

Matomy Media Group Ltd 2020 Results

18 March 2021

Matomy Media Group | 2020 Final Results *Results for the year ended December 31, 2020*

Matomy Media Group Ltd. (the "**Company**" or "**Matomy**"), announces its results for the year ended December 31, 2020.

| \$ millions, except as otherwise indicated | 2020 | 2019 |
|---|------------------|---------------|
| | (Audited) | |
| Revenue | - | 74.0 |
| Cost of revenue | - | 57.1 |
| Gross profit | - | 16.9 |
| Research and development | - | 0.6 |
| Selling and marketing | - | 3.6 |
| General and administrative | 1.6 | 6.4 |
| Impairment of goodwill | - | 16 |
| Gain from sale of subsidiary | - | (2.6) |
| Total operating expenses | 1.6 | 24.0 |
| Operating Loss | (1.6) | (7.1) |
| Financial expenses (income), net | (0.5) | 12.3 |
| Loss before taxes on income | (1.1) | (19.4) |
| Taxes on income (tax benefit) | (0.1) | 1.6 |
| Net loss | (1.0) | (21.0) |

Business and operating highlights

- In the year ended December 31, 2021, the Company incurred a net loss of \$1.0 million.
- The full and immediate repayment of the Company's outstanding convertible bonds (Series A) (the "Bonds") was transferred to the trustee of the Bonds, and the full redemption of the outstanding Bonds was executed on January 8, 2020.
- During the first quarter of 2020 Mr. Sami Totah (Chairman of the board of directors), Mr. Amir Efrati (Director), Mr. Nir Tarlovsky (Director), Mr. Stephane Estryn (Director) and Mr. Harel Locker (External Director) announced their resignation as members of the board of directors. In addition, Ms. Shirith Kasher (External Director) continued to serve as a member of the Company's board of directors.
- On May 13, 2020, Mr. Amitay Weiss (Chairman of the board of directors), Mr. Lior Amit (Director), Mr. Liron Carmel (Director), Mr. Eli Yoresh (Director), Ms. Kineret Tzedef (Director) and Mr. Udi Kalifi (External Director) were appointed as members of the board of directors of the Company. On May 21, 2020, Mr. Amitay Weiss was appointed as the chairman of the board of directors of the Company by the Company's board of directors. On May 21, 2020, Mr. Ilan Tamir was appointed by the Company's board of directors to hold the position of interim Chief Executive Officer in addition to his position as the Chief Financial Officer of the Company. Mr. Tamir's employment with the Company will terminate on September 30, 2020.
- On June 23, 2020, the trading in the Company's shares was suspended both on TASE and LSE.
- On June 23, 2020, in accordance with the terms of the transaction between the Company, Rainmaker Investments GmbH and Centralnic Group PLC ("CNIC") regarding the sale of the Company shares (90%) in Team Internet to CNIC, the deferred cash payment of EUR 1.6 million was paid by CNIC to the Company.
- On August 20, 2020, the Company extended Mr. Tamir service as an interim Chief Executive Officer in addition to his position as the Chief Financial Officer of the Company. Mr. Tamir's engagement with the Company will terminate following merging a possible new activity into the Company. The Company shall have the right to terminate this engagement at any time without giving Mr. Tamir prior notice.
- On September 29, 2020 the company announced that it had entered into a memorandum of understanding ("MOU") with Global Automax Ltd ("Automax") regarding a proposed reverse merger. On September 29 the Company submitted to the Tel Aviv-Jaffa District Court (the "Court") a petition pursuant to Section 320 of the Israeli Insolvency and Economic Rehabilitation Law (the "Petition"), requesting the Court (i) to approve the convening of separate meetings of preferential creditors, secured creditors, non-preferential creditors and a meeting of the shareholders of the Company, in order to approve an arrangement between the Company and its creditors and shareholders (the "Arrangement"); and (ii) to approve the schedule of the proposed Arrangement.
- On November 11, 2020, the Company announced it had entered into a conditional merger agreement with Automax, Automax Shareholders (hereinafter: 'Automax Shareholders') and M.R.M. Merhaviv Holdings and Management Ltd. (the 'Corporate Adviser'), by way of an exchange of shares between the Company and Automax Shareholders.
- On November 23, 2020 the Company informed its shareholders that the admission of its shares to trading on the HGS is cancelled, and that the Ordinary Shares are only listed on the Tel Aviv Stock Exchange ("TASE").
- On December 9, 2020 the Company announced that it has sold its holding of CentralNic (LON: CNIC) shares for approximately GBP 2 million.
- On December 9, 2020 the Company issued an invite to convene an EGM to approve the Automax merger. On February 28, 2021 the EGM approved the merger transaction

Amitay Weiss, Chairman of the Board of Matomy, said:

“The Company is excited with the prospect of the Automax merger, and believes this merger will benefit all of its shareholders.”

A copy of this announcement will be available on Matomy’s website:

<http://investors.matomy.com/rns.aspx>.

About Matomy Media Group Ltd.

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA), founded in 2006 with headquarters in Tel Aviv, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges.

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CHAIRMAN'S STATEMENT

Introduction

During the second half of 2020 the Company continued its evolution. In this period, the company was delisted from the LSE and signed a merger agreement with Automax which, subject to Shareholder approval will take the Company to new frontiers.

Operating Performance

As Matomy has sold all its operations, the company has no revenues, and the expenses shown in this period relate to ongoing shutdown and public company expenses.

Outlook

The merger with Automax, will take the Company to new frontiers, and renew its generation of value for its shareholders

Amitay Weiss
Chairman

FINANCIAL REVIEW

Revenue:

As Matomy exited and sold all its operations, the Company did not have any revenues in 2020.

| (\$ millions) | 2020 | 2019 |
|---------------------|------------------|------|
| | (Audited) | |
| Domain monetization | - | 74.0 |

Cost of revenues:

| \$ millions, except as otherwise indicated | 2020 | 2019 |
|--|------------------|-------------|
| | (Audited) | |
| Media costs | - | 53.8 |
| Other cost of revenues | - | 3.3 |
| Cost of revenues | - | 57.1 |
| Gross margin (%) | - | 22.8% |
| Adjusted gross margin (non-GAAP) (%) | - | 27.3% |

Operational expenses (income)

The decrease in operating expenses is attributable to the sale of Team Internet late 2019 which lowered the operating expenses to the minimum.

Financial expenses (income)

Net financial expenses decreased by \$12.8 million to \$0.5 million income for the year ended December 31, 2020 (2019: \$12.3 million expense). The decrease is primarily due to the repayment of the bond on January 8, 2020, which caused minimum bond interest and no bond revaluation 2020. Financial income in 2020 were caused primarily from exchange rate difference partially off-set by loss from investment measured at fair value.

Tax benefit

Tax benefit decreased to \$(0.1) million income for the year ended December 31, 2020 (9.5% of loss before taxes), from a tax expense of \$1.6 million for 2019. Tax benefit in 2020 was due to decrease in operations and full valuation allowance on the Company's loss.

Amortization of intangible assets

Amortization expenses from continuing operations were \$0 million in 2020 and \$1.6 million in 2019. The decrease is a result of intangible assets being fully amortised or impaired in prior years and during 2019.

Net loss

Net loss was \$1.0 million in 2020 (2019: \$21.0 million). The Net loss of \$1.0 million in 2020 was mainly due to operating expenses slightly off-set by financial income and tax benefit.

Liquidity and cash flows

The following table sets out selected cash flow information for the Company for year ended December 31, 2020 and 2019.

| \$ millions | 2020 | 2019 |
|--|-----------|-------|
| | (Audited) | |
| Net cash provided by (used in) operating activities | (1.7) | 3.7 |
| Net cash provided by investing activities | 4.2 | 25.2 |
| Net cash used in financing activities | (29.2) | (5.6) |
| Increase (decrease) in cash and cash equivalents and restricted cash | (26.7) | 23.3 |
| Cash and cash equivalents and restricted cash at beginning of period | 33.6 | 10.3 |
| Cash and cash equivalents and restricted cash at end of period | 6.9 | 33.6 |

Cash and cash equivalents decreased by \$26.7 million, or 79%, to \$6.9 million as at December 31, 2020, compared to \$33.6 million as at December 31, 2019.

Cash flows used in operating activities were 1.7 million in 2020. This negative cash flow in 2020 is a result of the net loss generated from operating expenses with no revenue.

Net cash provided by investing activities of \$4.2 million (2019: \$25.2 million) was related to \$1.8 million cash received in 2020 from sale of subsidiary in 2019 and additional \$2.4 million received from sale of investment in financial assets.

Cash flows used in financing activities of 29.2 million (2019: \$5.6 million) was related to full repayment of the convertible bond.

Principal risks

The directors assess and monitor the key risks of the business on an ongoing basis. The principal risks and uncertainties that could have a material effect on the Group's performance include, among other things, the following:

- Matomy may be subject to third-party claims brought against it.

The closing of the Automax merger is subject to fulfilling certain conditions, and regulatory requirements.

Cautionary statement regarding forward-looking statements

This announcement includes certain forward-looking statements, and opinions. These forward-looking statements may be identified by the fact that they do not relate only to historical or current facts or the use of forward-looking terminology, including the terms “believes”, “estimates”,

“plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.. These statements reflect the Company’s current view concerning future events and are based on assumptions made by the Company (including, without limitation, assumptions concerning currency exchange rate fluctuations, requirements of additional capital, costs of sale or closure of various operations and changes to regulations) and information currently available to the Company.

Although the Company considers that these views and assumptions are reasonable, by their nature, forward-looking statements involve unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Group. These factors, risks, uncertainties, and assumptions could cause actual outcomes and results to be materially different from those projected. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation that trends or activities underlying past performance will continue in the future. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. These factors, risks, assumptions, and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to the Company or persons acting on its behalf.

The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein, or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

No statement in this announcement is intended or is to be construed, as a profit forecast or estimate or to be interpreted to mean that earnings per Company share or overall earnings for the current or future financial years will necessarily match or exceed the historical published earnings per Company share or overall earnings.

Directors' responsibility

The directors confirm that to the best of their knowledge the condensed set of reviewed financial statements, which has been prepared in accordance with US GAAP principles, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by DTR 4.2.4R and the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R

Amitay Weiss
Chairman

Ilan Tamir
COO

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020

IN US DOLLARS IN THOUSANDS

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The Board of Directors and shareholders of Matomy Media Group Ltd.

Re: Report of Independent Auditors

We have audited the accompanying consolidated financial statements of Matomy Media Group Ltd. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2020 and 2019 and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Sale of all of the Company's activities

As described in Note 1c to the financial statements, in December 2019, the Company completed the sale of all of its activities and in January 2020 fully repaid all of its obligations to the bondholders. As described in note 1b, during November 2020 the Company entered into a conditional merger agreement with Global Auto Max Ltd. Our opinion is not modified with respect to this matter.

Tel-Aviv, Israel
March 18, 2021

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | December 31, | |
|--|---------------------|------------------|
| | 2020 | 2019 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 6,918 | \$ 4,295 |
| Restricted cash | 15 | 29,295 |
| Other receivables and prepaid expenses | 708 | 2,192 |
| Total current assets | 7,641 | 35,782 |
| LONG-TERM ASSETS: | | |
| Investment in financial assets measured at fair value | - | 2,450 |
| Other assets | - | 557 |
| Total long-term assets | - | 3,007 |
| Total assets | \$ 7,641 | \$ 38,789 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Convertible bond at fair value (principal of ILS 101,000 thousand) | - | 29,225 |
| Accrued expenses and other liabilities | 3,191 | 4,004 |
| Total current liabilities | 3,191 | 33,229 |
| LONG-TERM LIABILITIES: | | |
| Other liabilities | 59 | 173 |
| EQUITY: | | |
| Ordinary shares | 254 | 254 |
| Additional paid-in capital | 81,007 | 80,993 |
| Accumulated deficit | (75,755) | (74,745) |
| Treasury shares | (1,115) | (1,115) |
| Total equity | 4,391 | 5,387 |
| Total liabilities and equity | \$ 7,641 | \$ 38,789 |

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

March 18, 2021

Date of approval of the
financial statements

Amitay Weiss
Chairman of the BOD

Ilan Tamir
Director and CFO

CONSOLIDATED STATEMENTS OF OPERATIONS**U.S. dollars in thousands except earnings per share data**

| | Year ended December 31, | |
|--|----------------------------|--------------------|
| | 2020 | 2019 |
| Revenues | \$ - | \$ 74,035 |
| Cost of revenues | - | 57,128 |
| Gross profit | - | 16,907 |
| Operating expenses: | | |
| Research and development | - | 601 |
| Selling and marketing | - | 3,594 |
| General and administrative | 1,570 | 6,411 |
| Impairment of goodwill | - | 15,984 |
| Gain from sale of subsidiary (Refer to Note 1c) | - | (2,575) |
| Total operating expenses | 1,570 | 24,015 |
| Operating loss | (1,570) | (7,108) |
| Financial expenses (income), net | (454) | 12,270 |
| Loss before taxes on income | (1,116) | (19,378) |
| Taxes on income (tax benefit) | (106) | 1,579 |
| Net loss | (1,010) | (20,957) |
| Net income attributable to other non-controlling interests in subsidiary | - | (1) |
| Net loss attributable to Matomy Media Group Ltd. | <u>\$ (1,010)</u> | <u>\$ (20,958)</u> |
| Basic and diluted loss per ordinary share | <u>\$ (0.01)</u> | <u>\$ (0.22)</u> |
| Weighted average number of shares used in computing basic and diluted net loss per share | <u>98,640,738</u> | <u>97,218,972</u> |

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

| | Ordinary shares | | Additional paid-in capital | Accumulated other comprehensive loss | Accumulated deficit | Treasury shares | Total Matomy Media Group Ltd. shareholders' equity | Non-controlling interests | Total equity |
|---|-----------------|--------|----------------------------|--------------------------------------|---------------------|-----------------|--|---------------------------|--------------|
| | Number | Amount | | | | | | | |
| Balance as of January 1, 2019 | 98,372,339 | \$ 254 | \$ 86,031 | \$ (3,174) | \$ (53,788) | \$ (6,231) | \$ 23,092 | \$ 255 | \$ 23,347 |
| Stock-based compensation | - | - | 78 | - | - | - | 78 | - | 78 |
| Exercise of options and vesting of restricted share units | 111,500 | *) | *) | - | - | - | - | - | - |
| Sale of subsidiary | - | - | (5,116) | 3,277 | - | 5,116 | 3,277 | (256) | 3,021 |
| Net loss | - | - | - | (103) | (20,957) | - | (21,060) | 1 | (21,059) |
| Balance as of December 31, 2019 | 98,483,839 | 254 | 80,993 | - | (74,745) | (1,115) | 5,387 | - | 5,387 |
| Stock-based compensation | - | - | 14 | - | - | - | 14 | - | 14 |
| Vesting of restricted share units | 278,000 | *) | *) | - | - | - | - | - | - |
| Net loss | - | - | - | - | (1,010) | - | (1,010) | - | (1,010) |
| Balance as of December 31, 2020 | 98,761,839 | \$ 254 | \$ 81,007 | \$ - | \$ (75,755) | \$ (1,115) | \$ 4,391 | \$ - | \$ 4,391 |

*) Represents an amount lower than \$ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | |
|--|----------------------------|---------------|
| | 2020 | 2019 |
| <u>Cash flows from operating activities:</u> | | |
| Net loss | \$ (1,010) | \$ (20,957) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | - | 1,694 |
| Stock-based compensation | 14 | 78 |
| Impairment of goodwill | - | 15,984 |
| Change in deferred tax, net | - | (2,269) |
| Change in accrued interest and effect of foreign exchange differences on long term loans and leases liability | - | (109) |
| Fair value revaluation - convertible bond | - | 10,685 |
| Increase in trade receivables | - | (1,086) |
| Decrease in other receivables and prepaid expenses | 42 | 187 |
| Increase in other assets | - | (552) |
| Decrease in trade payables | - | (5,157) |
| Changes in fair value of payment obligation recognized in earnings | - | 1,833 |
| Increase in tax receivable | 179 | 8,728 |
| Decrease in employees and payroll accruals | - | (841) |
| Decrease in accrued expenses and other liabilities | (927) | (998) |
| Gain from sale of activities and subsidiary | - | (2,575) |
| Change in fair value of investment in financial assets | - | (863) |
| Loss from sale of investment in financial assets measured at fair value | 69 | - |
| Other | - | (68) |
| Net cash provided by (used in) operating activities | <u>(1,633)</u> | <u>3,714</u> |
| <u>Cash flows from investing activities:</u> | | |
| Sale of activities and subsidiary, net | 1,820 | 26,024 |
| Sale of investment in financial assets measured at fair value, net | 2,381 | - |
| Purchase of property and equipment | - | (149) |
| Purchase of domains | - | (73) |
| Capitalization of research and development costs | - | (646) |
| Net cash provided by investing activities | <u>4,201</u> | <u>25,156</u> |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended 31 December | |
|--|-----------------------------------|------------------|
| | 2020 | 2019 |
| <u>Cash flows from financing activities:</u> | | |
| Repayment of convertible bond | (29,225) | - |
| Short-term bank credit, net | - | (3,807) |
| Repayment of bank loans | - | (1,774) |
| Net cash used in financing activities | <u>(29,225)</u> | <u>(5,581)</u> |
| Increase (decrease) in cash, cash equivalents and restricted cash | (26,657) | 23,289 |
| Cash, cash equivalents and restricted cash at beginning of year | <u>33,590</u> | <u>10,301</u> |
| Cash, cash equivalents and restricted cash at end of year | <u>\$ 6,933</u> | <u>\$ 33,590</u> |
| <u>Supplemental disclosure of cash flow activities</u> | | |
| Cash paid during the year for: | | |
| Income taxes, net | <u>\$ 9</u> | <u>\$ 390</u> |
| Interest paid, net | <u>\$ -</u> | <u>\$ 950</u> |
| <u>Non-cash investing activities:</u> | | |
| Receivable in connection with sale of subsidiary | <u>\$ -</u> | <u>\$ 2,288</u> |
| Investments in financial assets measured at fair value in connection with sale of subsidiary | <u>\$ -</u> | <u>\$ 1,587</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

- a. Matomy Media Group Ltd. ("Matomy") together with its subsidiaries (collectively - the "Company") offered and provided a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers and domain owners, primarily in the United States and Europe.

Matomy was incorporated in 2006. The Company's shares were traded on the London Stock Exchange ("LSE") and on the Tel Aviv Stock Exchange ("TASE"). On June 23, 2020, the trading in the Company's shares on the LSE and TASE was cancelled. On November 25, the trading on the TASE was resumed in the reserve list and on January 12, 2021, the Company's shares resumed to be trading on the main list.

In the period spanning from mid-2017 through December 2019, the Company exited all its activities, as further described in Notes 1b and 1c below.

- b. Merger with Automax

On February 28, 2021, the general meeting of the Company's shareholders approved the Company's agreement with Global Auto Max Ltd. ("Automax"), a private company engaged in indirect importation of vehicles, with its shareholders, and with M.R.M. Merhavit Holdings and Management Ltd. (the "Corporate Adviser"), in a conditional merger agreement by way of exchange of shares, as follows:

1. At the time of completion of the merger transaction, the shareholders of Automax will transfer to the Company all of their shares (100%), and in return, the Company will allocate to the shareholders of Automax ordinary shares and rights to additional shares; Warrants will be issued to officers appointed on behalf of Automax, and shares will be issued the Corporate Adviser. All of these, assuming full conversion, will constitute immediately after the completion date approximately 79.52% on a fully diluted basis.
2. A condition to Closing shall be that on the date of completion, the Company's cash balance will be no less than ILS 21 million, less the expenses agreed between the parties.
3. Upon Closing, the Company will appoint directors on behalf of Automax in place of the incumbent directors (who are not external directors), will appoint a CEO, Chairman of the Board, and other officers, and their terms of office and employment will be approved, including letters of exemption and indemnification and insurance terms of directors and officers.
4. The name of the company will be changed, and new articles of association and remuneration policies will be adopted for the Company.
5. The agreement also contains provisions for mutual indemnification, provisions regarding the handling of the Company's past liabilities, conditions precedent and additional provisions for the completion of the merger transaction in accordance with its terms, and provisions regarding future issuance of securities under the Company's prospectus. As of the date of this report, the last date for the conditions to be met is March 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

On March 17, 2021, the Company's Board of Directors approved to raise capital in the amount of NIS 1.06 million, through a private placement of 2.08 million shares and 2.08 million warrants, unlisted for trading, for three investors, including Corporate Adviser and a company jointly owned by, the Company's interim CEO and CFO; for the purpose of complying with the provisions of the merger transaction between the Company and Automax. The finalizing of the capital raise is subject to signing of all the relevant agreements and documents with regard to the capital raise. The capital raise consideration will be paid to the Company by using the proceeds paid to the investors by the Company according to the indemnification agreement mentioned below.

On March 18, 2021, an agreement was entered between the Company, the Corporate Adviser and L.I.A. Pure Capital Ltd. ("Pure") for the indemnification of the Company in respect of any amount to be paid by the Company to any of Optimatic Media Inc. former shareholders (As defined in the agreement), up to a total of \$ 2,971 (refer to Note6b) for total consideration of NIS 1,000,000 ("the Consideration").

The Corporate Adviser and Pure is about to enter into an agreement with the Company's interim CEO and CFO under which for 10% of the Consideration, the Company's interim CEO and CFO agreed to indemnify the Corporate Adviser and Pure in respect of any amount to be paid by the Company to any of Optimatic Media Inc. former shareholders (As defined in the agreement), up to his 10% share. The Corporate Advisor and Pure are committed to meet certain requirements until March 2024 as detailed in the agreement.

c. Sale of subsidiary:

On 15 November 2019, the Company and Rainmaker Investments GmbH ("**Rainmaker**"), a minority shareholder (10%) in Team Internet AG ("Team Internet"), signed a binding agreement with Centralnic Group PLC, whose shares are traded on the AIM Market of the London Stock Exchange, ("**Purchaser**" or "**CNIC**") to sell all the shares in Team Internet (the "**Transaction**") for total consideration of €45,854,332, plus Interest Amount as determined in the agreement. On 24 December 2019 the Transaction was completed. The **Purchase Price** consisted of the following:

- (a) A cash payment on closing date in an amount of €39,554,332 (the "Cash Payment"), plus Interest Amount (€764,286), in addition to a retained amount of €900,000 (the "Retention Amount"). The Retention Amount will be fully released after 15 months period, less deductions for settled claims or for outstanding claims (which are supported by documents as specified in the agreement). The retention amount (net of deferred cash payment that Rainmaker are entitled to receive – see below) was presented at fair value of \$ 551 upon closing and is included within other receivables and prepaid expenses in the amount of \$ 645 on the balance sheet as of 31 December 2020 and in the amount of \$ 557 as of 31 December 2019 and is included within other assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

- (b) 3,911,650 Purchaser shares. The number of shares was determined by dividing €2,700,000 by the Purchaser's share price, as determined in the agreement. Such shares were subject to a lock-up period of 12 months, plus an additional 6-month period during which any disposal must be approved by and coordinated with the Purchaser and its broker. The investment in these shares (net of shares paid to Rainmaker – see below), was presented at fair value of \$ 1,587 on the closing date (\$ 2,450 as of 31 December 2019) and was presented as investment in financial assets measured at fair value on the balance sheet. On December 10, 2020, the Company sold the shares with the approval of the Purchaser and its broker for a gross consideration of \$ 2,631 with broker fees of \$ 250 and recorded a loss of \$ 69 which is included in financial expenses.
- (c) A deferred cash payment of € 2,700,000 payable 6 months following the closing (net of deferred cash payment that Rainmaker are entitled to receive – see below). The deferred cash payment in the amount of \$ 1,820 was received on June 23, 2020.

As part of the Transaction, immediately prior to closing date, the Company consummated the purchase of the remaining 10% stake of Rainmaker in Team Internet in accordance with the share purchase agreement dated December 2017 between the Company and Rainmaker, by assigning to Rainmaker a portion of the Purchase Price. Rainmaker received a total sum of €19,050,000: (i) a sum of € 16,508,190 out of the Cash Payment; (ii) €1,087,350 paid in Purchaser shares (1,575,309 shares); (iii) a sum of €1,087,350 out of the deferred cash payment; (iv) a sum of € 367,110 out of the Retention Amount.

The remaining amount of the Cash Payment (€23,046,142) plus the Interest Amount of €765,286, in total €23,810,427 was paid in December 2019 to the trustee of the Bonds (Series A) (the "**Bonds**" and the "**Trustee**", respectively) for a full early redemption of the outstanding Bonds (ILS101,000 thousands) (principal and interest). The full redemption of the outstanding Bonds in the amount of \$ 29,225 was executed on January 8, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

Gain from sale of subsidiary:

| | Year ended December 31, 2019 |
|---|---|
| Cash consideration, net | \$ 24,185 |
| Deferred consideration | 1,737 |
| Retention amount | 551 |
| Investment in CNIC shares (Investment in financial assets measured) | 1,587 |
| Total consideration, net | 28,060 |
| The book value of the identifiable assets and liabilities on sale date: | |
| Property and equipment, including R&D capitalization | (1,487) |
| Operating lease right-of-use asset | (1,766) |
| Domains | (11,874) |
| Other intangible assets | (509) |
| Goodwill | (26,295) |
| Minority interest | 256 |
| Liability to non-controlling interest | 21,209 |
| Working capital | (3,526) |
| Operating lease liabilities | 1,393 |
| Deferred tax liabilities | 446 |
| Accumulated other comprehensive loss | (3,277) |
| Other | (55) |
| Gain from sale of subsidiary and activities | \$ (2,575) |

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The significant accounting policies are applied in the preparation of the consolidated financial statements on a consistent basis, as follows:

a. Principles of consolidation:

The consolidated financial statements include the accounts of Matomy Media Group Ltd and its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

b. Use of estimates:

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

c. Financial statements in US dollars:

The US dollar is the currency of the primary economic environment in which Matomy Media Group and its subsidiaries operated. A substantial portion of the revenues and expenses of the Company were generated in US dollars. In addition, financing activities including equity transactions and cash investments are made in US dollars, which is prepared in US dollars. Thus, the functional and reporting currency of the Company is the US dollar.

Accordingly, monetary accounts maintained in currencies other than the US dollar are remeasured into US dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the remeasured monetary balance sheet items using exchange rates in effect at the balance sheet date are reflected in the statements of income as financial income or expenses, as appropriate.

d. Cash and cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible into cash with original maturities of three months or less at acquisition.

e. Allowance for doubtful accounts:

During the year ended December 31, 2019 bad debt expenses were \$ 850 and the write offs of balances included in allowances for doubtful accounts amounted to \$ 3,914. During the year ended December 31, 2019 recoveries amounted to \$ 27, of amounts previously included in allowance for doubtful accounts.

f. Goodwill impairment:

Due to changes in compliance requirements during 2019, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's projected EBIDTA. As a result, the Company recorded during the year ended 31 December 2019, goodwill impairment charges of \$15,984 related to its Domain Monetisation reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly.

The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Revenue recognition:

Until the sale of Team Internet in December 2019, the Company provided smart marketing services through customized programmatic solutions supported by internal media capabilities, big data analytics, and optimization technology. Matomy empowered advertising and media partners to meet their evolving growth-driven goals across several media channels, including mobile, domain monetization, email and video, for multiple industry verticals on a wide variety of devices and operating systems.

The Company recognized revenue once the performance obligations for all transactions are satisfied, and the corresponding revenue is recognized, at a distinct point in time; the Company has no arrangements with multiple performance obligations. The Company considers the following when determining if a contract exists (i) contract approval by all parties, (ii) identification of each party's rights regarding the goods or services to be transferred, (iii) specified payment terms, (iv) commercial substance of the contract, and (v) collectability of substantially all of the consideration is probable.

The Company evaluated whether it acts as the principal to determine whether revenue should be reported on a gross or net basis. The Company has determined that it acts as the principal. In making that evaluation, the Company considered indicators such as whether the Company is: (i) the primarily responsible for fulfilling the promise to provide the specified good or service, (ii) has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to the customer and (iii) has discretion in establishing the prices for the specified goods or service.

h. Cost of revenues:

Cost of revenues consisted primarily of direct media costs associated with the purchase of digital media, data centre costs, amortization of technology and internally developed software and allocation of attributable personnel and associated costs.

i. Research and development costs:

Research and development costs were charged to the statement of operations as incurred, except for certain costs relating to internally developed software, which were capitalized and amortized on a straight-line basis over their estimated useful life once the asset is ready for its intended use.

j. Internally developed software:

The Company capitalized certain internal software development costs, consisting of direct labor associated with creating the internally developed software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (costs are capitalized) and the post

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs were amortized using the straight line

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

method over the estimated useful life of the software, generally 3 years, once it is ready for its intended use. The Company believes the straight-line recognition method best approximates the manner in which the expected benefit will be derived. During 2019 the Company capitalized software development costs of \$ 646. Amortization expense for the related capitalized internally developed software in 2019 totaled \$ 539 and is included in cost of revenues in the accompanying consolidated statements of operations.

k. Accounting for stock-based compensation:

The Company accounts for stock-based compensation under ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated grant date fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based awards on the date of grant, using an option-pricing model. The Company elected to account for forfeitures when they occur and adopted this change on a modified retrospective basis.

The Company recognized compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the accelerated attribution method, over the requisite service period of each of the awards.

1. The Company estimates the fair value of stock options granted to its employees and directors using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton model requires a number of assumptions, of which the most significant are the expected stock price volatility and expected option term. The assumptions are

estimated as follows:

- *Volatility* - the expected share price volatility was based on the Company's historical equity volatility.
- *Expected option term* - the expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, which is the midpoint between the vesting date and the end of the contractual term of the option.
- *Risk-free interest* - the risk-free interest rate assumption is based on the yield from zero-coupon US government Bonds appropriate for the expected term of the Company's employee stock options.
- *Dividend yield* - the Company estimates its dividend yield based on historical pattern, however the Company currently intends to invest funds in business development and not to distribute dividends.

No stock options were granted to employees and directors for the years ended December 31, 2020 and 2019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)**

2. The Company estimates the fair value of restricted share units ("RSUs") granted to employees according to the fair value of the Company's share at the grant date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- l. Income taxes:

The Company is subject to income taxes in Israel. The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realised. In such determination, the Company considers future reversal of existing temporary differences, future taxable income, tax planning strategies and other available evidence in determining the need for a valuation allowance.

The Company implements a two-step approach to recognise and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (on a cumulative basis) likely to be realised upon ultimate settlement. The Company classifies interest incurred payable to tax authorities as interest expenses.

- m. Concentrations of credit risks:

Financial instruments that could potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. Cash and cash equivalents are managed in major banks, mainly in Israel.

- n. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- **Level 1** - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2** - Other inputs that are directly or indirectly observable in the market place.
- **Level 3** - Unobservable inputs which are supported by little or no market activity.

o. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares outstanding during the year, in accordance with ASC 260, "Earnings per Share". The total weighted average number of shares related to the outstanding options and RSUs excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, was 35,000 and 87,500 for the years 2020 and 2019, respectively.

p. Treasury shares:

In accordance with ASC 505-30, the Company shares held by the Company and/or its subsidiaries are recognized at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

NOTE 3:- OTHER INTANGIBLE ASSETS, NET

Changes in other intangible assets for the year ended December 31, 2019 is as follows:

| | <u>Technology</u> | <u>Customer relationships</u> | <u>Total</u> |
|--------------------|-------------------|-------------------------------|--------------|
| January 1, 2019 | \$ 97 | \$ 1,354 | \$ 1,451 |
| Additions | 73 | - | 73 |
| Amortization | (65) | (950) | (1,015) |
| Sale of subsidiary | (105) | (404) | (509) |
| December 31, 2019 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 4:- GOODWILL

Changes in goodwill for the year ended 31 December 2019 is as follows:

| | December 31, 2019 |
|-----------------------------------|------------------------------|
| Goodwill at beginning of year | \$ 42,279 |
| Sale of subsidiary and activities | (26,295) |
| Impairment | (15,984) |
| | \$ - |

NOTE 5:- FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

| | December 31, 2019 | | | |
|---|---|----------------|----------------|--------------|
| | Fair value measurements using input type | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment in financial assets measured at fair value | \$ - | *) \$ 2,450 | \$ - | *) \$ 2,450 |
| Total financial assets | \$ - | *) \$ 2,450 | \$ - | *) \$ 2,450 |
| Liabilities: | | | | |
| Bonds | \$ 29,225 | \$ - | \$ - | \$ 29,225 |
| Total financial liabilities | \$ 29,225 | \$ - | \$ - | \$ 29,225 |

*) Investment in financial assets measured at fair value:

| | Year ended December 31, 2019 |
|--|---|
| Quoted price | \$ 2,758 |
| Discount for lock up period (refer to Note 1c) | (308) |
| Total fair value at the end of year | \$ 2,450 |

NOTE 6:- BANK LOANS AND OTHER LIABILITIES

- a. On 3 January 2017, the Company signed a term loan agreement with an Israeli bank in an amount of \$ 2,000. In accordance with the loan agreement, repayment of the principal and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

the interest shall be made in 12 equal quarterly payments, commencing April 10, 2017. The loan bears annual interest of three months USD LIBOR plus 4.6%. On February 5, 2019, the loan was repaid in full.

NOTE 6:- BANK LOANS AND OTHER LIABILITIES (Cont.)

- b. In connection with the Company's acquisition of Optimatic which was completed on November 13, 2015, the Company has an outstanding liability in the amount of \$2,971, which is included within accrued expenses and other liabilities on the balance sheets as of December 31, 2020 and 2019. The Company has made repeated efforts to locate certain former shareholders of Optimatic in order to pay such debt, with no success. As a result, the Company cannot determine when, if at all, such amount will be paid.

NOTE 7:- CONVERTIBLE BOND

In February 2018, the Company completed a public offering in Israel of convertible (Series A) bonds (the "Bonds"). On January 8, 2020, the Company fully repaid all of its obligations to the bondholders (refer to Note 1c).

The terms of the Bond were as following: The Company raised a total gross consideration of ILS 103 million (approximately \$29,930 as of issuance date), issued a total of 101,000 units of Bond, which was to bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The interest was to be paid on a semi-annual basis. The Company recorded interest expenses with connection to the bond of \$ 42 and \$ 1,862 during the years ended December 31, 2020 and 2019, respectively.

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

In March 2020 the Company received a demand letter from a German firm (the "**German Firm**") under which the German Firm contends it is entitled to a transaction fee of EUR1.25 million under a consultancy agreement between the Company and the German Firm dated November 22, 2017, in connection with the sale of Team Internet AG which was consummated in December 2019 (the "**Transaction**").

The Company rejects the claims under the demand letter since, among other reasons, it appears that the German Firm did not provide any services to the Company after November 2018 and was not involved in the Transaction. In May 2020, the Company sent a letter to the German Firm rejecting these claims, and to date, has not heard back from the German Firm.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 9:- EQUITY

- a. The Company's equity is composed of shares of NIS 0.01 par value each, as follows:

| | December 31, 2020 | | | December 31, 2019 | | |
|-----------------|-------------------|-------------|-------------|-------------------|-------------|-------------|
| | Authorised | Issued | Outstanding | Authorised | Issued | Outstanding |
| | Number of shares | | | | | |
| Ordinary shares | 430,500,000 | 108,520,714 | 98,761,839 | 430,500,000 | 108,242,714 | 98,483,839 |

The Ordinary Shares confer upon the holders thereof the right to receive notices and to attend general meetings of the Company, to be present thereat and to participate in and vote at such meetings, the right to participate in all distributions of dividends (whether of cash, assets or in any other lawful way) made by the Company and the right to participate with the other shareholders in the distribution of the surplus of assets of the Company which remains available for distribution on winding-up.

- b. Options issued to employees and directors:

Under the global share plan as approved in 2012 options and Restricted Share Unit ("RSU") may be granted to employees, directors, officers and consultants of the Company. Each option granted under the Plans is fully exercisable up to 4 years and expires in between 7 to 10 years from the date of grant. As of December 31, 2020, there were 8,073,334 options available for future grants under the plan.

Any options, which are forfeited or not exercised before expiration, become available for future grants.

A summary of the activity in options granted to employees and directors is as follows:

| | Number of options | Weighted-average exercise price | Weighted-average remaining contractual term (in years) | Aggregate intrinsic value |
|---|-------------------|---------------------------------|--|---------------------------|
| Outstanding at 1 January 2020 | 87,500 | \$ 1.49 | 2.94 | \$ - |
| Forfeited | (52,500) | \$ 1.45 | - | - |
| Outstanding and exercisable at 31 December 2020 | 35,000 | \$ 1.54 | 4.67 | \$ - |

As of December 31, 2020, the total compensation cost related to options granted to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

employees and directors, not yet recognized amounted to \$ 0.

The aggregate intrinsic value of all stock options at December 31, 2020 and 2019 amounted to zero since all options were out-of-the-money as of such dates.

NOTE 9:- EQUITY (Cont.)

- c. Restricted Share Units ("RSU") issued to employees and directors:

| | Number of RSU's |
|-------------------------------|----------------------------|
| Unvested at January 1, 2020 | - |
| Granted | 278,000 |
| Vested | (278,000) |
| Unvested at December 31, 2020 | - |

The weighted average grant date fair value per share for the year ended December 31, 2020 and 2019 was \$ 0.05 and \$ 0.03, respectively.

- d. Treasury shares:

As of December 31, 2020 and 2019, treasury shares amounted to 9,758,875 shares.

NOTE 10:- TAXES ON INCOME

- a. Israeli taxation:

1. Corporate tax rates in Israel:

The Israeli corporate income tax rate was 23% in 2020 and 2019.

2. Carryforward operating tax losses of the Israeli parent amounted to \$ 52,700 as of December 31, 2020 and may be used indefinitely. These losses may be subject to limitations on their utilization.

- b. As of December 31, 2020, all of the Company's subsidiaries were dissolved or initiated the process of dissolution.

- c. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recorded for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10:- TAXES ON INCOME (Cont.)

| | December 31, | |
|-----------------------------------|---------------------|-------------|
| | 2020 | 2019 |
| Deferred tax assets: | | |
| Carry forward losses | \$ 12,166 | \$ 12,722 |
| Research and development expenses | - | 558 |
| Gross deferred tax assets | 12,166 | 13,280 |
| Valuation allowance | (12,166) | (13,280) |
| Total deferred tax assets | - | - |
| Deferred tax assets, net | \$ - | \$ - |

The net change in the valuation allowance primarily reflects decrease in deferred tax assets on net operating losses and other temporary differences as a result of dissolution of other subsidiaries offset by increase in current year net operating losses.

- d. Loss before taxes on income is comprised as follows:

| | Year ended 31 December | |
|----------|-----------------------------------|--------------------|
| | 2020 | 2019 |
| Domestic | \$ (1,026) | \$ (24,736) |
| Foreign | (90) | 5,358 |
| | <u>\$ (1,116)</u> | <u>\$ (19,378)</u> |

- e. Taxes on income (tax benefit) are comprised as follows:

| | Year ended 31 December | |
|-----------|-----------------------------------|----------------|
| | 2020 | 2019 |
| Current: | | |
| Domestic | \$ (107) | \$ 175 |
| Foreign | 1 | 3,673 |
| | <u>(106)</u> | <u>3,848</u> |
| Deferred: | | |
| Domestic | - | - |
| Foreign | - | (2,269) |
| | <u>-</u> | <u>(2,269)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

\$ (106) \$ 1,579

- f. A reconciliation of the beginning and ending amount of unrecognized tax benefits related to uncertain tax positions is as follows:

NOTE 10:- TAXES ON INCOME (Cont.)

| | 31 December | |
|---|-------------|--------|
| | 2020 | 2019 |
| Beginning balance | \$ 173 | \$ 183 |
| Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations | (114) | (10) |
| Ending balance | \$ 59 | \$ 173 |

The entire amount of unrecognized tax benefits as of December 31, 2020, if recognised, would reduce the Company's annual effective tax rate.

The Company does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of settlements with tax authorities, the likelihood and timing of which is difficult to estimate.

During the years ended December 31, 2020 and 2019, the Company did not record any interest and exchange rate differences expenses related to prior years' uncertain tax positions, since the amount was immaterial.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net loss in the period in which such determination is made.

As of December 31, 2020, the Company and its subsidiaries received final, or considered final, tax assessments through 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10:- TAXES ON INCOME (Cont.)

- g. Reconciliation between the theoretical tax expenses, assuming all income is taxed at the statutory rate in Israel and the actual income tax as reported in the statements of operations is as follows:

| | Year ended 31 December | |
|--|-----------------------------------|-------------|
| | 2020 | 2019 |
| Loss from continuing operations before taxes as reported in the statements of income | \$ (1,116) | \$ (19,378) |
| Statutory tax rate in Israel | 23% | 23% |
| Theoretical income tax benefit | \$ (257) | \$ (4,457) |
| Increase in taxes resulting from: | | |
| Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net | 815 | 1,086 |
| Tax adjustment in respect of different tax rate of foreign subsidiaries | - | 838 |
| Non-deductible expense including impairment charge, net | - | 4,533 |
| Effect of foreign exchange rate *) | (559) | (460) |
| Decrease in uncertain tax position | (114) | (10) |
| Others | 9 | 49 |
| | \$ (106) | \$ 1,579 |

- *) Results for tax purposes are measured under, Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985, in terms of earnings in NIS. As explained in Note 2c, the financial statements are measured in U.S. dollars. The difference between the annual changes in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740-10-25-3(F), the Company has not provided deferred income taxes in respect of the difference between the functional currency and the tax bases of assets and liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 11:- REPORTABLE SEGMENT

Revenues from external customers:

| | Year ended 31 December | |
|---------------|---------------------------|-----------|
| | 2020 | 2019 |
| United States | \$ - | \$ 39,883 |
| Europe | - | 24,092 |
| Asia | - | 3,476 |
| Other | - | 6,584 |
| | \$ - | \$ 74,035 |

In the years ended 31 December 2019, one customer contributed 87% of the Company's revenues, while no other customer contributed more than 10%.

NOTE 12:- FINANCIAL EXPENSES (INCOME), NET

| | Year ended 31 December | |
|--|---------------------------|-----------|
| | 2020 | 2019 |
| Financial income: | | |
| Interest income | \$ (16) | \$ (167) |
| Hedging transactions | - | (77) |
| Foreign currency remeasurement, net | (501) | (156) |
| Revaluation of investment in financial assets measured at fair value, retention amount and deferred payment (Refer to Note 1c) | (56) | (863) |
| | (573) | (1,263) |
| Financial expenses: | | |
| Bank fees | 8 | 179 |
| Interest expense | 42 | 1,939 |
| Loss from investment in financial assets measured at fair value | 69 | - |
| Change in fair value of convertible bonds | - | 10,685 |
| Other | - | 730 |
| | 119 | 13,533 |
| | \$ (454) | \$ 12,270 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- RELATED PARTIES

The Company had activity with related parties as part of its ordinary business. The majority of the related parties' transactions include domain monetization activity with the non-controlling interest of Team Internet.

Cost of revenues to related parties amounted to \$ 2,882 for the year ended 31 December 2019.

As a result of the sale of Team Internet, as described in Note 1c, there were no activity with related parties as of December 31, 2020 and for the year then ended.

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