

ERECH FINANCE CAHALAHA LTD

Summary of Consolidated Financial Statements as at December 31, 2020

This is a convenience translation of the Company's audited consolidated financial statements as at December 31, 2020 and for the year ended on that date, excluding the notes to the consolidated financial stages, which have not been translated. In any case in which there is a discrepancy between this translation and the Hebrew original, the Hebrew original shall prevail. It is emphasized that only extracts from the notes have been translated.

Erech Finance Cahalaha Ltd.
Financial Statements as at December 31, 2020

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ERECH FINANCE CAHALAHA LTD
Consolidated Statements of Financial Position

		As at December 31	
		2020	2019
		NIS thousands	
	Note		
Assets			
Current assets:			
Cash and cash equivalents	4	1,397	1,501
Restricted deposit		5,603	1,600
Credit to customers, net	5	42,725	41,245
Other receivables		574	954
Financial assets at fair value through profit or loss	6	5,883	209
		<u>56,182</u>	<u>45,509</u>
Non-current assets:			
Credit to customers, net	5B	8,649	5,619
Fixed assets		49	83
Other assets	7	696	7,107
Restricted deposit		2,490	2,447
Other investment	8	2,261	-
Other receivables		2,195	-
Deferred taxes	9	751	450
		<u>17,091</u>	<u>15,706</u>
Total assets		<u><u>73,273</u></u>	<u><u>61,215</u></u>
Liabilities and equity			
Current liabilities:			
Credit from banking corporations	11	23,684	16,287
Credit from related parties and others	11	13,175	15,106
Bonds convertible into shares	13	4,245	12,188
Other payables	12	1,083	1,095
Income Tax payable	10	704	531
		<u>42,891</u>	<u>45,207</u>
Non-current liabilities:			
Other payables		153	-
Liability for royalties to the Innovation Authority		158	209
Credit from related parties		-	4,037
		<u>311</u>	<u>4,246</u>
Total liabilities		<u>43,202</u>	<u>49,453</u>
Equity:			
Share capital, share premium, options and capital reserves	15	43,342	26,355
Accumulated losses		(12,837)	(14,182)
Total equity attributed to shareholders in the Company		<u>30,505</u>	<u>12,173</u>
Non-controlling interests	9B	(434)	(411)
Total equity		<u>30,071</u>	<u>11,762</u>
Total liabilities and equity		<u><u>73,273</u></u>	<u><u>61,215</u></u>
Naor Eliyahu		Yossi Wasserman	
Chairman of the Board of Directors		Chief Executive Officer	
		David Gerbi	
		Chief Financial Officer	

Date of the approval of the financial statements by the Company's Board of Directors: March 21, 2021.

The attached notes form an integral part of these consolidated financial statements.

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ERECH FINANCE CAHALAHA LTD
Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2020	2019	2018
		NIS thousands		
Revenues from the provision of credit to customers	16	10,070	6,592	9,808
Cost of the provision of credit to customers	17	2,285	1,949	1,878
Income from the provision of credit to customers, net		7,785	4,643	7,930
Expenses in respect of doubtful debts	5B	1,375	597	938
Income from the provision of credit to customers, net, less expenses in respect of doubtful debts		6,410	4,046	6,992
Research and development expenses	18	558	1,353	1,636
Selling and marketing expenses		-	104	220
Administrative and general expenses	19	5,480	3,701	3,791
Other expenses (income), net	20	(154)	748	-
Listing for trading expenses (see Note 1E)		-	-	10,330
		5,884	5,906	15,977
Operating income (loss) for the period		526	(1,860)	(8,985)
Financing income	23	1,740	-	-
Financing expenses	23	-	(4,744)	(117)
Income (loss) before taxes on income		2,266	(6,604)	(9,102)
Tax expenses on income	10	(1,043)	(175)	(1,301)
Comprehensive income (loss) for the period		1,223	(6,779)	(10,403)
Comprehensive income (loss) attributed to:				
The shareholders in the Company		1,345	(6,664)	(10,300)
Non-controlling interests		(122)	(115)	(103)
		1,223	(6,779)	(10,403)
Earnings (loss) per share attributed to shareholders in the Company:				
Basic earnings (loss) per share (in NIS)	21	0.74	(4.13)	(8.50)

The attached notes form an integral part of these consolidated financial statements.

ERECH FINANCE CAHALAHA LTD
Statements of Changes in Equity

		Share capital	Capital reserve on share based payment	Capital reserve on transactions with a controlling interest	Capital reserve on transactions with non- controlling interests	Option warrants	Share premium	Retained earnings (accumulated losses)	Total	Non- controlling interests	Total
	Note	NIS thousands									
Balance as at January 1, 2018		(*)	-	1,068	(116)	-	6,000	2,782	9,734	(359)	9,375
Movements in the year ended											
December 31, 2018:											
Transactions with a controlling interest		-	-	204	-	-	-	-	204	83	287
Reverse acquisition	1E	1,829	3,160	-	-	2,335	9,937	-	17,261	-	17,261
Exercise of option warrants, net		-	-	-	-	(2,037)	2,392	-	355	-	355
Expiry of options for service providers		-	(863)	-	-	-	830	-	(33)	-	(33)
Capital component of convertible bonds	15	-	-	-	-	1,088	-	-	1,088	-	1,088
Comprehensive loss for the period		-	-	-	-	-	-	(10,300)	(10,300)	(103)	(10,403)
Balance as at December 31, 2018		1,829	2,297	1,272	(116)	1,386	19,159	(7,518)	18,309	(379)	17,930
Movements in the year ended											
December 31, 2019:											
Transactions with a controlling interest		-	-	26	-	-	-	-	26	83	109
Expiry of options for service providers		-	(2,297)	-	-	-	2,297	-	-	-	-
Granting of options for service providers	19	-	502	-	-	-	-	-	502	-	502
Comprehensive loss for the period		-	-	-	-	-	-	(6,664)	(6,664)	(115)	(6,779)
Balance as at December 31, 2019		1,829	502	1,298	(116)	1,386	21,456	(14,182)	12,173	(411)	11,762
Movements in the year ended											
December 31, 2020:											
Transactions with a controlling interest		-	-	33	-	-	-	-	33	99	132
Issuance of shares and option warrants		-	-	-	-	1,850	7,436	-	9,286	-	9,286
Exercise and expiry of options, net		-	(198)	-	-	(218)	4,081	-	3,665	-	3,665
Capital component of convertible bonds	15	-	-	-	-	1,417	-	-	1,417	-	1,417
Granting of options for service providers	19	-	2,586	-	-	-	-	-	2,586	-	2,586
Comprehensive income for the period		-	-	-	-	-	-	1,345	1,345	(122)	1,345
Balance as at December 31, 2020		1,829	2,890	1,331	(116)	4,435	32,973	(12,837)	30,505	(434)	30,071

(*) Less than NIS 1,000.

The attached notes form an integral part of these consolidated financial statements.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

ERECH FINANCE CAHALAHA LTD
Consolidated Statements of Cash Flows

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Cash flows from operating activities:			
Net income (loss) for the year	1,223	(6,779)	(10,403)
Adjustments for revenues and expenses not involving cash flows			
Listing for trading expenses	-	-	10,330
Change in deferred taxes	(301)	(803)	384
Capital gain on the disposal of other assets	(1,463)	-	-
Transactions with controlling interests	33	26	204
Change in the fair value of a marketable investment	(1,502)	-	-
Change in the fair value of another investment	(261)	-	-
Impairment in value of intangible assets	1,668	748	-
Change in liability for grants received from the Innovation Authority	(51)	23	-
Movement in the share based payment reserve	2,586	502	-
Depreciation expenses	38	46	25
Transactions with non-controlling interests recognized opposite a capital reserve	99	83	83
	<u>846</u>	<u>625</u>	<u>11,026</u>
Changes in assets and liability items:			
Increase in credit to customers, net (including long-term)	(4,510)	(5,561)	(8,010)
Increase (decrease) in financial asset at fair value through profit or loss, net	(683)	5,905	(6,114)
Decrease (increase) in other receivables	880	(760)	(180)
Increase (decrease) in credit from banking corporations	7,397	4,000	4,284
Increase (decrease) in credit from others	(5,955)	3,367	4,405
Increase (decrease) in credit from related parties	(14)	(268)	(3,254)
Increase (decrease) in income tax payable, net	173	(86)	43
Increase (decrease) in other payables	(336)	(991)	(277)
Change in restricted deposit	(4,046)	(1,645)	(2,402)
Change in bond convertible into shares	(1,766)	2,725	10,552
	<u>(8,860)</u>	<u>6,686</u>	<u>(953)</u>
Net cash generated (absorbed) by operating activities	<u>(6,791)</u>	<u>532</u>	<u>(330)</u>
Cash flows from investment activities:			
Investment in fixed assets	(4)	-	(96)
Other investment	(2,000)	-	-
Consideration from the disposal of intangible assets	500	-	-
Net cash absorbed by investment activities	<u>(1,504)</u>	<u>-</u>	<u>(96)</u>
Cash flows from financing activities:			
Issuance of shares and option warrants	4,525	-	-
Exercise of option warrants, net	3,666	-	355
Net cash generated by financing activities	<u>8,191</u>	<u>-</u>	<u>355</u>
Increase (decrease) in cash, cash equivalents and banking credit	<u>(104)</u>	<u>532</u>	<u>(71)</u>
Balance of cash, cash equivalents and banking credit at the beginning of the period	<u>1,501</u>	<u>969</u>	<u>1,040</u>

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Balance of cash, cash equivalents and banking credit at the end of the period

1,397	1,501	969
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ERECH FINANCE CAHALAHA LTD
Consolidated Statements of Cash Flows (Continued)

For the year ended December 31		
2020	2019	2018
NIS thousands		

Appendix A – Additional information on cash flows

Interest paid	1,471	1,360	1,038
Interest received	5,649	5,496	3,642
Taxes paid	1,181	718	769

Appendix B – Additional information on non-cash activity

Conversion of bond into capital	6,177	-	-
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Appendix C – Reverse acquisition

Other assets and fixed assets	-	-	7,919
Share capital and option warrants	-	-	(7,324)

The attached notes form an integral part of these consolidated financial statements.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 1 - General

- A. Erech Finance Cahalaha Ltd. (hereinafter: "The Company") was incorporated in Israel in February 2007 and its shares were listed for trading on the Tel-Aviv Stock Exchange in August 2010 and its registered address is 4 Ya'acov Eliav Street in Jerusalem.
- B. The Company is engaged in the provision of non-banking credit within the framework of loans and credit facilities against deferred receivables for small and medium sized enterprises, associations and individual borrowers, through Erich Loans Cahalaha Ltd., which was awarded an expanded license by the Commissioner of the Capital Market, Insurance and Saving on January 24, 2019, which was valid until December 31, 2020 and which has been extended by the Commissioner until December 31, 2021. Furthermore, in December 2020, the Company was also granted an expanded license until December 31, 2021. The Company intends to expand its operations in the field of non-banking financing through the Company as well.

In addition, the Company is engaged in the research, development, production and marketing of products for stabilizing and improving conditions in the injection site. The Company has commences its operations in the field of "Insulin for meal-times", which is given to diabetics and it is continuing the research and development of long-term insulin technology. In addition, the Company is also engaged in promoting Injection Site Treatment & Stabilization Technology (ISTS) for improving the effectiveness of other drugs, which are given subcutaneously. On July 15, 2020, the Company committed itself under an agreement for the sale of the EyePen operation that it owns (hereinafter: "The operation") to Next Gen Biomed Ltd. (hereinafter: "Next Gen"). This commitment is part of the Company's long-term strategy of focusing on the non-banking credit operations, which is further to the Board of Directors' decision on June 10, 2019.

C. Definitions

The Group	-	Erech Finance Cahalaha Ltd. and its consolidated company.
Subsidiary company	-	Insuline GmbH, Erech Loans Cahalaha Ltd., K.M.B.Y. Ltd. and Pancrea Tech Ltd.
Financial assets at fair value through profit or loss	-	Medivie Therapeutic Ltd., Next Gen Ltd.
Interested parties and controlling interests	-	As defined in the Securities Regulations (Annual Financial Statements) – 2010.
Related parties	-	As defined in International Accounting Standard 24 – Related Party Disclosures (hereinafter – IAS 24)

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 2 - Significant estimates and considerations

The estimates and considerations are tested perpetually and are based on past experience and additional factors, including expectations in relation to future events, which are considered to be reasonable, in light of the existing circumstances.

A. Significant accounting estimated and assumptions

The Group formulated estimates and assumptions regarding the future. By their very nature, it is rare for the accounting estimates that are made to be identical to the actual related expenses. The estimates and the assumptions in respect of which there is a significant risk of the need to make significant adjustments in the carrying values of the assets and the liabilities in the course of the following financial year, as set forth below:

The fair value of derivatives and other financial instruments

The fair values of financial instruments, which are not traded on an active market is determined using evaluation methods. The group exercises judgment, for the purpose of selecting the various evaluation methods and for the purpose of assuming assumptions, which are based primarily on the conditions existing in the market as at the date of the statement of financial position. The Group has used an analysis of the discounted cash flows in order to determine the fair value of a range of financial assets, which are measured at fair value, which are not traded on an active market.

B. Judgements having a significant impact on the implementation of the corporation's accounting policies

1) Provision for doubtful debts

Risk exists, as part of the regular course of the Company's business, regarding the chances of collecting debt, as well as preparations in respect of the timing and the level of the amount that will be collected. Where there is an indication that difficulty is expected in the collection of the credit that has been provided to the Group's customers, the Company records a provision for doubtful debts. In addition to the specific provision, the Company records a general provision for doubtful debts, in reliance on past experience. See also Note 5.

2) Deferred taxes

The recognition of a deferred tax asset in respect of losses for tax purposes is based on the Company's management's expectations that there will be income that will be chargeable with taxation in the future, against which it will be possible to utilize the losses that are carried forward. As at December 31, 2020, the Group has not recognized deferred taxes in respect of the losses that are carried forward..

Note 3 - Financial instruments and the management of financial risks

The management of financial risks:

Financial risk factors

The Group's operations expose it to risks that are connected to various financial instruments, such as: market risks credit risk and liquidity risk.

The Group's risks management policy is intended to test and to identify the risks that are facing the group, to provide an appropriate response for the risks and to define controls that will ensure the supervision of those risks and which will constrain the negative impacts on the Group's financial results.

This policy is reviewed routinely, in order to verify that the policy has been adapted for financial changes that occur in the markets. The Credit Committee is responsible for the management of the risks, pursuant to the policy that has been approved by the Company's management and Board of Directors. The arrangements in respect of risks that the Company institutes is uniform in relation to all of the customers. After financial risks have been identified and assessed by the Credit Committee, action is taken in accordance with the outline of principles that has been formulated by the Company's management for credit risks and interest risks.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 3 - Financial instruments and the management of financial risks (Continued)

The management of financial risks (Continued)

1) Market risk

Market risk is the risk that changes in market prices, such as a change in the interest rates or preliminary information on negative developments in the market, will affect the Company's income or the value of its holdings. The objective of the management of the market risks is to manage and to supervise the exposure to market risks within the framework of acceptable parameters.

The main market risk to which the Group is exposed is interest risk. The interest risk is the risk of damage to the Company's profits and its shareholders' equity as a result of changes in the interest rates. The Company receives banking credit on a significant scale. The banking credit is affected by the level of the Bank of Israel's interest rate.

The lowering of the Bank of Israel's interest would increase the profit, whereas the raising of the interest rate reduces the profit.

In the Company's assessment, the Bank of Israel's interest rate will remain at its present level for some considerable time, and accordingly its exposure to such situations is not material.

2) Credit risk

The main credit risk that is facing the Company in its activity in the field is credit risk, which could cause a borrower to be unable to meet its obligations vis-à-vis the Company.

The carrying value in the accounting records is the amount that best represents the Company's maximum exposure to the credit risk.

The Group minimizes risks by maintaining arrangements that enable the professional examination of a customer and the collateral that it presents to the Company, stringent observance of the dispersal of the risks in the credit portfolio, the embedding of procedures for the taking on of a new customer and the examination of the nature of the transactions.

The Group's experience, which has been accumulated over the years on matters relating to the manner of the checking of customers and routine controls over the Company's credit portfolio, enable it to minimize the risks involved in the taking on of customers, who might not have the capacity to repay the financing.

The procedures on taking on new customers in the Company are stringent and this is also the situation regarding the borrower's resilience for the purpose of the provision of the financing. The Company does not make commitments with customers whose settlement capacity is not sufficiently high, such that in most cases, the customers' identity is that of reliable customers with financial strength that is known to the Company even before the commitment.

As a condition for the receipt of a loan from the Company, the borrower undertakes to furnish the Company with post-dated checks of the customer, pursuant to what has been determined in the agreement between the parties, except for a loan to a related party – see Note 6A. In certain cases, the borrower undertakes to furnish personal checks of the guarantors at the level of their guarantees. As a condition for the receipt of credit against deferred receivables, the borrower undertakes to furnish the Company with checks, the value of which is equivalent to the level of the loan and the interest that the Company collects for the loan. Since the checks are in the borrower's name, the borrower is required to sign on a personal guarantee for the settlement of the checks.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 3 - Financial instruments and the management of financial risks (Continued)

The management of financial risks (Continued)

3) Liquidity risk

The Group's approach is to ensure compliance with the credit facility, insofar as is possible. Compliance with the credit facility is crucial in order to verify that there is sufficient cash for the Group's operating needs, without exceeding its credit facilities.

The Group's forecasts regarding the use of the cash that it holds include the checking of its needs, compliance with certain liquidity ratios and compliance with regulatory conditions and additional legal requirements.

The following are the forecast repayment times of financial liabilities, in undiscounted amounts, based on the future rates that are forecast as at the reporting date, including an estimate of the interest payments:

	Carrying value in the accounting records	Forecast cash flows	Up to 1 year	1 – 2 years	2 – 4 years	More than 5 years
	NIS thousands					
Non-derivative financial liabilities						
Credit from banking corporations	23,684	24,412	24,412	-	-	-
Credit from related parties and others	13,175	13,876	13,876	-	-	-
Current maturities of convertible bonds	4,245	4,325	4,325	-	-	-
Other payables	1,940	1,940	1,787	-	153	-
	<u>43,044</u>	<u>44,553</u>	<u>44,400</u>	<u>-</u>	<u>153</u>	<u>-</u>

Note 4 - Cash and cash equivalents

The Company's cash balances are primarily in shekels and are not index-linked.

The carrying value of the cash and cash equivalents is a reasonable approximation to their fair value, since the impact of discounting is not material.

Note 5 - Credit to customers, net

A. Short-term credit to customers, net

	As at December 31	
	2020	2019
	NIS thousands	
Open debts and checks receivable	51,779	46,368
Credit to related parties for which checks receivable have not been received (1)	454	778
Less - provision for doubtful debts (2)	(3,043)	(1,668)
Less - income in advance (3)	(6,465)	(4,233)
Total credit to customers	<u>42,725</u>	<u>41,245</u>

See note 22 regarding balances with related parties.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 5 - Credit to customers, net (Continued)

B. Long-term credit to customers, net

	As at December 31	
	2020	2019
	NIS thousands	
Open debts and checks receivable	8,897	6,085
Less – income in advance (3)	(248)	(466)
Total credit to customers	<u>8,649</u>	<u>5,619</u>

The balance of credit to customers is primarily in shekels and is not index-linked.

(1) Open debts and checks receivable

- The balance as at December 31, 2020 includes a balance of approximately NIS 454 thousand in respect of a related party (2019 – approximately NIS 404 thousand). Pursuant to an agreement between the parties, in addition to the loan, the Company has made a credit facility available to the related party, which bears interest at a rate of 1% a month. No repayment date has been set for the credit facility and it will be repaid in accordance with the borrower's positive cash flows. Some of the shareholders in the Company are guarantors for the balance of the loan due from this related party.
- In the years 2019 and 2020, the balance of the debt in two customers with credit risks amounted to an overall sum of approximately NIS 8.8 million (2019 – approximately NIS 4 million). The Company has been in contact with the debtors in connection with one customer in favor of the arrangement of the settlement of the debt and a debt arrangement was achieved in 2019. A provision of NIS 600 thousand was recorded in respect of this debt in 2019. In addition, the Company reached arrangements with the second customer in 2019 in respect of the uncleared balance of the debt opposite the debtors and the guarantors and in accordance with the Company's management's assessment, a provision of NIS 500 thousand was recorded as at December 31, 2019. In 2020, as a result of the customer and the guarantors' non-compliance with the debt arrangement, the Company updated the provision and increased it by an additional amount of NIS 1 million in respect of this debt.
- The balance as at December 31, 2019, includes a loan to an additional company that is controlled by the controlling interests in an amount of NIS 374 thousand and the loan bears interest at a rate of 14%. The loan was repaid in 2020.

As at December 31, 2020, the balances of customers in an overall amount of NIS 582 thousand (December 31, 2019 – NIS 678 thousand) for which the Company has not recognized a provision for doubtful debts, are in excess of the forecast repayment times (the balance of the provision for doubtful debts in respect of these customers is 0). These balances are connected to a number of independent customers and in the Company's assessment, there is a high chance that these amounts will be collected.

The aging of the balances due from these customers is as follows:

	As at December 31	
	2020	2019
	NIS thousands	
Up to 3 months	-	196
More than 3 months	582	482
	<u>582</u>	<u>678</u>

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 5 - Credit to customers, net (Continued)

B. Long-term credit to customers, net (Continued)

(2) Provision for doubtful debts

- a. In 2020, the Group updated the provision for doubtful debts by a net amount of approximately NIS 1.4 million, primarily for a customer against which legal proceedings are being conducted, see Section b below.
- b. On May 12, 2020, a petition for the opening of proceedings was submitted against one of the Company's customers within the framework of insolvency proceedings in the District Court in Be'er Sheva. The customer's and its shareholders' debts amount to approximately NIS 4.5 million. Against these debts, the Company has personal guarantees and collateral from the customer's controlling interests in an amount of approximately NIS 3 million. In the Company's assessment, the chances of collecting the collateral are high. In light of the aforesaid, the Company increased the provision that has been recorded to an amount of NIS 1.5 million against this debt, of which NIS 0.5 million was provided in 2019 and the balance was recorded in 2020.

The Company has examined International Financial Reporting Standard 9 and has recorded a general provision in an amount of NIS 726 thousand (December 31, 2019 – NIS 242 thousand) in respect of debts for which no specific provision has been recognized.

The rate of the general provision is based, inter alia, on an analysis of the collection data and the history of returns by the Company's customers. In 2020, the Company increased the rate of the general provision from 0.5% to 1.5%, which was done as a result of the outbreak of the Coronavirus and concern about its economic implications for the business sector.

As at December 31, 2020, the balance of the provision for doubtful debts stands at approximately NIS 3 million.

The amounts that have been reflected in the provision for doubtful debts have been recorded under "expenses (income) in respect of doubtful debts" in the statement of comprehensive income. The amounts that are reflected in the provision are generally written off when it is no longer expected that additional can will be collected.

The movements in the provision for doubtful debts, which the Company has executed, is as follows:

	As at December 31	
	2020	2019
	NIS thousands	
Balance at the beginning of the year	(1,668)	(1,071)
Expenses in respect of doubtful debts	(1,375)	(597)
Balance at the end of the year	(3,043)	(1,668)

(3) Income in advance

The Company has recorded income in advance in respect of transactions, the settlement time of which has not yet arrived. Part of the interest, the income is respect of which has not been recognized in these transactions constitutes the balance of the income on advance as at the date of the statement of financial position.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 5 - Credit to customers, net (Continued)

B. Long-term credit to customers, net (Continued)

(4) Significant customers

1. Balances

	As at December 31	
	2020	2019
	NIS thousands	
Customer A	5,350	-

2. Revenues from the provision of credit to customers

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Customer A	734	-	-
Customer B	-	-	572
Customer C	-	-	76

Note 6 - Financial asset at fair value through profit or loss

A. Commitment with Medivie Therapeutic Ltd.

As at the date of the financial statements, the Group holds 106,511 regular shares in Medivie, which constitute 3.70% of the holding and voting rights in Medivie.

B. Commitment with Medivie Therapeutic Ltd.

- a. On July 15, 2020, the Company made a commitment under an agreement for the sale of the EyePen activity that it owns (hereinafter: "The activity") to Next Gen Biomed Ltd. (hereinafter: "Next Gen"). This commitment is part of the Company's long-term strategy to focus on the non-banking credit activity. The outline of the transaction was updated on November 30, 2020. The following are abbreviated details of the main terms of the agreement for the sale of the activity, within the context of which it has been agreed between the parties, as follows:
 1. The Company will transfer will transfer to Next Gen and/or to a subsidiary company that will be established for the purpose of absorbing the activity, whereas in consideration, Next Gen will allocate options to Erech Finance, which are exercisable into 2,350,000 regular shares without a par value during a period of 12 months with consideration of 30 agorot per option being payable on the exercise.
 2. Next Gen has undertaken to pay Erech Finance an amount of NIS 1,000,000 in cash, in to equal and sequential payments, where the first payment will be payable at the time of the completion of the transaction and the second payment will be payable in the course of the following quarter. As at the date of the financial statements, an amount of NIS 500,000 has been paid.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 6 - Financial asset at fair value through profit or loss (Continued)

B. Commitment with Medivie Therapeutic Ltd. (Continued)

a. (Continued)

3. The Company and Next Gen have reached updated agreements on all issues relating to the mechanism for the division of the profits as a result of sales of the product and/or the distribution of dividends from the EyePen product such that the agreements of July 2020 will be updated and in their stead it will be determined as follows: (a) 51% of the profits will be transferred to Next Gen and (b) 49% of the profits will be transferred to the Company. After the profit threshold is crossed, all of the profits from the EyePen product will be transferred to the credit of Next Gen and the Company will not have any direct and/or indirect right insofar as regard the activity with the EyePen product.
4. Next Gen has undertaken to enter the Company's shoes, as is customary in transactions of this sort, and to exempt Erech Finance from previous commitments regarding the EyePen product.

As a result of the abovementioned transactions, the abovementioned transactions were allocated to the Company and they have been recorded under the item "financial asset at fair value through profit or loss" in an amount of NIS 3,522 thousand, which stands at an amount of NIS 4,991 thousand as at December 31, 2020 after revaluation. In addition, the Company has recorded its rights to receive future profits under the item "other long-term receivables in an amount of NIS 2,152 thousand, which has been revalued to an amount of NIS 2,195 thousand as at December 31, 2020. Furthermore, the Company has recorded income receivable in an amount of NIS 500 thousand in respect of the second part of the cash payment, which is expected to be received by the end of the first quarter of 2021.

On the other hand, the Company has recorded a liability at a rate of 7% of the amount of the abovementioned assets, which has been done in light of the rights of the Research Manager on all matters relating to the EyePen product. In order to determine the abovementioned amounts, the Company has based itself on an assessment on an external, independent appraiser for the Company.

Note 7 - Other assets

The sale of the EyePen activity

On July 15, 2020, the Company made a commitment under an agreement with Next Gen for the sale of the EyePen activity (hereinafter: "The Next Gen transaction"), which was updated on November 30, 2020. See Note 7 above for additional details.

As at the date of the financial statements as at December 31, 2020, the Company remains with one intangible asset, which has been tested for impairment in value. For this purpose, the Company has been assisted by an external independent appraiser who has performed an appraisal of the fair value under the income approach and specifically under the "Exempt from royalties" method. Following a comparison of the value that is derived from the appraisal and the carrying value in the financial statements as at December 31, 2019, impairment of value in an amount of NIS 1,668 thousand was recorded in the reporting period. In 2019, impairment in value of NIS 748 thousand was recognized in respect of this asset.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 8 - Other investments

On June 25, 2020, Erech Loans Cahalaha Ltd. (hereinafter: "Erech Loans") committed itself under a loan and shares purchase agreement and a royalties agreement with Up Capital Finance Ltd. (hereinafter; "Up Capital").

The following is an abbreviated summary of the loan and shares purchase agreement, within the context of which it has been agreed between the parties as follows:

1. The transaction: Erech Loans will provide Up Capital with a loan in three tranches, in an overall amount of NIS 3 million (hereinafter: "The loan") in consideration for which Erech Loans will be entitled to 115 regular shares in Up Capital, constituting approximately 10% of Up Capital's issued and paid-up share capital (at full dilution).
2. At the time of the signing, Erech Loans will transfer NIS 1 million to Up Capital, constituting the first tranche of the loan. In consideration for the first tranche of the loan, Up Capital will allocate 115 regular shares in Up Capital to Erech Loans.
3. After Erech Loans receives confirmation from Deloitte Israel that the financial software is ready for use, then Erech Loans will transfer an additional NIS 1 million to Up Capital, which will constitute the second tranche of three tranches of the loan.
4. Upon the completion of an independent transaction (i.e. one that is not connected to the Company and/or related parties), for the use of the software, or any other commercial agreement on Up Capital's part, Erech Loans will transfer an additional NIS 1 million to Up Capital, which will constitute the third tranche and in total, up to that time, the sum of Erech Loans will stand at NIS 3 million.
5. Erech Loans will be entitled to appoint a director on its behalf on Up Capital's Board of Directors, on the assumption that Erech Loans holds at least 9% of Up Capital's issued and paid up capital.
6. It has been agreed that subject to a number of sundry conditions, UP Capital will be entitled, inter alia, to the following rights: a pre-emptive right; a right of first refusal; anti-dilution; and a right to a joint sale.
7. Erech Loans will establish a subsidiary company with Up Capital (hereinafter: "The joint subsidiary company"), the substance of which will be the provision of financial services, which Up Capital is interested in providing in Israel. If not agreed otherwise, Erech Loans will hold 22% of the shares in the joint subsidiary company, whereas, Up Capital will hold 78% of the shares in the joint subsidiary company.

Up to the time of the establishment of the joint subsidiary company, Erech Loans and Up Capital made a commitment under a royalties agreement pursuant to which Erech Loans will transfer royalties to Up Capital in respect of the use of the software, in an amount of 78% of the gross profit, as defined in the agreement for the following month, less Up Capital's expenses in respect of the provision of services to Erech Loans.

8. As at December 31, 2020, UP Capital has met the first of the milestones that are mentioned in Section 3 above and the Company has transferred an additional NIS 1 million to Up Capital (and NIS 2 million in total). On the other hand, 115 regular shares in Up Capital have been allocated to Erech Loans, as stated in Section 1 above.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 8 - Other investments (Continued)

The composition of the investment

As at December 31, 2020, an independent external appraiser estimated the fair value of the investment in Up Capital, within the context of the abovementioned agreement, at an amount of NIS 2,261 thousand. The composition of the abovementioned investment, pursuant to the assessment, is as follows:

	<u>As at December 31, 2020</u>
	<u>NIS thousands</u>
Fair value – the shares component	1,826
Fair value – the loans component	1,388
	<u>3,214</u>
Less – the fair value of a commitment to make an additional investment	(953)
	<u>2,261</u>

Note 9 - Subsidiary companies

A. K.M.B.Y. Ltd.

As at December 31, 2020, the Company holds 100% of the registered share capital of K.M.B.Y. Ltd. (hereinafter: "K.M.B.Y."). K.M.B.Y. specializes in the provision of non-banking loans small and medium sized enterprises, associations and institutions, which are budgeted by government financing, which belong primarily to the Ultra-Orthodox religious segment. Since 2018, K.M.B.Y. has been operating in a reduced format.

K.M.B.Y. holds a basic license for providing credit, which was awarded in 2019 by the Commissioner of the Capital Market, Insurance and Saving, which was valid until December 31, 2020 and which has been extended by the Commissioner until December 31, 2020.

B. Pancrea-Tech Ltd.

The Company operates in the Biomed-Drugs development field through the subsidiary company Pancrea-Tech Ltd. (hereinafter: "Pancrea"). Pancrea is a private start-up company, which is engaged in the development of a drug in the youth diabetes field and certain types of cancer, using proprietary technology and know-how. The Group is not a guarantor for Pancrea's losses beyond its investment.

Information regarding judgments and assumptions in the determination of control on Pancrea

Within the framework of the meeting of the Company's Board of Directors, which was held on July 16, 2018, it was decided, inter alia, that the Group should make an approach to the shareholders of Pancrea-Tech Ltd. that they participate in accordance with their relative holdings in Pancrea in an internal round of fundraising in an overall amount of 250,000 US Dollars, which is required in order to realize part of Pancrea's research and development activity. It was further decided that if the additional shareholders do not participate in accordance with their holdings rates, then the Group will finance the research and development activity against the increase of its holdings in shares in Pancrea-Tech.

As of the time of the signing of the financial statements, only one shareholder has agreed to participate in accordance with its holding rate, in an amount of a few thousand dollars.

Based on this budget, the Company is continuing the development activity within a budgetary framework of 20,000 US dollars, which has been approved, at this stage, within the framework of a decision by the Company in June 2019 to reduce the investments in companies in the biomed field, and within this context, the investment in Pancrea Tech has also been reduced.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 9 - Subsidiary companies (Continued)

B. Pancrea-Tech Ltd. (Continued)

(1) Non-controlling interests

The following tables summarizes information regarding Pancrea, including adjustments to fair value that have been made at the time of acquisition, in which there are non-controlling interests that are significant to the Group (before the elimination of inter-company transactions):

	As at December 31	
	2020	2019
	NIS thousands	
Expenses payable and other payables	29	26
Related parties	1,116	1,054
	1,145	1,080
Equity deficit	(1,145)	(1,080)
	-	-

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Financing expenses, net	311	270	249
Research and development expenses	2	26	19
Administrative and general expenses	11	6	2
Loss	324	302	270

C. Insuline Medical GmbH

In January 2011, the Company established a wholly owned subsidiary company in Germany, Insuline Medical GmbH (hereinafter: "The subsidiary company" or "Insuline GmbH"), in order to market and distribute the Company's products in Germany. As at the date of the annual financial statements, the subsidiary company in Germany is in the process of being liquidated.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 10 - Taxes on income

A. Deferred taxes

Deferred tax assets have been recorded in respect of the capital reserve on a loan that has been provided to a related company, in respect of a capital reserve on transactions with an interested party, in respect of the revaluation of a financial asset, in respect of losses carried forward in the subsidiary company, and in respect of the provision for doubtful debts.

B. Taxes on income that are recorded in the statements of profit or loss in the periods that are presented:

(1) As follows:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Current taxes on profits for the reporting year	1,319	952	1,046
Deferred taxes	(301)	(803)	384
Taxes on income (tax benefits) in respect of prior years	25	26	(129)
Tax expenses on income	<u>1,043</u>	<u>175</u>	<u>1,301</u>

(2) The following is a reconciliation between the amount of the "theoretical" tax that would apply were all of the income to be chargeable with taxation in accordance with the regular rates that apply to the Company in Israel (see A above (not translated), and the amount of the tax that has been reflected in the statement of profit or loss for the reporting year:

	For the year ended December 31					
	2020		2019		2018	
	%	NIS thousands	%	NIS thousands	%	NIS thousands
Income (loss) before taxes on income as reported in the statements of profit or loss:	23	<u>2,266</u>	23	<u>(6,604)</u>	23	<u>(9,102)</u>
Theoretical tax on this income at a rate of 23%		521		(1,519)		(2,093)
Increase in deferred taxes deriving from a change in the tax rates		-		-		(71)
Increase in taxes deriving from losses in for tax purposes arising in the reporting year for which deferred taxes have not been reflected (subsidiary companies)		144		1,541		1,018
Increase (decrease) in prior year taxes		25		26		(129)
Increase in taxes deriving from permanent differences – disallowed expenses		<u>353</u>		<u>127</u>		<u>2,576</u>
Tax on income		<u>1,043</u>		<u>175</u>		<u>1,301</u>

C. Tax assessments

Pursuant to the provisions of the law, the self-assessments that have been submitted by the group companies up to the year 2015 are deemed to be final.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 11 - Credit from banking corporations, related parties and others

A. The composition of the short-term credit:

		As at December 31	
		2020	2019
		NIS thousands	
	Interest rates as at December 31, 2020		
Loans from banking corporations (*)	Prime + (1.25% - 1.8%)	23,684	16,287
Loans from others	5% - 6%	6,952	12,907
Loan from related parties (**)	5.0% - 6.0%	6,223	2,199
		<u>36,859</u>	<u>31,393</u>

(*) The prime interest rate was 1.6% as at December 31, 2020 (1.75% as at December 31, 2019).

(**) The balance includes a loan of NIS 3 million from I.B.I. See the end of this note below, for additional details.

The Company is in the habit of taking up short-term loans and on-call loans, which are linked to the Prime interest rate, from banking corporations.

Loans from others bear interest at a rate of 5% - 6% a year and are unlinked. The loans are for the short-term for periods of up to one year as well as on-call loans.

A personal guarantee by the controlling interests in the Company has been made available as collateral for the Company's debts towards the banking corporations and others. Furthermore, the Company has registered a floating lien in support of a banking corporation

The varying value of the short-term loans and the on-call loans approximates to their fair values.

Note 12 - Other payables

		As at December 31	
		2020	2019
		NIS thousands	
Expenses payable		369	575
Employees and institutions for salaries		11	-
Related parties		75	-
Trade payables		164	518
Liability for royalties to the innovation authority – short term		-	2
Others (1)		464	-
		<u>1,083</u>	<u>1,095</u>

(1) The balance includes a liability for the Research Manager in an amount of NIS 385 thousand in respect of the Next Gen transaction. An additional balance is classified under non-current other payables.

(2) The fair value of the balance of payables is equivalent to or approximates to their carrying value in the accounting records.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 13 - Bond convertible into shares

Composition:

	As at December 31	
	2020	2019
	NIS thousands	
Principal of the bond –the liability component	4,245	8,781
The conversion component, which constitutes a financial liability and accordingly is not reflected under equity	-	3,407
Balance of the bond convertible into shares	4,245	12,188

At the time of the completion of the transaction, the contractual restrictions and the financial covenants were adjusted accordingly. As at December 31, 2020, the Company is in compliance with the restrictions and the financial covenants that have been imposed upon it under the force of the bond that was issued to I.B.I.

Note 14 - Commitments and guarantees

A. Commitments:

- The Company's application for the receipt of a grant from the Innovation Authority was approved in March 2016. The level of the budget that was approved for this plan is NIS 720 thousand with a financing rate of up to 40%, i.e. up to an amount of NIS 288 thousand. The plan that was approved ended on November 30, 2016. The Company has undertaken to pay royalties at a rate of 3% - 3.5% of the sales that are the fruit of the research and development that has been financed, as aforesaid, in an amount of up to 100% of the amount of the grants that have been received. No royalties had been paid yet, as at the date of the financial statements. The Company has recognized a liability for all of the grants that have been received, as discounted as at December 31, 2020.
- On December 15, 2019, the Company signed on an agreement for the checking of the feasibility of a product with Mor Research Applications Ltd., which is a wholly owned subsidiary of Clalit Health Services. The parties have made a commitment under an agreement for checking the feasibility of one of the Company's products, which is indicated for the management of diabetes for patients who are treated with insulin injections. As part of this agreement, the Innovation Authority has approved the project in an amount of NIS 1.2 million. The Innovation Authority has made financing at a rate of 40% of the costs of the R&D plan available out of this amount, within the framework of a running in plan path in the digital health field. See Note 9 above for additional details.
- Further to what is stated in Note 7 above regarding the Next Gen transaction and in light of the sale of the EyePen activity, part of the Company's commitments, including those vis-à-vis the Innovation Authority have been transferred within the framework of the said transaction.

B. Guarantees:

As collateral for the Company's debts to the banking corporations and in respect of loans from others, a personal guarantee from the controlling interests in the Company has been made available against them, which is in addition to the wealth report that is produced for the banks once a year. See Note 13B and Note 15.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 14 - Commitments and guarantees (Continued)

C. Liens:

The Company has registered floating in liens on all of the notes from others of any sort or type whatsoever, which are held by the Company and/or in which the Company has or may have a right, in support of two banking corporations.

D. Lawsuits:

On October 7, 2019, the Company received a statement of claim from a third party in an amount of approximately NIS 1.3 million in respect of payments, which that third party claims to be entitled to receive, purportedly, from the Company in respect of recruitments of funds that the Company has completed and for additional reasons.

A preliminary hearing on the file was held on January 27, 2021 and a ruling was handed down by the Court that main evidentiary affidavits and expert opinions are to be submitted by the parties. An additional evidentiary hearing has been set for July 19, 2021, after the submission of evidence.

In the Company's assessment, in reliance on its legal advisors, the chances of the lawsuit being accepted in its present format are not high.

Note 15 - Equity

A. Composition of the share capital

	<u>As at December 31</u>	<u>Registered</u>	<u>Issued and paid up</u>
		<u>Number of shares</u>	
Regular shares with no par value	2020	<u>2,050,104</u>	<u>2,050,104</u>
Regular shares with no par value	2019	<u>1,614,848</u>	<u>1,614,848</u>

B. Movements in the share capital

	<u>Number of shares with no par value</u>
Balance as at January 1, 2020	1,614,848
Issuance of shares in a private allocation - see C below	170,050
Issuance of shares in a private allocation against convertible bonds- see C below	170,050
Exercise of option warrants into shares	95,156
<u>Balance as at December 31, 2020</u>	<u>2,050,104</u>
<u>Balance as at December 31, 2019</u>	<u>1,614,848</u>

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 14 - Equity (Continued)

C. Movements in the share capital

On August 6, 2020, the Company recruited equity by way of a significant private offering to a number of institutional investors. Within the framework of this recruitment, the Company allocated 170,050 regular shares with no par value in consideration for a cash payment of 2,800 agorot per share and 170,050 non-marketable options, which are exercisable into 170,500 shares in the Company for a period of 30 months as from the time of the allocation of the option warrants, against a cash exercise price of 4,500 agorot. The Company received an amount of NIS 4.76 million in consideration for the allocation of the shares and options, as aforesaid.

Se

D. Rights that are ancillary to the shares

The holders of the regular shares have the right to participate in general meetings of the Company and to receive dividends if the Company declares a distribution of dividends.

Marketable option warrants

As at December 31, 2020, there are 89,852 marketable option warrants (Series 9) in the Company, for which an additional amount of NIS 81 is payable on exercise. After the date of the statement of financial position, on February 15, 2021, the Court responded favorably to the Company's petition and approved the extension of the time period for the expiry of the options until June 27, 2021.

Note 15 - Share based payment transactions

A. Expenses (cancellation of expenses) that have been recognized in the financial statements

In 2017, the Company's Board of directors approved the extension of the employee benefits plan by ten years.

B. Movements in the option warrants for consultants and employees in the course of the year

The following table provides details of the number of options for shares, their weighted average exercise price and the changes that have been made in the option plans for employees, directors and consultants in the current period:

	For the year ended December 31, 2020	
	Number of option warrants	Weighted average exercise price NIS
Option warrants for shares at the beginning of the year	165,583	4,404,958
Option warrants for shares that have been granted in the year	5,250	178,127
Option warrants for shares that have been exercised in the year	(6,894)	(198,307)
Option warrants for shares at the end of the year	163,939	4,384,778
Option warrants for shares that are exercisable at the end of the year	52,854	1,402,217

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 15 - Share based payment transactions (Continued)

- C. On August 4, 2019, the Company decided to convene an extraordinary general meeting on the subject of a private allocation to officers in the Company.

In the general meeting, it was proposed to allocate options by means of capital remuneration for the senior offices in the Company as long-term remuneration pursuant to the Company's remuneration policy.

The Company allocated an overall amount of 158,565 non-marketable option warrants within the framework of the allocation, which are exercisable into 158,565 regular shares in the Company (hereinafter: "The options"), from which allocations will be made to the offerees without consideration. On September 15, 2019, the general meeting approved the allocation of 158,565 non-marketable option warrants to the controlling interests in the Company and to 2 additional directors in the Company. The Stock Exchange's approval for the abovementioned offer was received in November 19, 2019.

- D. On January 22, 2020, the Company allocated 5,250 option warrants, which are not listed for trading, are non-marketable and which are exercisable into 5,250 regular shares in the Company without a par value, constituting approximately 0.32% of the Company's issued and paid-up capital after the allocation to an offeree who provides external services to the Company and who is not a senior officer, director, controlling interest or the relative thereof (hereinafter: "The offeree"). The exercise price of the option warrants that are described here is 3,391 agorot for each option warrant. The exercise price is not linked to the Consumer Prices Index. The final expiry date of all of the option warrants is at the end of a period of ten years from the time of the allocation of the option warrants.
- E. As at the reporting date, expenses in an amount of NIS 2,586 thousand have been recognized in the financial statements in respect of these options (2019 – NIS 502 thousand), which have been recorded under administrative and general expenses.

Note 16 - Revenues from the provision of credit to customers:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Revenues from interest and commissions from customers*	10,070	6,592	9,808

- * NIS 940 thousand of this amount is in respect of related parties (2019 – NIS 707 thousand and 2018 – NIS 1,206 thousand). Furthermore, in 2018 the revenues include an amount of NIS 3,556 thousand in respect of the Medivie transaction.

Note 17 - Cost of the provision of credit to customers:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Interest on credit from banking corporations and others	1,736	1,506	1,363
Interest expenses to related parties	549	443	515
Total	2,285	1,949	1,878

See also Note 22 – transactions and balances with controlling interests and related parties.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 18 - Research and development expenses:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Salaries and social benefits	363	873	1,043
Sub-contractors	222	115	256
Office expenses, overseas travel and others	-	60	35
Patents	147	266	280
Depreciation expenses	32	39	22
Grant from the Innovation Authority	(206)	-	-
Total	558	1,353	1,636

Note 19 - Administrative and general expenses:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Sub-contractors	136	110	109
Professional expenses (A)	1,070	1,335	1,844
Management fees to related parties	1,389	1,200	1,200
Management fees – share based payment	2,198	276	-
Office expenses, insurance and others	280	522	423
Directors' fees (B)	407	258	215
Total	5,480	3,701	3,791

(A) Includes an amount for option warrants that were provided to the Company's legal advisor in 2019.

(B) Includes an amount for option warrants that are exercisable

Note 20 – Other income (expenses):

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Capital gain on the sale of an intangible asset	1,463	-	-
Increase in value – other investment	261	-	-
Impairment in value – intangible asset	(1,668)	(748)	-
Other	98	-	-
Total	154	(748)	-

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 21 – Earnings (loss) per share:

Basic

The basic earnings per share is calculated by dividing the profit attributed to the shareholders in the Company by the weighted average number of regular shares that have been issued.

The following is the calculation of the basic earnings per share:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Earnings (loss) attributed to shareholders in the Company	<u>1,345</u>	<u>(6,664)</u>	<u>(10,300)</u>
Weighted average number of regular shares (in NIS thousands).	<u>1,826</u>	<u>1,615</u>	<u>1,211</u>
Basic earnings (loss) per share in NIS	<u>0.74</u>	<u>(4.13)</u>	<u>(8.50)</u>

Note 22 – Transactions and balances with controlling interests and related parties

The Company's key management personnel, together with other parties, who are included in the definition of "related parties" that appears in IAS 24, include the members of the Company's Board of Directors and its CEO.

A. Other transactions with related parties:

Management fees opposite related parties and participation in salaries

- Pursuant to an agreement between the controlling interests in the Group, in respect of management services, the Company has paid management fees of NIS 1,200 thousand in each of the years 2018 – 2020.
- On July 8, 2020, the Company's Board of Directors decided to approve indemnification for the controlling interests in the company in respect of a demand for the settlement of personal guarantees, which have been given by them as officers in the Company. The amount of the indemnification that the Company will grant to each of the officers together, will stand at an amount of NIS 250 thousand, which will be paid out of the Company's shareholders' equity. The transaction was approved by the Company's shareholders by a special majority, in a meeting that was held on August 27, 2020.
- Further to what is stated in Note 15H regarding the exercise of options by I.B.I., I.B.I. has become an interested party in the Company. See Note 15 for additional details regarding the convertible bonds, which the Company has issued to I.B.I.
- See Note 13A above for details regarding a loan agreement that has been signed between I.B.I. and the Company.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 22 – Transactions and balances with controlling interests and related parties (Continued)

B. Balances with interested parties and related parties:

Composition

	As at December 31		
	2020	2019	
	NIS thousands		
Assets			
Credit to customers, net	5,880	6,188	
Liabilities			
Other payables	75	-	
Bonds convertible into shares	4,245	-	
Credit from related parties	6,223	6,339	
	10,543	6,339	
	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Financing income	940	707	1,206
Financing expenses	(549)	(443)	(515)
	391	264	691
Management fees, net (including share based payments)	3,587	1,476	1,200
Administrative and general expenses	-	46	59
Total income (expenses) opposite related parties	(3,196)	(1,258)	(568)

Note 23 - Financing (income) expenses:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Other financing expenses	18	1,998	-
Revaluation of liability for royalties to the Innovation Authority	(51)	23	117
Revaluation of bond convertible into shares (*)	(248)	2,723	-
Revaluation of marketable securities	(1,459)	-	-
Total	(1,740)	4,744	117

(*) These expenses include financing expenses in respect of the updating of the present value of the liability component and in respect of the updating of the fair value of the liability option as part of the Company's convertible loan, following the provision of a convertible loan by I.B.I. Investment House Ltd. to the Company and from the updating of the impact of a change in the agreement based on an appraisal that has been provided by an independent external appraiser.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 24 – Operating segments

General

The Company presents the operating segments in accordance with the provisions of IFRS 8.

The reportable operating segments are: non-banking credit and Biomed – the development of drugs. The segmental income is the operating income that each segment produces. The allocation of operating costs between the segments is done in accordance with keys that have been formulated by the Company in relation to the types of costs. The amounts that are presented in relation to segmental assets are measured consistently to the manner of their measurement in the financial statements. These assets are allocated to segments based on the segmental activity and the physical location of the assets. All of the Company's operating assets are located in Israel and its business activity is conducted in Israel.

On June 10, 2019, the Company's board of Directors decided to separate the Company's biomed operations from the Company's non-banking financing activity. A special purpose subsidiary company has been established for this purposes, two which all of the intellectual property rights, including the rights to use products and technologies that have been developed by the Company (hereinafter: "The subsidiary company").

The subsidiary company will take action to find sources of financing in order to continue its operations by means of identifying strategic or financial cooperations with third parties from the pharmacology sector and/or from other financing bodies, which may be interested in gaining a foothold in the global diabetes market, for the purpose of commercializing the products that the Company has developed, and inter alia, the EyePen and the Insofed products, and bringing them to the market (see Note 7 above for details regarding the sale of the EyePen activity in 2020. The Company's management has emphasized its intention to continue to support the biomed operations insofar as may be necessary, which will be done in parallel to finding additional investors for the Company. As of the time of the approval of the financial statements, no actual transfer of activity to the subsidiary company has occurred.

A. Segmental information in respect of the reported segments:

	Non-banking credit	Biomed	Total
	NIS thousands		
For the year ended December 31, 2020:			
Segmental revenues	10,070	-	10,070
Segmental income (loss)	3,931	(3,405)	526
For the year ended December 31, 2019:			
Segmental revenues	6,592	-	6,592
Segmental income (loss)	2,636	(4,496)	(1,860)
For the year ended December 31, 2018:			
Segmental revenues	9,808	-	9,808
Segmental income (loss)	(4,455)	(4,530)	(8,985)

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 24 – Operating segments (Continued)

B. Segmental information in respect of the reported segments:

	For the year ended December 31		
	2020	2019	2018
	NIS thousands		
Segmental income (loss) as above	526	(1,860)	(8,985)
Financing income (expenses)	1,740	(4,744)	(117)
Income (loss) before taxes on income	<u>2,266</u>	<u>(6,604)</u>	<u>(9,102)</u>

C. Information on segmental assets and liabilities:

	Non-banking credit	Biomed	Total
	NIS thousands		
For the year ended December 31, 2020:			
Segmental revenues	64,495	8,778	73,273
Segmental income (loss)	41,391	1,811	43,202
For the year ended December 31, 2019:			
Segmental revenues	53,805	7,410	61,215
Segmental income (loss)	47,789	1,664	49,453

Note 25 – Events after the date of the statement of financial position

A. Commitment for the establishment of companies for making non-banking finance available to traders on E-Commerce websites:

- On January 11, 2021, the Company, together with Nala Digital Commerce Ltd. (hereinafter: "Nala Digital Commerce"), which is a public that is listed for trading on the Tel-Aviv Stock Exchange Ltd., signed on a founders agreement for the establishment of new company whose objective is to make loans and financing available to traders on E-Commerce websites ("The agreement" and "The new company", respectively), which will be done by means of the development of proprietary software tools for making finance available, which will be supported by collateral in the form of online assets ("The field of activity").

The new company will make short-term credit available for traders and businesses, digital stores on E-Commerce sites (such as Amazon), in a manner that will enable them to have working capital for the purposes in the internet stores, such that the working capital will enable those store owners, traders and businesses, to have short-term liquidity. Furthermore, the new company intends to operate in the field of making financing available in support of the advancing of payments, which those traders and businesses on various E-Commerce sites are entitled to, a mechanism that will assist in bridging cash flow gaps, while collecting interest as is customary in the market.

The founders of the new company include Mr. Avraham Tzarfati and Mr. Ziv Eisner, who are directors in the Company (hereinafter: "The directors"). The Company's commitment with the directors was approved by the Company's Board of Directors and Audit Committee on December 31, 2020, in meetings in which Mr. Avraham Tzarfati and Mr. Ziv Eisner did not participate. This commitment was approved by a general meeting of the Company's shareholders on March 15, 2021, in accordance with Section 275 of the Companies Law, 1999.

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 25 – Events after the date of the statement of financial position (Continued)

A. Commitment for the establishment of companies for making non-banking finance available to traders on E-Commerce websites (Continued):

- The following are the main points of the agreement between the Company, Nala Digital Commerce and the directors (hereinafter: "The parties").

The Israeli company – the parties will take action to establish an Israeli company, which will be engaged in the field of activity in Israel ("The Israeli company"), such that the shareholders in it and the ratio of the holdings between them at the time of its establishment will be such that the Company will hold 35% of the share capital in the Israeli company, the directors will hold 5% of the Israeli company and Nala Digital Commerce will hold 60% of the issued and paid-up share capital of the Israeli company.

The Company will be given a call option ("The call option"), to purchase additional shares in the Israeli company within a period of up to 24 months from the time of the signing of the agreement, which will constitute 10% of the share capital of the Israeli company at full dilution at the time of the allocation, such that if the call option is exercised and additional shares have not been allocated since the time of the establishment of the Israeli company and up to the time of the exercise, the shareholders and their holdings rates will be: the Company – 45%, Nala Commerce – approximately 50.8% and the directors – approximately 4.2%.

In consideration for the shares under the call option, the Company will pay consideration to the Israeli company as follows: (a) if the call option is exercised in the course of a period of 12 months from the time of the signing of the agreement – the Company will pay 180 thousand US dollars to the Israeli company; (b) if the call option is exercised in the course of a period of between 12 months and 24 months from the time of the signing of the agreement – the Company will pay 300 thousand US dollars to the Israeli company.

The International company - the parties will take action to establish a new international company, which will be engaged in the field of activity outside of Israel ("The international company"), such that the shareholders in it and the ratio of their holdings at the time of its establishment will be such that the Company will hold 20% of the share capital in the international company, the directors will hold 8% of the international company and Nala Digital Commerce will hold 72% of the issued and paid-up share capital of the international company.

Each of the Board of Directors of the Israeli company and the Board of Directors of the international company will number up to four directors, such that two directors will be appointed on behalf of the Company and two directors will be appointed on behalf of Nala Digital Commerce. The Chairman of the Board of Directors will be appointed by Nala Digital Commerce, and in the case of a tied vote, the Chairman of the Board of Directors shall have a decisive vote.

In each of the Israel Company and the international company, the transfer of shares shall be subject to a right of first refusal, a right to tag along and a duty to bring along, all of which with the adjustments that are required and as set forth in greater expanse in the agreement.

The Company has undertaken to make an amount of up to 1,050,000 US dollars available to the Israeli company, in the following manner: (a) a shareholder's loan in an amount of 300,000 US dollars, of which 100,000 US dollars will be made available at the time of the completion of the transaction and the balance will be made available in accordance with the deadlines that were set in the agreement, at the minimal interest rate pursuant to the Income Tax Regulations in respect of shareholders' loans ("The Erech Finance loan").

ERECH FINANCE CAHALAHA LTD
Notes to the Consolidated Financial Statements

Note 25 – Events after the date of the statement of financial position (Continued)

A. Commitment for the establishment of companies for making non-banking finance available to traders on E-Commerce websites (Continued):

The Erech Finance loan will be used for the Israeli company's operating activities. Profits may not be distributed to shareholders in the Israeli company prior to the repayment of the full amount of the Erech Finance loans; (b) the parties will sign on a credit facility agreement between the Israeli company and the Company, within the framework of which the Company will make credit in an amount of up to 750,000 US dollars available to the Israeli company, from time to time pursuant to demands from the Israeli company for the purpose of its operations, at an interest rate as determined in the credit facility agreement.

As from the determining time, and so long as the Israeli company does not have a license for the provision of credit pursuant to the Supervision of Financial Services (Orderly Financial Services) Law, 2016, the Israeli company will operate the services through the license for the provision of credit services, which is held by the Company, in consideration for customary usage fees, which will be calculated as set forth in the agreement.

A crucial condition for the completion of the transaction is the approval of the transaction by the Company's shareholders (pursuant to the provisions of Section 275 of the Companies Law, 1999) and this within 45 days from the time of the signing of the agreement (unless the parties may decide to extend the said timing). The transaction was approved by the general meeting on March 15, 2021.

B. Agreement for the receipt of a credit facility from a financial body, which is not related to the Company in an amount of NIS 10 million:

On January 31, 2021, the Company's subsidiary company, Erech Loans Cahalaha Ltd. ("The subsidiary company") signed on an agreement for the receipt of a credit facility from a financial body that is not related to the Company, in an amount of NIS 10 million ("The credit facility"), which will be used by the subsidiary company for the expansion of its operations in the non-banking financing field. The credit facility will bear interest that does not exceed the interest rates that are customary in this market at present and the amount of the interest will not be linked to any index or currency whatsoever. The Company has made collateral available in support of the financing body as is customary in similar agreements, which include, inter alia, personal guarantees by the controlling interests in support of the Company, without their being entitled to receive any consideration of any type whatsoever from the Company.

C. The exercise of option 9:

Further to what is stated in Note 17, from the beginning of 2021 and up to a time shortly before the approval of the financial statements, 80 option warrants (Series 9) have been exercised against the allocation of 80 regular shares. As a result of the exercise of the options, the Company's shareholders' equity has increased by NIS 7 thousand.

D. Approval for the controlling interests' periods of office in the Company

On March 15, 2021, the general meeting approved the controlling interests' terms of employment. It was proposed in the meeting that the terms of office and of employment of the controlling interests in the company, who serve as Chairman of the Company's Board of Directors and as the Company's CEO and director and as Chief Operating Officer and director for a period of three years, commencing on February 15, 2021 (the end of the controlling interests' previous period of office), be approved. The controlling interests will be entitled to monthly consideration for services (together) in an amount of NIS 200 thousand with the addition of VAT, as required by law, which will be payable, at the controlling interests' election by means of (a) a company that is jointly owned by them; or (b) to a company that is owned by each of the controlling interests, such that each of the controlling interests will be entitled to a monthly payment of NIS 66,666 with the addition of VAT, as required by law.