	<u>6.20</u>	<u>173,628</u>	<u>22.20</u>
Exercisable at end of year	<u>5,909,170</u>	<u>0.15</u>	<u>253,871</u>	<u>3.22</u>	<u>93,969</u>	<u>17.80</u>

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SHARE BASED PAYMENT (continued):

- c. The following table summarizes information about exercise price and the remaining contractual life of options outstanding at the end of 2020, 2019 and 2018:

Exercise Prices	2020		2019		2018	
	Number outstanding at end of year	Weighted average remaining contractual Life	Number outstanding at end of year	Weighted average remaining contractual Life	Number outstanding at end of year	Weighted average remaining contractual Life
		Years		Years		Years
\$						
-	55,571	2.40	-	-	-	-
-	3,050,000	2.59	-	-	-	-
-	422,400	2.98	-	-	-	-
-	20,850,000	9.59	-	-	-	-
-	526,859	2.15	-	-	-	-
0.04	300,000	9.67	-	-	-	-
0.04	180,000	2.59	-	-	-	-
0.04	26,160,000	9.59	-	-	-	-
0.04	34,350,000	9.59	-	-	-	-
0.04	2,100,000	1.20	-	-	-	-
1.17	203,146	1.75	203,146	2.76	-	-
7.97	14,771	3.38	14,771	4.39	14,771	5.39
7.97	10,992	4.22	10,992	5.23	16,139	6.25
7.97	13,081	5.05	13,081	6.05	13,081	7.05
7.97	500	7.47	1,281	8.48	18,501	9.48
7.97	7,500	7.47	7,500	8.48	10,000	9.48
12.20	-	-	-	-	941	6.01
16.40	-	-	-	-	5,000	9.48
24.40	1,000	6.91	1,000	7.91	13,500	8.91
24.80	2,004	5.66	2,004	6.66	21,570	7.66
24.80	-	-	-	-	7,778	7.71
24.80	2,500	6.24	2,500	7.24	16,145	8.24
24.80	-	-	-	-	11,501	8.56
24.80	-	-	-	-	5,000	8.32
24.80	-	-	2,500	1.58	7,500	8.66
25.60	-	-	-	-	-	-
27.40	-	-	-	-	170	7.66
31.60	-	-	-	-	2,500	8.66
34.60	-	-	-	-	2,500	0.66
35.20	-	-	-	-	1,406	8.25
36.60	-	-	-	-	-	-
38.80	2,500	6.56	2,500	7.56	5,625	8.56
	<u>88,252,824</u>		<u>261,276</u>		<u>173,628</u>	

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SHARE BASED PAYMENT (continued):

d. Warrants grant to a service provider

On December 1, 2020, the Company issued 50,000 warrants to a certain service provider, which can be exercised into 50,000 ADSs (2,000,000 ordinary shares) using a cashless mechanism. The exercise price of the warrants is \$1.015 per ADS, they vest 50% upon issuance and 50% following 6 months from the date of grant, and their expiration date is 3 years from the date of issuance.

The fair value of the warrants which was computed according to the Black-Scholes model, amounted to \$52 thousand. This value is based on the following assumptions: expected volatility of 115.78%, risk free interest of 0.17%, expected term until exercise of 2.92. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the warrant until exercise.

e. Expenses recognized in the financial statements

The costs which were recognized in the Company's financial statements in respect of services received from its employees and consultants are presented in the table below:

	Year ended December 31,		
	2020	2019	2018
	U.S. dollars in thousands		
Share-based payment plans	742	612	381

The plans are intended to be governed under rules set for that purpose in the Plan. The exercise prices of the options that are exercisable into shares as of December 31, 2020 range between \$0.00 to \$38.86.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SHAREHOLDERS' EQUITY:

a. Share capital

As of December 31, 2020 and 2019, the Company's share capital is composed as follows:

	Number of shares			
	Authorized		Issued and paid	
	December 31,		December 31,	
	2020 (*)	2019	2020	2019
Ordinary shares of no-par value	3,000,000,000	250,000,000	726,103,611	56,391,512

(*) On January 28, 2020, the Company's shareholders approved an increase of the authorized share capital of the Company by an additional 1,250,000,000 ordinary shares, and to amend and restate the articles of association of the Company to reflect the same.

On September 15, 2020, the Company's shareholders approved an increase of the authorized share capital of the Company by an additional 1,500,000,000 ordinary shares, and to amend and restate the articles of association of the Company to reflect the same.

The Company's ordinary shares are traded on the TASE, and, commencing August 21, 2018, the Company's ADSs are traded on the Nasdaq under the symbol "SFET." Each ADS represents 40 ordinary shares. The last reported market price for the Company's securities on December 31, 2020 was \$1.42 per ADS on the Nasdaq and \$0.037 per share on the TASE (based on the exchange rate reported by the Bank of Israel for that date).

b. Private offerings

During 2018, the Company raised approximately \$3.5 million, before deducting issuance expenses, in a series of private offerings, as follows:

Date of offering	Number of shares	Unit price (in NIS)	Gross proceeds (U.S. dollars in thousands)
June 3, 2018	381,729	26-30	2,959
June 3, 2018	20,823	6	34
September 25, 2018	289,079	6	481

As part of the private offerings, the Company has undertaken that in case that it will decide to issue additional shares over the course of up to 12 or 24 months from the respective dates of the issuances, at a price per share that is lower than the price per share that was set as part of the private issuances, it will compensate the relevant investors by issuing additional shares in accordance with the difference between the price per share of the relevant private issuance and the price per share in that future issuance, up to a minimal price that ranges between NIS 0.88-6.00 per share, according to the terms of the relevant issuance. In addition, the Company has also undertaken to compensate certain brokers by issuing additional warrants in case of an anti-dilution trigger.

Following the June 3, 2018 private offering, the Company issued 20,823 shares at an exercise price of NIS 6.0 per share, reflecting the exercise price pursuant to the anti-dilution rights held by the investors, for an approximate amount of \$34 thousand, and granted an additional 645 warrants, which were also triggered by an anti-dilution clause provided in prior private offerings.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SHAREHOLDERS' EQUITY (continued):

Also, following the public offering as described below, the Company issued 289,079 ordinary shares in consideration for NIS 6.0 per share, reflecting the exercise price pursuant to the anti-dilution rights held by the investors, for an approximate amount of \$481 thousand, and granted an additional 745 warrants which were also triggered by an anti-dilution clause provided in prior private offerings.

For accounting purposes, the Company recognized financial liabilities in respect of warrants and in respect of anti-dilution features. The warrants are measured at fair value (level 1) in accordance with their quoted price. Changes are recorded to profit or loss on a periodic basis. The anti-dilution features are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis. The equity component is initially recognized by subtracting the fair value of the financial liabilities from consideration received. The equity component is not re-measured in subsequent periods. Issuance expenses of \$1,545 thousand in 2018 were allocated on a pro-rata basis to the three components mentioned above.

c. Public and registered direct offerings

1. On August 21, 2018, the Company completed an underwritten public offering on the Nasdaq of 25,522 units comprised of 25,522 ADSs at a price of \$287 per ADS, 25,522 Series A warrants to purchase up to 38,278 ADSs with an exercise price of \$287 per ADS, and 25,522 Series B warrants to purchase up to a maximum of 59,670 ADSs. The Company received aggregate gross proceeds of approximately \$7.335 million from the offering.

The Series A warrants have a term of six years, are exercisable immediately and have an exercise price of \$287 per ADS. The Series B warrants will become exercisable, if at all, commencing 120 days after issuance, at the discretion of the holder thereof until exercised in full, if at the 120th day after issuance, 80% of the lowest volume weighted average price of the ADSs during the five trading days immediately prior to such date (the "Reset Price"), is lower than \$287. In such event, each Series B warrant holder will be entitled to additional ADSs at an exercise price of \$0.02 per ADS, with the number of ADSs exercisable equal to the aggregate investment by such holder in connection with the closing of the offering divided by the Reset Price, less any ADSs issued to such holder at the closing of the offering. In no event shall the Reset Price be less than \$86.10, subject to customary adjustments for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions. In the event the right to purchase additional ADSs is not triggered on the 120th day after issuance, the Series B warrants will expire immediately.

For accounting purposes, the Company's obligation to issue a variable number of shares pursuant to the series B warrants, was classified as a financial liability measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes in the fair value were recorded to profit and loss until the reset date (see below). The equity components are initially recognized by subtracting the fair value of the financial liability from consideration received, based on the proportion of each one of them. The equity components are not re-measured in subsequent periods. Issuance expenses of \$1.3 million in 2018 were allocated on a pro-rata basis to the three components mentioned above.

In connection with the underwritten public offering, the Company granted the underwriter a 45-day option to purchase up to 3,828 additional ADSs and Series A warrants to purchase up to an additional 5,742 ADSs and Series B warrants to purchase up to an additional 5,742 ADS. The underwriter did not exercise the option.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SHAREHOLDERS' EQUITY (continued):

The Company also granted the underwriter warrants to purchase up to 1,276 ADSs at an exercise of \$287 per ADS and a term of 5 years from the issuance date.

On December 19, 2018, the Reset Price of the Series B Warrants was set at \$86.10 per ADS. As a result, the Series B Warrants holders are entitled to an additional 59,670 ADSs subject to payment of an exercise price of \$0.001 per ADS. The exercise period is unlimited.

A total of 12,275 ADSs resulting from the Series B Warrants' Reset Price calculations were not registered with the U.S. Securities and Exchange Commission ("SEC"). As a result, in January 2019 those warrants were cancelled and replaced with substantially similar warrants that contain a mechanism for cashless exercise.

As of December 31, 2019, 58,231 ADS were exercised by the Series B warrants holders, such that the unexercised balance as of this date was 1,431 ADSs.

For accounting purposes, as of December 19, 2018, following the setting of the Reset Price, as described above, the fair value of the financial liability, as of such date, in the amount of \$3,479 thousand, was reclassified to equity on December 31, 2018, other than the amount of ADSs not approved for registration, which was still classified as a financial liability in the statement of financial position based on fair value of the Company's share price at December 31, 2018 (a level 1 measurement). During 2019, the remaining amount of financial liability was classified to equity, after approved for registration.

2. On November 5, 2019, the Company completed an additional underwritten public offering of approximately \$3.5 million, before deducting underwriting discounts, commissions and other offering expenses. The offering consisted of (i) 121,400 units (the "November 2019 Units") of ADSs and warrants to purchase 1.5 ADSs per warrant (the "November 2019 Warrants"), with each November 2019 Unit consisting of one ADS and one November 2019 Warrant, and (ii) 378,500 pre-funded units (the "November 2019 Pre-Funded Units"), with each November 2019 Pre-Funded Unit consisting of a pre-funded warrant to purchase one ADS (a "November 2019 Pre-Funded Warrant") and a November 2019 Warrant.

Each November 2019 Unit was sold at a price of \$7.00 per unit, and each November 2019 Pre-Funded Unit was sold at a price of \$7.00 per unit, including the November 2019 Pre-Funded Warrant exercise price of \$0.001 per full ADS. The November 2019 Pre-Funded Warrants are exercisable at any time after the date of issuance upon payment of the exercise price. The November 2019 Warrants have a per ADS exercise price of \$7.70 per full ADS, are exercisable immediately, and will expire five years from the date of issuance.

The Company granted the underwriter a 45-day option to purchase up to an additional 74,985 ADSs and/or November 2019 Warrants to cover over-allotments, if any. The underwriter did not exercise its option.

As of December 31, 2019, all November 2019 Pre-Funded Units from this offering were exercised in exchange for the exercise price of \$0.001 per ADS, as well as 10,000 warrants that were exercised in an aggregate amount of \$77 thousand.

3. On December 26, 2019, the Company completed the December 2019 Registered Direct Offering of \$1,668 thousand, before deducting offering expenses. The offering consisted of (i) 269,272 ADSs, and (ii) 260,281 pre-funded warrants, each to purchase one ADS and one regular warrant to purchase one ADS at an exercise price of \$3.30 (the "December 2019 Pre-Funded Warrants").

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SHAREHOLDERS' EQUITY (continued):

Each ADSs was sold at a price of \$3.15 per ADS, and each December 2019 Pre-Funded Warrant was sold at a price of \$3.15 per warrant, including the December 2019 Pre-Funded Warrant exercise price of \$0.001 per full ADS. The December 2019 Pre-Funded Warrants are exercisable at any time after the date of issuance upon payment of the exercise price. The December 2019 Warrants have a per ADS exercise price of \$3.30 per full ADS, are exercisable immediately, and will expire 5.5 years from the date of issuance.

For accounting purposes, the Company recognized financial liability in respect of the December 2019 Warrants. These warrants are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis. The equity components are initially recognized by subtracting the fair value of the financial liability from consideration received. The equity components are not re-measured in subsequent periods. Issuance expenses of \$185 thousand in 2019 were allocated on a pro-rata basis to the three components mentioned above.

4. On April 2, 2020, the Company completed a registered direct offering of \$720 thousand, before deducting offering expenses. The offering consisted of 450,000 ADSs at a price per ADS of \$1.60.
5. On April 23, 2020, the Company completed an additional underwritten public offering of approximately \$8.4 million, before deducting underwriting discounts, commissions and other offering expenses. The offering consisted of ((i) 858,600 units (the "April 2020 Units") of ADS and warrants to purchase one ADS per warrant (the "April 2020 Warrants"), with each Unit consisting of one ADS and one Warrant, and (ii) 6,777,500 pre-funded units (the "April 2020 Pre-Funded Units"), with each Pre-Funded Unit consisting of a pre-funded warrant to purchase one ADS (an "April 2020 Pre-Funded Warrant") and one Warrant.

Each April 2020 Unit was sold at a price of \$1.10 per unit, and each April 2020 Pre-Funded Unit was sold at a price of \$1.099 per unit, including an exercise price of \$0.001 per full ADS. The April 2020 Pre-Funded Warrants are exercisable at any time after the date of issuance upon payment of the exercise price. The Warrants have a per ADS exercise price of \$1.20 per full ADS, are exercisable immediately, and will expire five years from the date of issuance.

The Company granted the underwriter a 45-day option to purchase up to an additional 1,145,415 ADSs and/or April 2020 Warrants to cover over-allotments, if any. The underwriter did not exercise its option.

As of December 31, 2020, all the April 2020 Pre-Funded Warrants were exercised into 6,777,500 ADSs in exchange for an aggregate exercise amount of approximately \$7 thousand. Also, 3,059,000 April 2020 Warrants were exercised into 3,059,000 ADSs in exchange for an aggregate exercise amount of approximately \$3.7 million.

6. On July 22, 2020, the Company closed a registered direct equity offering. The offering included the issuance of 3,075,000 ADSs at a purchase price of \$1.40 per ADS, and 1,145,000 pre-funded warrants (the "July 2020 Pre-Funded Warrants"). The July 2020 Pre-Funded Warrants were sold at a price of \$1.40 each, including the July 2020 Pre-Funded Warrant exercise price of \$0.001 per full ADS. The July 2020 Pre-Funded Warrants will be exercisable at any time after the date of issuance upon payment of the exercise price. The offering resulted in gross proceeds to the Company of approximately \$5.9 million.

As of December 31, 2020, all the July 2020 Pre-Funded Warrants were exercised into 1,145,000 ADSs in exchange for an aggregate exercise amount of approximately \$1 thousand.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SHAREHOLDERS' EQUITY (continued):

d. Reverse Split

On September 26, 2019, the Company's shareholders approved a reverse split of the share capital of the Company by a ratio of up to 20:1, to be effective at the ratio and date to be determined by the Company's Board of Directors (the "Board of Directors"). On October 2, 2019, the Board of Directors resolved that the final ratio will be 20:1, which became effective on October 21, 2019 (the "Reverse Split"). All descriptions of the Company's share capital in these consolidated financial statements, including share amounts and per share amounts, are presented after giving effect to the Reverse Split.

e. Rights conferred by shares

Ordinary shares

The ordinary shares confer upon their holders voting rights, the right to receive dividends, the right to a share in excess assets upon liquidation of the Company and other rights as set out in the Company's articles of association.

NOTE 17 - BUSINESS COMBINATION:

a. NetNut acquisition

On April 4, 2019, the Company entered into a share and asset purchase agreement (the "Share and Asset Purchase Agreement") with NetNut and its shareholders, pursuant to which the Company acquired all (100%) of the outstanding share capital of NetNut ("Purchased Shares"), a private Israeli company, in the business IPPN solution industry, and certain assets of DiViNetworks Ltd. ("DiVi"), NetNut's former controlling shareholder, which its assets are required for the ongoing operations of NetNut (the "Purchased Assets"). The Purchased Shares and asset acquired were accounted for together as a business combination.

In consideration for the Purchased Shares, the Company agreed to pay NetNut's shareholders:

An amount equal to \$3,400 thousand (the "Initial Shares Purchase Price"), out of which (i) \$1,615 thousand was paid on Closing (as defined below) in immediate funds (in addition to an amount of \$250 thousand down payment paid by the Company upon signing of Share and Asset Purchase Agreement); (ii) \$175 thousand was deposited in escrow; and (iii) \$1,360 thousand was paid by issuance of 1,217,370 ordinary shares of the Company (based on NIS 4.62 which is a per share 30-day average price of the Company's ordinary shares on the TASE prior to the date on which the Share and Asset Purchase Agreement was signed (the "Initial Consideration PPS")). The parties agreed that the Initial Shares Purchase Price may be increased or decreased on a dollar-for-dollar basis in the event NetNut has a negative working capital on the date of the Closing. Pursuant to this mechanism, in October 2019 the Initial Shares Purchase Price was decreased by \$233 thousand which amount was repaid to the Company.

An amount of up to \$5,000 thousand payable in contingent consideration (the "EarnOut Amount"), to be paid and distributed to the shareholders of NetNut upon NetNut achieving certain revenue milestones in 2019 and for which the Company has granted a first security interest and pledge in 30% of the NetNut shares. The payment of the payable EarnOut Amount was deferred to the time when the Company's financial results for the year 2019 are published. The Company, at its sole discretion, could elect to pay up to fifty percent (50%) of the EarnOut Amount in ordinary shares (the "EarnOut Shares"), provided that in any event, the amount of the EarnOut Shares will not exceed 2,237,814 ordinary shares (representing a quotient of half of the maximum EarnOut amount, i.e. \$2,500 thousand, divided by the Initial Consideration PPS).

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - BUSINESS COMBINATION (continued):

In consideration for the sale, delivery, transfer and assignment of the Purchased Assets, the Company agreed to pay DiVi at Closing:

An aggregate amount equal to \$6,300 thousand (the “Assets Purchase Price”). The Assets Purchase Price was paid as follows:

- An amount equal to \$3,455 thousand was paid at Closing in immediately payable funds;
- An amount equal to \$325 thousand was deposited in escrow;
- An amount equal to \$2,520 thousand, was paid at Closing in ordinary shares, issued at a per share price equal to the Initial Consideration PPS, i.e. 2,255,717 ordinary shares.

In connection with the transaction, the Company agreed to pay to certain finders of the transaction a fee equal to the sum of 3% of the total purchase price of the transaction. The Company elected to pay up to 50% of such fee in equity securities of the Company. Accordingly, the Company incurred transaction costs amounting to approximately \$312 thousand that were charged to profit or loss within “general and administrative expenses.”

On June 12, 2019, the Company completed the acquisition according to the terms mentioned above (the “Closing”).

The tables below summarize the total purchase price paid for NetNut, and the amounts of assets acquired, and liabilities assumed, as of the Closing date, at their fair values:

		<u>As of</u> <u>June 12, 2019</u> <u>U.S. dollars</u> <u>in thousands</u>
Purchase price:		
Share consideration calculation:		
Company's market price per share	\$ 1.0274	
Number of shares to be issued	3,473,087	
Share consideration		3,568
Cash consideration		5,587
Contingent consideration		2,008
Total purchase price		<u>11,163</u>

The market price per share is the share closing price on the TASE as of June 12, 2019, translated into U.S. dollars using the exchange rate as of such date.

The fair value of the contingent consideration was valued using a Monte Carlo model. The primary inputs are described in Note 3. On June 25, 2020, the Company entered into a settlement and release of claims agreement, refer also Note 11(c).

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - BUSINESS COMBINATION (continued):

	As of June 12, 2019
	U.S. dollars in thousands
The fair values of the identifiable assets and liabilities:	
Cash and cash equivalents	79
Accounts receivable – trade	130
Accounts receivable – other	175
Property, plant and equipment	14
Right of use assets	405
Servers	199
Technology and supplier relations*	4,651
Customer relations*	259
Short-term loan	(24)
Accounts payable – trade	(170)
Accounts payable – other	(343)
Contract liabilities	(99)
Lease liabilities	(443)
Deferred taxes liabilities	(1,026)
Total identifiable net assets at fair value	3,807
Goodwill	7,356
Total purchase price	11,163

* Technology and supplier relations and customer relations are amortized on a straight-line basis over 5 years and 7.5 years, respectively. Goodwill primarily represented the value of expected synergies arising from the acquisition, as well as assembled workforce, and was allocated entirely to the IPPN services segment.

On October 3, 2019, the Company received an amount of \$233 thousand as a repayment on behalf of the acquisition, due to the acquisition working capital adjustments. The repaid amount was allocated as a deduction to the goodwill amount, which was set to \$7,356 thousand.

From the date of acquisition through December 31, 2019, NetNut had contributed \$1,976 thousand to the revenue of the Company and had increased loss from continuing operations of the Company by \$82 thousand. If the business combination had taken place on January 1, 2019, consolidated unaudited pro forma revenue and loss from continuing operations would have been \$4,510 thousand and \$13,045 thousand, respectively, for the year ended December 31, 2019.

b. Chi Cooked acquisition

On December 8, 2020, the Company entered into an equity purchase agreement (the “EPA”) with Chi Cooked LLC and its sole shareholder, pursuant to which the Company acquired all (100%) of the outstanding equity interests of Chi Cooked (“Equity Interest”), a private US, Illinois based company, in the business IPPN solution industry. The Equity Interest acquired were accounted as a business combination.

In consideration for the Equity Interest, the Company agreed to pay Chi Cooked’s sole shareholder an amount equal to \$1,100 thousand (the “Initial Equity Interest Price”). The parties agreed that the Initial Equity Interest Price may be increased or decreased on a dollar-for-dollar basis in the event Chi Cooked has a positive or a negative working capital on the date of the Closing. Pursuant to this mechanism, in March 2021 the Initial Equity Interest Price was decreased by \$51 thousand.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - BUSINESS COMBINATION (continued):

An additional amount equal to Chi Cooked's 2021 revenues less \$1 million, and subject to an operating margin of at least 37.5%, will be paid in April 2022. The Company, in its sole discretion, may pay up to 25% of the contingent consideration by issuing ADSs.

Transaction costs, at the amount of \$118 thousand were charged to profit or loss within "general and administrative expenses."

The fair value of the contingent consideration was valued using a Monte Carlo model. The primary inputs are described in Note 3.

	As of December 8, 2020 U.S. dollars in thousands
Purchase price:	
Cash consideration	1,049
Contingent consideration	684
Total purchase price	1,733
	As of December 8, 2020 U.S. dollars in thousands
The fair values of the identifiable assets and liabilities:	
Cash and cash equivalents	30
Accounts receivable – trade	11
Accounts receivable – other	61
Customer relations*	515
Accounts payable – trade	(12)
Accounts payable – other	(2)
Contract liabilities	(139)
Total identifiable net assets at fair value	464
Goodwill	1,269
Total purchase price	1,733

* Customer relations are amortized on a straight-line basis over 7 years. Goodwill primarily represented the value of assembled workforce and is part of the IPPN services segment.

From the date of acquisition through December 31, 2020, Chi Cooked had contributed \$92 thousand to the revenue of the Company and had decreased loss from continuing operations of the Company by \$4 thousand. If the business combination had taken place on January 1, 2020, consolidated unaudited pro forma revenues and gain from continuing operations would have been \$1,290 thousand and \$363 thousand, respectively, for the year ended December 31, 2020.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 - REVENUES AND COST OF REVENUES:

a. Revenues

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Revenues from IPPN services	3,839	1,976	-
Revenues from licenses	447	625	794
Revenues from provision of maintenance and support services	587	655	606
Revenue from other license related services	13	28	66
	<u>4,886</u>	<u>3,284</u>	<u>1,466</u>

b. Revenue recognized in relation to contract liabilities

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied at the reporting date.

U.S. dollars in thousands	2021	2022 and thereafter	Total
Contracts with customers	441	41	482

The Company recognized \$562 thousand of revenue related to beginning of the period contract liability balances.

c. Cost of revenues

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Payroll and related expenses	257	206	367
Share-based payment	5	31	55
Amortization of and depreciation	1,084	863	270
Impairment of intangible assets	-	270	-
Cost of internet services providers	973	360	-
Cost of networks and servers	129	88	-
Other	51	71	99
	<u>2,499</u>	<u>1,889</u>	<u>791</u>

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 19 - RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Payroll and related expenses	999	1,483	1,632
Share-based payment	124	6	13
Subcontractors	911	668	421
Other	168	328	348
	<u>2,202</u>	<u>2,485</u>	<u>2,414</u>

NOTE 20 - SELLING AND MARKETING EXPENSES:

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Payroll and related expenses	2,009	2,007	2,801
Share-based payment	299	180	123
Professional fees	461	363	1,118
Marketing	440	452	699
Selling commissions	692	378	86
Other	314	403	715
	<u>4,215</u>	<u>3,783</u>	<u>5,542</u>

NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Payroll and related expenses	1,130	838	667
Share-based payment	326	396	190
Professional fees	2,184	2,018	885
Other	557	505	183
	<u>4,197</u>	<u>3,757</u>	<u>1,925</u>

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 22 - FINANCIAL EXPENSES, NET:

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Finance expenses:			
Bank fees and interest	(152)	(166)	(20)
Issuance expenses	(156)	(447)	(517)
Changes financial liabilities at fair value through profit or loss, including day 1 loss	-	(5,649)	(2,839)
Exchange differences	-	-	(120)
Total finance expenses	(308)	(6,262)	(3,496)
Financing income:			
Changes in financial liabilities at fair value through profit or loss, including day 1 loss	3,245	3,050	945
Interest received from institutions	14	4	10
Exchange differences	289	24	-
Total financing income	3,548	3,078	955
Financing income (expenses), net	3,240	(3,184)	(2,541)

NOTE 23 - LOSS PER SHARE:

a. Basic

Basic loss per share is calculated by dividing the loss attributable to the Company's owners by the weighted average number of ordinary shares in issue (including pre-funded warrants).

	Year ended December 31		
	2020	2019	2018
Loss attributable to Company's owners (U.S. dollars in thousands)	(7,845)	(12,998)	(11,753)
The weighted average of the number of ordinary shares in issue, including pre-funded warrants (in thousands)	442,949	13,599	1,765
Basic loss per share (U.S. dollars)	(0.02)	(0.96)	(6.66)

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 23 - LOSS PER SHARE (continued):

b. Diluted

The Company adjusts the loss attributable to holders of ordinary shares and the weighted average number of shares in issue, to reflect the effect of all potentially dilutive ordinary shares, as follows:

The Company adds to the weighted average number of shares in issue that was used to calculate the basic loss per share, the weighted average of the number of shares to be issued assuming that all shares that have a potentially dilutive effect would be converted into shares, and adjusts net loss attributable to holders of the Company's ordinary shares to exclude any profits or losses recorded during the year with respect to potentially dilutive shares. The potential shares, as mentioned above, are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

	Year ended December 31		
	2020	2019	2018
Loss attributable to Company's owners, used in computation of basic loss per share (U.S. dollars in thousands)	(7,845)	(12,998)	(11,753)
Adjustment in respect of the finance income relating to anti-dilution mechanism and compensation feature (U.S. dollars in thousands)	-	-	(710)
Adjustment in respect of the finance income relating to B Warrants and Warrants (U.S. dollars in thousands)	-	(1,462)	-
Adjustment in respect of the finance income relating to Convertible Debentures (U.S. dollars in thousands)	(1,692)	-	-
	<u>(9,537)</u>	<u>(14,460)</u>	<u>(12,463)</u>
The weighted average of the number of ordinary shares in issue used in computation of basic loss per share (in thousands)	442,949	13,599	35,302
Adjustment in respect of incremental shares assuming the conversion to anti-dilution mechanism and compensation feature (in thousands)	-	-	344
Adjustment in respect of incremental shares assuming the conversion to B Warrants and Warrants (in thousands)	-	421	-
Adjustment in respect of incremental shares assuming the conversion to Convertible Debentures (in thousands)	12,517	-	-
	<u>455,466</u>	<u>14,020</u>	<u>35,646</u>
Diluted loss per share (U.S. dollars)	<u>(0.02)</u>	<u>(1.03)</u>	<u>(6.99)</u>

The calculation of diluted loss per share for December 31, 2020 does not give effect to the potential share issuance of ordinary shares upon the exercise of options to employees and service providers, Warrants and MFN Warrants, as their effect is anti-dilutive.

The calculation of diluted loss per share for December 31, 2019 does not give effect to the potential share issuance of ordinary shares upon the exercise of options to employees and service providers, Convertible Debentures, Greenshoe Option, Warrants and MFN Warrants, as their effect is anti-dilutive.

The calculation of diluted loss per share for December 31, 2018 does not give effect to the potential share issuance of ordinary shares upon the exercise of options to employees and service providers, as their effect is anti-dilutive.

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 24 - RELATED PARTIES TRANSACTIONS AND BALANCES:

“Related Parties” - As defined in IAS 24, “Related Party Disclosures” (“IAS 24”).

Key management personnel - included together with other entities in the said definition of “related parties” in IAS 24, include the members of the Board of Directors and senior executives.

a. Transactions with related parties

1) Compensation to related parties

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Compensation to directors employed by the Company	1,122	656	470
Compensation to other key management personnel	1,245	1,410	1,646
Compensation to directors who are not employed by the Company	80	80	66

2) Compensation to key management personnel, including employed directors

The compensation paid to key management personnel for work services they provide to the Company is as follows:

	Year ended December 31		
	2020	2019	2018
	U.S. dollars in thousands		
Payroll, management fees, and other short-term benefits	1,402	1,721	1,758
Bonuses and commissions	667	173	146
Share-based payments	297	226	219
	2,366	2,120	2,123

b. Balances with related parties

	December 31	
	2020	2019
	U.S. dollars in thousands	
Employees payable	58	53
Employees accrued vacation	141	110
Accrued bonuses & commissions	142	170
Accounts payable	71	69
	412	402

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 - ENTITY LEVEL DISCLOSURES AND SEGMENT INFORMATION:

Management has determined the Company's operating segments based on the information reviewed by the Company's chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The chief operating decision maker, who is the Company's Chief Executive Officer, examines the performance of the operating segments based on revenues and adjusted operating profit (loss), which is calculated based on operating profit (loss) before depreciation and amortization, impairment of goodwill and intangible assets, contingent consideration measurement and the effects of share-based payment transactions.

As of December 31, 2020, and following the NetNut acquisition at June 12, 2019, the Company has two operating segments: Cyber Security and IPPN services.

	<u>Cyber Security</u>	<u>IPPN Services</u>	<u>Total</u>
	<u>Year ended December 31, 2020</u>		
	<u>U.S. dollar in thousands</u>		
Revenues	1,047	3,839	4,886
Adjusted operating loss	(5,287)	(835)	(6,122)
Share-based payments			(742)
Contingent consideration measurement			(345)
Impairment of goodwill and intangible assets			(2,759)
Depreciation and amortization			(1,363)
Operating loss			(11,331)
Financial expenses, net			3,240
Taxes on income			246
Net loss for the period			(7,845)

	<u>Cyber Security</u>	<u>IPPN Services</u>	<u>Total</u>
	<u>Year ended December 31, 2019</u>		
	<u>U.S. dollar in thousands</u>		
Revenues	1,308	1,976	3,284
Adjusted operating loss	(6,715)	89	(6,626)
Share-based payments			(612)
Contingent consideration measurement			(159)
Impairment of goodwill and intangible assets			(1,272)
Depreciation and amortization			(1,122)
Operating loss			(9,791)
Financial expenses, net			(3,184)
Taxes on income			(23)
Net loss for the period			(12,998)

SAFE-T GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 - ENTITY LEVEL DISCLOSURES AND SEGMENT INFORMATION (continued):

As of the date of these consolidated financial statements, most of the Company's customers are commercial Israeli and American companies. The remaining Company customers are European companies. Set forth below is a breakdown of the Company's revenues by geographic regions:

	<u>Israel</u>	<u>USA</u>	<u>Other</u>	<u>Total</u>
	<u>U.S. dollars in thousands</u>			
Company's revenues:				
For the year 2020	973	1,837	2,076	4,886
For the year 2019	1,071	1,418	795	3,284
For the year 2018	988	353	125	1,466

NOTE 26 - SUBSEQUENT EVENTS:

a. Post financial statements date conversions and exercises

During the period from January 1, 2021 until the financial statements date, 3,090,900 April 2020 Warrants were exercised into 3,090,900 ADSs, for a total consideration of approximately \$3.7 million.

b. Settlement agreement with the last NetNut's former shareholder

On February 25, 2021, the Company signed a settlement and release of claims agreement with a NetNut's shareholder that was not a party to the Settlement Agreement that was signed in June 2020 (See Note 11(c)). According to the agreement, the shareholder will be entitled to a contingent consideration payment of \$475 thousand (after a deduction of \$35 thousand), based on the same terms and amounts agreed with the Settling Shareholders within the Settlement Agreement. On February 28, 2021, the Company paid an amount of \$400 thousand. The remain balance of \$75 thousand will be paid as final payment by April 30, 2021.

c. Registered direct equity offering

On February 18, 2021, the Company closed a registered direct equity offering. The offering included the issuance of 4,615,000 ADSs at a purchase price of \$2.00 per ADS, and 260,000 pre-funded warrants. The pre-funded warrants were sold at a price of \$2.00 each, including the pre-funded warrant exercise price of \$0.001 per full ADS. The pre-funded warrants will be exercisable at any time after the date of issuance upon payment of the exercise price.

The offering resulted in gross proceeds to the Company of approximately \$9.75 million.

d. Options grant

On March 7, 2021, the Company's board of directors approved an aggregate grant of 12,850,183 options to purchase 12,850,183 ordinary shares, to employees and consultants. The exercise prices of the options granted range from NIS 0 to NIS 0.157 per share (approximately \$0.05), their vesting schedules range between immediate vesting to 3 years, and they will expire 3-10 years from the grant date.

Description of Rights of Each Class of Securities**Type and Class of Securities**

As of March 21, 2021, Safe-T Group Ltd.'s (the "Company") authorized share capital consisted of 3,000,000,000 ordinary shares, no par value per share ("Ordinary Shares").

Registration Number and Purposes and Objects of the Company

The Company's registration number with the Israeli Registrar of Companies is 51-141847-7. The Company's purpose is set forth in Section 3(b) of the Company's amended and restated articles of association and includes every lawful purpose.

The Powers of the Directors

The Company's board of directors (the "Board") may exercise all powers that are not required under the Israeli Companies Law of 1999 (the "Companies Law"), or under the Company's amended and restated articles of association, other than the powers which are to be exercised or taken by the Company's shareholders.

Preemptive Rights

The Company's Ordinary Shares are not redeemable and are not subject to any preemptive right.

Voting Rights of Directors

Subject to the provisions of the Companies Law and the Company's amended and restated articles of association, no director shall be disqualified by virtue of his or her office from holding any office or place of profit in the Company or in any company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any director shall be in any way interested, be avoided, nor, other than as required under the Companies Law, shall any director be liable to account to the Company for any profit arising from any such office or place of profit or realized by any such contract or arrangement by reason only of such director's holding that office or of the fiduciary relations thereby established, but the nature of his or her interest, as well as any material fact or document, must be disclosed by him at the meeting of the Board at which the contract or arrangement is first considered, if his or her interest then exists, or, in any other case, at no later than the first meeting of the Board after the acquisition of his or her interest.

Limitations or Qualifications

Not applicable.

Other Rights

Not applicable.

Rights of the Shares

The Company's Ordinary Shares shall confer upon the holders thereof:

- equal right to attend and to vote at all of the Company's general meetings, whether regular or special, with each Ordinary Share entitling the holder thereof, which attends the meeting and participates in the voting, either in person or by a proxy or by a written ballot, to one vote;
 - equal right to participate in distribution of dividends, if any, whether payable in cash or in bonus shares, in distribution of assets or in any other distribution, on a per share pro rata basis; and
 - equal right to participate, upon the Company's dissolution, in the distribution of the Company's assets legally available for distribution, on a per share pro rata basis.
-

Election of Directors

Pursuant to the Company's amended and restated articles of association, the Company's Board is divided into three classes with staggered three-year terms, in a manner that each director, except external directors, serves for a term of three years, and holds office until the annual general meeting of the Company's shareholders for the year in which his or her term expires, unless (i) he or she is removed by a 65% majority of the shareholders voting on such matter at an annual meeting of the Company's shareholders, provided that such majority constitutes more than 50% of the Company's then issued and outstanding share capital or (i) upon the occurrence of certain events, in accordance with the Companies Law and the Company's amended and restated articles of association. At each annual general meeting of our shareholders, the election or re-election of directors (other than external directors) following the expiration of the term of office of the directors of that class of directors will be for a term of office that expires on the third annual general meeting following such election or re-election, such that each year the term of office of only one class of directors will expire. Pursuant to the Company's amended and restated articles of association, other than the external directors, for whom special election requirements apply under the Companies Law, the vote required to appoint a director is a simple majority vote of holders of the Company's voting shares, participating and voting at the relevant meeting. In addition, the Company's amended and restated articles of association allow the Company's board of directors to appoint directors to fill vacancies and/or as an addition to the board of directors (subject to the maximum number of twelve directors) to serve for the remaining period of time during which the director whose service has ended would have held office, or in case of an addition to the board of directors, in accordance with the class assigned to such appointed director, as determined by the board of directors at the time of such appointment. External directors are elected for an initial term of three years, and may be elected thereafter for up to two additional three-year terms under certain circumstances, and may be removed from office pursuant to the terms of the Companies Law. Under certain circumstances, the term of office for external directors for Israeli companies traded on certain foreign stock exchanges, including the Nasdaq Stock Market, may be extended indefinitely in increments of additional three-year terms.

Annual and Special Meetings

Under Companies Law, the Company is required to hold an annual general meeting of the Company's shareholders once every calendar year, at such time and place which shall be determined by the Company's board of directors, which must be no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to as special general meetings. The Company's board of directors may call special meetings whenever it sees fit and upon the written request of: (a) any two of the Company's directors or of one quarter of the members of the Board in office at such time; and/or (b) one or more shareholders holding, in the aggregate, 5% of the Company's outstanding voting power.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the Board, which according to the Companies Law may be between four and forty days prior to the date of the meeting. Resolutions regarding the following matters must be passed at a general meeting of the Company's shareholders:

- amendments to the Company's amended and restated articles of association;
- the exercise of the Board's powers by a general meeting if the Board is unable to exercise its powers and the exercise of any of its powers is required for the Company's proper management;
- appointment or termination of the Company's auditors;
- appointment of directors (other than with respect to circumstances specified in the Company's amended and restated articles of association);
- approval of acts and transactions requiring general meeting approval pursuant to the provisions of the Companies Law and any other applicable law;
- increases or reductions of the Company's authorized share capital; and
- a merger (as such term is defined in the Companies Law).

Notices

The Companies Law requires that a notice of any annual or special general meeting be provided at least 21 days prior to the meeting, and if the agenda of the meeting includes certain matters prescribed under the Companies Law and the regulations promulgated thereafter, among others, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the Company's general manager to serve as the chairman of the board of directors or an approval of a merger, notice must be provided at least 35 days prior to such meeting.

Quorum

As permitted under the Companies Law, the quorum required for the Company's general meetings consists of at least two shareholders present in person, by proxy, written ballot or voting by means of electronic voting system, who hold or represent between them in aggregate at least 15% of the total outstanding voting rights. If within half an hour of the time set forth for the general meeting a quorum is not present, the general meeting shall stand adjourned either (i) to the same day of the following week, at the same hour and in the same place (ii) to such other date, time and place as prescribed in the notice to the shareholders and in such adjourned meeting or (iii) to such day and at such time and place as the chairperson of the general meeting shall determine (which may be earlier or later than the date pursuant to clause (i) above). If no quorum is present within half an hour of the time arranged, any number of shareholders participating in the meeting, shall constitute a quorum.

If a special general meeting was summoned following the request of a shareholder, and within half an hour a legal quorum shall not have been formed, the meeting shall be canceled.

Access to Corporate Records

Under the Companies Law, shareholders are entitled to have access to: minutes of the Company's general meetings; the Company's shareholders register and principal shareholders register, articles of association and annual audited financial statements; and any document that the Company is required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. These documents are publicly available and may be found and inspected at the Israeli Registrar of Companies. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. The Company may deny this request if the Company believes it has not been made in good faith or if such denial is necessary to protect the Company's interest or protect a trade secret or patent.

Adoption of Resolutions

The Company's amended and restated articles of association provide that the resolutions amending provisions of the articles related to the staggered board of directors and the composition of the board, as well as a resolution to dismiss a director in office, will require an affirmative vote of 65% of the voting power represented at a general meeting and voting thereon, provided that such majority constitutes more than 50% of the Company's then issued and outstanding share capital. Other than that, and unless otherwise required under the Companies Law all resolutions of the Company's shareholders require a simple majority vote. A shareholder may vote in a general meeting in person, by proxy, by a written ballot.

Changing Rights Attached to Shares

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class, unless otherwise provided by the Companies Law or the Company's amended and restated articles of association, may be modified or cancelled by the Company by a resolution of the general meeting of the holders of all shares as one class, without any required separate resolution of any class of shares.

The enlargement of an existing class of shares or the issuance of additional shares thereof, shall not be deemed to modify the rights attached to the previously issued shares of such class or of any other class, unless otherwise provided by the terms of the shares.

Limitations on the Rights to Own Ordinary Shares

There are no limitations on the right to own the Company's securities.

Provisions Restricting Change in Control of the Company

Our amended and restated articles of association provide for a staggered board of directors, which mechanism may delay, defer or prevent a change of control of the Company. Other than that, there are no specific provisions of the Company's amended and restated articles of association that would have an effect of delaying, deferring or preventing a change in control of the Company or that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company (or the Company's subsidiaries). However, as described below, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to the merger have the transaction approved by its board of directors and, unless certain requirements described under the Companies Law are met, a vote of the majority of its shareholders, and, in the case of the target company, also a majority vote of each class of its shares. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the merger (or by any person or group of persons acting in concert who holds 25% or more of the voting power or the right to appoint 25% or more of the directors of the other party) vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same Special Majority (as defined below) approval that governs all extraordinary transactions with controlling shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors. If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the petition of holders of at least 25% of the voting rights of a company. For such petition to be granted, the court must find that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. In addition, a merger may not be completed unless at least (1) 50 days have passed from the time that the requisite proposals for approval of the merger were filed with the Israeli Registrar of Companies by each merging company and (2) 30 days have passed since the merger was approved by the shareholders of each merging company.

The term "Special Majority" is defined in the Companies Law as:

- at least a majority of the shares held by shareholders who are not controlling shareholders and do not have personal interest in the merger (excluding a personal interest that did not result from the shareholder's relationship with the controlling shareholder) have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered); or
- the total number of shares voted against the merger, does not exceed 2% of the aggregate voting rights of the company.

The Companies Law also provides that, subject to certain exceptions, an acquisition of shares in an Israeli public company must be made by means of a “special” tender offer if as a result of the acquisition (1) the purchaser would become a holder of 25% or more of the voting rights in the company, unless there is already another holder of at least 25% or more of the voting rights in the company or (2) the purchaser would become a holder of 45% or more of the voting rights in the company, unless there is already a holder of more than 45% of the voting rights in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholders’ approval, subject to certain conditions, (2) was from a holder of 25% or more of the voting rights in the company which resulted in the acquirer becoming a holder of 25% or more of the voting rights in the company, or (3) was from a holder of more than 45% of the voting rights in the company which resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. A “special” tender offer must be extended to all shareholders. In general, a “special” tender offer may be consummated only if (1) at least 5% of the voting power attached to the company’s outstanding shares will be acquired by the offeror and (2) the offer is accepted by a majority of the offerees who notified the company of their position in connection with such offer (excluding the offeror, controlling shareholders, holders of 25% or more of the voting rights in the company or anyone on their behalf, or any person having a personal interest in the acceptance of the tender offer). If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of an Israeli public company’s outstanding shares or of certain class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares, or for all of the outstanding shares of such class, as applicable. In general, if less than 5% of the outstanding shares, or of applicable class, are not tendered in the tender offer and more than half of the offerees who have no personal interest in the offer tendered their shares, all the shares that the acquirer offered to purchase will be transferred to it by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares. Any shareholders that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may request, by petition to an Israeli court, (i) appraisal rights in connection with a full tender offer, and (ii) that the fair value should be paid as determined by the court, for a period of six months following the acceptance thereof. However, the acquirer is entitled to stipulate, under certain conditions, that tendering shareholders will forfeit such appraisal rights.

Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his Ordinary Shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

Differences Between Law of Different Jurisdictions

Not applicable.

Borrowing Powers

Pursuant to the Companies Law and the Company’s amended and restated articles of association, the Board may exercise all powers and take all actions that are not required under law or under the Company’s amended and restated articles to be exercised or taken by the shareholders, including the power to borrow money for company purposes subject to the provisions of the Companies Law and the Company’s amended and restated articles of association.

Changes in the Company's Capital

The general meeting may, by a simple majority vote of the shareholders attending the general meeting and subject to the provisions of the Companies Law:

- increase the Company's registered share capital by the creation of new shares from the existing class or a new class, as determined by the general meeting;
- cancel any registered share capital which has not been taken or agreed to be taken by any person;
- consolidate and divide all or any of the Company's share capital into shares of larger nominal value than the Company's existing shares;
- subdivide the Company's existing shares or any of them, the Company's share capital or any of it, into shares of smaller nominal value than is fixed; and
- reduce the Company's share capital and any fund reserved for capital redemption in any manner, and with and subject to any incident authorized, and consent required, by the Companies Law.

Debt Securities

The Company does not have any debt securities that are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Warrants and Rights

The Company does not have any warrants or rights that are registered under Section 12 of the Securities Exchange Act.

Other Securities

The Company does not have any other securities that are registered under Section 12 of the Securities Exchange Act.

Name of the Depositary

The Bank of New York Mellon, as depositary, will register and deliver American Depositary Shares ("ADSs"). Each ADS will represent forty Ordinary Shares (or a right to receive forty Ordinary Shares) deposited with Bank Hapoalim or Leumi Bank, as custodian for the depositary in Tel Aviv. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The deposited shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities. The depositary's office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The Bank of New York Mellon's principal executive office is located at 240 Greenwich Street New York, NY 10286.

American Depositary Shares

A holder of the Company's ADSs (the "Holder") may hold ADSs either (A) directly (i) by having American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in the Holder's name, or (ii) by having uncertificated ADSs registered in the Holder's name, or (B) indirectly by holding a security entitlement in ADSs through the ADS Holder's broker or other financial institution that is a direct or indirect participant in The Depository Trust Company ("DTC"). If the Holder hold ADSs directly, the Holder is a registered ADS holder, also referred to as an ADS holder. This description assumes the Holder is an ADS holder. If the Holder holds the ADSs indirectly, the Holder must rely on the procedures of the Holder's broker or other financial institution to assert the rights of ADS holders described in this section. The Holder should consult with his broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depositary confirming their holdings.

As an ADS holder, the Company will not treat the Holder as one of the Company's shareholders and the Holder will not have shareholder rights. Israeli law governs shareholder rights. The depositary will be the holder of the shares underlying the Holder's ADSs. As a registered holder of ADSs, the Holder will have ADS holder rights. A deposit agreement among the Company, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, the Holder should read the entire deposit agreement and the form of ADR.

Dividends and Other Distributions

How will the Holder receive dividends and other distributions on the shares?

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, upon payment or deduction of its fees and expenses. The Holder will receive these distributions in proportion to the number of shares the Holder's ADSs represent.

Cash.

The depositary will convert any cash dividend or other cash distribution the Company pays on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. The depositary will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, the Holder may lose some or all of the value of the distribution.

Shares.

The depositary may distribute additional ADSs representing any shares the Company distributes as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares (or ADSs representing those shares) sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares.

If the Company offers holders of the Company's securities any rights to subscribe for additional shares or any other rights, the depositary may (i) exercise those rights on behalf of ADS holders, (ii) distribute those rights to ADS holders or (iii) sell those rights and distribute the net proceeds to ADS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the depositary does not do any of those things, it will allow the rights to lapse. *In that case, the Holder will receive no value for them.*

The depositary will exercise or distribute rights only if the Company ask it to and provide satisfactory assurances to the depositary that it is legal to do so. If the depositary will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of shares, new ADSs representing the new shares, to subscribing ADS holders, but only if ADS holders have paid the exercise price to the depositary.

U.S. securities laws may restrict the ability of the depositary to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be able subject to restrictions on transfer.

Other Distributions.

The depositary will send to ADS holders anything else the Company distributes on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what the Company distributed and distributes the net proceeds, in the same way as it does with cash. Or, it may decide to hold what the Company distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from the Company that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depositary to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. The Company has no obligation to register ADSs, shares, rights or other securities under the Securities Act. The Company also has no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that the Holder may not receive the distributions the Company makes on the Company's shares or any value for them if it is illegal or impractical for the Company to make them available to the Holder.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if the Holder or the Holder's broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names the Holder requests and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

How can ADS holders withdraw the deposited securities?

The Holder may surrender his ADSs for the purpose of withdrawal at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at the Holder's request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible. However, the depositary is not required to accept surrender of ADSs to the extent it would require delivery of a fraction of a deposited share of other security. The depositary may charge the Holder a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

The Holder may surrender his ADR to the depositary for the purpose of exchanging the Holder's ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting Rights

How do the Holder vote?

ADS holders may instruct the depositary how to vote the number of deposited shares their ADSs represent. If the Company request, the depositary to solicit the Holder's voting instructions (and the Company is not required to do so), the depositary will notify ADS holders of a shareholders' meeting and send or make voting materials to them if the Company asks it to. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary.

The depositary will try, as far as practical, subject to the laws of the State of Israel and of the Company's amended and restated articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders. If the Company does not request the depositary to solicit the Holder's voting instructions, the Holder can still send voting instructions, and, in that case, the depositary may try to vote as the Holder instruct, but it is not required to do so.

Except by instructing the depositary as described above, the Holder won't be able to exercise voting rights unless the Holder surrender the Holder's ADSs and withdraw the shares. However, the Holder may not know about the meeting enough in advance to withdraw the shares. In any event, the depositary will not exercise any discretion in voting deposited securities and it will only vote or attempt to vote as instructed.

The Company cannot assure that the Holder will receive the voting materials in time to ensure that the Holder can instruct the depositary to vote the Holder's shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that the Holder may not be able to exercise the Holder's right to vote and there may be nothing the Holder can do if the Holder's shares are not voted as the Holder requested.*

In order to give the Holder a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if the Company requests the depositary to act, the Company agrees to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 30 days in advance of the meeting date.

Listing

The Company's ADSs are listed on the Nasdaq Capital Market under the symbol "SFET."

EQUITY PURCHASE AGREEMENT

This EQUITY PURCHASE AGREEMENT (this “*Agreement*”) is dated as of December 8, 2020, by and among Safe-T USA Inc., a Delaware corporation (the “*Purchaser*”), Chi Cooked LLC, an Illinois limited liability company (the “*Company*”) and Mr. Kyle Exline (the “*Seller*”). The Purchaser, the Company and the Seller are collectively referred to herein as the “*Parties*” or each, individually, a “*Party*”.

A. Certain capitalized terms used but not defined elsewhere in the text of this Agreement are defined in Annex I hereto.

B. The Seller owns all of the issued and outstanding membership interests of the Company (the “*Purchased Membership Interests*”).

C. On the terms and subject to the conditions contained in this Agreement, the Seller desires to sell all of the Purchased Membership Interests to the Purchaser and to receive in exchange therefore the Transaction Consideration (as set forth and subject to adjustment as provided in this Agreement).

Now therefore, the Parties agree as follows:

I. CERTAIN INTERPRETIVE MATTERS.**1.1 Certain Interpretive Matters.**

1.1.1 Unless the context requires otherwise, (a) all references to Sections, Articles, Exhibits, Annexes or Schedules are to Sections, Articles, Exhibits, Annexes, or Schedules of or to this Agreement, (b) the headings in this Agreement are for convenience of reference only and will not control or affect the meaning or construction of any provisions of this Agreement, (c) each term defined in this Agreement has the meaning assigned to it, (d) each accounting term not otherwise defined in this Agreement has the meaning commonly applied to it in accordance with IFRS, (e) words in the singular include the plural and vice versa, (f) all references to \$ or dollar amounts will be to lawful currency of the United States, (g) to the extent the term “*day*” or “*days*” is used, it will mean calendar days, (h) references to the masculine, feminine or neuter gender include each other gender, (i) the words “*herein*,” “*hereby*,” “*hereof*,” “*hereunder*,” and other words of similar import refer to this Agreement as a whole and not to any particular Section, Article, or other subdivision, (j) the terms “*including*” and “*includes*” mean “*including or includes without limitation*,” (k) reference to, and the definition of, any document shall be deemed a reference to such document as it may be amended, supplemented, revised, or modified, in writing, from time to time but disregarding any amendment, supplement, replacement or novation made in breach of this Agreement, (l) reference to any Law shall be construed as a reference to such Law as re-enacted, predesignated, amended or extended from time to time prior to the date hereof, (m) the information contained in the Schedules is disclosed solely for the purposes of this Agreement, and (n) each of the Schedules and the disclosures therein will apply and consist of disclosures only to the corresponding section or subsection of this Agreement.

1.1.2 The Parties intend that each representation, warranty and covenant contained in this Agreement shall have independent significance. If any Party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which such Party has not breached, shall not detract from or mitigate the fact that such Party is in breach of the first representation, warranty or covenant.

1.1.3 No provision of this Agreement will be interpreted in favor of, or against, any of the Parties by reason of the extent to which any such Party or its counsel participated in the drafting of this Agreement or by reason of the extent to which any such provision is inconsistent with any prior draft of this Agreement or any provision of this Agreement.

1.1.4 All references to the “*knowledge of the Company*” or to words or phrases of similar import will be deemed to be references to the actual knowledge of the Knowledge Person, and such knowledge that would reasonably be expected to be known by the Knowledge Person in the ordinary and usual course of the performance of their professional responsibility, in each case after due inquiry, including (without limitation) of the other personnel and records of the Company and its Affiliates.

II. CLOSING; POST CLOSING ADJUSTMENT.

2.1 Purchase and Sale of Purchased Securities. On the terms and subject to the conditions set forth in this Agreement, at the Closing, the Seller shall sell, transfer, convey, assign and deliver to the Purchaser, and the Purchaser shall purchase, acquire and accept from the Seller, all of the Seller’s right, title and interest in and to all of the Purchased Membership Interests, free and clear of all Liens. In exchange for the Purchased Membership Interests, the Purchaser shall pay or deliver, as applicable, the Transaction Consideration to the Seller, subject to the adjustments provided in this Agreement.

2.2 Closing. The closing of the transactions contemplated by this Agreement (the “*Closing*”) will take place through the remote exchange of electronic copies of executed documents on the date of this Agreement at such place agreed to by the Purchaser and the Seller, and shall be effective as of 12:01 a.m. Eastern Time on such date (the date on which the Closing occurs is referred to in this Agreement as the “*Closing Date*”).

2.3 Closing Consideration. As consideration for the Purchased Membership Interests, at the Closing, the Purchaser shall pay to the Seller \$1,100,000 in cash. The foregoing payment shall be made by wire transfer of immediately available funds to the respective accounts provided by the Seller to the Purchaser in advance of the Closing (the “*Closing Consideration*”).

2.4 Post-Closing Adjustment. Within ten (10) Business Days following the Purchaser’s approval of the Purchaser’s consolidated financial statements, including, within it, the Company’s audited financial results (the “*2020 Audit Completion Date*”) for the period commencing on the Closing Date and ending on December 31, 2020 (the “*Audited 2020 FS*”), the Purchaser shall prepare and deliver to the Seller a statement showing the Company’s Actual Closing Working Capital, and the calculation of any adjustment to be made to the Closing Consideration based on the difference, if any, between Actual Closing Working Capital and \$0.00 (the amount of the Company’s estimated Working Capital as of the Closing Date) (the “*Post-Closing Adjustment Statement*”).

The Post-Closing Adjustment Statement shall be final, conclusive and binding upon the Parties unless the Seller delivers a written notice to the Purchaser of any objection to the Post-Closing Adjustment Statement (the “*Objection Notice*”) within twenty (20) days (the “*Objection Period*”) after delivery of the Post-Closing Adjustment Statement. The Objection Notice must set forth in reasonable detail (x) any item on the Post-Closing Adjustment Statement that the Seller believes has not been prepared in accordance with this Agreement and the correct amount of such item and (y) the Seller’s alternative calculation of the Actual Closing Working Capital and any adjustment to the Closing Consideration, as the case may be. Any Objection Notice must specify, with reasonable particularity, all facts that form the basis of such disagreements and all statements by Persons (who shall be identified by name) and documents relied upon by the Seller as forming the basis of such disagreement. If the Seller gives any such Objection Notice within the Objection Period, then the Seller and the Purchaser shall attempt in good faith to resolve any dispute concerning the item(s) subject to such Objection Notice.

If the Seller and the Purchaser do not resolve the issues raised in the Objection Notice within fifteen (15) days of the date of delivery of the Objection Notice (the “**Initial Resolution Period**”), either the Seller or the Purchaser may submit such dispute to and such dispute shall be resolved fully, finally and exclusively by KMPG International Limited (such accounting firm, the “**Reviewing Party**”). The fees and expenses of the Reviewing Party incurred in the resolution of such dispute shall be borne by the parties in such proportion as is appropriate to reflect the relative benefits received by the Seller and the Purchaser from the resolution of the dispute. For example, if Seller challenges the calculation in the Post-Closing Adjustment Statement by an amount of \$100,000, but the Reviewing Party determines that the Seller has a valid claim for only \$40,000, the Purchaser shall bear 40% of the fees and expenses of the Reviewing Party and the Seller shall bear the other 60% of such fees and expenses. The Reviewing Party shall determine (with written notice thereof to the Seller and the Purchaser) as promptly as practicable, but in any event within thirty (30) days following the date of delivery of the Post-Closing Adjustment Statement and provide written submissions detailing (i) whether or not the Post-Closing Adjustment Statement was prepared in accordance with the terms of this Agreement, and (ii) if the Reviewing Party determines that the Post-Closing Adjustment Statement was not prepared in accordance with this Agreement, then only with respect to the disputed items submitted to the Reviewing Party, the Reviewing Party shall determine whether and to what extent (if any) the Post-Closing Adjustment Statement requires adjustment and a written explanation in reasonable detail of each such required adjustment, including the basis therefor (it being understood that any determination of a disputed item shall be not greater or less than the amount of such disputed item as proposed by the Purchaser in the Post-Closing Adjustment Statement or as proposed by the Seller in the Objection Notice) (the “**Reviewing Party Decision**”). The Seller and the Purchaser shall require the Reviewing Party to enter into a confidentiality agreement on terms agreeable to the Seller, the Purchaser and the Reviewing Party. The procedures of this Section 2.4 are exclusive, and the determination of the Reviewing Party shall be final and binding on the Parties absent fraud. The decision rendered pursuant to this Section 2.4 may be filed as a judgment in any court of competent jurisdiction.

The Post-Closing Adjustment Statement, as it may be adjusted as provided above, shall become the “**Final Post-Closing Adjustment Statement**” and as such shall become final, binding and conclusive on the Parties for all purposes of this Agreement and upon which a judgment may be entered by a court of competent jurisdiction, upon the earliest to occur of the following: (i) the expiration of the Objection Period without delivery by the Seller of an Objection Notice; (ii) the resolution of the dispute by the Seller and the Purchaser within the Initial Resolution Period; and (iii) the Reviewing Party Decision.

Any adjustment to the Closing Consideration will be reduced from, or added to, the Earn-Out and Working Capital Adjustment Amount, based on the Final Post-Closing Adjustment Statement. For Tax purposes, any increased or decreased payment by the Purchaser under this Section 2.4 shall be treated as an adjustment to the Closing Consideration.

2.5 Earn-Out Payment.

2.5.1 In addition to the Closing Consideration, and subject to the terms below, provided that the Company’s Operating Income for the twelve-month period ending December 31, 2021 (“**Fiscal Year 2021**”), according to the Purchaser’s consolidated financial statements, including, within it, the Company’s audited financial results, for Fiscal Year 2021 (“**Audited 2021 FS**”), is at least 37.5% of the Company’s Revenues for Fiscal Year 2021, the Seller shall be entitled to a contingent consideration payment (the “**Earn-Out**”) equal to the amount, if any, by which the Company’s Revenues for Fiscal Year 2021, according to the Audited 2021 FS, exceed One Million U.S. Dollars (USD \$1,000,000), plus any positive Actual Closing Working Capital or less any negative Actual Closing Working Capital, as shown on the Final Post-Closing Adjustment Statement (the “**Earn-Out and Working Capital Adjustment Amount**”). Any Earn-Out and Working Capital Adjustment Amount due to the Seller shall be paid by the Purchaser to the Seller within 30 days following completion of the Audited 2021 FS (the “**2021 Audit Completion Date**”). To the extent any amounts are due to the Purchaser after taking into consideration the Earn-Out and Working Capital Adjustment Amount, such amount shall be paid by the Seller to the Purchaser within 30 days following the 2021 Audit Completion Date. The Purchaser shall maintain separate accounting books and records for the Company from the Closing Date through December 31, 2021. Within ten (10) Business Days following the Purchaser’s approval of the Audited 2021 FS, the Purchaser shall deliver the Audited 2021 FS to the Seller along with the Purchaser’s calculation of the Earn-Out. Resolution of any dispute over the Earn-Out will be resolved using the same principles and mechanisms set forth in Section 2.4.

2.5.2 The Purchaser may, at its sole discretion, pay up to 25% of the Earn-Out and Working Capital Adjustment Amount by issuance of American depositary shares (“**Parent ADSs**”) of the Purchaser’s ultimate parent, Safe-T Group Ltd., a corporation, organized and existing under the laws of the State of Israel (“**Parent**”), which ordinary shares are traded on the Tel-Aviv Stock Exchange (TASE) and ADSs, representing the ordinary shares are publicly traded on NASDAQ (the “**Earn-Out Shares**”). The number of Earn-Out Shares to be issued shall be equal to the quotient of the dollar amount of the elected portion of the Earn-Out and Working Capital Adjustment Amount to be paid through the issuance of Earn-Out Shares divided by the Volume Weighted Average Price of Parent ADSs on NASDAQ during the thirty (30) trading days prior to the payment date of the Earn-Out and Working Capital Adjustment Amount.

2.5.3 Registration of Securities. Any securities delivered to the Seller in connection with the transactions contemplated hereunder shall not be registered with the U.S. Securities and Exchange Commission (the “**SEC**”) when issued, and the ordinary shares underlying the Parent ADSs shall be subject to the limitations on sale and transferability applicable under Israeli and United States law, provided, however, if the Parent ADSs are publicly traded on NASDAQ at the time of delivery, the Parent shall, subject to applicable law, prepare and file with the SEC a registration statement (a “**Registration Statement**”) covering the non-underwritten resale of all of the Earn Out Shares, within reasonable time following the issuance of such securities to the Seller. The Company shall use its commercially reasonable efforts to cause each such Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof. The Seller shall provide such information and other cooperation in connection with such filings as shall be reasonably requested by the Purchaser.

2.5.4 Post-Closing Operation. The Purchaser acknowledges the interest of the Seller in the Company earning the profits of which it is fairly able during the Fiscal Year 2021. To facilitate the Company’s expected revenue target for the Fiscal Year 2021, Seller shall prepare and submit to Purchaser on or before December 15, 2020, an operating budget with respect to the Company for the Fiscal Year 2021, which budget shall include Operating Income of at least 37.5% of the Company’s Revenue for such period (the “**Operating Budget**”). Subject to timely receipt of the Operating Budget, Purchaser undertakes that during Fiscal year 2021, Purchaser shall do the following, except as otherwise agreed, or as a result of any breach of Seller’s representations and warranties hereunder, or to the extent that any covenant, obligation, or restriction set forth below may reasonably be expected to have an adverse effect on the operations, business, or financial condition of the Company:

(a) permit (and not take or authorize any action to materially and adversely affect the ability of) the Company to conduct business operations in the Ordinary Course, and further covenant to use all reasonable efforts to procure (so far as they are respectively able) that the business of the Company will continue to be carried out in the Ordinary Course; and

(b) ensure that all transactions between the Company and any affiliate of Purchaser shall be carried out on an arm’s length basis and upon normal commercial terms, provided that, in the case of Purchaser providing services or products to the Company, the terms of such transactions shall be no less favorable to the Company than the terms of any similarly-situated customer of Purchaser.

Without prejudice to the generality of the foregoing, and except as otherwise agreed or to the extent that this provision may have a material adverse effect on the Purchaser's operations, business or financial condition, the Purchaser agrees that during Fiscal Year 2021, the Purchaser shall not, and will exercise its equity holdings in the Company so that the Company shall not, permit the Company to take any action or cause or permit anything to be done with the principal purpose of avoiding or reducing the amount of the Earnout.

Notwithstanding any other provision of this Agreement, the Company will not be permitted to, and the Purchaser has no any obligation to cause the Company to:

(a) take any action, or refrain from taking any action, where such action or inaction is contrary to the written corporate policies of the Purchaser, as applied generally to its group;

(b) directly or indirectly breach or violate, or actively or passively contribute to the breach or violation of any Law applicable to it, the Purchaser or any other Affiliate of Purchaser, or violate or infringe, any contract to which the Company is party and such violation or infringement is not tolerated by the counterparty to such contract, or actively or passively contribute to the violation or infringement of, the Intellectual Property Rights of any other Person;

(c) take any action not provided for in the budget of the Company, as will be adopted by the Board of the Company from time to time, provided, that any operating expenses identified therein can be increased proportionately to the increase in Revenue over and above the budgeted amount, and provided, further, that such budget was adopted by the Board of the Company;

(d) take any action to accelerate Revenue (including but not limited to by way of changing payment terms), or any other action, in each case where its intended effect would be to preclude the Seller from receiving the Earn-Out or where its intended effect is to manipulate the Working Capital Adjustment Amount; or

(e) take any action outside of the Ordinary Course, including selling all or substantially all the assets of the Company or discontinuing or reducing the scale of the business.

Seller acknowledges that the Company's achievement of the Earnout thresholds set forth in this Agreement is subject to various unforeseeable risks and uncertainties that could put at risk the possibility that the Earnout becomes due from Purchaser. Moreover, absent the Company's achievement of the Earnout thresholds set forth in this Agreement, no provision of the Agreement, or any other agreement between the parties shall be deemed to be a guarantee by Purchaser of the payment of the Earn-Out Amount.

2.6 Proceedings. Except as otherwise specifically provided for herein, all proceedings that will be taken and all documents that will be executed and delivered by the Parties on the Closing Date will be deemed to have been taken and executed simultaneously, and no proceedings will be deemed taken nor any document executed and delivered until all such proceedings have been taken, and all such documents have been executed and delivered.

2.7 Withholding. Each of the Purchaser and the Company shall be entitled to deduct or withhold from any consideration payable pursuant to this Agreement such amounts required to be deducted or withheld with respect to such payment under applicable Tax Law and to collect IRS Forms W-9 or similar information from any recipients. To the extent any such amounts are so deducted or withheld and properly remitted to the appropriate taxing Governmental Authority, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

2.8 Retention of the Seller; Agreements with Company's Service Providers; No Additional Business Out of Ordinary Course.

2.8.1 At the Closing, the Company and the Seller will enter into an Employment Agreement in a form mutually agreed upon prior to Closing (the "***Seller Services Agreement***") providing for the terms of his employment.

2.8.2 At the Closing, the Company will enter into an agreement with each of its existing employees and consultants listed on Schedule 2.8.2 (each, a "***Service Provider***") providing for the terms of their ongoing service to the Company (the "***Service Provider Agreements***").

2.8.3 No later than the Closing, Company shall, and Seller shall cause the Company, to dispose liquidate and wind-up any business and/or inventory which is out of scope of Company's Business (the "***OOS Business***"), in such manner where, inter-alia, Company shall hold no stock and/or inventory related to the OOS Business, nor have any rights, assets and/or liabilities pertaining thereto. It is clarified that no OOS Business related assets shall be taken into account in calculating any Working Capital.

2.8.4 Prior to the Closing, the Seller may cause the Company to distribute to himself cash in excess of \$30,000.

2.8.5 At the Closing, the Company will enter into a termination agreement with each of its existing employees and consultants listed on Schedule 2.8.5 in the forms attached hereto as Exhibit 2.8.5.

III. REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANY

The Seller hereby represents and warrants to the Purchaser as follows:

3.1 Existence and Qualification. The Company is a limited liability company duly formed, validly existing and in good standing under the Laws of its jurisdiction of formation. The Company has the requisite company power and authority and all Permits required to carry on the Business as presently conducted. The Company is duly qualified or licensed to conduct business as a foreign entity and is in good standing in each jurisdiction where such qualification is required. The Company has delivered to the Purchaser true and complete copies of its Organizational Documents and is not in violation of any provision of its Organizational Documents. The Company is not the subject of any bankruptcy, dissolution, liquidation, receivership, conservatorship, reorganization or similar proceeding.

3.2 Authorization; Enforceability.

3.2.1 The Company has the requisite company power and authority to execute, deliver, and perform its obligations under this Agreement and each Ancillary Agreement to which the Company is or will be a party. This Agreement and each Ancillary Agreement to which the Company is or will be a party has been duly authorized, executed and delivered by the Company. Assuming the due authorization, execution, and delivery by the other Parties to this Agreement and each Ancillary Agreement, this Agreement and each Ancillary Agreement to which the Company is or will be a party has been or will be duly authorized, executed and delivered by the Company, and once executed, will constitute, a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with their respective terms, subject to applicable bankruptcy, insolvency and other similar laws relating to the enforcement of creditors' rights generally and to general principles of equity, assuming in each case due and valid execution by the Purchaser.

3.2.2 The Seller's execution, delivery, and performance of this Agreement and each Ancillary Agreement to which the Seller is or will be a party and the consummation of the transactions contemplated hereby and thereby, are within the Seller's capacity, power and authority. The Seller has all requisite capacity, power and authority to become a party to, and to consummate the transactions contemplated by, this Agreement and each Ancillary Agreement to which the Seller is or will be a party. This Agreement and each Ancillary Agreement to which the Seller is or will be a party has been or will be duly executed and delivered by the Seller, and once executed, will constitute, a legal, valid and binding agreement of the Seller, enforceable against the Seller in accordance with their respective terms, subject to applicable bankruptcy, insolvency and other similar laws relating to the enforcement of creditors' rights generally and to general principles of equity, assuming in each case due and valid execution by the Purchaser.

3.3 Non-Contravention; Consents; Restrictive Documents.

3.3.1 Except as disclosed on Schedule 3.3.1, the execution, delivery and performance by the Company of this Agreement and each of the Ancillary Agreements to which it is, as contemplated by this Agreement, to become a party, did not, does not, and will not (a) violate the governing or Organizational Documents of the Company, (b) violate any applicable Law or Order, (c) require any filing with or Permit, consent, or approval of, or the giving of any notice to (including under any right of first refusal, put option, or similar provision), any court or other Person (including filings, consents, or approvals required under any Permits of the Company or the Seller, or any Permits, leases, franchises, Contracts or other agreements to which the Company or the Seller are or will be a party), (d) result in a violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default under, or give rise to any right of termination, cancellation, or acceleration of any right or obligation of, the Company or the Seller, (e) result in a loss of any benefit to which the Company or the Seller is entitled under any agreement, any Permit held by, or other instrument binding upon or providing rights to the Company or the Seller, or (f) result in the creation or imposition of any Lien (other than Permitted Liens) on any asset of the Company or the Seller, or the Purchased Membership Interests.

3.3.2 Except as disclosed on Schedule 3.3.2, neither the Seller nor the Company are subject to, or a party to, any charter, bylaw, mortgage, Lien, lease, Permit, instrument, Law, Order, or any other restriction of any kind or character, that (a) has had or would reasonably be expected to have a Material Adverse Effect or that would materially and adversely affect any of the assets or properties of the Company, (b) would prevent consummation of the transactions contemplated by this Agreement and the Ancillary Agreements or compliance by the Company or the Seller with the terms, conditions and provisions of this Agreement and the Ancillary Agreements to which the Company or the Seller are, as contemplated by this Agreement, to become a party, or the continued operation of the Business by the Company after the date of this Agreement or the Closing Date on substantially the same basis as historically operated, or (c) would restrict the ability of the Company to acquire any property or assets, market, sell, or otherwise distribute products or merchandise, or provide its services or conduct the Business in any area.

3.3.3 The execution, delivery and performance by the Seller of this Agreement and each Ancillary Agreement to which the Seller is or will be a party does not and will not (a) violate any applicable Law or Order, (b) require any material filing with or material permit, consent, or approval of, or require the giving of any notice to, any Person, (c) result in a material violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default under, or give rise to any right of termination, cancellation, or acceleration of any right or obligation of, the Seller, or to a loss of any benefit to which the Seller is entitled, under any material Contract to which the Seller is a party, or (d) result in the creation or imposition of any Lien (other than Permitted Liens) on any asset of the Company or the Seller, or the Purchased Membership Interests.

3.4 Capitalization.

3.4.1 The Purchased Membership Interests constitute all of the issued and outstanding limited liability company interests of the Company. No current or former equity holder or any other Person is contesting or has asserted that any dispute exists as to the ownership of the Company, the Purchased Membership Interests or any distributions or contributions relating thereto. Other than the Purchased Membership Interests, there are no authorized or outstanding (a) shares of capital stock, equity interests, or other securities of the Company, (b) securities of the Company convertible into, exchangeable or exercisable for shares of capital stock, equity interests, or other securities of the Company, (c) subscription, calls, commitments, Contracts, options, warrants, or other rights to purchase or acquire from the Company, or obligations of the Company to issue, any shares of capital stock, equity interests, or other securities, including securities convertible into, exchangeable or exercisable for shares of capital stock, equity interests, or other securities of the Company, or (d) bonds, debentures, notes, or other indebtedness that entitle the holders to vote (or convertible into, exchangeable or exercisable for, securities that entitle the holders to vote) with holders of shares of capital stock, equity interests, or other securities of the Company on any matter (the items in Clauses (a), (b), (c) and (d) being referred to collectively as the “**Company Securities**”). There are no outstanding obligations of the Company to repurchase, redeem, or otherwise acquire any of the Company Securities. There are no outstanding or authorized appreciation, phantom interests, profit participations, or similar rights with respect to any Company Securities.

3.4.2 The Purchased Membership Interests are duly authorized and validly issued. The Purchased Membership Interests are lawfully owned of record and beneficially held by the Seller, free and clear of any Liens. The Company Securities are not subject to any voting trust agreements, stockholder agreements, registration rights agreements, pledge agreements, buy sell agreements, powers of attorney or other Contract, option, proxy, pledge, right of first refusal or preemptive right, or understanding, including any Contract restricting or otherwise relating to the ownership, voting rights, distribution rights, or disposition thereof. At the Closing, the Purchaser will acquire good title to the Purchased Membership Interests free and clear of Liens or any other claims, interests, or clouds on title. The Purchased Membership Interests were not issued in violation of any conversion rights, preemptive rights, rights of first refusal, redemption rights, repurchase rights, or other similar rights or restrictions on transfer.

3.4.3 The Company does not own, directly or indirectly, any capital stock, membership interests, or other securities of any Person. No current or former equity holder or any other Person is contesting the ownership of the equity interests of any Subsidiary or any distributions or contributions relating thereto.

3.5 Financial Statements; Company's Books.

3.5.1 The Company has delivered to the Purchaser true, complete, and correct copies of the October 2020 Results, copies of which are attached as Schedule 3.5.1. The October 2020 Results (a) are correct, accurate and complete, (b) reflect the consistent application of cash-based accounting principles throughout the periods involved, (c) have been prepared using the same accounting principles and practices as the Company has used historically, (e) are derived from and accurately reflect the books and records (including the general ledgers) of the Company, and (f) other than adjustments made in the Ordinary Course which are not reflected on the October 2020 Results, fairly present the financial position of the Company at the dates thereof and the results of the operations, changes in members' equity, and cash flows of the Company for the periods indicated. The Company has also delivered to the Purchaser true and complete copies of all letters and similar written correspondence of any kind from the Company's accountants to the Company together with true and complete copies of all responses thereto.

3.5.2 The books of account, minute books, membership ownership record books, and other records of the Company, if any, have been made available to the Purchaser. All such records are complete and correct and represent actual, bona fide transactions and have been maintained in accordance with applicable legal and accounting requirements and sound business practices. The Company does not maintain any off-the-book or undisclosed accounts and the Company's assets are used only in accordance with management's directives. The records provided to Purchaser contain accurate and complete records of all meetings held of, and action taken by, the members, managers and committees of the Company and no meeting of any such members, managers or committees of the Company at which any material company or other action was taken has been held for which minutes have not been prepared and are not contained in such records. Except as disclosed on Schedule 3.5.2, the Company does not have any of its books, records, systems, controls, data or information recorded, stored, maintained, operated, or otherwise wholly or partly dependent upon or held by any means that, including all means of access thereto and therefrom, are not under the exclusive ownership and direct control of the Company.

3.5.3 The Seller is the record owner of and has good and valid title to his portion of the Purchased Membership Interests, free and clear of any Liens. At the Closing, the Seller shall (a) convey to the Purchaser valid title to the Purchased Membership Interests, free and clear of any Liens.

3.5.4 The Company has established and presently maintains a system of internal accounting controls sufficient to provide reasonable assurances (a) that transactions, receipts, and expenditures of the Company are being executed and made only in accordance with appropriate policies, procedures, and authorizations of management of the Company, and (b) that transactions related to the business of the Company are recorded as necessary (i) to permit preparation of financial records or financial statements in conformity with IFRS and (ii) to maintain accountability for assets. The Company has not identified or been made aware of any fraud that involves the Company, its Affiliates, or their management, or other current employees or any Claim or allegation regarding any of the foregoing, and the Company has not received any written notice or communication from any of their independent accountants regarding any of the foregoing.

3.5.5 As of, and after giving effect to, the Closing, the Company will not have any Indebtedness or Selling Expenses. Neither the Company nor any manager, officer or employee of the Company has taken any action or omitted to take any action in connection the Company's application for or receipt of a loan under the Paycheck Protection Program established by the United States Small Business Administration that would, or would reasonably be expected to, violate any applicable Law or result in material Liability to the Company or any manager, officer or employee of the Company.

3.5.6 The Company does not, and never had, a limited liability company agreement, or a similar agreement between the Company and any owners of the Company's membership interests.

3.5.7 The Company has not secured any funds nor has entered into any arrangement concerning the same under the Paycheck Protection Program established by the United States Small Business Administration and/or any other governmental authority. The Company has not applied to receive nor has received any governmental financial grant nor any similar aid.

3.6 No Undisclosed Liabilities. There are no liabilities or obligations of the Company, or facts or circumstances, that could give rise to liabilities of the Company, whether accrued, contingent, absolute, determined, determinable, or otherwise (collectively "**Liabilities**"), other than (a) Liabilities fully recorded or reserved for in the Balance Sheet as of the Balance Sheet Date, (b) Liabilities specifically disclosed on Schedule 3.6, (c) immaterial Liabilities incurred since the Balance Sheet Date in the Ordinary Course, and (d) other Liabilities for legal, accounting and other professional expenses incurred in connection with the transactions contemplated by this Agreement which constitute Selling Expenses.

3.7 Interested Transactions. Schedule 3.7 contains a complete list of (a) all amounts and obligations owed between any manager, executive officer, the Seller or any of their Affiliates or members, on the one hand, and the Company, on the other hand, and (b) transactions or services provided between any manager, executive officer, the Seller or any of their Affiliates or members, on the one hand, and the Company, on the other hand. Except as disclosed on Schedule 3.7, since the Balance Sheet Date, there has not been any accrual of liability or incurrence of an obligation by the Company to the Seller or any of his Affiliates, or between the Company and the Seller or any of his Affiliates, or any action taken (other than this Agreement) or any payment of dividends or other payments of cash or property by the Company to the Seller or any of his Affiliates, or the incurrence of any legal or financial obligation to any such Person.

3.8 Tax Matters.

3.8.1 Except as disclosed on Schedule 3.8:

(a) All Tax Returns required to be filed by the Company have been duly and timely filed. The Company or the Seller have paid all Taxes due (whether or not shown as due and owing on such Tax Returns) as of the Closing. The Company is not currently the beneficiary of any extension of time within which to file any Tax Return.

(b) There are no Tax claims, audits or proceedings pending or, to the knowledge of the Company, threatened against the Company. There are no rulings, subpoenas or requests for information pending with respect to the Company with any Governmental Authority. There are not currently in force any waivers or agreements binding upon the Company for the extension of time for the assessment or payment of any Tax.

(c) The Company has properly withheld and/or paid all Taxes required to have been withheld and/or paid in connection with amounts paid or owing to any shareholder, employee, creditor, independent contractor, or other third party. Each Person providing services to the Company has been properly classified as an employee or independent contractor, as the case may be, for all Tax purposes and with respect to all Plans.

(d) True and correct copies of all federal, state and material local income Tax Returns filed by the Company for taxable years 2017, 2018, and 2019 have been provided to the Purchaser. All elections with respect to Taxes affecting the Company have been disclosed or attached to the Tax Returns of the Company.

(e) The Company is not a party to or bound by any Tax allocation or Tax Sharing Agreement with any other Person and has no contractual obligation to indemnify any other Person with respect to Taxes. The Company has not incurred any liability for the Taxes of any Person under Treas. Reg. § 1.1502-6 (or any similar provision of state, local, or foreign Law), as a transferee or successor, by contract, or otherwise.

(f) The Company is not a party to any joint venture, limited liability company agreement, partnership or other arrangement or contract that could be treated as a partnership for federal income tax purposes.

(g) There are no Liens for Taxes upon any of the assets of the Company, other than Permitted Liens.

(h) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) “closing agreement” as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Law) executed by the Company prior to the Closing Date; (ii) change in method of accounting by the Company for a taxable period ending on or prior to the Closing Date; (iii) installment sale or open transaction disposition made on or prior to the Closing Date; (iv) prepaid amount received on or prior to the Closing Date, (v) election by the Company under Section 108(i) of the Code prior to the date hereof, or (vi) for any other reason.

(i) The Company has not made any payments and is not obligated to make any payments that will not be fully deductible by reason of the provisions of Section 280G of the Code. The Company has no obligation to make a “gross-up” or similar payment in respect of any taxes that may become payable under Section 4999 of the Code.

(j) The Company has not ever been a United States real property holding company with the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code and no withholding of federal income Tax will be required under Section 1445 of the Code in connection with the transaction contemplated by this Agreement.

(k) The Company has not entered into any transaction that is or would be part of any “reportable transaction” under Sections 6011, 6111 or 6112 of the Code (or any similar provision under any state or local Law).

(l) The Company has not distributed equity securities of any Person and has not had its equity securities distributed by any Person, in a transaction that was purported or intended to be governed in whole or in part by Sections 355 or 361 of the Code at any time within the past five (5) years.

(m) The Company has disclosed on its federal income Tax Returns all material positions taken therein that would otherwise be reasonably likely to give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code.

(n) The Company has not, and has not had, a permanent establishment, as defined in any applicable Tax treaty or convention, in any country other than the United States.

(o) Each “nonqualified deferred compensation plan” (within the meaning of Section 409A of the Code) of the Company has at all times been operated and maintained in accordance with the requirements of Section 409A of the Code. The Company has no obligation to make a “gross-up” or similar payment in respect of any penalties or taxes that may become payable under Section 409A of the Code.

(p) As of the Closing Date, the Company will not hold assets that constitute U.S. property within the meaning of Section 956 of the Code.

(q) The Company has collected all sales, use and value added Taxes required to be collected, and has remitted on a timely basis to the appropriate Tax authorities all sales, use and value added Taxes required to be paid, or has been furnished properly completed exemption certificates.

(r) All related party transactions entered by any of the Company were made at fair market value (at arms’ length sale) and in compliance with the applicable Laws and the Company is in possession of transfer pricing studies conducted by a certified accountant with respect to all such related party transactions.

(s) The Company (i) has made an election as described in Section 1362 of the Code to treat the Company as an S corporation, (ii) has received an approval from the IRS for that election and (iii) through the Closing Date has continued to operate the Company at all times to meet all the requirements of Section 1361(b) of the Code.

3.8.2 Schedule 3.8.2 contains a list of all jurisdictions (whether foreign or domestic) to which any Tax imposed on overall net income is properly payable by the Company or will be properly payable by the Company as of the Closing Date. No claim has been made by a taxing authority in a jurisdiction where the Company does not file a Tax Return.

3.9 Absence of Certain Changes. Except as disclosed on Schedule 3.9 or as contemplated by this Agreement, since the Balance Sheet Date, the Company has conducted the Business in the Ordinary Course and the Company has not:

3.9.1 amended or modified its governing or Organizational Documents;

3.9.2 outside the Ordinary Course, changed any salaries or other compensation of, or paid any bonuses to, any manager, officer, or employee of the Company, as applicable, or entered into any employment, severance, or similar agreement with any manager, officer, or employee of the Company;

3.9.3 adopted, amended or increased any benefits under any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other Plan or policy;

3.9.4 entered into, materially modified, amended, extended or terminated, or waived, released, or assigned any rights or claims under, any Material Contract or materially changed any business practice;

3.9.5 made, promised to make, or agreed to make any payment, distribution, or contribution to any of the Seller, or any manager, officer, or employee of the Company, except in the Ordinary Course;

3.9.6 incurred, assumed, or guaranteed any Indebtedness;

3.9.7 granted any Lien other than a Permitted Lien;

3.9.8 issued or sold any Company Securities or made any other changes in the Company's capital structure;

3.9.9 set aside or paid any distribution with respect to the Company Securities or repurchased, redeemed, or otherwise acquired directly or indirectly, any outstanding Company Securities;

3.9.10 made any material change in financial or Tax accounting methods or practices, except as required by an applicable Law, or made, changed, revoked or modified any material Tax election, or changed its fiscal or Tax year;

3.9.11 directly or indirectly sold, leased, licensed, abandoned, mortgaged or otherwise encumbered or subjected to any Lien (other than a Permitted Lien) or otherwise disposed in whole or in part any of its material properties, assets or rights or any interest therein, except in the Ordinary Course;

3.9.12 entered into or amended the terms of any lease of real property;

3.9.13 (i) wrote-off as uncollectible any notes or Accounts Receivable except write-offs in the Ordinary Course charged to reserves, (ii) wrote-off, wrote-up, or wrote-down any material asset of the Company, except in the Ordinary Course or (iii) altered the customary time periods for collection of Accounts Receivable or payments of accounts payable;

3.9.14 paid, discharged, settled, or satisfied any claims, liabilities, or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) or any action for Damages, or commenced any lawsuit for Damages, other than the payment, discharge, or satisfaction of (i) liabilities reflected or reserved against on the Balance Sheet, (ii) liabilities incurred or paid since the Balance Sheet Date in the Ordinary Course, or (iii) payment of Indebtedness in accordance with Section 6.1;

3.9.15 entered into any compromise or settlement of, or taken any other action with respect to, any litigation, action, suit, claim, proceeding, or investigation;

3.9.16 made or committed to make any loan, extension of credit, gift, advance, or capital contributions to or investment in any Person;

3.9.17 incurred or committed to incur any capital expenditure or authorization or commitment with respect thereto;

3.9.18 entered into any new line of business outside of its existing lines of business;

3.9.19 terminated or closed any material facility, line of business, or operation;

3.9.20 caused or suffered any material damage, destruction, or other casualty loss (whether or not covered by insurance) affecting the Company or its assets;

3.9.21 waived, canceled, sold, leased, licensed or otherwise disposed of, for less than the face amount thereof, any material claim or right it has against others;

3.9.22 granted or paid any severance or termination pay to any former officer, manager, or employee;

3.9.23 directly or indirectly acquired or agreed to acquire (i) by merging or consolidating with, purchasing a substantial equity interest in or a substantial portion of the assets of, making an investment in or loan or capital contribution to or in any other manner, any Person or (ii) any assets that are otherwise material to the Company;

3.9.24 created any Subsidiary;

3.9.25 adopted or entered into a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization or filed a petition in bankruptcy under any provisions of federal or state bankruptcy Law or consented to the filing of any bankruptcy petition against it under any similar Law;

3.9.26 suffered any Material Adverse Effect; or

3.9.27 committed, agreed to, or entered into a Contract to do any of the foregoing.

3.10 Contracts.

3.10.1 Except for this Agreement and the Ancillary Agreements or as disclosed on Schedule 3.10.1, the Company is not a party to or bound by any of the following agreements (whether written or oral):

(a) any partnership, joint venture, or other similar Contract or arrangement, or any Contract relating to the acquisition or disposition of any business (whether by merger, sale of equity, sale of assets, or otherwise);

(b) any Contract relating to Indebtedness (in any case, whether incurred, assumed, guaranteed, or secured by any asset) or any Contract, indenture, or other instrument that contains restrictions with respect to payment of any distribution in respect of the equity interests of the Company;

(c) any Contract that limits the Company from marketing, selling, or otherwise distributing its products or merchandise or providing its services in any geographic area, or from competing in any line of business or geographic area or with any Person, or that contains a “most favored nation” or similar provision or providing minimum purchase or sale obligations;

(d) any Contract or arrangement with (i) the Seller or any of his Affiliates, or (ii) any manager or officer of the Company or with any “associate” or any member of the “immediate family” (as such terms are respectively defined in Rules 12b-2 and 16a-1 of the Exchange Act) of any such manager or officer;

(e) any management service, consulting, employment, or any other similar type of Contract;

(f) any warranty, guaranty, or other similar undertaking with respect to a contractual performance extended by the Company other than in the Ordinary Course;

(g) any employment, deferred compensation, severance, bonus, retirement, or other similar Contract or plan;

- (h) any Contract involving payments by or to the Company of more than \$10,000 in any twelve-month period;
- (i) any Contract with any agency, dealer, sales representative, or distributor for the marketing, selling and distribution of the Company's products and services;
- (j) any material license or similar Contract;
- (k) any Contract, the termination of which or the failure of which to be renewed, would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;
- (l) any leases of Company Real Property or material personal property;
- (m) any collective bargaining agreement or other Contract with any labor union, works council, or other labor organization;
- (n) any Contract or commitment providing for payments based in any manner upon the sales, purchases, receipts, income or profits of the Company;
- (o) any Contract that would prevent consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, compliance by the Seller with the terms, conditions, and provisions of this Agreement and the Ancillary Agreements (to which the Seller is or will be a party), or the continued operation of the Business after the date of this Agreement or the Closing Date on substantially the same basis as historically operated;
- (p) any Contract with a Governmental Authority;
- (q) any Contract pursuant to which the Company (i) is granted or obtains or agrees to obtain any right to use any Intellectual Property Right (other than standard form Contracts granting rights to use readily available shrink wrap or click wrap software), (ii) is restricted in its right to use or register any Intellectual Property Rights, or (iii) permits or agrees to permit any other Person to use, enforce, or register any Intellectual Property Rights owned, used, or held by the Company, including any license agreements, coexistence agreements, and covenants not to sue related to such Intellectual Property Rights;
- (r) any Contract that grants any option, right of first refusal or right of first offer or similar right, contingent or otherwise, or that limits or purports to limit the ability of the Company to freely own, operate, sell, transfer, pledge, or otherwise dispose of any material amount of its assets or business;
- (s) any Contract evidencing any settlement or compromise of any claim or dispute that is material to the Company;
- (t) any Contract that, following the Closing, would bind or purport to bind the Purchaser or any of its Affiliates other than the Company;
- (u) any Contract that contains any non-solicitation, non-competition, confidentiality (other than confidentiality agreements entered into in the Ordinary Course), non-disclosure, or similar obligations;

(v) any Contract that requires consent, waiver or approval from, notice to, or a filing or registration with, any Person or Governmental Authority or that would give a counterparty to such Contract a right of termination or result in a loss of a material benefit to the Company in connection with the transactions contemplated hereby; or

(w) any other Contract not made in the Ordinary Course.

3.10.2 Each Contract disclosed on Schedule 3.10.1 or any other schedule to this Agreement or required to be so disclosed (each a “**Material Contract**”) is a valid and binding Contract of the Company and is in full force and effect, and neither the Company nor any other party thereto, is in default or breach under the terms of any such Material Contract. There is no event, occurrence, condition, or act (including the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements) that, with the giving of notice or the passage of time, could become a default or event of default under any such Material Contract by any of the parties thereto. The Company has delivered to the Purchaser true and complete copies of each written Material Contract and true and complete summaries of all oral Material Contracts (other than any oral Contracts that (a) were entered into in the Ordinary Course in connection with the employment of the Company’s employees, which employees (including their annual compensation) are disclosed on Schedule 3.21.2 and which oral Contracts are disclosed on Schedule 3.21.4) and (b) are terminable by the Company at will without the payment of any severance, penalty or other amount).

3.10.3 The Company has not received any notice (a) alleging breach of any Contract, (b) terminating or threatening to terminate any Contract or (c) of intent not to renew a Contract.

3.11 Insurance Coverage. Schedule 3.11 sets forth a list of all insurance policies, surety bonds, and guarantees covering the Plans, assets, Business, Contracts, property, Liabilities, operations, employees, officers and managers, as applicable, of the Company (collectively, the “**Policies**”). Schedule 3.11 also sets forth a list and description of all claims made by the Company under the Policies (or any other insurance policies that were in effect). With respect to each Policy, the Company has delivered to the Purchaser a true and complete copy of each such Policy (including all amendments thereto) and a true and complete copy of each material document (including all amendments thereto) prepared in connection with each such Policy. All Policies are in full force and effect and there is no claim by the Company pending under any of such Policies as to which coverage or the right to reimbursement of defense costs has been questioned, denied, or disputed by the issuers or underwriters of any of the Policies. Current and historical limits of liability under the Policies have not been exhausted and are not impaired. None of the insurers of the Company have issued a reservation of rights letter in the defense of claims. All premiums due and payable under the Policies have been paid, and the Company does not have any liability due for any retrospective premium adjustment, audit premium adjustment, experience-based liability or loss sharing cost adjustment under any of the Policies. There have been no gaps in the Company’s insurance coverage. The Company has complied with the terms and conditions of all of the Policies. Following the Closing, the Policies will insure the Company and its Plans, assets, Business, Contracts, property, Liabilities, operations, employees, officers and managers, as applicable, to the same extent as they insured the Company, and its Plans, assets, Business, Contracts, property, Liabilities, operations, employees, officers and managers as applicable, prior to the Closing. There is no threatened termination of, or premium increase with respect to, any of the Policies, and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements will not result in any termination of, or premium increase with respect to, any of the Policies or any inability to assess claims that were incurred prior to Closing under any of the Policies. Since the last renewal date of any of the Policies, there has not been any material adverse change in the relationship of the Company on the one hand, and its insurers, on the other hand, on the premiums payable pursuant to such Policies. All of the Company’s issuers are solvent and are rated A- or better by A.M. Best.

3.12 Litigation.

3.12.1 Except as disclosed on Schedule 3.12.1, there is no action, suit, investigation, arbitration, or administrative or other proceeding pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its properties or assets, and, to the knowledge of the Company, no event has occurred, or circumstance exists that may give rise to or serve as a basis for any of the foregoing. The Company has delivered to the Purchaser true, correct and complete copies of all pleadings, correspondence and other documents relating to each proceeding disclosed on Schedule 3.12.1 and each settlement or similar agreement entered into by the Company (a) during the three (3) year period prior to the date of this Agreement or (b) with respect to which any material obligation of any party thereto is outstanding as of the date of this Agreement. Neither the Company nor the Business are subject to or bound by any Order that would prevent or otherwise interfere with the ability of the Company or the Seller to consummate the transactions contemplated by this Agreement or any Ancillary Agreement. None of the items described in Schedule 3.12.1, singly or in the aggregate, if pursued and/or resulting in a judgment or decision against the Company, would reasonably be expected to have a Material Adverse Effect or would result in the creation of a material Liability against the Company.

3.12.2 There is no action, suit, investigation, arbitration, or administrative or other proceeding pending or, to the knowledge of the Seller, threatened against or affecting the Seller, and the Seller is not subject to or bound by any Order, in either case that would prevent or otherwise interfere with the ability of the Seller to consummate the transactions contemplated by this Agreement or any Ancillary Agreement or to otherwise perform her obligations under this Agreement or any Ancillary Agreement to which the Seller is or will be a party.

3.13 Compliance with Laws; Permits.

3.13.1 Except as disclosed on Schedule 3.13.1, the Company is not and has not been in violation of any applicable Law or Order, and the Company does not have knowledge of the issuance or proposed issuance of any notice by any Governmental Authority of any violation or any alleged violation of any Law. During the past five (5) years, the Company has not received (a) written notice of any violation, alleged violation, or potential violation of any such Law, (b) non-written notice of any violation, alleged violation, or potential violation of any such Law, or (c) any actual, alleged, or potential obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action. To the knowledge of the Company, no event has occurred, and no condition exists, that would reasonably be expected to (with or without notice or lapse of time) constitute or result directly or indirectly in (i) a violation by the Company, or a failure on the part of the Company to comply with, any applicable Law or (ii) any obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action.

3.13.2 Schedule 3.13.2 sets forth a list of each Permit held by the Company, or issued and held in respect of the Company, or required to be so issued and held to carry on the Business as currently conducted. Except as disclosed on Schedule 3.13.2, each Permit disclosed on Schedule 3.13.2 is held by the Company and is valid and in full force and effect and will not be terminated or impaired (or become terminated or impaired) as a result of the transactions contemplated by this Agreement or any Ancillary Agreement. The Company is not in default or violation under and, to the knowledge of the Company, no condition exists that with notice or lapse of time or both would constitute a default or violation under, any Permit held by the Company. There is no claim commenced, pending, or being heard before any tribunal, Governmental Authority or arbitrator, or to the knowledge of the Company, threatened, nor has the Company received any notice (written or non-written) from any Governmental Authority to revoke, cancel, decline to renew, or adversely modify any Permit.

3.14 Properties; Sufficiency of Assets.

3.14.1 The Company does not own and has not owned any Company Real Property. Schedule 3.14.1 sets forth a list of all Company Real Property, including all real property leased or for which the Company holds a possessory interest (the “**Leased Real Property**”). The Company owns good and marketable title to the Company Real Property, free and clear of any Lien other than Permitted Liens. True and complete copies of (a) all deeds, existing title insurance policies and surveys of or pertaining to the Company Real Property, (b) all leases (including all amendments, extensions, renewals, guaranties) in effect on the date hereof relating to the Company Real Property, and (c) all instruments, agreements and other documents evidencing, creating or constituting any Liens other than Permitted Liens on Company Real Property in the Company’s possession have been made available to the Purchaser. The Company has a valid leasehold interest in the Leased Real Property, free and clear of any Liens other than Permitted Liens. All leases of Leased Real Property are valid, binding, and enforceable in accordance with their respective terms against the Company and against each other party thereto, and the Company is a tenant or possessor in good standing thereunder and all rents currently due and previously due under such leases have been paid. There does not exist under any such lease any default or any event which with notice or lapse of time or both would constitute a default. The Company is in peaceful and undisturbed possession of the Leased Real Property under each lease of which it is a tenant and has good and valid rights of ingress and egress to and from all such Leased Real Property and to the public street systems for all usual street, road and utility purposes. Except as set forth on Schedule 3.14.1, neither the Seller nor any Affiliate of the Seller is a landlord under any lease relating to Leased Real Property. Neither the Company nor the Seller has received any notice of any appropriation, condemnation, or like proceeding, or of any violation of any applicable zoning Law or Order relating to or affecting the Leased Real Property, and no such proceeding is pending or, to the knowledge of the Company, has been threatened. The Company has not subleased or otherwise granted any Person the right to use or occupy any Leased Real Property. Except for Permitted Liens, there exist no Liens affecting the Leased Real Property created by, through, or under the Company.

3.14.2 Schedule 3.14.2 sets forth a list of all personal property (including equipment) necessary for the conduct of the Business that is owned or leased by the Company and indicates whether each item of personal property is owned or leased. The assets owned or leased by the Company (including real, personal, tangible, and intangible property), or that the Company otherwise has or will have the right to use (including real, personal, tangible, and intangible property), constitute all of the assets held for use or used in connection with the Business and are sufficient to conduct the Business as presently conducted. The Company has good and marketable title to all of its properties and assets, including those listed and described in Schedule 3.14.2, in each case, free and clear of all Liens except as specifically disclosed on Schedule 3.14.2 and except for Permitted Liens. Except pursuant to this Agreement, the Company is not a party to any contract or obligation whereby there has been granted to any Person an absolute or contingent right to purchase, obtain or acquire any rights in any of the assets, properties or operations of the Company. All machinery and equipment owned or leased by the Company is in good operating condition and state of repair, subject only to ordinary wear and tear which is not such as to affect adversely the operation of the Business as presently conducted or proposed to be conducted.

3.15 Accounts Receivable. The Accounts Receivable outstanding on the Closing Date represent sales actually made or services actually performed or to be performed in the Ordinary Course in bona fide, arms-length transactions completed in accordance with the terms and provisions contained in any documents relating thereto and in compliance with applicable Laws. The Company has recorded all Accounts Receivable in the accounting records of the Company in accordance with IFRS and with the custom and practice of the Company to the extent inconsistent with IFRS. Unless paid prior to the Closing Date, the Accounts Receivable are as of the Closing Date current and collectible net of the respective reserves shown on the Balance Sheet. All Accounts Receivables have been fully collected or to the knowledge of the Company may be fully collected without resort to litigation or a third party collection Person and without offset or counterclaim, in the aggregate face amounts thereof. The Company’s reserves for Accounts Receivable have been and will be adequate and determined in accordance with IFRS. No claims of rights of setoff exist that would exceed such reserves. The Company has not factored or discounted, or agreed to factor or discount, any Accounts Receivable. The Company has complete and correct copies of all instruments, documents and agreements evidencing all of its Accounts Receivable and of all instruments, documents or agreements creating security therefor, if any.

3.16 Intellectual Property.

3.16.1 Schedule 3.16.1 sets forth a complete and correct list of all of the Company's (a) issued patents and pending patent applications, (b) domain names and registered trademarks and pending applications therefor and material unregistered trademarks, (c) registered copyrights and applications therefor and material unregistered copyrights, and (d) rights in material software and all documentation, including user manuals and training material, related thereto, which are owned by the Company in any jurisdiction in the world (the "***Company Owned Intellectual Property***"). Schedule 3.16.1 also sets forth all material licenses (other than shrink wrap licenses), sublicenses, and other similar agreements, including any ongoing software or website maintenance agreements, as to which the Company is a party, including the identity of all parties thereto other than licenses and shrink wrap licenses for commercial off-the-shelf software products (the "***Company Licensed Intellectual Property***").

3.16.2 Except as disclosed on Schedule 3.16.2, none of the Company Owned Intellectual Property (including any software, middleware, firmware) constitutes, contains, or is dependent upon any Public Software. None of the Company Owned Intellectual Property, nor any product and service of the Company is subject to any contractual obligation that would require the Company to publicly divulge any source code or trade secret that is part of the Company Owned Intellectual Property.

3.16.3 The Company owns or has the valid and legally enforceable right to use, free and clear of any Liens (other than Permitted Liens), all Intellectual Property Rights necessary for, material to, convenient to, or otherwise used to conduct the Business as currently conducted or as proposed to be conducted without any conflict with or infringement or misappropriation of any rights or property of third parties.

3.16.4 There is no unauthorized use, disclosure, infringement, or misappropriation of, nor is there any valid basis for any claim of infringement or misappropriation from any third party upon, the Intellectual Property Rights or other proprietary rights of the Company or any third party.

3.16.5 Except as disclosed on Schedule 3.16.5:

(a) Neither the Company's use of any Intellectual Property Rights nor the conduct of the Business as currently conducted or as conducted in the past, infringes, misappropriates or otherwise violates any Intellectual Property Rights or other proprietary rights of any other Person. There are no pending or, to the knowledge of the Company, threatened claims alleging that the Company or the operation of the Business infringes or misappropriates the Intellectual Property Rights of any Person;

(b) No Person is infringing on, misappropriating, or using on an unauthorized basis, and the Company has no knowledge of any facts, circumstances or conditions that a reasonable person would conclude provides a valid basis for any such claim that any Person is infringing on, misappropriating, or using on an unauthorized basis, any Intellectual Property Rights owned, licensed, used or held for use by the Company or that any Person is considering or threatening such a claim;

(c) No Company Owned Intellectual Property Right is subject to any outstanding Order, stipulation, or agreement restricting the use thereof by the Company or restricting the licensing thereof by the Company to any Person;

(d) The Company has not entered into any agreement to indemnify any other Person against any charge of infringement, misappropriation, or other violation of any Intellectual Property Right;

(e) The Company has entered into a written valid, binding and enforceable proprietary information, confidentiality, and assignment agreement with each current or former employee, officer, consultant, and any other Person who is an inventor, author, or creator of any Company Owned Intellectual Property that (A) conveys any and all right, title, and interest in and to all Intellectual Property Rights developed, created, invented or authored by such Person for the Company in such Person's employment or such other arrangement to the Company and (B) obligates such Person to keep any confidential information, including non-public information and trade secrets, of the Company confidential both during and after the term of employment or such other arrangement. The Company has made available to the Purchaser complete and correct copies of all such agreements. To the knowledge of the Company, no such employee, officer, consultant or any other Person is in violation of any such agreement, nor of any similar agreement with any other Person;

(f) In connection with the use of the Intellectual Property Rights by the Company, the Company does not owe to any other Person any fee, royalty, or other payment as a result of the use of such Intellectual Property Rights;

(g) The Company has not entered into any license or other Contract pursuant to which the Company has granted to any other Person the right to use any Intellectual Property Rights;

(h) The Company is not using and it will not be necessary to use, (i) any inventions or other Intellectual Property Rights of any of its past or present employees or independent contractors made prior to or outside the scope of their employment or service with the Company or (ii) any confidential information or trade secrets of any former employer or independent contractor of any such Person;

(i) There are no actions that must be taken by the Company within one hundred eighty (180) days following the Closing Date that, if not taken, would result in the loss of any Intellectual Property Rights, including the payment of any registration, maintenance, or renewal fees or the filing of any responses to U.S. Patent and Trademark Office (or other applicable Governmental Authority in any applicable jurisdiction) actions, documents, applications, or certificates for the purposes of obtaining, maintaining, perfecting, or preserving or renewing any Intellectual Property Rights;

(j) The Company has taken necessary, appropriate and commercially reasonable steps to protect and preserve the confidentiality of all of its Intellectual Property Rights and confidential and proprietary information that is not otherwise disclosed in published patents or patent applications or registered copyrights; and

(k) The Company has not failed to comply with any privacy policies applicable to the Company's websites.

3.16.6 The IT Systems are adequate and sufficient (including with respect to working condition and capacity) for the operations of the Company. The Company has taken reasonable measures to preserve and maintain the performance, security, and integrity of the IT Systems (and all software, information or data stored thereon). Within the three (3) years prior to the Closing Date, (a) there has been no failure with respect to any IT Systems, (b) there has been no unauthorized access to or use of any IT Systems (or any software, information or data stored thereon), and (c) there has been no breach of the security or integrity of any of the IT Systems (or any software, information, or data stored on any IT System).

3.17 [Intentionally Omitted].

3.18 Plans.

3.18.1 Schedule 3.18.1 sets forth a complete and accurate list of all employee benefit plans (as defined in Section 3(3) of ERISA), and all other compensation or benefit plans, programs, arrangements, contracts, or schemes, written or oral, statutory or contractual, with respect to which the Company, or any of its ERISA Affiliates, has or may have any obligation or liability, or that are maintained, contributed to or sponsored by the Company, or any such ERISA Affiliate, for the benefit of any current or former employee, contractor, manager or officer of the Company, or any such ERISA Affiliate (collectively, the “**Plans**”). With respect to each Plan, the Company has delivered to the Purchaser a true and complete copy of each such Plan (including all amendments thereto and complete copies of any plans that have been merged into such plan) and a true and complete copy of each material document (including all amendments thereto) prepared in connection with each such Plan including, and to the extent applicable, (a) a copy of each trust or other funding arrangement, (b) each summary plan description and summary of material modifications, (c) the three most recently filed IRS Forms 5500 (including all schedules), (d) any service contracts or documents governing the investment and management of the Plan or assets thereof, including documents relating to fees incurred by the sponsor or participants and beneficiaries, and (e) the most recent IRS determination or opinion letter. Neither the Company, nor any ERISA Affiliate of the Company, has made any express or implied commitment, whether legally enforceable or not, to create, incur liability with respect to or cause to exist any employee benefit plan, program, arrangement, contract, or scheme or to modify any Plan, other than as required by Law.

3.18.2 None of the Plans (a) is a plan that is or has ever been subject to Title IV of ERISA, Section 302 of ERISA or Section 412 of the Code, (b) is a “multiemployer plan” as defined in Section 3(37) of ERISA, (c) is a plan maintained in connection with a trust described in Section 501(c)(9) of the Code, (d) provides for the payment of separation, severance, termination, or similar-type benefits to any Person, or (e) provides for or promises retiree medical or life insurance benefits to any current or former employee, officer, manager, member, shareholder or partner, as applicable, of the Company, or any of its ERISA Affiliates, except to the extent required by Law. The Company has no liability or obligation with respect to any of the foregoing types of plans or arrangements.

3.18.3 Each Plan is in compliance in all material respects with, and has for all relevant periods been operated and maintained in all material respects in accordance with, its terms and the requirements of all applicable Laws, and the Company and its ERISA Affiliates have satisfied all of their statutory, regulatory, and contractual obligations with respect to each such Plan. No action, suit, claim, or proceeding is pending or, to the knowledge of the Company, threatened with respect to any Plan (other than routine claims for benefits in the Ordinary Course) and no fact or circumstance exists that could give rise to any such action, suit, or claim.

3.18.4 Each Plan or related trust that is intended to be qualified or exempt from taxation under Section 401(a), 401(k) or 501(a) of the Code is so qualified and has either received a favorable determination letter from the IRS that it is so qualified or exempt or is established on a pre-approved form of plan document that has received a currently-effective favorable opinion or advisory letter from the IRS that such form of plan document is so qualified or exempt, and nothing has occurred since the date of such determination, advisory, or opinion letter that would reasonably be expected to adversely affect the qualified or exempt status of any Plan or related trust.

3.18.5 There has been no non-exempt prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) with respect to any Plan. Neither the Company, nor any of its ERISA Affiliates, has incurred any liability for any material excise tax arising under the Code (including under Chapter 43 of the Code) with respect to a Plan and no fact or circumstance exists that could give rise to such liability. The Company has not incurred any liability relating to Title IV of ERISA, and no fact or circumstance exists that could give rise to any such liability. Neither the Company nor any Affiliate nor any of their respective managers, officers, employees or any other fiduciary has committed any breach of fiduciary responsibility imposed by ERISA that would subject the Company or any Affiliate or any of their respective managers, officers or employees to liability under ERISA.

3.18.6 All contributions, premiums, or payments required to be made with respect to each Plan have been made on or before their due dates and within the applicable time required by the Plan and applicable Law. All such contributions have been fully deducted for income tax purposes and no such deduction has been challenged or disallowed by any Governmental Authority, and no fact or circumstance exists which could give rise to any such challenge or disallowance. There are no claims (other than routine claims for benefits) pending or, to the Company's knowledge, threatened involving any Plan or the assets of any Plan.

3.18.7 There has been no amendment to, interpretation of, or announcement (whether or not written) by the Company or any of its ERISA Affiliates relating to, or change in employee participation or coverage under, any Plan, singly or in the aggregate, that would increase the expense of maintaining such Plan above the level of the expense incurred with respect thereto for the most recent fiscal year ended prior to the date of this Agreement. Each Plan can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without liability to the Purchaser, the Company, and any of its ERISA Affiliates (other than ordinary administration expenses or the obligation to pay benefits previously earned, vested or accrued thereunder). Each asset held under any Plan may be liquidated or terminated without the imposition of any redemption or surrender charge or comparable liability.

3.18.8 No current or former service provider of the Company or any of its ERISA Affiliates is, or will become, entitled to any bonus, retirement, severance, job security, or similar benefit or enhanced benefit (including acceleration of vesting or exercise of an incentive award) as a result of the transactions contemplated by this Agreement or any of the Ancillary Agreements.

3.18.9 All individuals considered by the Company and any Affiliate to be independent contractors are, and could only be reasonably considered to be, in fact "independent contractors" and are not "employees" or "common law employees" for tax, benefits, wage, labor or any other legal purpose.

3.18.10 Each Plan providing medical, dental, and prescription benefits, life insurance, accidental death and dismemberment, and long term disability coverage is fully-insured and not self-insured.

3.18.11 Neither the Company nor any Affiliate maintains any "nonqualified deferred compensation plan" subject to Section 409A of the Code.

3.19 Interests in Counterparties and Others. Except as disclosed on Schedule 3.19, the Seller and the officers and managers of the Company or any of its Affiliates do not possess, directly or indirectly, any ownership or pecuniary interest in, or is a trustee, manager, officer, Affiliate, or employee of, any Person that is a seller to, or customer, supplier, vendor, lessor, lessee, licensor, competitor, or potential competitor of the Company, including any counterparty to any Material Contract. Neither the Seller nor any officer or manager of the Company or any of its Affiliates has directly or indirectly offered or solicited any payment or other benefit that the Company considers or reasonably should consider to be improper in order to promote sales or help, procure, or maintain good relations with any seller to, or supplier, customer, vendor, lessor, lessee, licensor, competitor, or potential competitor of the Company, including any counterparty to any Material Contract. The Company has not transferred any of its respective assets or properties to, or bought any assets or properties from, the Seller or any of his Affiliates, except for compensation, dividends, usual and customary benefits, perquisites, and reimbursements of business expenses in the Ordinary Course. Ownership of two percent (2%) or less of any class of securities of a Person whose securities are registered under the Exchange Act will not be deemed to be an ownership interest for purposes of this Section 3.19.

3.20 Relationships; Employee Compensation.

3.20.1 The relationships of the Company with its respective lessors, suppliers, customers, vendors, and employees are good commercial working relationships. Except as disclosed on Schedule 3.20.1, none of the Company's lessors, suppliers, or vendors has canceled, terminated, or otherwise materially altered or notified the Company of any intention or otherwise threatened to cancel, terminate, or materially alter its relationship with the Company effective prior to, as of, or within one (1) year after, the Closing. There has not been, and the Company has no reason to believe that there will be, any change in relations with lessors, suppliers or vendors of the Company as a result of the transactions contemplated by this Agreement or the Ancillary Agreements. Neither the Company nor the Seller has been notified by any employee or independent contractor of the Company that such employee or contractor intends to terminate his or her employment or engagement with the Company as a result of the transactions contemplated by this Agreement.

3.20.2 Schedule 3.20.2 contains a true and complete list of all employees of the Company, showing for each employee the following: (i) name, (ii) job title, (iii) location, (iv) status (i.e., full-time, part-time, temporary), (v) hire date, (vi) current annual base compensation rate or hourly rate, as applicable, (vii) commission, bonus or other incentive-based compensation, (viii) compensation received in 2019 (including base and incentive compensation), and (ix) classification under the Fair Labor Standards Act (i.e., exempt, non-exempt). As of the Closing Date, all payments that are due and payable to all employees of the Company for services performed on or prior to the Closing Date have been paid in full, except for any failures to pay that would not, individually or in the aggregate, reasonably be expected to result in material Liabilities to the Company. The Company has withheld and paid to the appropriate governmental entity or is holding for payment not yet due to such governmental entity all amounts required to be withheld from employees of the Company and is not liable for any arrears of wages, taxes, penalties or other sums for failure to comply with any of the foregoing, except for any failures to comply or liabilities that would not, individually or in the aggregate, reasonably be expected to result in material Liabilities to the Company.

3.20.3 Schedule 3.20.3 contains a true and complete list of all independent contractors engaged by the Company, whether doing business as an entity or not, and sets forth for each independent contractor the following: (i) name of individual or entity; (ii) status (i.e., consultant, independent contractor, sales representative); (iii) date the engagement began; and (iv) total compensation in 2019. As of the date hereof, all payments that are due and payable to all independent contractors of the Company for services performed on or prior to the date hereof have been paid in full, except for any failures to pay that would not, individually or in the aggregate, reasonably be expected to result in material Liabilities to the Company.

3.20.4 Except for the employment agreements specifically set forth on Schedule 3.20.4, neither the Seller, nor any shareholder, officer, employee or manager of the Company, is a party to, or is otherwise bound by, any Contract, including any confidentiality, non-competition, or proprietary rights Contract, between the Seller or such shareholder, officer, employee or manager and any other Person that in any way adversely affects or will affect (a) the performance of their duties as a shareholder, officer, employee or manager of the Company, and (b) the ability of the Company to conduct the Business consistent with past practice.

3.21 Other Employment Matters.

3.21.1 Except as disclosed on Schedule 3.21, (a) the Company is, and has at all time been, in compliance in all material respects with all Laws and other obligations respecting employment and employment practices and terms and conditions of employment, including employee classification, all minimum wage and overtime Laws and wage payment Laws, employee notification, leave (whether medical, family, or otherwise), affirmative action, child labor, immigration, employment discrimination, disability rights or benefits Laws, has not received any notice of an investigation, violation, charge, citation, penalty, or assessment from any Governmental Authority with respect to such labor and employment Laws, and has not, and is not, engaged in any unfair labor practice, (b) no unfair labor practice charge or complaint or labor arbitration proceeding is pending or, to the knowledge of the Company, threatened against the Company, (c) during the past five (5) years there has been no and there currently are no labor strike(s), dispute(s), slowdown(s), or work stoppage(s) pending or, to the knowledge of the Company, threatened against or involving the Company, (d) the Company is not a party to any collective bargaining agreement and no collective bargaining agreement or other contract, agreement, arrangement or understanding with a labor union or labor union organization and no collective bargaining agreement or other Contract with a labor union or labor union organization is currently being negotiated by the Company, (e) the Company has not has breached a collective bargaining agreement, (f) no representation question exists respecting employees of the Company, and (g) no claim regarding or on behalf of any employee(s) of the Company or related to any employment practice of the Company has been asserted and is currently pending or threatened, against the Company.

3.21.2 All employees, agents, and independent contractors of the Company are legally authorized to work in the United States, either because of their status as United States citizens, legal permanent residents, or by virtue of possessing a current and valid visa under applicable Law relating to immigration control which visa allows for such employee, agent or contractor to work in the United States. None of the Company, the Seller or their respective Affiliates has hired, recruited or referred for a fee a Person who is not legally authorized to be employed in the jurisdiction in which such Person was engaged, or employed a Person that is not legally authorized to be employed in the United States, or knowingly continued to employ a Person knowing the Person ceased to be legally authorized to be employed in United States. The Company has properly completed all reporting and verification requirements pursuant to Laws relating to immigration control for all of its employees, agents and independent contractors including the Form I-9. The Company has retained for each current employee the Form I-9 throughout such employee's period of employment with the Company and has retained a Form I-9 for each former employee of the Company in the United States for a period of one (1) year from the date of termination of such employee or three (3) years from the date of hire, whichever is later. The Company has not received any notice from any Governmental Authority that the Company is in violation of any Law pertaining to immigration control or that any current, former employee, agent or contractor of the Company is or was not legally authorized to be employed in the United States or is or was using an invalid social security number and there is no pending, or to the Company's knowledge threatened, charge or complaint under the Immigration Reform and Control Act of 1986 against the Company.

3.21.3 Schedule 3.21.3 contains true, complete and correct summaries of all of the material terms of each engagement between the Company and the Service Providers.

3.22 Workers' Compensation/OSHA.

3.22.1 The Company has provided to the Purchaser all inspection reports issued under OSHA or any other occupational health and safety legislation. Except as disclosed on Schedule 3.22.1, there are no outstanding inspection orders or any pending or, to the knowledge of the Company, threatened charges under OSHA or any other applicable occupational health and safety legislation relating to the Company. Except as disclosed on Schedule 3.22.1, there have been no fatal or OSHA reportable accidents that could lead to charges under OSHA or any other applicable occupational health and safety legislation. Except as disclosed on Schedule 3.22.1, the Company has complied in all material respects with any Orders issued to them under OSHA or any other applicable occupational health and safety legislation and there are no appeals of any Orders that are currently outstanding.

3.22.2 Except as disclosed on Schedule 3.22.2, there is not pending against the Company any workers' compensation claims, and, to the knowledge of the Company, there are no facts that would give rise to such a claim or complaint. Except as disclosed on Schedule 3.22.2, the Company has not received any notice of a citation, penalty, or assessment from any Governmental Authority with responsibility for workers' compensation or occupational safety and health. The Company is in material compliance with all Laws respecting worker's compensation.

3.23 No Indebtedness or Selling Expenses. As of, and after giving effect to, the Closing, the Company will not have any Indebtedness or Selling Expenses.

3.24 Customers and Suppliers.

3.24.1 Schedule 3.24.1 sets forth a list of the ten (10) largest suppliers of the Company, as measured by the dollar amount of payments to or purchases therefrom, during each of the three (3) fiscal years ended immediately prior to the date of this Agreement and the period beginning on the first day of the current fiscal year and ending on the last day of the last month ending prior to the date of this Agreement, showing purchases by and payments to the Company from and to each such supplier during such periods. The Company has a large number of small customers and has no large customers. No customer of the Company is responsible for 3% or more of the Company's revenue.

3.24.2 No customer or supplier listed on Schedule 3.24.1 has terminated its relationship with the Company or materially changed the pricing or other terms of its business with the Company and no such customer or supplier has notified the Company that it intends, desires to, or contemplates that it may to terminate or materially change the pricing or other terms of its business with the Company. There are no claims, disputes or re-negotiations between the Company and any such customers or suppliers, and, to the Company's knowledge, there is no basis for any such claim, dispute or re-negotiation.

3.24.3 Except as set forth in Schedule 3.24.3, there exists no condition or state of facts or circumstances known to the Company involving customers or suppliers of or to the Business which would reasonably be expected to have a Material Adverse Effect.

3.25 Warranties. Except as set forth on Schedule 3.25, there is no currently pending claim for product liability, warranty or other claims by any third party (whether based on contract or tort and whether relating to personal injury, including death, property damage or economic loss) arising from: (a) services rendered by the Company during periods through and including the Closing Date, or (b) the operation of the Business during the period through and including the Closing Date. All services rendered by the Company have been in conformity with all applicable contractual commitments and all express and implied warranties, and the Company does not have any liability (and the Company does not have any knowledge of any basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand giving rise to any liability) for Damages in connection therewith, except as set forth on Schedule 3.25. No services provided by the Company are subject to any guaranty, warranty, or other indemnity beyond the Company's standard terms and conditions of sale, which terms and conditions of sale are fully set forth on Schedule 3.25.

3.26 Securities Laws Compliance. Each offer and sale, redemption and repurchase of Company Securities, including all convertible notes, options, warrants and other rights to purchase or acquire the Company Securities, was in compliance with all applicable Laws and exempt from the registration requirements of the Securities Act and other applicable Laws, including any applicable state securities Laws.

3.27 Absence of Certain Business Practices. Except as disclosed on Schedule 3.27, neither the Company, nor any officer, manager, employee, independent contractor, or any Person acting on behalf of the Company has (a) received, directly or indirectly, any rebates, payments, commissions, promotional allowances, or any other economic benefits, regardless of their nature or type, from any customer, governmental employee or other Person with whom the Company has done business directly or indirectly, or (b) directly or indirectly, given or agreed to give any gift or similar benefit to any customer, governmental employee or other Person who is or may be in a position to help or hinder the Company (or assist the Company in connection with any actual or proposed transaction). Neither the Company nor any officer, manager, employee, independent contractor or any Person acting on behalf of the Company has used any funds for unlawful contributions, gifts, entertainment, or other expenses relating to political activity or otherwise, or has made any direct or indirect unlawful payment to governmental officials or employees from the Company's funds or been reimbursed from the Company's funds for any such payment, or is aware that any other Person associated with or acting on behalf of the Company has engaged in any such activities.

3.28 Finders' Fees. Except as set forth on Schedule 3.28, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of the Seller, the Company, or any of their respective Affiliates, who might be entitled to any fee or commission paid by the Seller or the Company in connection with the transactions contemplated by this Agreement or any Ancillary Agreement. All amounts disclosed on Schedule 3.28 and all obligations of the Company to each investment banker, broker, finder or other intermediary named thereon (including all indemnification obligations of the Company or the Seller to any such investment banker, broker, finder or other intermediary) shall be paid to the investment banker, broker, finder, or other intermediary set forth thereon by the Seller.

3.29 Banking Arrangements. Schedule 3.29 sets forth the name of each bank in which the Company has an account, credit line or safety deposit box, and a brief description of each of the same, including the account numbers and the names of all persons currently authorized to draw thereon or having access thereto.

3.30 CFIUS. The Company does not engage in (a) the design, fabrication, development, testing, production or manufacture of one (1) or more "critical technologies" within the meaning of the Defense Production Act of 1950, as amended, including all implementing regulations thereof (the "**DPA**"); (b) the ownership, operation, maintenance, supply, manufacture, or servicing of "covered investment critical infrastructure" within the meaning of the DPA (where such activities are covered by column 2 of Appendix A to 31 C.F.R. Part 800); or (c) the maintenance or collection, directly or indirectly, of "sensitive personal data" of U.S. citizens within the meaning of the DPA. The Company has no current intention of engaging in such activities in the future.

3.31 Privacy and Security.

3.31.1 Except as set forth in Schedule 3.31.1, (i) the Company is not, and at no time has been, in material violation of any Laws relating to the rights of any Person with respect to Personal Information and/or Privacy Rights, including the Laws relating to the collection, storage, use, security and/or transfer of Personal Information, and (ii) the Company is, and at all times have been, in compliance with all applicable industry standards relating to Personal Information and/or Privacy Rights.

3.31.2 The Company: (i) has been, and is protecting, the confidentiality, integrity and security of its software, databases, systems, networks and Internet sites and all information stored or contained therein or transmitted thereby from unauthorized or improper access, modification, transmittal or use; (ii) has been, and is currently ensuring that the Company does not use or intentionally collect or intentionally receive Personal Information relating to children under thirteen years of age in violation of the Children's Online Privacy Protection Act; and (iii) has been, and is, in material compliance with each privacy policy it has made publicly available and the terms of each of its contractual obligations that is applicable to Personal Information and/or Privacy Rights.

3.31.3 All third party servicing, outsourcing, hosting or similar arrangement with respect to the management of information are set forth in Schedule 3.31.3.

3.31.4 The Company has technological and procedural measures in place to protect all Personal Information against loss, theft and unauthorized access or disclosure. The Company has implemented and maintained a system of internal controls sufficient to provide reasonable assurance that the Company complies with all applicable Laws, and that they will not collect, fail to secure, share or use such Personal Information in a manner that breaches or violates any (i) such Laws, (ii) internal or customer-facing privacy or data security policy adopted by, or otherwise applicable to, the Company or the Business, or (iii) contractual commitment made by the Company that is applicable to Personal Information. Except as set forth in Schedule 3.31.4, no written claim has been asserted or threatened with respect to the Company's receipt, collection, use, storage, processing, disclosure or disposal of Personal Information.

3.32 Full Disclosure. The representations and warranties of the Seller contained in this Agreement and the Ancillary Agreements do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. The Seller has not withheld from or failed to disclose to the Purchaser any data, documents, or other information that could reasonably be expected to affect the Purchaser's or the Company's ability to perform its obligations under this Agreement and the Ancillary Agreements, or the Company's ability to conduct the Business in the Ordinary Course. The representations and warranties contained in this Agreement and the Ancillary Agreements are the only representations and warranties relating to the Seller, the Company, and the Business, and the Seller hereby disclaims all other warranties, whether express or implied.

IV. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Seller as follows:

4.1 Organization. The Purchaser is validly existing, and in good standing as a corporation under the Laws of the jurisdiction of its organization.

4.2 Authorization; Enforceability. The Purchaser's execution, delivery, and performance of this Agreement and each Ancillary Agreement to which the Purchaser is or will be a party and the consummation of the transactions contemplated hereby and thereby, are within the Purchaser's capacity, power and authority and have been duly authorized by all necessary third party action. The Purchaser has all requisite capacity, power and authority, as the case may be, to become a party to, and to consummate the transactions contemplated by, this Agreement and each Ancillary Agreement to which the Purchaser is or will be a party. This Agreement and each Ancillary Agreement to which the Purchaser is or will be a party has been or will be duly executed and delivered by the Purchaser, and once executed, will constitute, a legal, valid and binding agreement of the Purchaser, enforceable against the Purchaser in accordance with their respective terms, subject to applicable bankruptcy, insolvency and other similar laws relating to the enforcement of creditors' rights generally and to general principles of equity, assuming in each case due and valid execution by the Company and the Seller.

4.3 Non-Contravention. The execution, delivery and performance by the Purchaser of this Agreement and each Ancillary Agreement to which the Purchaser is or will be a party did not and will not (a) violate the governing or Organizational Documents of the Purchaser in any material respect or (b) violate any applicable Law or Order in any material respect, (c) except as set forth on Schedule 4.3, require any material filing with or material permit, consent, or approval of, or require the giving of any notice to, any Person, or (d) result in a material violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default under, or give rise to any right of termination, cancellation, or acceleration of any right or obligation of, the Purchaser, or to a loss of any benefit to which the Purchaser is entitled, under any material Contract to which Purchaser is a party.

4.4 Litigation. There is no action, suit, investigation, arbitration, or administrative or other proceeding pending or, to the knowledge of the Purchaser, threatened against the Purchaser, and the Purchaser is not subject to or bound by any Order, in either case that would prevent or otherwise materially interfere with the ability of the Purchaser to consummate the transactions contemplated by this Agreement or any Ancillary Agreement or to otherwise perform its obligations under this Agreement or any Ancillary Agreement to which the Purchaser is or will be a party.

4.5 Finders' Fees. There is no investment banker, broker, finder, or other intermediary that has been retained by or is authorized to act on behalf of the Purchaser or any Affiliate thereof, who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement or any Ancillary Agreement.

4.6 Disclosure. Except for the representations and warranties expressly set forth in this Agreement and the Ancillary Agreements, the Purchaser acknowledges that neither the Seller nor any other Person acting on behalf of Seller makes any other representations or warranties, express or implied, at law or in equity, oral or written, with respect to the Seller, the Company, or the Business. The Purchaser expressly disclaims reliance upon all such representations and warranties not set forth in this Agreement or the Ancillary Agreement and acknowledges that the Seller will not have any liability whatsoever relating to any omissions of material facts or the accuracy and completeness of any representations and warranties not set forth in this Agreement or the Ancillary Agreements.

V. CERTAIN COVENANTS

5.1 No Indebtedness or Liens. At or prior to the Closing, the Seller shall cause, or shall have caused, the Company to satisfy all outstanding Indebtedness. At or prior to the Closing, the Seller shall cause, or shall have caused, the Company to terminate all Liens on or against any assets or equity interests of the Company, other than the Permitted Liens.

5.2 Termination of Seller Agreements and Similar Arrangements. At or prior to the Closing, the Seller shall cause, or shall have caused, the termination of any and all voting trusts or agreements, registration rights agreements, pledge agreements, buy-sell agreements, rights of first refusal or preemptive rights, stockholders agreements, limited liability company member agreements, proxies or similar agreements, arrangements or understandings relating to the Company Securities, except for any Ancillary Agreement (to which the Seller is a party), and will provide the Purchaser with documentation reasonably satisfactory to the Purchaser evidencing such termination.

5.3 Further Assurances. From time to time, as and when requested by any Party to this Agreement, the other Parties will execute and deliver, or cause to be executed and delivered, all such documents and instruments and will take, or cause to be taken, all such further or other actions, as the requesting Party may reasonably deem necessary or desirable to consummate the transactions contemplated by this Agreement or any Ancillary Agreement, in any such case, at the requesting Party's sole cost and expense.

5.4 Post-Closing Remittances. After the Closing, if the Purchaser or the Seller or any of his respective agents or Affiliates receives any payment from a third party that is owed to the other Party pursuant to the terms of this Agreement, the Purchaser and the Seller, as applicable, shall promptly (and in no event later than ten (10) days following receipt) remit such payment to the other Party.

5.5 Restrictive Covenants.

5.5.1 Non-Compete. The Seller (the "**Restricted Party**"), covenants and agrees that, for a period commencing on the Closing Date and terminating on the date two (2) year after the termination for any reason of the Seller Services Agreement, as extended or renewed from time to time (the "**Restricted Period**"), the Restricted Party shall not, without the Purchaser's prior written consent, directly or indirectly, either for itself or for, with, or through any other Person (other than for the benefit of Purchaser or the Company), Participate In any business (including, without limitation, any division, group or franchise of a larger organization) which engages (or to such Restricted Party's knowledge, proposes to engage) in the Business. The Restricted Party acknowledges and agrees that, due to the narrow definition of the Business and the unique and transportable character of the same, the geographical scope of this covenant properly extends throughout every state in which the Business currently operates or proposes to operate. For purposes of this Agreement, the term "**Participate In**" shall mean having a direct or indirect ownership interest in any Person, whether as a sole proprietor, owner, stockholder, partner, member, joint venturer, creditor, or otherwise; directly or indirectly lending money to or rendering any service or assistance to; permitting the use of his, her, or its name by; or managing, controlling, or participating in, any Person (whether as a director, officer, manager, general partner, limited partner, stockholder, member, supervisor, employee, agent, consultant, Representative, independent contractor, or otherwise); provided, that "Participate In" shall not include being a passive owner of less than one percent (1%) in the aggregate of any class of capital stock or equity of any Person if such stock or equity is publicly traded and listed on any national stock exchange, so long as the Restricted Party has no active participation in the business of such Person.

5.5.2 Non-Solicitation of Business Relationships. The Restricted Party covenants and agrees that during the Restricted Period, the Restricted Party shall not, directly or indirectly, as an employee, agent, stockholder, consultant, director, equity holder, member, manager, general or limited partner, or in any other capacity, without the Purchaser's prior written consent (other than for the benefit of the Purchaser or the Company), (a) solicit, contact, call upon, communicate with, or attempt to communicate with any customer, supplier, vendor, independent contractor, client, partner, licensor, licensee, or other Person having a business relationship with the Company, the Purchaser, or any of their Subsidiaries or Affiliates with respect to the Business, including any such customer, supplier, vendor, independent contractor, client, partner, licensor, licensee, or other Person having a business relationship with the Business during the two (2)-year period preceding the Closing Date or any successor-in-interest of any of the foregoing (collectively, "**Business Relationships**") for the purpose of engaging in opportunities related or similar to the Business or Contracts related or similar to the Business, or (b) encourage, initiate, or participate in discussions or negotiations with any of the Business Relationships with respect to the termination or other alteration of his, her, or its relationship with the Company, or the Purchaser, any of their Subsidiaries or Affiliates, or the Business.

5.5.3 Non-Solicitation of Employees and Consultants. The Restricted Party covenants and agrees that during the Restricted Period, the Restricted Party shall not, directly or indirectly, as employee, agent, consultant, director, equity holder, member, manager, general or limited partner, independent contractor, or in any other capacity, without the prior written consent of the Purchaser (other than for the benefit of the Purchaser or the Company), employ, engage, recruit, hire, or solicit for employment or engagement, any Person who is or was an employee, independent contractor, or consultant of the Company, the Purchaser, or any of their Subsidiaries or Affiliates.

5.5.4 Non-Disparagement. The Restricted Party covenants and agrees not to make, directly or indirectly through any other Person, any negative, derogatory, or disparaging statements or communications, whether written or oral, about the Company, the Purchaser, any of their Subsidiaries or Affiliates, or any of their respective businesses, services, activities, Business Relationships, shareholders, equity holders, members, partners, directors, officers, vendors, customers, managers, or employees.

5.5.5 Restriction on Trading on Inside Information. The Restricted Party covenants and agrees not to engage in any transaction with respect to securities of the Parent at any time if at the time of such transaction the undersigned is aware of any material non-public information relating to the Parent or its securities.

5.5.6 Confidential Information. The Restricted Party covenants and agrees that the Restricted Party will keep strictly confidential and not directly or indirectly divulge to anyone, nor use or otherwise appropriate for the Restricted Party's own benefit, any confidential or proprietary, technical, or non-technical information or trade secrets of the Business, including, without limitation, any information relating to organizational structure, personnel data, business strategies, marketing philosophy and objectives, project plans, strategy and vision statements, business initiatives, system design, methodologies, processes, competitive advantages and disadvantages, financial results, audit reports and materials related to financial reports, systems, operations, technology, customer lists, patient lists, medical information, vendor lists, pricing information, product development, software development, business plans, advertising or sales programs, terms and conditions of Contracts, and any other information concerning the Company, the Purchaser, or any of their Subsidiaries or Affiliates or the Business and its operations, or the Company's employees or customers whether or not marked as "confidential" or "proprietary" (collectively referred to as the "**Confidential Information**"). The duration of the covenant of the Restricted Party set forth in this Section 5.5.5 will remain in force with respect to trade secrets as long as the information remains a trade secret under applicable law and during the Restricted Period with respect to all other information, subject to the exceptions and limitations set forth in this Section 5.5.5. Each Restricted Party hereby acknowledges and agrees that the prohibitions against disclosure of the Confidential Information recited in this Agreement are in addition to, and not in lieu of, any rights or remedies that Purchaser or the Company may have pursuant to the Laws of any jurisdiction or at common law to prevent the disclosure of trade secrets. The enforcement by the Purchaser or the Company of its rights and remedies pursuant to this Agreement will not operate as a waiver of any other rights or available remedies that it may possess in law or equity outside of this Agreement, none of which are modified, waived, or displaced. The obligation of each Restricted Party under this Section 5.5.5 shall not apply to information which: (a) is or becomes generally available to the public without breach of the commitment provided for in this Section 5.5.5; or (b) is required to be disclosed by applicable Law, Order, or regulation of a court or tribunal or Governmental Authority of competent authority, provided, that, in the case of Clause (b), the Restricted Party shall notify the Purchaser as early as reasonably practicable prior to disclosure to allow the Purchaser to take appropriate measures to preserve the confidentiality of such Confidential Information and cooperate with the Purchaser in connection therewith.

5.5.7 The Restricted Party acknowledges that (a) the Restricted Party's expertise in the Business is of a special, unique, unusual, extraordinary, and intellectual character, which gives said expertise a peculiar value, (b) a breach by the Restricted Party of the provisions of this Section 5.5 cannot reasonably or adequately be compensated in damages in an action at law, and (c) a breach of any of the provisions contained in this Section 5.5 will cause Purchaser irreparable injury and damage. The Restricted Party further acknowledges that the Restricted Party possesses unique skills, knowledge and ability and that competition in violation of this Section 5.5 or any other breach of the provisions of this Section 5.5 would be extremely detrimental to Purchaser. By reason thereof, the Restricted Party agrees that Purchaser shall be entitled, in addition to any other remedies it may have under this Agreement or otherwise, to preliminary or temporary and permanent injunctive and other equitable relief to prevent or curtail any breach of this Section 5.5, and to enforce specifically the terms and provisions of this Section 5.5, without (i) showing of specific injury, (ii) being required to post bond or other security or (iii) having to prove the inadequacy of the available remedies at law. No specification in this Agreement of a specific legal or equitable remedy shall be construed as a waiver or prohibition against the pursuing of other legal or equitable remedies in the event of such a breach.

5.5.8 The Restricted Party acknowledges that the restrictions contained in this Section 5.5 are reasonable and necessary to protect the legitimate interests of Purchaser and the Company and constitute a material inducement to Purchaser to enter into this Agreement and consummate the transactions contemplated by this Agreement. In the event that any covenant contained in this Section 5.5 should ever be adjudicated to exceed the time, geographic, product or service or other limitations permitted by applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant in such jurisdiction, and such covenant shall be deemed reformed, in such jurisdiction to the maximum time, geographic region, product or service, or other limitations permitted by applicable Law. The covenants contained in this Section 5.5 and each provision hereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions of this Agreement, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

5.6 Transfer of Intellectual Property Rights. After the Closing, the Seller shall promptly (and in no event later than ten (10) days following the Closing) shall transfer all of the Company's Intellectual Property Rights registered under the Seller's name (including, without limitation, the domain names) to the Company.

VI. TAX MATTERS

The following provisions of this Article VI shall govern the allocation between the Purchaser and Seller of responsibility for certain Tax matters involving the Company following the Closing Date. In the event of any conflict between the provisions of this Article VI and any other provision of this Agreement, the provisions of this Article VI shall control.

6.1 Preparation of Tax Returns; Control of Audits.

6.1.1 The Seller shall prepare or cause to be prepared for filing by the Company all Tax Returns for the Company for all Pre-Closing Tax Periods that are due after the Closing Date. Such Tax Returns shall be prepared in a manner consistent with the terms of this Agreement and the Company's past practices, except to the extent required by applicable Law. Such Tax Returns (including any related work papers or other information reasonably requested by the Purchaser), shall be provided to the Purchaser for its review not later than thirty (30) days before the due date for filing such Tax Returns (including extensions). If the Purchaser does not provide the Seller with a written description of the items in the Tax Returns or the tax statement that the Purchaser intends to dispute within fifteen (15) Business Days following the delivery to the Purchaser of such documents, the Purchaser shall be deemed to have accepted and agreed to such documents in the form provided, and the Purchaser shall thereafter cause all such Tax Returns to be timely filed by the Company. The Seller and the Purchaser agree to consult with each other and to negotiate in good faith any timely-raised issue arising as a result of the review of such Tax Returns or the tax statement to permit the filing of such Tax Returns as promptly as possible, which good faith negotiations shall include each side exchanging in writing their positions concerning the matter or matters in dispute and a meeting to discuss their respective positions. In the event the Parties are unable to resolve any dispute within ten (10) Business Days following the delivery of written notice by the Purchaser of such dispute, the Seller and the Purchaser shall jointly request the Accounting Referee to resolve any issue in dispute at least five (5) Business Days before the due date of such Tax Return, in order that such Tax Return may be timely filed. The Accounting Referee shall make a determination with respect to any disputed issue within five (5) Business Days before the due date (including extensions) for the filing of the Tax Return in question, and the Purchaser shall cause the Company to file such Tax Return on the due date (including extensions) therefor in a manner consistent with the determination of the Accounting Referee. The determination of the Accounting Referee shall be binding on all parties; *provided*, that any such determination shall be limited to the resolution of issues in dispute. The fees and disbursements of the Accounting Referee shall be borne by the Party (i.e., the Seller, on the one hand, and the Purchaser, on the other hand) that assigned amounts to items in dispute that were, on a net basis, furthest in amount from the amount finally determined by the Accounting Referee.

6.1.2 The Purchaser and the Seller shall cooperate fully in connection with the filing of Tax Returns pursuant to this Section 6.1 and, subject in all respects to the provisions of Section 6.4 hereof, in connection with any audit, litigation or other proceeding with respect to Taxes of the Company. Such cooperation shall include the reasonable furnishing or making available during normal business hours of personnel, powers of attorney, and the retention and (upon a Party's request) the provision of records and information that are reasonably relevant to the preparation of any such Tax Return or to any such audit, litigation or other proceeding. The Purchaser and the Seller shall (a) retain or cause to be retained all books and records that are in their possession with respect to Tax matters pertinent to the Company relating to any Pre-Closing Tax Period until the expiration of the applicable statute of limitations (and, to the extent notified by the Purchaser or the Seller, any extension thereof) of the applicable taxable periods, and abide by all record retention agreements entered into with any Governmental Authority, and (b) give the other Parties reasonable written notice before transferring, destroying or discarding any such books and records and, if the other Party so requests, the Purchaser or the Seller, as the case may be, shall allow the other Party to take possession of such books and records.

6.1.3 The Purchaser and the Seller shall, upon request, use their commercially reasonable efforts to obtain any certificate or other document from any Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including with respect to the transaction contemplated hereby).

6.2 Transfer Taxes. All transfer, documentary, sales, use, stamp, registration, value added, and other such similar Taxes and fees (including any penalties and interest) incurred in connection with this Agreement or the transactions contemplated by this Agreement, will be borne and paid by the Seller when due, and the Seller will, at his own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes and fees.

6.3 Liability for Taxes.

6.3.1 The Seller will be solely responsible for the following Taxes (collectively, the “**Pre-Closing Tax Liabilities**”): (a) all Taxes imposed upon the Seller, (b) all Taxes imposed upon the Company with respect to Pre-Closing Tax Periods, and (c) the portion of Taxes paid by the Company, the Purchaser or their Affiliates in any Post-Closing Tax Period which is attributable to any item of income in a Pre-Closing Tax Period which constitutes subpart F income within the meaning of Section 952 of the Code or global intangible low-taxed income within the meaning of Section 951A of the Code.

6.3.2 Prior to the Closing, the Seller shall pay or cause to be paid in full all Taxes of the Company for all Pre-Closing Tax periods . For the avoidance of doubt, the Seller shall be responsible for any and all Pre-Closing Tax Liabilities.

6.3.3 At its sole election, to the extent it is entitled to any amounts in respect of tax indemnity claims pursuant to this Article VI, the Purchaser may reduce any amounts payable to the Seller pursuant to this Agreement, or any other amounts payable to the Seller pursuant to any other Agreement with the Seller.

6.4 Tax Proceedings.

6.4.1 The Seller shall have the right to control the conduct of any audit, examination, investigation or administrative, court or other proceeding related to Taxes for any Pre-Closing Tax Period (“**Pre-Closing Tax Proceeding**”). Purchaser shall be entitled to attend and participate in any such Pre-Closing Tax Proceeding at its sole cost and expense and shall be permitted to receive copies of any pleadings, correspondence, and other documents as Purchaser may reasonably request. Purchaser shall have the right to consent to any settlement related to a Pre-Closing Tax Proceeding if such settlement could increase the Taxes of the Company, the Purchaser or any Affiliate thereof for any period (or portion thereof) beginning on or after the Closing Date, with such consent not to be unreasonably withheld. Any dispute with respect thereto shall be referred to the Accounting Referee for binding resolution.

6.4.2 In the event of a conflict between the provisions of this Section 6.4 and the provisions of Section 8.4.1, the provisions of this Section 6.4 shall control.

6.5 338. Seller agrees and covenants to join with Purchaser to make a timely, effective and irrevocable election under Section 338(h)(10) of the Code and under any comparable statutes in any other jurisdiction with respect to the Company. The parties agree that the Transaction Consideration and the liabilities of the Company (plus other relevant items) will be allocated to the assets of the Company for all purposes (including Tax and financial accounting purposes) in a manner consistent with Code Section 338 or Section 1060, as applicable, and the regulations thereunder. Such allocation shall be set forth on an allocation schedule (the “**Allocation Schedule**”) to be prepared by the Purchaser and delivered to the Seller within ninety (90) calendar days following the Closing Date for approval, which shall not be unreasonably withheld, conditioned or delayed. The Seller and the Purchaser shall cooperate in the preparation of all forms, attachments and schedules necessary to effectuate the Section 338(h)(10) Elections, including, without limitation, the Allocation Schedule, IRS Forms 8023 and 8883 and any analogous forms under applicable state and local Tax Laws (collectively, the “**Section 338(h)(10) Forms**”). The Purchase and the Seller shall timely file such Section 338(h)(10) Forms with the applicable Tax Authorities. The Seller and the Purchaser agree that neither of them shall revoke the Section 338(h)(10) Elections following the filing of Section 338(h)(10) Forms without the prior written consent of the other party. The Seller and the Purchaser shall (i) file all Tax Returns in a manner consistent with the Section 338(h)(10) Elections, the Section 338(h)(10) Forms and (ii) take no position contrary thereto.

VII. CLOSING DELIVERIES OF THE PARTIES.

7.1 Closing Deliveries of the Seller. On or prior to the Closing Date, the Seller shall deliver, or cause to be delivered, to the Purchaser, the following:

7.1.1 Ancillary Agreements. Duly executed copies of each Ancillary Agreement to which the Company, the Seller and any other parties (other than the Purchaser), is a party.

7.1.2 Seller Services Agreement. Duly executed copy of the Seller Services Agreement.

7.1.3 Service Provider Agreements. Duly executed copies of each of the Service Provider Agreements.

7.1.4 Good Standing Certificates. A certificate of good standing for the Company from its jurisdiction of formation and each jurisdiction in which the Company is qualified to do business as a foreign entity, in each case as of a date within five (5) days of the Closing Date.

7.1.5 Release of Liens. Except for Permitted Liens and as disclosed on Schedule 5.1, documentation reasonably satisfactory to the Purchaser evidencing the release of all Liens on or against any assets of the Company and the Company Securities.

7.1.6 FIRPTA Compliance. Duly executed certificates of non-foreign status from the Seller in a form reasonably acceptable to Purchaser in accordance with Treasury Regulation, Section 1.1445-2(b).

7.1.7 Section 338 Election. Duly executed copy of Form 8023 in connection with Section 338 election.

7.1.8 Such other documents as shall be reasonably required by the Purchaser.

7.2 Closing Deliveries of the Purchaser. On or prior to the Closing Date, the Purchaser shall deliver, or cause to be delivered, to the Seller, the following:

7.2.1 Ancillary Agreements. Duly executed copies of each Ancillary Agreement to which the Purchaser or its designee is a party.

7.2.2 Closing Consideration. An amount equal to the Closing Consideration made by wire transfer of immediately available funds to the respective accounts provided by the Seller to the Purchaser in advance of the Closing.

VIII. SURVIVAL; INDEMNIFICATION

8.1 Survival. The representations and warranties of the Parties contained in this Agreement or in any certificates or other writing delivered pursuant to this Agreement or in connection herewith will survive the Closing for twenty four (24) months thereafter; *provided, however*, that (a) each of the representations and warranties contained in Section 3.14.2 (Title to Company Assets), and Section 3.5.3 (Title to Purchased Membership Interests), shall survive the Closing indefinitely, (b) the representations and warranties contained in Section 3.16 (Intellectual Property) shall survive the Closing for forty-eight (48) months, and (c) the representations and warranties contained in Section 3.8 (Tax Matters), Section 3.20 (Relationships; Employment Compensation), Section 3.21 (Other Employment Matters) and Section 3.22 (Workers' Compensation/ OSHA) shall survive the Closing until expiration of the statute of limitations applicable to matters covered thereby. Notwithstanding the preceding sentence, any representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the preceding sentence if written notice of the inaccuracy or breach thereof giving rise to such right of indemnity has been given to the Party against whom such indemnification may be sought prior to such time. All covenants and agreements of the Parties contained in this Agreement will survive the Closing until fully performed or in accordance with their respective terms.

8.2 Indemnification by Seller.

8.2.1 Subject to the terms and conditions of this Article VIII, the Seller shall indemnify, defend, and hold harmless the Purchaser and its equity owners, directors, managers, officers, employees, and Affiliates, and, after the Closing, the Company (collectively, all of the foregoing the “**Purchaser Indemnified Parties**”) against any and all Damages incurred or suffered by the Purchaser Indemnified Parties to the extent resulting from:

(a) any failure (or any claim by any third party which, if true, would constitute a failure) of any representation or warranty made by the Seller in this Agreement, and Ancillary Agreement or any certificate delivered pursuant to this Agreement to be true and correct as of the date hereof and as of the Closing;

(b) any breach (or any claim by any third party which, if true, would constitute a breach) of any covenant or agreement made or to be performed by the Seller or the Company prior to the Closing, pursuant to this Agreement;

(c) any Pre-Closing Tax Liabilities;

(d) any unpaid Selling Expenses; or

(e) any unpaid Indebtedness.

8.2.2 Time Limitations. The Purchaser Indemnified Parties shall have no right to recover any amounts pursuant to Section 8.2.1(a) unless on or before the relevant survival date specified in Section 8.1 (the “**Survival Date**”), a Purchaser Indemnified Party notifies the Seller in writing of the existence of the applicable claim.

8.2.3 Setoff. In connection with pursuing its indemnification claims hereunder, the Purchaser may, at its sole election, reduce any amounts payable to the Seller under this Agreement or any Ancillary Agreement by the amount due in respect of such indemnification claim, including, without limitation, the Earn-Out Amount.

8.2.4 Other Limitations

(a) Notwithstanding anything contained in this Agreement to the contrary, and save for events of fraud and/or wilful misconduct, the maximum aggregate liability of the Seller under Section 8.2 will be limited to a maximum of the amount of the Transaction Consideration.

(b) Notwithstanding anything contained in this Agreement to the contrary, the Seller will not be obligated to make any indemnification payment under Section 8.2 unless and until the aggregate Damages sustained by the Purchaser Indemnified Parties collectively exceed \$10,000 (the “**Threshold**”) and then any indemnification with respect to such Damages must be made by the Seller only to the extent of the excess over the Threshold.

8.2.5 Sole Remedy. If the Closing occurs, the indemnification obligations set forth in Section 8.2 are the Purchaser's sole remedy on any claim of any kind arising out of, resulting from, or connected with this Agreement or the transactions contemplated in this Agreement, whether under a theory of negligence, breach of contract, breach of warranty, tort, or otherwise, other than for any fraud, willful misconduct or willful misrepresentation by the Seller; provided, that this provision does not limit the right to seek specific performance, a restraining order or injunctive relief with respect to any provision of this Agreement.

8.3 Indemnification by Purchaser.

8.3.1 Subject to the terms and conditions of this Article VIII, the Purchaser will indemnify, defend, and hold harmless the Seller and his Affiliates (collectively, the "***Seller Indemnified Parties***") against any and all Damages actually incurred or suffered by the Seller Indemnified Parties to the extent resulting from: (a) any failure (or any claim by any third party which, if true, would constitute a failure) of any representation or warranty made by the Purchaser in this Agreement to be true and correct as of the date hereof and as of the Closing; and (b) any breach (or any claim by any third party which, if true, would constitute a breach) of any covenant or agreement required to be performed by the Purchaser pursuant to this Agreement.

8.3.2 The Seller Indemnified Parties shall have no right to recover any amounts pursuant to Section 8.3.1 unless on or before the Survival Date, the Seller notifies the Purchaser in writing of the existence of the applicable claim.

8.4 Indemnification Procedures.

8.4.1 If any Person who or which is entitled to seek indemnification under Section 8.2 or 8.3 (an "***Indemnified Party***") receives notice of the assertion or commencement of any Third-Party Claim against such Indemnified Party with respect to which the Person against whom or which such indemnification is being sought (an "***Indemnifying Party***") is obligated to provide indemnification under this Agreement, the Indemnified Party will give such Indemnifying Party reasonably prompt written notice thereof; *provided, however*, that if the Indemnified Party receives a complaint, petition, or any other pleading in connection with a Third-Party Claim which requires the filing of an answer or other responsive pleading, the Indemnified Party shall furnish the Indemnifying Party with a copy of such pleading at least ten (10) days prior (or such shorter time period as is reasonably practicable if the Indemnifying Party has less than ten (10) days to respond under applicable Law) to the date a responsive pleading thereto is required to be filed (or promptly upon receipt by the Indemnified Party, if the Indemnified Party receives such complaint, petition or other pleading within such ten day period); *provided, further*, that failure by the Indemnified Party to timely notify the Indemnifying Party shall not relieve any Indemnifying Party from any liability which it may have to the Indemnified Party except to the extent such failure shall actually prejudice the Indemnifying Party. Such notice by the Indemnified Party will describe the Third-Party Claim in reasonable detail, will include copies of all available material written evidence thereof, and will indicate the estimated amount, if reasonably practicable, of the Damages that have been or may be sustained by the Indemnified Party. The Indemnifying Party will have the right to participate in the defense of such Third-Party Claim at the Indemnifying Party's expense, or at its option, subject to the limitations set forth in this Section 8.4.1, to assume the defense thereof by appointing a recognized and reputable counsel acceptable to the Indemnified Party to be the lead counsel in connection with such defense; *provided that*:

(a) The Indemnifying Party must give the Indemnified Party written notice of its election to assume control of the defense of the Third-Party Claim within ten (10) days of the Indemnifying Party's receipt of notice of the Third-Party Claim.

(b) The Indemnified Party shall be entitled to participate in the defense of the Third-Party Claim and to employ counsel of its choice for such purpose; *provided*, that the fees and expenses of such separate counsel shall be borne by the Indemnified Party, except that the Indemnifying Party shall pay (i) any reasonable fees and expenses of such separate counsel that are incurred prior to the date the Indemnifying Party effectively assumes control of such defense and (ii) the fees and expenses of such separate counsel if the Indemnified Party has been advised by counsel that a reasonable likelihood exists of a conflict of interest between the Indemnifying Party and the Indemnified Party.

(c) The Indemnifying Party shall not be entitled to assume control of the defense of the Third-Party Claim (unless otherwise agreed to in writing by the Indemnified Party) and shall pay the reasonable fees and expenses of counsel retained by the Indemnified Party if (i) the Indemnifying Party does not unconditionally acknowledge in writing its obligation to indemnify and hold the Indemnified Party harmless with respect to the Third-Party Claim, (ii) the Third-Party Claim relates to or arises in connection with any criminal or quasi-criminal proceeding, action, indictment, allegation or investigation, (iii) the Third-Party Claim seeks injunctive or other equitable relief applicable to the Indemnified Party, (iv) the Indemnifying Party fails to take reasonable steps necessary to defend diligently the Third-Party Claim within ten (10) days after receiving written notice from the Indemnified Party that the Indemnified Party reasonably believes that the Indemnifying Party has failed to take such steps, (v) the Third-Party Claim would reasonably be expected to result in Damages in an amount in excess of the Indemnified Party's right to recover pursuant to this Article IX, (vi) the Third-Party Claim is one in which the Indemnifying Party is also a party and joint representation would be inappropriate or there are legal defenses which are reasonably available to the Indemnified Party which are different from or additional to those available to the Indemnifying Party, or (vii) the Third-Party Claim is a claim related to Taxes.

(d) If the Indemnifying Party has assumed the control and defense of a Third-Party Claim, without the prior written consent of the Indemnified Party, the Indemnifying Party will not enter into any settlement of any Third-Party Claim that would (i) lead to loss, liability, or create any financial or other obligation on the part of the Indemnified Party for which the Indemnified Party is not entitled to indemnification hereunder, (ii) provide for injunctive or other non-monetary relief applicable to the Indemnified Party, or does not include an unconditional release of all Indemnified Parties, or (iii) in the judgement of the Indemnified Party, be reasonably likely to establish a precedential custom or practice adverse to the continuing business interests of the Indemnified Party or adversely interfere with the Indemnified Party's relationship with any customer or supplier. If the Indemnified Party has assumed the control and defense of a Third-Party Claim and the Indemnifying Party disputes its liability with respect thereto, without the prior written consent of the Indemnifying Party, the Indemnified Party will not enter into any settlement of any Third-Party Claim that would lead to loss, liability, or create any financial or other obligation on the part of the Indemnifying Party for which the Indemnifying Party is not entitled to indemnification hereunder, or which provides for injunctive or other non-monetary relief applicable to the Indemnifying Party, or does not include an unconditional release of all Indemnified Parties.

8.4.2 Any claim by an Indemnified Party on account of Damages that does not result from a Third-Party Claim (a "**Direct Claim**") will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) Business Days after the Indemnified Party becomes aware of such Direct Claim; *provided*, that failure by any Indemnified Party to timely notify the Indemnifying Party shall not relieve any Indemnifying Party from any liability which it may have to the Indemnified Party except to the extent such failure shall actually prejudice the Indemnifying Party. Such notice by the Indemnified Party will describe the Direct Claim in reasonable detail, will include copies of all available material written evidence thereof, and will indicate the estimated amount, if reasonably practicable, of Damages that has been or may be sustained by the Indemnified Party. The Indemnifying Party will have a period of five (5) Business Days within which to respond in writing to such Direct Claim. If the Indemnifying Party does not so respond within such five (5) Business Day period, the Indemnifying Party will be deemed to have rejected such claim, in which event the Indemnified Party will be free to pursue such remedies as may be available to the Indemnified Party at the Indemnifying Party's expense pursuant to the terms and subject to the provisions of this Agreement.

8.4.3 A failure to give timely notice or to include any specified information in any notice as provided in Section 8.4.1 or 8.4.2 will not affect the rights or obligations of any Party, except and only to the extent that, as a result of such failure, any Party that was entitled to receive such notice was deprived of its right to recover any payment under its applicable insurance coverage or was otherwise prejudiced as a result of such failure.

8.5 Miscellaneous Indemnification Provisions.

8.5.1 Purchaser Knowledge. The right to indemnification or other remedy based upon the representations, warranties, covenants and agreements shall not be affected by any investigation (including any environmental investigation or assessment) conducted or any knowledge acquired or capable of being acquired at any time prior to Closing, with respect to the accuracy or inaccuracy of or compliance with any such representations, warranties, covenants and agreements.

8.5.2 Transaction Consideration Adjustment. The Parties agree that any indemnification payment made pursuant to this Agreement shall be treated as an adjustment to the Transaction Consideration for Tax purposes, unless otherwise required by Law.

8.5.3 Materiality Scrape. For purposes of (a) calculating the amount of any Damages, and (b) determining whether a breach of a representation or warranty has occurred, any and all references qualified by concepts of "materiality" or "material adverse effect" shall be disregarded.

IX. MISCELLANEOUS.

9.1 Notices. Any notice, request, demand, claim or other communication required or permitted to be delivered, given or otherwise provided under this Agreement must be in writing and must be delivered personally, delivered by nationally recognized overnight courier service or sent by e-mail (followed by recognized overnight courier service). Any such notice, request, demand, claim or other communication shall be deemed to have been delivered and given (a) when delivered, if delivered personally, (b) the Business Day after it is deposited with such nationally recognized overnight courier service, if sent for overnight delivery by a nationally recognized overnight courier service, or (c) the day of sending, if sent by e-mail prior to 5:00 p.m. (local time for the recipient) on any Business Day or the next succeeding Business Day if sent by e-mail after 5:00 p.m. (local time for the recipient) on any Business Day or on any day other than a Business Day, in each case, to the following address or to such other address or addresses or facsimile number or numbers as such Party may subsequently designate to the other Parties by notice given hereunder:

If to the Seller:

Kyle Exline
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX

with a copy (which shall not constitute notice):

Blue Maven Law, LLC
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX

If to the Purchaser or, following the Closing, the Company:

SAFE-T USA INC.
51 John F Kennedy Parkway,
First Floor West
Short Hills, NJ 07078
Attention: Shai Avnit, Secretary
E-mail: shai.avnit@safe-t.com

with a copy (which shall not constitute notice):

Sullivan & Worcester LLP
1633 Broadway
New York, New York 10019
Attention: Oded Har-Even
E-mail: ohareven@sullivanlaw.com

9.2 Amendments and Waivers.

9.2.1 Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by the Purchaser and the Seller (or by any successor to such Party), or in the case of a waiver, by the Party against whom the waiver is to be effective.

9.2.2 No failure or delay by any Party in exercising any right, power, or privilege under this Agreement will operate as a waiver thereof nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided will be cumulative and not exclusive of any rights or remedies provided for in this Agreement by Law.

9.3 Expenses; Attorney's Fees. Each Party shall bear its own costs in connection with the negotiation, execution, delivery and performance of this Agreement and the transactions contemplated hereby, including the fees and expenses of accountants, attorneys, and other professionals; provided, however, that all expenses of the Company prior to the Closing shall be included as Selling Expenses. In the event of any litigation brought to enforce or interpret this Agreement, or arising out of its negotiation, performance, or subject matter, the Party who prevails will be entitled to recover its attorneys' fees and costs, including those incurred at trial, in any bankruptcy or other proceeding, on appeal, and in enforcing any judgment, as determined by the court.

9.4 Successors and Assigns. The provisions of this Agreement will be binding upon and inure to the benefit of the Parties and their respective successors and assigns; *provided, however*, that no Party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other Party to this Agreement; and, *provided, further*, that (a) the Purchaser may assign any of its rights under this Agreement to any Affiliate; and (b) the Purchaser and its Affiliates may assign their rights under this Agreement to any of its financing sources as collateral security.

9.5 Third-Party Beneficiaries. Except as provided in Article IX, this Agreement is for the sole benefit of the Parties and their permitted assigns and nothing herein expressed or implied will give or be construed to give to any Person, other than the Parties and such permitted assigns, any legal or equitable rights under this Agreement.

9.6 Release. Effective as of the Closing, the Seller, on his own behalf and on behalf of his Affiliates (the "**Releasing Parties**"), hereby releases and forever discharges the Company, the Purchaser and their respective directors, managers, officers, employees, agents, advisors and Affiliates (collectively, the "**Released Parties**") from any and all past, present and future debts, losses, costs, accounts, bills, sums of money, bonds, suits, actions, causes of action, liabilities, attorneys' fees, interest, damages, punitive damages, expenses, controversies, covenants, contracts, promises, judgments, liabilities, claims, potential claims, claims arising from employment and/or management, counterclaims, cross-claims, or demands, in law or in equity, asserted or unasserted, express or implied, known or unknown, matured or unmatured, contingent or vested, liquidated or unliquidated, of any kind or nature or description whatsoever, that any of the Releasing Parties had, presently has or may hereafter have or claim or assert to have against any of the Released Parties by reason of any act, omission, transaction, occurrence, conduct, circumstance, condition, harm, matter, cause or thing that has occurred or existed at any time from the beginning of time up to and including the Closing (or earlier termination of this Agreement in accordance with its terms), that in any way arise from or out of, are based upon or relate to (a) such Releasing Party's ownership or purported ownership of interests in, or services to, the Company or (b) the negotiation or entry into this Agreement, any Ancillary Agreement and the consummation of the transactions contemplated hereby; *provided, however*, that without limiting the foregoing, nothing contained in this Section 9.6 shall operate to release any claim by the Seller arising out of or relating to the Purchaser's obligations to such party under this Agreement or any Ancillary Agreement.

9.7 Governing Law; Consent to Jurisdiction. This Agreement shall be governed by, interpreted under, and construed and enforced in accordance with, the laws of the State of Delaware, without giving effect to any choice or conflict of laws provision or rule (whether of the State of Delaware or of any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. All claims or causes of action arising out of or relating to this Agreement shall be heard and determined exclusively in any state or federal court sitting in the state of Delaware (the "**Chosen Courts**"). Consistent with the preceding sentence, each of the Parties hereby (a) submits to the exclusive jurisdiction of any of the Chosen Courts for the purpose of any claim or cause of action arising out of or relating to this Agreement brought by any Party and (b) irrevocably waives, and agrees not to assert by way of motion, defense, or otherwise, in any such claim or cause of action, any claim that it is not subject personally to the jurisdiction of the Chosen Courts, that the claim or cause of action is brought in an inconvenient forum, that the venue of the claim or cause of action is improper, or that this Agreement or the transactions contemplated by this Agreement may not be enforced in or by any of the Chosen Courts.

9.8 WAIVER OF JURY TRIAL. EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY ANCILLARY AGREEMENT OR THE SUBJECT MATTER HEREOF OR THEREOF. EACH PARTY ALSO WAIVES ANY BOND OR SURETY OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF SUCH PARTY. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MIGHT BE FILED IN ANY COURT AND THAT MAY RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT OR ANY ANCILLARY AGREEMENT, INCLUDING ALL COMMON LAW AND STATUTORY CLAIMS. EACH PARTY FURTHER REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH SUCH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, MODIFICATIONS, SUPPLEMENTS OR RESTATEMENTS HEREOF. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

9.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute the same agreement, and the execution of a counterpart of the signature page to this Agreement shall be deemed the execution of a counterpart of this Agreement. The delivery of this Agreement may be made by facsimile or portable document format (pdf), and such signatures shall be treated as original signatures for all applicable purposes.

9.10 Headings. The headings in this Agreement are for convenience of reference only and will not control or affect the meaning or construction of any provisions of this Agreement.

9.11 Entire Agreement. This Agreement and the Ancillary Agreements (including the Schedules, Exhibits, and Annexes hereto and thereto) constitute the entire agreement among the Parties with respect to the subject matter of this Agreement and such Ancillary Agreements, and is a complete and final integration thereof. This Agreement and the Ancillary Agreements (including the Schedules, Exhibits, and Annexes) supersede all prior agreements and understandings, both oral and written, between the Parties with respect to the subject matter of this Agreement and such Ancillary Agreements.

9.12 Confidentiality. In consideration of the benefits of this Agreement to the Seller and in order to induce the Purchaser to enter into this Agreement, the Seller hereby covenants and agrees that from the date of this Agreement he, and his Affiliates, shall keep confidential and not disclose to any other Person (other than their advisors) the terms of this Agreement or use for their own benefit or the benefit of any other Person any information regarding the Company.

9.13 Press Release and Announcements. Unless required by Law or the rules or regulations of any United States or foreign securities exchange or listing authority based on advice of counsel (in which case each Party agrees to consult with the other Parties prior to any such disclosure as to the form and content of such disclosure), no press releases or other releases of information related to this Agreement or the transactions contemplated hereby will be issued or released without the consent of the Purchaser and the Seller.

9.14 Severability. If any provision of this Agreement or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision and such invalid, illegal or unenforceable provision will be reformed, construed and enforced as if such provision had never been contained herein and there had been contained in this Agreement instead such valid, legal and enforceable provisions as would most nearly accomplish the intent and purpose of such invalid, illegal or unenforceable provision.

9.15 Specific Performance. Without limiting the rights of a Party to pursue all other legal and equitable rights available to such Party for another Party's failure to perform its obligations under this Agreement, the Parties acknowledge and agree that the remedy at law for any failure to perform their respective obligations hereunder would be inadequate and that each party shall be entitled to specific performance, injunctive relief or other equitable remedies in the event of any such failure.

9.16 Relationship of the Parties. Nothing in this Agreement shall be deemed to constitute the Parties as joint venturers, alter egos, partners or participants in an unincorporated business or other separate entity, nor in any manner create any principal agent, fiduciary or other special relationship between the Parties. No Party shall have any duties (including fiduciary duties) towards any other Party except as specifically set forth herein.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

The Parties have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

PURCHASER:

SAFE-T USA INC.

By: /s/ Shai Avnit

Name: Shai Avnit

Title: Secretary

COMPANY:

Chi Cooked LLC

By: /s/ Kyle Exline

Name: Kyle Exline

Title: Manager

SELLER:

/s/ Kyle Exline

Kyle Exline

Annex I

Definitions

In addition to the terms defined elsewhere in this Agreement, the following terms have the following meanings when used herein with initial capital letters:

“2020 Audit Completion Date”: as set forth in Section 2.4.

“Accounting Referee”: KMPG or, if such firm declines the representation, a nationally recognized accounting firm mutually agreed on by the Seller and the Purchaser.

“Accounts Receivable”: all accounts receivable, including trade and miscellaneous accounts receivable, arising out of the Business.

“Actual Closing Working Capital”: the Company’s Working Capital as of the Closing Date, as determined by the Purchaser based on the Company’s books and records audited in connection with preparing the Audited 2020 FS.

“Affiliate”: with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with the first Person. For the purposes of this definition, **“control,”** when used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise, and the terms **“controlling”** and **“controlled”** have meanings correlative to the foregoing. With respect to any natural Person, **“Affiliate”** will include such Person’s grandparents, any descendants of such Person’s grandparent, such Person’s spouse, the grandparent of such Person’s spouse, and any descendants of the grandparents of such Person’s spouse (in each case, whether by blood, adoption or marriage).

“Agreement”: as set forth in the introductory paragraph.

“Ancillary Agreements”: shall mean the Seller Services Agreement, the Service Provider Agreements and the other documents, certificates, instruments and agreements to be entered into pursuant hereto and thereto.

“Audited 2020 FS”: as set forth in Section 2.4.

“Balance Sheet”: Company’s balance sheet prepared in accordance with IFRS.

“Balance Sheet Date”: October 31, 2020.

“Business”: the business of providing dedicated data center and residential proxies.

“Business Day”: any day other than a Saturday or Sunday or a day on which the Federal Reserve Bank of New York is closed.

“Business Relationships”: as set forth in Section 5.5.2.

“Capital Lease Obligations”: with respect to any Person, for any applicable period, the obligations of such Person that are permitted or required to be classified and accounted for as capital obligations under GAAP, and the amount of such obligations at any date will be the capitalized amount of such obligations at such date determined in accordance with GAAP.

“**Cash**”: means (a) the amount of all unrestricted cash on hand at the Company and in its bank, lock box and other accounts, minus (b) the amount necessary to cover all issued (whether by or to the Company) but uncleared checks, drafts, wire transfers or other instruments.

“**CERCLA**”: the Federal Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. § 9601 et seq.

“**Closing**”: as set forth in Section 2.2.

“**Closing Consideration**”: as set forth in Section 2.3.

“**Closing Date**”: as set forth in Section 2.2.

“**Code**”: the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

“**Company**”: as set forth in the introductory paragraph.

“**Company Licensed Intellectual Property**”: as set forth in Section 3.16.1.

“**Company Owned Intellectual Property**”: as set forth in Section 3.16.1.

“**Company Real Property**”: any real property and improvements at any time owned, leased, used, operated, or occupied (whether for storage, disposal, or otherwise) by the Company.

“**Company Securities**”: as set forth in Section 3.4.1.

“**Confidential Information**”: as set forth in Section 5.5.6.

“**Contracts**”: contracts, leases and subleases, franchises, agreements, licenses, arrangements, commitments, letters of intent, memoranda of understanding, promises, obligations, rights, instruments, documents, indentures, mortgages, security interests, guarantees, and other similar arrangements whether written or oral, other than the Plans.

“**Damages**”: any and all debts, losses (including diminution in value), claims, damages, costs, fines, judgments, awards, penalties, interest, obligations, payments, settlements, suits, demands, expenses and liabilities of every type and nature, together with all reasonable costs and expenses (including reasonable attorneys’ and other legal fees and out-of-pocket expenses) actually incurred in connection with any of the foregoing and including the reasonable cost of the investigation, preparation or defense of any action in connection therewith, and the assertion of any claims under this Agreement, and the cost of any Tax, interest, penalty or addition to Tax.

“**Direct Claim**”: as set forth in Section 8.4.2.

“**DPA**”: as set forth in Section 3.30.

“**Earn-Out and Working Capital Adjustment Amount**”: as set forth in Section 2.5.1.

“**ERISA**”: the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate”: any Person that would be considered a single employer within the meaning of Section 4001 of ERISA or Section 414 of the Code whether or not such Person is engaged in a trade or business.

“Exchange Act”: the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Governmental Authority”: any supra-national, federal, state, county, city, municipal, or other local or foreign government or any subdivision, authority, commission, board, bureau, court, administrative panel, or other instrumentality thereof.

“IFRS”: International Financial Reporting Standards as issued by the Board of the International Accounting Standards Committee from time to time.

“Indebtedness”: with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money, whether short-term or long-term, and whether secured or unsecured, or with respect to deposits or advances of any kind (other than deposits and advances of any Person relating to the purchase of products or services of the Company in the Ordinary Course), (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid (other than trade payables and other current liabilities incurred or arising in the Ordinary Course), (d) all obligations of such Person under conditional sale or other title retention agreements relating to tangible property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (other than current trade payables and other current liabilities incurred or arising in the Ordinary Course), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all net payments that such Person would have to make in the event of an early termination, on the date Indebtedness of such Person is being determined, in respect of outstanding interest rate protection agreements, foreign currency exchange arrangements or other interest or exchange rate hedging arrangements, (j) all obligations including reimbursement obligations of such Person in respect of letters of credit, fidelity bonds, surety bonds, performance bonds and bankers’ acceptances, (l) obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any equity of such Person or any warrants, rights or options to acquire such equity, (m) renewals, extensions, refundings, deferrals, restructurings, amendments and modifications of any such Indebtedness or guarantee thereof, and (n) any other obligation that in accordance with GAAP is required to be reflected as debt on the balance sheet of such Person (other than trade payables and current accruals incurred in the Ordinary Course). The Indebtedness of any Person will include the Indebtedness of any partnership in which such Person is a general partner, other than to the extent that the instrument or agreement evidencing such Indebtedness expressly limits the liability of such Person in respect thereof. Notwithstanding anything to the contrary set forth above, for avoidance of doubt, “Indebtedness” shall not include any (x) trade payables (including notes payable) or other current liabilities reflected on the Company’s financial statements or incurred by the Company after the Balance Sheet Date in the Ordinary Course and (y) amounts received by the Company in connection with its application for, or receipt of, a loan under the Paycheck Protection Program established by the United States Small Business Administration. **“Indemnified Party”**: as set forth in Section 8.4.1.

“Indemnifying Party”: as set forth in Section 8.4.1.

“Intellectual Property Right”: all trademarks, trademark rights, service marks, service mark rights, trade names, trade name rights, trade dress, copyrights, works of authorship, inventions (whether patentable or not), invention disclosures, industrial models, industrial designs, utility models, certificates of invention, designs, emblems and logos, trade secrets, manufacturing formulae, technical information, patents, patent applications, moral rights, mask work registrations, franchises, franchise rights, customer and supplier lists, and related identifying information together with the goodwill associated therewith, product formulae, product designs, product packaging, business and product names, slogans, rights of publicity, improvements, processes, specifications, technology, methodologies, computer software (including all source code and object code), firmware, development tools, flow charts, annotations, all Web addresses, sites and domain names, all data bases and data collections and all rights therein, any other confidential and proprietary right or information, whether or not subject to statutory registration, as each of the foregoing rights may arise anywhere in the world, and all related technical information, manufacturing, engineering and technical drawings, know-how, and all pending applications and registrations of patents, and the right to sue for past infringement, if any, in connection with any of the foregoing, and all documents, disks, records, files, and other media on which any of the foregoing is stored, and other proprietary rights, in the case of each of the foregoing which is owned by the Company or used or held for use by such Person in connection with its respective business.

“IRS”: the Internal Revenue Service.

“IT Systems”: all software, communications devices, computer systems, servers, network equipment, point of sale systems, Company websites and other electronic hardware used, owned, leased or licensed by the Company.

“Knowledge Person”: means the Seller.

“Law”: any supra-national, federal, state, county, city, municipal, foreign, or other governmental statute, law, rule, regulation, ordinance, order, code, treaty or requirement (including pursuant to any settlement agreement or consent decree) and any Permit granted under any of the foregoing, or any requirement under the common Law, or any other pronouncement having the effect of Law of any Governmental Authority, in each case as in effect as of the Closing Date.

“Leased Real Property”: as set forth in Section 3.14.1.

“Liabilities”: as set forth in Section 3.6.

“Lien”: with respect to any property or asset, any mortgage, deed of trust, lien, pledge, hypothecation, assignment, charge, option, preemptive purchase right, easement, encumbrance, security interest, or other adverse claim of any kind in respect of such property or asset. For purposes of this Agreement, a Person will be deemed to own subject to a Lien any property or asset that it has acquired or holds subject to the interest of a vendor or a lessor under any conditional sale agreement, capital lease, or other title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such property or asset.

“Material Adverse Effect”: any change or effect that is or would reasonably be expected to be materially adverse to (a) the Business, assets, liabilities, condition (financial and other), or results of operations the Company, or (b) the ability of the Seller to timely perform their respective obligations under this Agreement or the Ancillary Agreements, except to the extent resulting from (x) changes in general economic, regulatory, financial or political conditions, (y) changes affecting the Company’s industry generally or (z) changes in Law.

“Material Contract”: as set forth in Section 3.10.2.

“October 2020 Results”: Company’s records and report of its financial results for the period commenced on January 1, 2020 and ended on October 31, 2020 delivered to the Purchaser by the Company and approved by the Purchaser prior to the Closing Date.

“Operating Income”: the Company’s operating profit during a specified period as calculated pursuant to IFRS, and after the exclusion of non-cash costs similar to the costs which are excluded in the Parent’s Non-IFRS adjustment section under the Parent’s Management Discussion and Analysis section as part of the Parent’s audited financial statements for the year ending December 31, 2021 included in its Form 20-F to be filed with the SEC.

“Ordinary Course”: with respect to an action taken by any Person, an action that (a) is consistent in nature, scope and magnitude with the past practices of such Person, and (b) does not require authorization by the board of directors or shareholders of such Person (or by any Person or group of Persons exercising similar authority) and does not require any other separate or special authorization of any nature.

“Order”: any writ, judgment, injunction, order, or decree (including any consent decree) that is issued, promulgated or entered by or with a Governmental Authority, in each case whether preliminary or final.

“OSHA”: the Federal Occupational Safety and Health Act of 1970, as amended from time to time.

“Organizational Documents”: means the certificate of formation, charter, memorandum and articles, bylaws, operating agreement and all other governing documents of an entity, as applicable, in each case as amended.

“Parent”: as set forth in Section 2.5.2.

“Parent ADSs”: as set forth in Section 2.5.2.

“Participate In”: as set forth in Section 5.5.1.

“Parties”: as set forth in the introductory paragraph.

“Permit”: shall mean all approvals, agreements, authorizations, permits, licenses, easements, orders, certificates, registrations, franchises, qualifications, rulings, waivers, variances or other form of permission, consent, exemption or authority issued, granted, given or otherwise made available by or under the authority of any Governmental Authority.

“Permitted Liens”: (a) Liens for Taxes, assessments or other similar governmental charges that are not yet due or that are being contested in good faith by appropriate proceedings and that are fully and properly reserved for in the Balance Sheet; (b) any mechanics’, workmen’s, repairmen’s and other similar Liens arising or incurred in the Ordinary Course in respect of obligations that are not overdue and that are fully and properly reserved for in the Balance Sheet; and (c) Liens set forth on Schedule 5.1.

“Person”: an individual, a corporation, a partnership, a limited liability company, an association, a trust, a joint stock company, a joint venture, an unincorporated organization, any Governmental Authority, or other entity or organization.

“Personal Information”: data in the control of the Company that relates to an identified or identifiable individual, including name, address, telephone number, electronic mail address or other online contact information, unique government-issued identifier, bank account number or credit card number, or unique identifier, including unique mobile device identifier, I.P. address, screen name or cookie identifier.

“Plans”: as set forth in [Section 3.18.1](#).

“Policies”: as set forth in [Section 3.11](#).

“Post-Closing Tax Period”: means any taxable period beginning after the Closing Date.

“Pre-Closing Tax Liabilities”: as set forth in [Section 6.3.1](#).

“Pre-Closing Tax Period”: means any taxable period ending on or before the Closing Date.

“Pre-Closing Tax Proceeding”: as set forth in [Section 6.4.1](#).

“Privacy Rights”: rights respecting (i) privacy generally, (ii) the obtaining, storing, using or transmitting of Personal Information of any type, whether via electronic means or otherwise, and (iii) use of spyware and adware.

“Public Software”: any software that is (i) distributed as free software or as open source software (e.g., Linux), (ii) subject to any licensing or distribution model that includes as a term thereof any requirement for distribution of source code to licensees or third parties, patent license requirements on distribution, restrictions on future patent licensing terms, or other abridgement or restriction of the exercise or enforcement of any Company Intellectual Property Rights through any means, (iii) licensed or distributed under any Public Software License or under less restrictive free or open source licensing and distribution models such as those obtained under the BSD, MIT, Boost Software License and the Beer-Ware Public Software Licenses or any similar licenses, (iv) a public domain dedication or (v) derived in any manner (in whole or in part) from, links to, relies on, is distributed with, incorporates or contains any software described in (i) through (iv) above.

“Public Software License”: any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU’s General Public License (GPL) or Lesser/Library GPL (LGPL); (ii) the Artistic License (e.g., PERL); (iii) the Mozilla Public License; (iv) the Netscape Public License; (v) the Sun Community Source License (SCSL); (vi) the Sun Industry Standards License (SISL); (vii) the Apache License; and (viii) any licenses that are defined as OSI (Open Source Initiative) licenses as listed on the Opensource.org website.

“Purchased Membership Interests”: as set forth in Recital B.

“Purchaser”: as set forth in the introductory paragraph.

“Purchaser Indemnified Parties”: as set forth in [Section 8.2.1](#).

“Registration Statement”: as set forth in [Section 2.5.3](#).

“Restricted Party”: as set forth in [Section 5.5.1](#).

“Restricted Period”: as set forth in [Section 5.5.1](#).

“Revenues”: gross revenues of the Company during a specified period as determined using IFRS.

“SEC”: as set forth in [Section 2.5.3](#).

“Securities Act”: the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Seller”: as set forth in the introductory paragraph.

“Seller Indemnified Parties”: as set forth in Section 8.3.1.

“Seller Services Agreement”: as set forth in Section 2.8.1.

“Selling Expenses”: all of the fees and expenses incurred by or on behalf of the Company or the Seller in connection with the transactions contemplated by this Agreement or any Ancillary Agreement or relating to the negotiation, preparation or execution of this Agreement or any Ancillary Agreement or any documents or agreements contemplated hereby or the performance or consummation of the transactions contemplated by this Agreement or any Ancillary Agreement, including (a) all brokers’ or finders’ fees, (b) fees and expenses of counsel, advisors, consultants, investment bankers, accountants, and auditors and experts, and (c) all stay bonuses or severance, termination, change in control, retention or similar payments or benefits payable to current or former managers, directors, partners, employees and other service providers of the Company paid or payable (including the employer portion of any employment or payroll Taxes incurred in connection with the amounts described in this clause (d)).

“Service Provider Agreements”: as set forth in Section 2.8.2.

“Subsidiary”: with respect to any Person, (a) any corporation, of which a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote generally in the election of directors thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (b) any limited liability company, partnership, association, or other business entity, of which a majority of the partnership, membership or other similar ownership interests thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a Person or Persons will be deemed to have a majority ownership interest in a limited liability company, partnership, association, or other business entity if such Person or Persons will be allocated more than 50% of the limited liability company, partnership, association, or other business entity gains or losses, or is or controls the managing member or general partner of such limited liability company, partnership, association, or other business entity.

“Survival Date”: as set forth in Section 8.2.2.

“Tax”: (a) any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value added, margins, transfer, franchise, profits, license, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental, social security quotas, or windfall profit tax, withholding on amounts paid to or by the Company or any of its Affiliates, custom, duty, or other tax, escheat of unclaimed funds or property, governmental fee, or other like assessment or charge of any kind whatsoever, together with any interest, penalty, addition to tax, or additional amount imposed by any Governmental Authority, (b) any liability of the Company or any of its Affiliates for the payment of any amounts of any of the foregoing types as a result of being a member of an affiliated, consolidated, combined, or unitary group, or being a party to any agreement or arrangement whereby liability of the Company or any of its Affiliates for payment of such amounts was determined or taken into account with reference to the liability of any other Person, and (c) any liability of the Company or any of its Affiliates for the payment of any amounts as a result of being a party to any Tax Sharing Agreements or with respect to the payment of any amounts of any of the foregoing types as a result of any express or implied obligation to indemnify any other Person.

“Tax Returns”: all returns, declarations, reports, claims for refund, information returns or other documents (including any related or supporting schedules, statements or information, or any amendment thereto) filed with or submitted to, or required to be filed with, submitted to, or required to be retained by the Company by, any Governmental Authority in connection with the determination, assessment or collection of any Taxes of any party or the administration, implementation, or enforcement of or compliance with any Laws relating to any Taxes.

“Tax Sharing Agreements”: all existing Tax sharing agreements or arrangements (whether oral or written) binding the Company or any of its Affiliates.

“Third-Party Claim”: any claim, demand, action, suit, or proceeding made or brought by any Person who or that is not a party to this Agreement.

“Transaction Consideration”: an amount equal to the total of: (a) the Closing Consideration, and (b) the Earn-Out Amount and Working Capital Adjustment Amount.

“Working Capital”: an amount equal to current assets of the Company less the amount of current liabilities of the Company as of a specified date, expressed as a negative number if current liabilities exceed current assets, calculated according to IFRS, provided, however, that such calculation shall be based on adjustments of non-IFRS items similar to the non-IFRS items in the Parent’s Non-IFRS adjustment section under the Parent’s Management Discussion and Analysis section as part of the Parent’s annual report for its fiscal year ending December 31, 2020 included in its Form 20-F to be filed with the SEC. Notwithstanding anything to the contrary, the revenues, as well as all other expenses or costs, should be measured according to IFRS basis only.

List of Subsidiaries

Company Name	Jurisdiction of Incorporation
Safe-T Data A.R Ltd.	Israel
NetNut Ltd.	Israel
Safe-T USA Inc.	USA
Chi Cooked LLC	USA

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Shachar Daniel, certify that:

1. I have reviewed this annual report on Form 20-F of Safe-T Group Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 22, 2021

/s/ Shachar Daniel

Shachar Daniel

Chief Executive Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Shai Avnit, certify that:

1. I have reviewed this annual report on Form 20-F of Safe-T Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 22, 2021

/s/ Shai Avnit

Shai Avnit

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2020 (the "Report") by Safe-T Group Ltd. (the "Company"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 22, 2021

/s/ Shachar Daniel

Shachar Daniel

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2020 (the "Report") by Safe-T Group Ltd. (the "Company"), the undersigned, as Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 22, 2021

/s/ Shai Avnit

Shai Avnit

Chief Financial Officer



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-239249 and 333-250138) and Form F-3 (Nos. 333-233724, 333-235368, 333-236030, 333-233976, 333-237629 and 333-253983) of Safe-T Group Ltd. of our report dated March 22, 2021 relating to the financial statements, which appears in this Form 20-F.

Tel Aviv, Israel
March 22, 2021

/s/ Kesselman & Kesselman

Certified Public Accountants (Isr.)

A member firm of PricewaterhouseCoopers International
Limited

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