

ERECH FINANCE CAHALAHA LTD
Summarized Consolidated Financial Statements
as at June 30, 2022
(Unaudited)

This is an English convenience translation of the Company's condensed consolidated financial statements as at June 30, 2022 and for the period ended on that date. In any case in which there is a discrepancy between this translation and the Hebrew original, the Hebrew original shall prevail.

ERECH FINANCE CAHALAHA LTD
Summarized Consolidated Financial Statements
As at June 30, 2022
(Unaudited)

	Page:
Summarized Consolidated Financial Statements – NIS thousands	
Summarized Consolidated Statements on the Financial Position	3
Summarized Consolidated Comprehensive Profit Statements	4
Summarized Consolidated Change in Equity Statements	5-6
Summarized Consolidated Cash Flows Statement	7
Notes to the Summarized Consolidated Financial Statements	8-14

Summarized Consolidated Statements on the Financial Position

Naor Eliyahu Chairperson of the Board of Directors	Yossi Wasserman Chief Executive Officer	David Gerbi VP Finances
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The attached notes constitute an integral part of these summarized consolidated financial statements

ERECH FINANCE CAHALAHA LTD

Summarized Consolidated Comprehensive Profit Statements

		For the six-month period ending on June 30,	For the year ending December 31
		2022	2021
		(unaudited)	Audited
		NIS thousands	
Revenues from extending credit to customers		9,018	5,975
Cost of providing credit to customers		2,143	1,242
Revenues from providing credit to customers		6,875	4,733
Provision for credit losses		939	686
Net revenue from providing credit to customers, less provision for credit losses expenses		5,936	4,047
Research and development Expenses		-	24
Administrative and general expenses		2,705	2,684
Other net expenses revenue)		-	(34)
		2,705	2,674
Earnings from operations		3,231	1,373
The Company's share in the losses of affiliated companies		(575)	-
Net financing income (expenses)	4	(1,296)	5,797
Pre-taxes on income earnings		1,360	7,170
Taxes on income revenue (expenses)		(1,007)	(930)
Comprehensive earnings for the period		353	6,240
Comprehensive earnings (loss) attributed to:			
The shareholders of the Company		412	6,300
To non-controlling interests		(59)	(60)
		353	6,240
Earnings per share attributed to the Company's Shareholders -			
Basic earnings per share (in NIS)		0.14	2.90
Diluted earnings per share (in NIS)		0.11	2.14

The attached notes constitute an integral part of these summarized consolidated financial statements

ERECH FINANCE CAHALAHA LTD

Summarized Consolidated Change in Equity Statements

	Share capital	Capital reserve share- based payment transacti ons	Capital reserve for transactions with controlling shareholders	Capital reserve for transactio ns with a non- controlling rights	Option warrants	Premium on equities	Surpluses	Total	Non- controlling rights	Total equity
	NIS thousands									
Balance as at January 1, 2022	1,829	2,948	1,305	(116)	1,839	57,625	(11,813)	53,617	(458)	53,159
Movement during the six-month period terminating on June 30, 2022 (unaudited):										
Transactions with controlling shareholders	-	-	(36)	-	-	-	-	(36)	46	10
Allocation of options to service providers	-	231	-	-	-	-	-	231	-	231
Total earnings (loss) for the period	-	-	-	-	-	-	412	412	(59)	353
Balance as at June 30, 2022	<u>1,829</u>	<u>3,179</u>	<u>1,269</u>	<u>(116)</u>	<u>1,839</u>	<u>57,625</u>	<u>(11,401)</u>	<u>54,224</u>	<u>(471)</u>	<u>53,753</u>
Balance as at January 1, 2021	1,829	2,890	1,331	(116)	4,435	32,973	(12,837)	30,505	(434)	30,071
Movement during the six-month period terminating on June 30, 2021 (unaudited):										
Transactions with controlling shareholders	-	-	(3)	-	-	-	-	(3)	49	46
Exercising and expiry of options, net	-	(1,026)	-	-	(322)	3,623	-	2,275	-	2,275
Conversion of bonds	-	-	-	-	(1,417)	7,443	-	6,026	-	6,026
Allocation of options to service providers	-	579	-	-	-	-	-	579	-	579
Total earnings (loss) for the period	-	-	-	-	-	-	6,300	6,300	(60)	6,240
Balance as at June 30, 2021	<u>1,829</u>	<u>2,443</u>	<u>1,328</u>	<u>(116)</u>	<u>2,696</u>	<u>44,039</u>	<u>(6,537)</u>	<u>45,682</u>	<u>(445)</u>	<u>45,237</u>

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

ERECH FINANCE CAHALAHA LTD
Summarized Consolidated Change in Equity Statements

	Share capital	Capital reserve share-based payment transactions	Capital reserve for transactions with controlling shareholders	Capital reserve for transactions with a non-controlling rights	Option warrants	Share premium	Surpluses	Total	Non-controlling rights	Total equity
	NIS thousands									
Balance as at December 31 2020	1,829	2,890	1,331	(116)	4,435	32,973	(12,837)	30,505	(434)	30,071
Transactions during the year ending December 31, 2021:										
Transactions with controlling shareholders	-		(26)	-	-	-	-	(26)	106	80
Exercising and expiry of options, net	-	(1,026)	-	-	(1,409)	17,209	-	14,774	-	14,774
Conversion of bonds	-		-	-	(1,417)	7,443	-	6,026	-	6,026
Allocation of options to service providers	-	1,084	-	-	230	-	-	1,314	-	1,314
Total earnings (loss) for the period	-	-	-	-	-		1,024	1,024	(130)	894
Balance as at December 31 2021	<u>1,829</u>	<u>2,948</u>	<u>1,305</u>	<u>(116)</u>	<u>1,839</u>	<u>57,625</u>	<u>(11,813)</u>	<u>53,617</u>	<u>(458)</u>	<u>53,159</u>

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

I ERECH FINANCE CAHALAHA LTD
Summarized Consolidated Cash Flows Statement

	For the six months ending On June 30		For the year ending December 31
	2022	2021	2021
	(unaudited)		Audited
	NIS thousands		
Cash flow from regular operations:			
Net earnings for the period	353	6,240	894
Adjustments for expenses and revenues that are not subject to the cash flows:			
Change in deferred taxes	(213)	(113)	(2,217)
Change in the fair value of a negotiable investment	1,454	(4,852)	2,627
The Company's share in the losses of affiliated companies	575	-	52
Change in the fair value of other investments	(27)	(34)	(268)
Change in the liability for grants received from the Innovation Authority	(186)	32	27
Movement in share-based payment reserve	231	579	1,084
Decrease in the value of an intangible asset	-	-	696
Transactions with controlling shareholders	(36)	(3)	(26)
Depreciation expenses	5	16	26
Revaluation of an option to credit providers	59	-	-
Transactions with non-controlling interests recognized opposite a capital reserve	46	49	106
	1,908	(4,326)	2,107
Changes in the assets and liabilities entries			
Net increase in credit to customers (including long-term)	(27,407)	(9,766)	(30,423)
Net decrease in a financial asset at fair value though profit or loss	-	874	874
Decrease (increase) in accounts receivable	18	(538)	182
Increase (decrease) in credit from banks	(4,042)	58	(13,680)
Increase in credit from others	28,451	5,409	31,448
Increase (decrease) in credit from associated parties	221	(2,463)	(5,038)
Net increase in income tax payable	511	37	386
Increase (decrease) in other accounts payable	(24)	152	(512)
Change in restricted deposits	(3,737)	977	4,792
Change in bonds convertible into shares	-	18	18
	(6,009)	(5,242)	(11,953)
Net cash used for regular operations	(3,748)	(3,328)	(8,952)
Cash Flow from Investment Operations:			
Investment in negotiable securities	-	(117)	(663)
Investment in fixed assets	(15)	-	(5)
Proceeds from the disposal of an intangible asset	-	500	500
Other investments	(791)	(600)	(1,440)
Net cash used from investment operations	(806)	(217)	(1,608)
Cash flow for financing operations:			
Issuance of shares and option warrants	-	1,763	1,763
Exercising option warrants, net	-	2,275	14,774
Net cash deriving from financing operations	-	4,038	16,537
Increase (decrease)) in cash and cash equivalents	(4,554)	493	5,995
Cash and cash equivalents balance at the beginning of the period	7,392	1,397	1,397
Cash and cash equivalents balance at the end of the period	2,838	1,890	7,392
Appendix A – Additional information on the cash flows:			
Interest paid	1,967	964	2,524
Interest received	3,212	3,483	7,529
Taxes paid	678	954	1,420
Appendix B – Additional information on non-cash operations			
Conversion of bonds into equity	-	4,263	4,263

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

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 1 - General

- a. ERECH FINANCE CAHALAHA LTD (hereinafter – “the Company”) was incorporated in Israel in February 2007 and its equities were listed for trading on the Tel Aviv Stock Exchange in August 2010 and its registered address is 5 Eliav Yaakov St., Jerusalem.
- b. The Company extends extra-banking credit in the framework of loans and credit against deferred receivables to small, medium corporations, associations and private borrowers through Erech Loans Cahalaha Ltd. The Company and Erech Loans Cahalaha Ltd. Have a license extended by the Capital Market, Insurance and Savings Commissioner, valid until December 31, 2026. Furthermore, the subsidiary, K.M.B.Y. Ltd was granted a basic license valid until December 31, 2026 The Company intends expanding its operations in the extra-banking financing fields through the Company as well.
- c. These summarized consolidated financial statements should be studied in the context of the Company’s annual financial statements as at December 31, 2021 and for the year ending on that date (hereinafter – the annual financial statements) and the notes accompanying them.
- d. As at June 30, 2022, the Company has commitments to meet financial criteria relating to the credit received from banking and other corporations. The Company complies with the aforementioned financial criteria.

e. Definitions:

In these financial statements –

The Group	-	ERECH FINANCE CAHALAHA LTD. and its consolidated companies
Subsidiaries	-	Insuline GmbH, Erech Loans Cahalaha Ltd., K.M.B.Y. Ltd. and Pancrea Tech Ltd.
Financial assets at fair value through profit or loss	-	Nextgen Ltd.
Interested parties and controlling shareholders	-	As defined in the Securities (Annual Financial Statements) Regulations, 5770 – 2010
Associated parties	-	As defined in International Accounting Standard 24 – “Disclosures in the Context of an Associated Party IAS24”.
Affiliated Companies	-	A company treated under the equity method

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 2 - The Major Principles of the Accounting Policy:

a. The Preparation Basis of the Summarized Consolidated Financial Statements

The Group's summarized consolidated financial data as at June 30, 2022 (hereinafter the financial data for the interim period) were prepared pursuant to International Accounting Standard Number 34 "Financial Statements for Interim Periods" (hereinafter- IAS 34), and include the additional disclosure required pursuant to Part D of the Securities (Periodic and Immediate Reports) Regulations, 5770 – 1970. The financial data for the interim period do not include all the data and disclosures required within the framework of the annual financial statements. The financial data for the interim period should be studied together with the annual financial statements for 2021 and the notes accompanying them, which comply with the functional International Financial Reporting Standards and interpretations that were published by the International Accounting Standards Board (hereinafter – the IFRS Standards) and include the additional disclosure required pursuant to the Securities (Annual Financial Statements) Regulations, 5770 – 2010.

b. Estimates

1. Preparing the interim financial statements requires that the Company's Executive activates discretion and the use of accounting estimates and assumptions, which have an effect on implementing the Company's accounting policy and the reported sums of the assets and liabilities, revenues and expenses. The actual results could differ from these estimates.

When preparing these interim financial statements, significant discretions that were activated by the Executive when implementing the Company's accounting policy and uncertainty involved in the development sources of the of the estimates were identical to those in the Company's annual financial statements for the year ending December 31, 2021.

2. Credit Risk

The main credit risk facing the Company operating in this field is the credit risk, which could be caused because a borrower is unable to meet his obligations vis-à-vis the Company. The book value of the financial assets is the amount that best represents the Company's maximum exposure to the credit risk. The Group minimizes risks by managing a setup that enables a professional examination of a customer and the collateral that he presents to it, stringent distribution of the risks in the credit portfolio, assimilation of customer absorption procedures and examining the nature of the transactions. The Group's experience, which has been accumulated over the years in all regarding the manner of examining customers and regular controls over the Company's credit portfolio, enable it to minimize the risks when absorbing customers, who might not be able to repay the financing.

Both the Company's new customer absorption procedure and the examination of the borrower's solidity for the purpose of extending the financing are stringent. The Company does not engage with customers whose settlement ability is not sufficiently high. Thus, in most cases, the customers' identity is that of reliable customers with financial strength that is known to the Company already prior to the engagement period. As a prerequisite for the receipt of a loan from the Company, the borrower undertakes to furnish the Company with post-dated checks of the borrower, pursuant to what has been established in the agreement between the parties. In certain cases the borrower undertakes to transfer personal checks of the guarantors at the level of their guarantee.

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 2 - The Major Principles of the Accounting Policy (Continued):

b. Estimates (Continued)

As a prerequisite 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 a personal guarantee for the settlement of the checks.

As at the date of this report, the Company has examined a number of loans and deferred receivables, the payment date of which is due, but which have not yet been paid. Together with its external legal consultants, the Company has examined the chances of collection and, based on the quality of the guarantees from the customer, the repayment ability and, in certain cases also the ability of the customer to comply with a debt arrangement for the purposes of full payment of the debt. The Company and its external legal consultants believe that the chances of collecting the aforementioned debts are high and, therefore, the provision for doubtful debts for these debts has remained in the framework of the general provision.

Following are details regarding the provision for credit losses relating to credit to customers as at June 30, 2022:

	Credit to customers for which a specific provision was made	Credit to customers for which an enlarged the general provision was made	Credit to customers for which a general provision was made	Total
	NIS thousands			
Net credit to customers	10,351	19,431	84,904	114,686
Provisions for credit losses	(3,300)	(500)	(1,682)	(5,482)
	<u>7,051</u>	<u>18,931</u>	<u>83,222</u>	<u>109,204</u>

- 1) **Credit to customers for whom a specific provision was made** - The credit balance of customers for whom the Company made a specific provision relates to customers, for which the Company expects a partial repayment of the debt balance..
- 2) **Credit to customers for whom an enlarged the general provision was made** – The credit balance of customers for whom the Company made an enlarged general provision, relates to customers all or some of the receivable balance / loans remain unpaid on their due dates and the Company has initiated litigation for the purposes of collecting the debt. The Company believes that while the chances of collecting are high, in view of the uncertainty and the fact that reference is to proceedings in the initial stages, the Company has made an enlarged general provision.
- 3) **Credit to customers for which a general provision was made** – The general provision relates to all the Company's customers and relates to the Company's estimate based on past experience.

c. Initial Implementation of the New Standards, Amendments to the Standards and Interpretations

The Group's accounting policy in its summarized consolidated financial data, as at June 30, 2022, is the accounting policy implemented in the annual financial statements.

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 3 – Sectors

a. General

The Company presents the operational sectors pursuant to the instructions in IFRS 8.

The reportable operational sectors are: Extra-banking credit sector and the biomed drugs development sector the development operations of which have been reduced substantially during the report period. The sectorial earnings are the operating income that each sector produced. Allocating operating costs among the sectors is executed pursuant to the developments consolidated by the Company in relation to the types of cost. The sums presented regarding the assets of the sector are valued consistently in accordance with the manner of measuring them in the financial statements. These assets are allocated to the sectors based on the sector's operations and the physical location of the asset. All the Company's operational assets are located in Israel and its corporate operations are executed in Israel

b. Sectorial Information for the Reported Sectors:

	Extra- banking credit	Biomed	Total
	NIS thousands		
For the six-month period terminating on June 30, 2022 (unaudited):			
The sector's income	9,018	-	9,018
The sector's earnings (loss)	3,231	-	3,231
For the six-month period terminating on Wednesday, June 30, 2021 (unaudited):			
The sector's income	5,975	-	5,975
The sector's earnings (loss)	2,068	(695)	1,373
For the year ending December 31, 2021 (Audited)			
The sector's income	13,390	-	13,390
The sector's earnings (loss)	4,468	(2,365)	2,103

c. Adjustment of Sectorial Earnings to Pre-Taxes on Income Earnings:

	For the six-month period ending on June 30, 2021	For the year ending December 31
	2022	2021
	NIS thousands	
The Sectorial earnings as above	3,231	1,373
The Company's share in the losses of	(575)	-
Net financing income (expenses)	(1,296)	5,797
Pre-Taxes on Income earnings	1,360	7,170
	536	

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 3 - Sectors (cont.)

d. Information on the assets and liabilities of the sectors:

	Extra- banking credit	Biomed	Total
	NIS thousands		
June 30, 2022 :			
Total assets	126,544	3,578	130,122
Total liabilities	76,044	325	76,369
June 30, 2021 :			
Total assets	73,533	13,891	87,424
Total liabilities	40,682	1,505	42,187
December 31, 2021 :			
Total assets	96,808	7,730	104,538
Total liabilities	50,519	860	51,379

e. Material customers

1. Balance

	As at June 30		As at December 31
	2022	2021	2021
	NIS thousands		
Customer B	-	-	10,716
Customer C:	-	-	8,337

2. Revenues from extending credit to customers

	For the six months ending On June 30		For the year ending December 31
	2022	2021	2021
	NIS thousands		
Customer A	1,293	-	-
Customer B	-	-	1,459
Customer C:	-	-	333

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 4- Other Net Financing Expenses(Revenues)

	For the six months ending On June 30		For the year ending December 31
	2022	2021	2021
	NIS thousands		
Other financing revenues	-	(1,007)	(1,007)
Others	-	-	63
Revaluation of the royalties liability to the Scientist	(186)	32	27
Revaluation of negotiable securities	1,482	(4,840)	2,414
Revaluation of bonds convertible into shares	-	18	18
Total	1,296	(5,797)	1,515

Note 5 - Events during the Statement on the Financial Position Period

- a. Further to the contents of Note 10 to the Consolidated Financial Statements as at December 31, 2021, regarding the investment in Kiara Fintech Ltd., on January 9, 2022, the Company exercised the Call options in consideration for \$180 thousand. After exercising the Call options, the Company was issued shares that constitute 10% of the Israeli company's equity. The Company has a 45% holding in the Israeli Company's equity.
- b. On February 15, 2022, the Securities Authority announced that it was extending the validity of the Company's shelf prospectus until November 26, 2022.
- c. On May 24, 2022, the Company received an initial indication, pursuant to which the Company and Erech Loans Cahalaha Ltd, (a subsidiary) are expected to receive joint credit facilities of NIS 10 million (on-call) from a bank, for the purposes of extending their operations in the extra-banking financing field at the conventional interest rate in the economy. As at the date of publishing the report, continuing the contact between the Company and the bank has been postponed indefinitely.
- d. On June 12, 2022, together with a subsidiary, the Company engaged in an agreement for receiving joint credit facilities of NIS 20 million from a nonbanking lender. The credit facilities are for an indeterminate period. The loans will bear an effective annual interest rate ranging from 7.15% to 8.15% and the Company must pay the lender commissions and variable expenses for various actions without any linkage differentials. The loan payments are through negotiable checks and solo receivables endorsed by the Company to the lender. All the payments and loans will be given for immediate repayment in various events in which there is a breach of the credit agreement. As collateral, for the lender. the Company and subsidiary will provide a security check, guarantee letter and a promissory note.
- e. On July 14, 2022, the Company signed a binding agreement for the sale of 50,000 shares of Next Gen Biomed Ltd. at a price of 500 agarot per share out of the Company's total holding of 2,185,500 Ordinary shares of the Next Gen Biomed Ltd. On July 18, 2022, Mr. Harel Herstik ("the buyer") transferred all the consideration for the sale of the shares into the Company's bank account and, accordingly, the Company reported the share sales event and completion of the transaction, but, in view of a technical failure in the transfer of the shares, the shares were only transferred from the Company's account to the buyer's account on August 16, 2022.
- f. Further to the content in Note 13c, to the consolidated financial statements as at December 31, 2021, on February 15, 2022, the Company completed using the credit line and withdrew the remaining 24 million, so that the credit balance vis-à-vis More Provident Funds Ltd. is NIS 50 million.

ERECH FINANCE CAHALAHA LTD

Notes to the Summarized Consolidated Financial Statements

Note 5 - Events during the Statement on the Financial Position Period (continued)

On July 26, 2022, the Parties reached an agreement that the final repayment period of the credit facilities will be advanced. As a result, the Company and subsidiary will designate the money received as a result of payment of the checks in the designated trust account, which was established for the credit facilities agreement in favor of the final repayment of the credit facilities, this instead of the original date in the credit agreement.

In view of the aforementioned, the Company is deployed for tracing additional financing sources from banking and extra-banking entities for the purposes of continuing its business expansion.