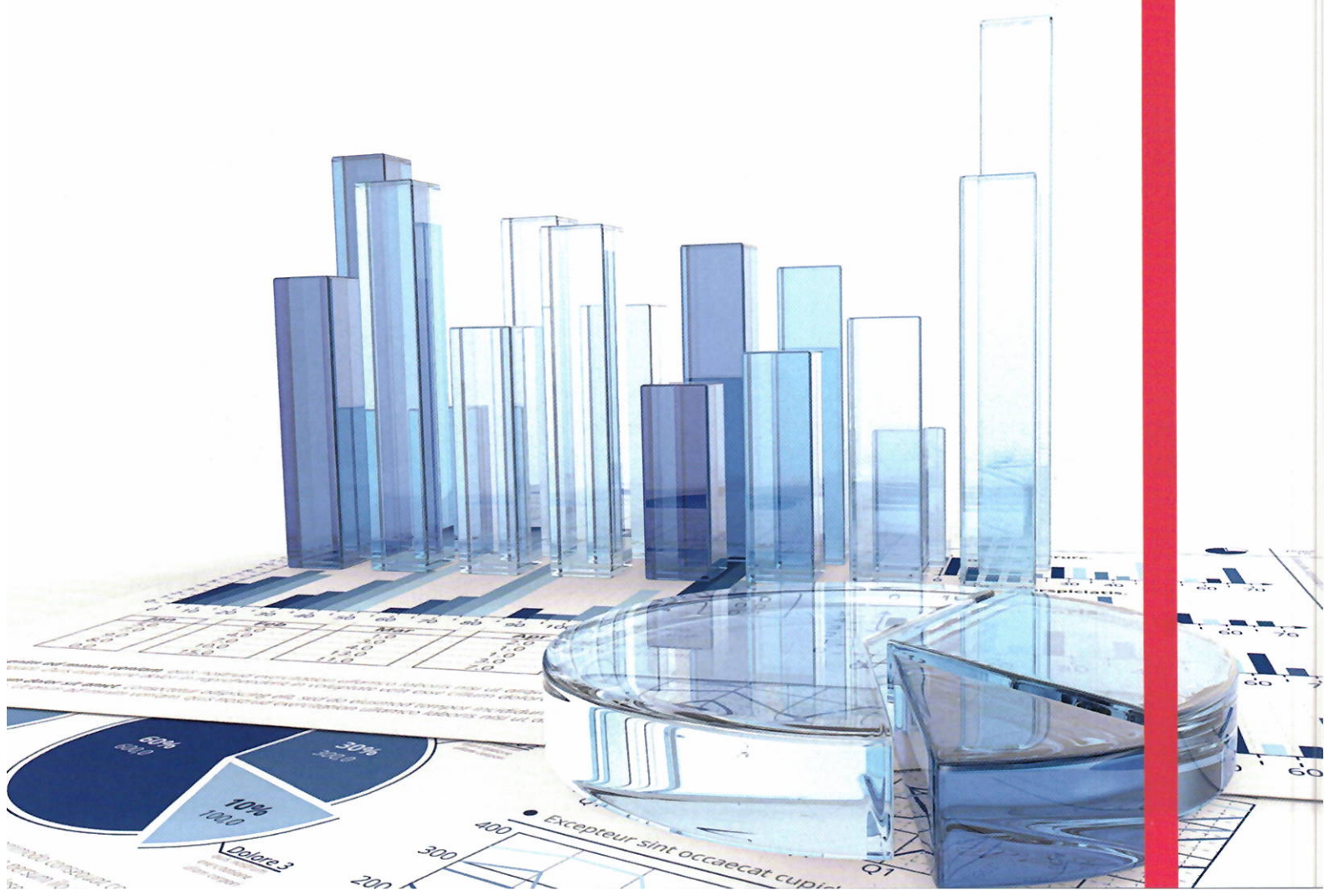


SHEKEL BRAINWEIGH LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022



SHEKEL BRAINWEIGH LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022**

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Unless otherwise stated, all amounts are stated in thousands of U.S. dollars



Independent Auditors' Statements to Shareholders of Shekel Brainweigh Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shekel Brainweigh Ltd. (the "Company"), which comprise the statements of financial position as of December 31, 2022, the related statements of comprehensive income, changes in shareholders equity and cash flows for the year ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022, its financial performance, changes in equity and its cash flows for the year ended December 31, 2022 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Tel Aviv 03-6386868	Jerusalem 02-6546200	Haifa 04-8680600	Beer Sheva 077-7784100	Bnei Brak 073-7145300	Kiryat Shmona 077-5054906	Petah Tikva 077-7784180	Modiin Ilit 08-9744111	Nazrat Ilit 04-6555888
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Main office: Beit Amot BDO, 48 Menachem Begin Road, Tel Aviv, 6618001 **Email:** bdo@bdo.co.il **Website:** www.bdo.co.il

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<i>Convertible loan at fair value</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in Note 13 to the financial statements, during 2021 the Company raised USD 5,000 thousand by issuing a convertible loan. As of December 31, 2022, the convertible loan's fair value is USD 6,499 thousand and the Company recognized an increase of USD 925 thousand from changes in the convertible loan's fair value as finance expense for the year then ended.</p> <p>As described in Notes 2 and 13, the convertible loan can be converted in the period from two to four years and can be repaid in cash and the conversion price varies and depends on market conditions. The Company designated the whole financial instrument to be measured at fair value through profit or loss. Management measures the loan's fair value at each reporting date using an external specialist.</p> <p>The fair value measurement of the convertible loan is based on assumptions and estimates which involves judgments and therefore is considered an area of audit focus.</p>	<p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> • We obtained an understanding of management's process and tested the design and implementation of certain related controls. • We tested the completeness and accuracy of the data used by management and its external specialist. • Using our valuation team, we evaluated the fair value measurement by testing the reasonability of the assumptions used and the methodology of the calculation. • We evaluated the amount presented in other comprehensive income due to changes in the instrument's credit risk. • We considered the adequacy of the Company's disclosures related to the convertible loan.

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Other information

The directors and management of the Company are responsible for the other information. The other information comprises the information contained in the directors' report for the year ended December 31, 2022, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and directors for the Financial Statements

The directors and management of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as directors and management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the directors and the management are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management and the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of the audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Meirav Goldman

Partner

Tel-Aviv, Israel

March 30, 2023

Ziv haft
Certified Public Accountants (Isr.)
BDO Member Firm

Tel Aviv	Jerusalem	Haifa	Beer Sheva	Bnei Brak	Kiryat Shmona	Petah Tikva	Modiin Ilit	Nazrat Ilit
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SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

	<u>Note</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
ASSETS			
Current Assets:			
Cash and cash equivalents		1,892	1,981
Trade accounts receivable, net	4	8,186	7,576
Other accounts receivable	5	1,957	799
Inventories	6	5,114	4,948
Loan to related party	9	157	447
		<u>17,306</u>	<u>15,751</u>
Non-Current Assets:			
Right of use assets, net	23	6,132	6,293
Property, plant and equipment, net	7	825	803
Intangible assets, net	8	1,400	2,040
		<u>8,357</u>	<u>9,136</u>
Total Assets		<u><u>25,663</u></u>	<u><u>24,887</u></u>

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

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

	Note	December 31, 2022	December 31, 2021
LIABILITIES AND EQUITY			
Current Liabilities:			
Short term loans	11	6,301	3,958
Trade accounts payable		2,294	2,769
Other accounts payable	10,23	4,480	3,617
Warrants	11	-	2
		<u>13,075</u>	<u>10,346</u>
Non-Current Liabilities:			
Lease liabilities	23	5,052	5,899
Convertible loan at fair value	13	6,499	6,312
Long term loans	11	292	404
Employee benefit liabilities		457	340
Liability for royalties payable	26	4	4
		<u>12,304</u>	<u>12,959</u>
Equity	14		
Equity (deficiency) attributable to owners of the parent:			
Share capital and premium		13,163	9,926
Foreign exchange reserve		(105)	10
Share based payment reserve		1,527	2,955
Retained losses		<u>(14,887)</u>	<u>(11,805)</u>
Total equity (deficiency) attributable to owners of the parent		<u>(302)</u>	<u>1,086</u>
Non - controlling interest		586	496
Total Equity		<u>284</u>	<u>1,582</u>
Total Liabilities And Equity		<u>25,663</u>	<u>24,887</u>


Arik Schor
CEO


Barak Nir
CFO

March 30, 2023
Date of approval of financial
statements

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

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(US Dollar in thousands)

	<u>Note</u>	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Revenues	15	26,355	23,104
Cost of revenues	16	<u>17,392</u>	<u>14,073</u>
Gross profit		8,963	9,031
Research and development expenses	17	3,966	4,600
Selling and marketing expenses	18	3,803	3,358
General and administrative expenses	19	5,561	4,877
Other expenses (income)	20	(2,202)	253
Expected credit losses	9	<u>239</u>	<u>12</u>
Operating loss		(2,404)	(4,069)
Financial income	21	1,756	*199
Financial expense	22	<u>2,018</u>	<u>*2,745</u>
Loss before tax		(2,666)	(6,615)
Tax on income	24	<u>279</u>	<u>72</u>
Loss for the year		<u>(2,945)</u>	<u>(6,687)</u>
Other comprehensive loss, net of tax:			
Items that will or may be reclassified to profit or loss:			
Exchange losses arising on translation of foreign operations		(140)	(52)
Total comprehensive loss for the year		<u>(3,085)</u>	<u>(6,739)</u>
Profit (loss) for the year attributed to:			
Owners of the parent		(3,060)	(6,767)
Non - controlling interest		<u>115</u>	<u>80</u>
		<u>(2,945)</u>	<u>(6,687)</u>
Total comprehensive income (loss) for the year attributed to:			
Owners of the parent		(3,175)	(6,782)
Non - controlling interest		<u>90</u>	<u>43</u>
		<u>(3,085)</u>	<u>(6,739)</u>
Basic and diluted loss per share	14	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>

*Reclassified

The accompanying notes are an integral part of the financial statements

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(US Dollar in thousands)

	Equity (deficiency) attributable to owners of the parent					Non-controlling interest	Total
	Share capital and premium	Foreign exchange reserve	Share based payment reserve	Retained losses	Total		
Balance at January 1, 2021	<u>7,739</u>	<u>25</u>	<u>2,089</u>	<u>(5,013)</u>	<u>4,840</u>	<u>489</u>	<u>5,329</u>
Changes during 2021:							
Profit (loss) for the year	-	-	-	(6,767)	(6,767)	80	(6,687)
Other comprehensive losses	-	(15)	-	-	(15)	(37)	(52)
Total comprehensive income (loss)	-	(15)	-	(6,767)	(6,782)	43	(6,739)
Issue of shares, net	2,187	-	-	-	2,187	-	2,187
Share based payment	-	-	866	-	866	-	866
Dividend to non-controlling interest	-	-	-	-	-	(36)	(36)
Benefit to owners	-	-	-	(25)	(25)	-	(25)
Balance at December 31, 2021	<u>9,926</u>	<u>10</u>	<u>2,955</u>	<u>(11,805)</u>	<u>1,086</u>	<u>496</u>	<u>1,582</u>
Changes during 2022:							
Profit (loss) for the year	-	-	-	(3,060)	(3,060)	115	(2,945)
Other comprehensive losses	-	(115)	-	-	(115)	(25)	(140)
Total comprehensive income (loss)	-	(115)	-	(3,060)	(3,175)	90	(3,085)
Issue of shares, net	754	-	-	-	754	-	754
Share based payment	-	-	739	-	739	-	739
Exercise of options, RSU's and warrants	2,483	-	(2,167)	-	316	-	316
Benefit to owners	-	-	-	(22)	(22)	-	(22)
Balance at December 31, 2022	<u>13,163</u>	<u>(105)</u>	<u>1,527</u>	<u>(14,887)</u>	<u>(302)</u>	<u>586</u>	<u>284</u>

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

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollar in thousands)

	Year ended December 31, 2022	Year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss for the year	(2,945)	(6,687)
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortization	1,666	1,749
Change in fair value of options and warrants	(29)	(174)
Increase in trade accounts receivable, net	(610)	(2,144)
Decrease (increase) in other accounts receivable	(216)	435
Increase in inventories	(849)	(1,484)
Increase (decrease) in trade accounts payable	(475)	579
Increase in other accounts payable	361	778
Increase in employee benefits	117	50
Decrease in liability for royalties payable	-	(6)
Financial income charged to equity	(22)	(25)
Change in fair value of convertible loan	925	996
Financial expenses (income), net	(1,769)	674
Capital gain from sale of Healthweigh products line (see note 1)	(2,183)	-
Capital loss (gain) from sale of property, plant and equipment	(19)	48
Impairment of intangible assets	184	-
Expected credit loss expenses	239	12
Other income	-	(110)
Share based payment	739	866
Net cash used in operating activities	(4,886)	(4,443)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(357)	(562)
Proceeds from sale of Healthweigh products line (see note 1)	1,964	-
Proceeds from sale of property, plant and equipment	19	24
Capitalized development costs	(11)	(395)
Net cash provided by (used in) investment activities	1,615	(933)

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollar in thousands)

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of shares and warrants, net	839	2,363
Receipt of short-term finance	503	-
Exercise of options and warrants	258	-
Payment on behalf of lease liabilities	(810)	(857)
Convertible notes issuance	-	5,021
Receipt of long-term loans	85	543
Payment of long-term loans	(107)	(13)
Dividend to non-controlling interest	-	(36)
Receipt (payment) of short-term loans, net	2,552	(1,091)
Net cash provided by financing activities	3,320	5,930

Increase in cash and cash equivalents	49	554
Cash and cash equivalents at the beginning of the year	1,981	1,478
Effects of exchange rate changes on cash and cash equivalents	(138)	(51)
Cash and cash equivalents at the end of the year	1,892	1,981

APPENDIX A - NON-CASH ACTIVITIES:

	Year ended December 31, 2022	Year ended December 31, 2021
Recognition of right of use assets	588	6,229
Recognition of lease liabilities	569	6,175
Derecognition of right of use asset	-	1,144
Derecognition of lease liabilities	-	1,254
Rick Lake receivables due to sale of Healthweigh products line (see note 1)	961	-
Exercise of warrants	58	-

SHEKEL BRAINWEIGH LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollar in thousands)

APPENDIX B - AMOUNTS PAID DURING THE YEAR FOR:

	Year ended December 31, 2022	Year ended December 31, 2021
Income tax paid (received), net	10	(185)
Interest paid	811	310

The accompanying notes are an integral part of the financial statements

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 1 - GENERAL:

- Shekel Brainweigh Ltd. (hereinafter, the "Company") was incorporated in March, 2018 in Israel. The Company and its subsidiaries (together, the "Group") is one of the global leaders of digital weighing technology and engaged in the development, planning, assembly and marketing of electronic weighing systems.
- On November 16, 2018, the Company was listed for trading on ASX and raised 7,349 thousand from the public by issuance of 29,000,000 shares.
- The novel coronavirus ("COVID-19") has adversely impacted global commercial activity and contributed to significant volatility in financial markets. The COVID-19 pandemic has disrupted global supply chains and adversely impacted many different industries for most of 2021-2020. COVID-19 could have a continued material adverse impact on economic and market conditions and trigger a period of continued global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the extent and the duration of the economic impact of COVID-19. COVID-19 therefore presents material uncertainty and risk with respect to the Group and its performance and could affect the Group's financial results in a materially adverse way.

Due to the continued COVID-19 pandemic spread and its variants during the year 2022, the Group continued to experience some changes in its operations among them, continued remote work as a matter of health precaution measures, worldwide crises regarding procurement of electronical components and delay in supply chain and delivery of goods. As of the financial statements signing date, the Group is unable to assess what, and for how long, any adverse changes may impact the Group business for the long term.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 1 – GENERAL (CONT).:

On November 21, 2022, Shekel Scales (2008) Ltd. (the "Subsidiary") sold the manufacture and assembly healthweigh products line ("HW products line") which located in its Chinese subsidiary Shekel (Ningbo) Scales Ltd. (the "Chinese subsidiary"), to a US-based company - Rice Lake Weighing Systems ("Rice Lake"). The decision to sell the Chinese subsidiary's HW products line is part of the Subsidiary's strategy to increase focus on its advanced retail-tech self-checkout solutions. Rice Lake has been the US distributor of the HW products line for 12 years and is the largest distributor of the product line globally. The sale to Rice Lake only includes the Chinese subsidiary's medical scales products sold under the Healthweigh brand, and not the OEM weighing medical products such as those used in neonatal incubators. According to the agreement, the Subsidiary will continue to distribute Healthweigh products in Israel. The agreement provides that the Chinese subsidiary will continue to manufacture and assemble the Healthweigh products for Rice Lake at the Chinese subsidiary's plant for an agreed period until Rice Lake may transfer the production to one of its production plants. The Rice Lake agreement provides that the Subsidiary will sell to Rice Lake the ownership of Healthweigh brand, the production files of the Healthweigh products and will give Rice Lake a license to use some of the IP used by the Subsidiary for both the Healthweigh products and the Subsidiary's other products.

The total consideration amounted to 3,425 out of which 2,925 was classified as consideration for the assets sold and 500 for services that the Subsidiary will provide to Rice Lake. In accordance with the agreement, 90% of the consideration for the assets sold is due on the agreement's closing date and the additional 10% of the consideration for the assets sold shall be paid within three days of the first anniversary of the closing date. Total capital gain from the sale of HW products line amounted to 2,183.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”). The financial statements have been prepared under the historical cost convention except of the convertible loan and the derivative financial liability that was measured at fair value through profit or loss. The Group has elected to present the statements of comprehensive income using the function of expense method. In addition, these consolidated financial statements are presented in US Dollars. All currency amounts have been recorded to the nearest thousand, unless otherwise indicated.

Basis of consolidation

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements of the Group include the accounts of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies were eliminated in full. The consolidated financial statements of the Group include the accounts of the companies detailed in Note 27.

Non-controlling interests

The Group recognizes any non-controlling interest in its acquisitions on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquirer’s identifiable net assets. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid or received and the relevant share acquired or sold of the carrying value of net assets of the subsidiary is recorded in equity attributable to owners of the parent.

Total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Use of estimates and assumptions in the preparation of the financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the year which they are identified. Actual results could differ from those estimates. See also Note 3.

Leases

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, excluding leases where the lease term is 12 months or less, or where the underlying asset is of low-value. These leases expenditures are recognized on a straight-line basis over the lease term. The Group does not have significant leasing acting as a lessor.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the lessee incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted if it is reasonable certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the lessee is contractually required to dismantle, remove or restore the underlying asset.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Leases (cont.)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining useful life of the right of use asset, if rarely, this is judged to be shorter than the lease term. In the scenario that the measurement of lease liabilities takes into consideration the purchase option the Group will amortize the right of use assets over the underlying asset's useful life. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the Group's assessment of the term of any lease. The remeasurement being recognized in front of the right of use assets.

Foreign currency

The consolidated financial statements are prepared in US Dollars (the functional currency). Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates".

Foreign currency transactions

Transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the consolidated statements of financial position date;
- Exchange gains and losses from the aforementioned conversion are recognized in profit or loss.
- Income and expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange at the time of the transaction.

Foreign operations

On consolidation, the results of foreign operations are translated into US Dollars at exchange rates ruling when the transactions took place. All assets and liabilities of foreign operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date.

Exchange rate differences arising on translating the opening net assets at opening rate and the results of foreign operations at ruling rate of exchange are recognized in other comprehensive income and accumulated in the foreign exchange reserve. Exchange differences recognized in profit or loss in the Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation. On disposal of a foreign operation, the cumulative exchange

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Foreign currency (cont.)

differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are classified from other comprehensive income to profit or loss as part of the profit or loss on disposal.

Cash equivalents

Cash equivalents are considered by the Group to be highly-liquid investments, including, inter alia, short-term deposits with banks and the maturity of which do not exceed three months at the time of deposit and which are not restricted.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When there are no quoted prices in active markets for identical assets or liabilities, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification by fair value hierarchy

Assets and liabilities measured in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques that use inputs that are not based on observable market data).

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Financial instruments

1. Financial assets

The Group classifies its financial assets into the following category, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Group's accounting policy for the relevant category is as follows:

Amortized cost: These assets arise principally from the provision of goods and services to customers (e.g. trade accounts receivable), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue (excluding trade accounts receivable which are initially recognized at transaction price) and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. Impairment provisions for trade accounts receivable and loan to related party are recognized based on the simplified approach within IFRS 9 using a provision in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade accounts receivable and loan to related party is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables or loan to related party. Such provisions are recorded in a separate provision account with the loss being recognized in the consolidated statement of comprehensive income. On confirmation that the amount will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The Group's accounting policy for its financial liabilities is as follows:

Amortized cost: other financial liabilities include the following items: bank borrowings, trade accounts payable, short-term loans and liability for royalties payable are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

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(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Financial instruments (cont.)

2. Financial Liabilities (cont.)

Fair value through profit or loss: this category comprises of convertible loan, which was designated upon initial recognition according to IFRS 9, options and warrants, that are denominated in a currency other than the functional currency of the Company and considered a derivative liability. Changes in fair value recognized in the consolidated statement of comprehensive income except for changes derived from credit risk which are recognized in other comprehensive income.

3. De-recognition

- Financial assets - The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.
- Financial Liabilities - The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

4. Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group's assessed its financial assets that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Intangible assets

Intangible assets include internally generated capitalized development costs.

Expenditure on research activities is recognized in profit or loss as incurred. Expenditure on internally developed products is capitalized if it can be demonstrated that:

- The product is technically and commercially feasible.
- Adequate resources are available to complete the development.
- There is an intention to complete the product so that it will be available for use or sale.
- The Group is able to sell or use the product.
- Use or sale of the product will generate future economic benefits, and
- Expenditure on the project can be measured reliably.

Development expenditure not satisfying all the above criteria are recognized in the consolidated statement of comprehensive income as incurred.

Intangible assets with a finite useful life are amortized over their useful life. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end and adjustments, where applicable, are made on a prospective basis. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable (see also Note 2-Impairment of non-financial assets).

As of December 31, 2022, the Group's acquired technology is not being amortized yet because the development has not been completed and the asset is yet to be in use. The Group's goodwill is not being amortized. Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

Internally generated capitalized development costs are amortized on a straight-line basis over their estimated useful lives of five years once the development is completed and the assets are in use.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost including directly attributable costs. Depreciation is calculated on a straight line basis, over the useful lives of the assets at annual rates as follows:

	Annual depreciation rate (%)	Main annual depreciation rate (%)
Vehicles	15-25	25
Electronic equipment and software	10-33	33
Leasehold improvements	10	10
Furniture and equipment	10-33	15

Leasehold improvements are depreciated over the term of the expected lease including optional extension, or the estimated useful lives of the improvements, whichever is shorter. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. The assets' residual values, depreciation rates, and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. At each reporting period the Group examined indicators for impairment. If indicators exist – impairment test is performed (see also Note 2- impairment of non-financial assets). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Impairment of non-financial assets

Non-financial assets excluding inventories are subject to impairment test whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and impairment charge is recognized accordingly. Intangible assets and goodwill with indefinite useful life or assets that are yet being in use are tested for impairment on a yearly basis and also when there is an indication for impairment.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest group of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets).

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Impairment of non-financial assets (cont.)

An impairment loss allocated to asset, besides goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and the assets recoverable amount. After an impairment of non-financial asset is recognized, the Group examines at each reporting date whether there are indications that the impairment which was recognized in the past no longer exists or should be reduced excluding the impairment of goodwill. The reversal of impairment loss of an asset is recognized in profit or loss. In case of the impairment of goodwill, it cannot be reversal.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Group measures cost of raw materials and work in process on First In First Out ("FIFO") basis and finished goods according to costs based on direct costs of materials and labor and allocation of indirect expenses.

Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

The Company has incurred losses. Deferred tax assets relating to carry forward losses in the financial statements being recognized only when their utilization in the foreseeable future is probable.

Loss per share

Loss per share is calculated by dividing the net profit attributable to owners of the parent, by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Liability for royalties payable

The Group measured its governmental liabilities on grants received, each period, based on discounted cash flows derived from Group's future anticipated revenues. A forgivable loan from government is treated as a government grant when there is reasonable assurance that the Group will meet the terms for forgiveness of the loan.

Provision for warranty

The Group generally offers up to one year warranty on its products. The Group records the provision for warranty based on past experience.

Revenue recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

- Revenues from the sale of goods are recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the product.
- Revenues from services are recognized at the point in time when the service has been fully provided.

Employee benefits

The Group has several employee benefit plans:

1. Short-term employee benefits: Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions which are paid within one year after the period of service, measured on a nominal basis and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.
2. Post-employment benefits: The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans. In Israel, the Group funds for most of its employee's contribution plans pursuant to Section 14 to the Severance Pay Law since 2004 under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Employee benefits (cont.)

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution. The Group also operates for some employees an immaterial defined benefit plan in respect of severance pay pursuant to the Severance Pay Law.

Segment reporting

An operating segment is a component of the Group that meets the following three criteria:

1. Is engaged in business activities from which it may earn revenues and incur expenses;
2. Whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about allocated resources to the segment and assess its performance; and
3. For which separate financial information is available.

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be allocated to segments. During 2022, the Group changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The corresponding items of segment information for earlier periods was reclassified.

New standards, interpretations and amendments not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning January 1, 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning January 1, 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New standards, interpretations and amendments not yet effective (cont.)

- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Group is currently assessing the impact of these new accounting standards and amendments.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Group's earnings and financial position are: capitalization and amortization of development costs and the useful life of property and equipment and share based payment.

Share based payment

The Group has a share-based remuneration scheme for employees. The fair value of share options was estimated by using a Monte-Carlo simulation approach, which was aimed to model the value of the Company's equity over time. The simulation approach was designed to take into account the unique terms and conditions of the performance shares, Restricted Stock Unit ("RSU") and share options, as well as the capital structure of the Group and the volatility of its assets, on the date of grant based on certain assumptions. Those conditions are described in Note 14 and include, among others, expected volatility, the dividend growth rate and expected term. The fair value of the equity settled options granted is charged to statement of comprehensive income over the vesting period of each tranche and the credit is recognized in equity, based on the Company's estimate of shares that will eventually vest.

Amortization of capitalized development costs

Intangible assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods.

SHEKEL BRAINWEIGH LTD.
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NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS: (CONT.):

Convertible loan

The convertible loan was designated to be measured at fair value through profit or loss. The fair value was estimated by using Monte-Carlo simulation which was aimed to model the value of the Company's equity over time. The model was designed to take into account the unique terms and conditions which are described in Note 13. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement comprehensive income in specific periods.

Loans to related party

The Company measures the loans to related party according to the amortized cost model. Measurement of the expected credit loss is a judgmental accounting area which requires assumptions. In accordance with the valuation received from management with the assistance of an external appraiser, the Company recognizes credit losses in profit and loss.

NOTE 4 - TRADE ACCOUNTS RECEIVABLE, NET:

Composition:

	December 31, 2022	December 31, 2021
Trade accounts receivable	8,202	7,590
Less: impairment allowance for trade accounts receivable	(16)	(14)
	<u>8,186</u>	<u>7,576</u>

Aging analysis of trade accounts receivable *:

	More than 90 days	60-90 days	30-60 days	Up to 30 days	Current	Total
Balance as of December 31, 2022	73	43	205	535	7,346	8,202
Balance as of December 31, 2021	210	98	255	395	6,632	7,590

*The time frames represent overdue periods.

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NOTE 5 - OTHER ACCOUNTS RECEIVABLE:

	December 31, 2022	December 31, 2021
Rick Lake receivables due to sale of Healthweigh products line	961	-
Prepaid expenses	340	342
Advances to suppliers	306	164
Institutions	280	208
Related parties	41	80
Others	29	5
	<u>1,957</u>	<u>799</u>

NOTE 6 - INVENTORIES:

	December 31, 2022	December 31, 2021
Raw materials	2,744	2,724
Work in process	218	137
Finished goods	2,152	2,087
	<u>5,114</u>	<u>4,948</u>

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NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET:

	Leasehold improvements	Furniture and equipment	Vehicles	Electronic equipment and software	Total
Cost:					
As of January 1, 2022	135	1,411	159	1,285	2,990
Additions	78	204	2	73	357
Disposals	-	(56)	-	(266)	(322)
As of December 31, 2022	213	1,559	161	1,092	3,025
Accumulated depreciation:					
As of January 1, 2022	(9)	(1,167)	(24)	(987)	(2,187)
Additions	(16)	(54)	(44)	(162)	(276)
Disposals	-	56	-	207	263
As of December 31, 2022	(25)	(1,165)	(68)	(942)	(2,200)
Net Book Value:					
As of December 31, 2022	188	394	93	150	825

	Leasehold improvements	Furniture and equipment	Vehicles	Electronic equipment and software	Total
Cost:					
As of January 1, 2021	114	1,260	83	1,204	2,661
Additions	122	215	144	81	562
Disposals	(101)	(64)	(68)	-	(233)
As of December 31, 2021	135	1,411	159	1,285	2,990
Accumulated depreciation:					
As of January 1, 2021	(27)	(1,183)	(69)	(815)	(2,094)
Additions	(15)	(44)	(23)	(172)	(254)
Disposals	33	60	68	-	161
As of December 31, 2021	(9)	(1,167)	(24)	(987)	(2,187)
Net Book Value:					
As of December 31, 2021	126	244	135	298	803

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - INTANGIBLE ASSETS, NET:

For the year ended December 31, 2022:

	Internally generated capitalized development costs	Acquired technology	Goodwill	Total
Cost:				
As of January 1, 2022	2,337	535	102	2,974
Additions	-	11	-	11
As of December 31, 2022	<u>2,337</u>	<u>546</u>	<u>102</u>	<u>2,985</u>
Accumulated amortization:				
As of January 1, 2022	(934)	-	-	(934)
Additions	(467)	-	-	(467)
Impairment	-	(184)	-	(184)
As of December 31, 2022	<u>(1,401)</u>	<u>(184)</u>	<u>-</u>	<u>(1,585)</u>
Net Book Value:				
As of December 31, 2022	<u>936</u>	<u>362</u>	<u>102</u>	<u>1,400</u>

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NOTE 8 - INTANGIBLE ASSETS, NET (CONT.):

For the year ended December 31, 2021:

	Internally generated capitalized development costs	Acquired technology	Goodwill	Total
Cost:				
As of January 1, 2021	2,529	140	102	2,771
Additions	-	395	-	395
Disposals	(192)	-	-	(192)
As of December 31, 2021	<u>2,337</u>	<u>535</u>	<u>102</u>	<u>2,974</u>
Accumulated depreciation:				
As of January 1, 2021	(467)	-	-	(467)
Additions	(467)	-	-	(467)
Disposals	-	-	-	-
As of December 31, 2021	<u>(934)</u>	<u>-</u>	<u>-</u>	<u>(934)</u>
Net Book Value:				
As of December 31, 2021	<u><u>1,403</u></u>	<u><u>535</u></u>	<u><u>102</u></u>	<u><u>2,040</u></u>

Internally generated capitalized development costs are amortized on a straight-line basis over their estimated useful lives of five years once the development is completed and the assets are in use.

The Group recognized an amortization of internally generated capitalized development costs in the amount of 467 for each of the years ended December 31, 2022 and 2021.

The Group has yet to begun amortization for its acquired technology as it is not ready for use as of December 31, 2022. In order to test the recoverable amount of the acquired technology, the Group used a discounted cash flows approach. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value. As of December 31, 2022, the Group recognized an impairment in the amount of 184.

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NOTE 8 - INTANGIBLE ASSETS, NET (CONT.):

The valuation performed by an external valuator based on management's assumptions. The following key assumptions were used in the valuation work performed:

Acquired technology:

- 23% Pre-tax cash flow discount rate;
- 5% Royalty rate;
- 10 years expected life;
- Revenue projection based on management plans for 6 years, and decreasing over last 4 years;

NOTE 9 - LOANS TO RELATED PARTY:

During the years 2014 - 2016, the Group signed an agreement with a shareholder (the "Borrower"), according to which it had agreed to loan the Borrower an amount of approximately NIS 3,220 thousand (831). The loan bears interest rate specified in section 3 of the Israeli Income Tax Ordinance. The loan was provided in NIS and NIS linked and will be repaid at the same currency as the Borrower will hold unblocked marketable shares of the Company post IPO, or as dividend will be distributed, the earlier between the two events. As of December 31, 2019, after the shares were unblocked and the borrower could sell share and repay the loan, the Borrower informed the Group that the repayment will occur once the price of the Company's marketable shares will reach the IPO price. The terms of the original agreement have not been changed due to the fact that no amendment was signed between the Group and the Borrower, but the credit risk of the loan has increased substantially. Therefore, the Group recorded a provision for expected credit loss according to a third party valuation. The accrued interest on the loan is recorded against equity as benefit to owners.

The Group recognized an increase in the expected credit loss in the amount of 239 and 12 for the years ended December 31, 2022 and 2021, respectively.

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NOTE 10 - OTHER ACCOUNTS PAYABLE:

	December 31, 2022	December 31, 2021
Employees, salaries and related liabilities	978	984
Accrued expenses	783	561
Current portion of lease liabilities	803	807
Short-term finance	503	-
Customers advances	476	668
Provision for vacation	427	475
Tax authorities	251	68
VAT	213	30
Provision for warranty	21	20
Others	25	4
	<u>4,480</u>	<u>3,617</u>

NOTE 11 - SHORT AND LONG TERM LOANS:

- During 2021, the Subsidiary received two short-term loans from two different banks in Israel which amounted to NIS 7 million from each bank. These loans were received in NIS and are NIS linked and bears interest of 3.15%-3.45% per annum. During 2021, the Subsidiary repaid to each bank NIS 1 million (approximately 303). During the year 2022, the Subsidiary refinance these two short-term loans in the amount of NIS 6 million each (approximately 3,752). The loans bears interest of 7.6%-9.75% per annum. As of December 31, 2022, and 2021 the total amount of the two short-term loans was 3,427 and 3,863, respectively.
During 2021 the Subsidiary entered into an agreement with the banks for complying with required covenants. The Subsidiary is required to comply with certain loan covenants in respect of minimum debt service coverage ratios, which are tested quarterly based on a ratio of: (i) capital ratio (ii) Operating working capital ratio, and (iii) Trade accounts receivable ratio. As of December 31, 2022 and 2021 the Subsidiary complies with all the loans covenants.

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NOTE 11 – SHORT AND LONG TERM LOANS (CONT.):

2. During 2022, Abilanx, the French subsidiary ("Abilanx"), received the following loans:
- Two loans for two years in the amount of Euro 36 thousand which bears interest of 1.16% per annum and Euro 30 thousand which bears interest of 1.02% per annum.
 - One loan for 28 months in the amount of Euro 15 thousand which bears interest of 1.16% per annum.
3. During 2021, Abilanx received the following loans:
- One loan for five years in the amount of Euro 400 thousand, which bears interest of 0.55% per annum.
 - Two loans for three years, in the amount of Euro 21 thousand which bears interest of 0.8% per annum and Euro 29 thousand which bears interest of 0.94% per annum.

As of December 31, 2022, and 2021, the total amount of those loans is 447 and 499, respectively.

4. During 2022, the Company entered into a Loan and warrants agreement (the "Loan and Warrants Agreement") with five lenders. The Company received a total of 3,000 from the lenders in three installments. According to the terms of the loan, it will be repaid after 12 months from funding date of each installment. The loan has a maturity of one year and bears interest rate of 8% per annum (the effective interest rate is between 11%-14%). During December 2022, the Company repaid 100 to one of the lenders.
- As part of the Loan and Warrants Agreement, the lenders were given an option (the "Warrants") to purchase the Company's ordinary shares (1.5 shares for every USD 1 loan) no par value per share at a price per share equal to 75% of the volume weighted average price of the Company's shares on ASX the 30 trading days preceding the exercise date of the Warrants. The Warrants may be exercised within 24 months from the funding date. The Warrants were measured at the funding date. As of December 31, 2022, all Warrants were converted into 4,500,000 ordinary shares of the Company. As of December 31, 2022, the total amount of the loan including the accrued interest is 2,719.

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NOTE 12 - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

Reconciliation of the changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows:

	<u>Short-term finance</u>
As of January 1, 2022	-
Changes from financing cash flows:	
Receipt of Short-term finance	(503)
As of December 31, 2022	<u>(503)</u>
	<u>Convertible loan</u>
As of January 1, 2022	(6,312)
Changes from financing cash flows:	
Accrued interest expenses	(344)
Interest paid (not within financing activity)	341
Change in fair value of convertible loan	(925)
Exchange rate differences	741
As of December 31, 2022	<u>(6,499)</u>
	<u>Short and long term</u>
As of January 1, 2022	(4,362)
Changes from financing cash flows:	
Receipt of long-term loans	(85)
Payment of long-term loans	107
Receipt of short-term loans, net	(2,552)
Accrued interest expenses	(355)
Interest paid (not within financing activity)	182
Exchange rate differences	472
As of December 31, 2022	<u>(6,593)</u>

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NOTE 12 - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONT.):

	<u>Lease liabilities</u>
As of January 1, 2022	(6,706)
Additions	(569)
Adjustments	(174)
Accretion of interest	(288)
Interest payment (not within financing activity)	288
Principal payment	810
Exchange rate differences	784
As of December 31, 2022	<u><u>(5,855)</u></u>

	<u>Convertible loan</u>
As of January 1, 2021	-
Changes from financing cash flows:	
Receipt of convertible loan	(5,021)
Accrued interest expenses	(232)
Interest paid (not within financing activity)	184
Change in fair value of convertible loan	(996)
Exchange rate differences	(295)
As of December 31, 2021	<u><u>(6,360)</u></u>

	<u>Short and long term</u>
As of January 1, 2021	(4,847)
Changes from financing cash flows:	
Receipt of long-term loans	(543)
Payment of long-term loans	13
Payment of short-term loans, net	1,091
Accrued interest expenses	(134)
Interest paid (not within financing activity)	131
Exchange rate differences	(73)
As of December 31, 2021	<u><u>(4,362)</u></u>

SHEKEL BRAINWEIGH LTD.
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NOTE 12 - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONT.):

	<u>Lease liabilities</u>
As of January 1, 2021	(2,334)
Additions	(6,175)
Disposals	1,254
Accretion of interest	(386)
Interest payment (not within financing activity)	178
Principal payment	857
Exchange rate differences	(100)
As of December 31, 2021	<u><u>(6,706)</u></u>

NOTE 13 - CONVERTIBLE LOAN:

In May 2021, the Company issued convertible notes (the "Notes") in consideration of NIS 16,550 thousand (approximately 5,021). The Notes are nominated in NIS and bears 7% annum interest which will be paid on a quarterly basis. The Notes are unsecured notes convertible into ordinary shares of the Company. The maturity date is four years following issuance date. The Notes holders will have the right to convert the Notes into ordinary shares of the Company starting two years following issuance date and until the maturity date. The number of ordinary shares that will be issued to the Notes holders will be calculated by dividing the face value of the Notes by 75% of the volume weighted average price of the Company's shares as traded on ASX during the last 25 trading days preceding the conversion of the Notes. The Company and the Notes holders have the right for early repayment on agreed terms. The Company designated the convertible loan to be recognized at fair value through profit or loss. The convertible loan fair value is measured at each cut-off date. As of December 31, 2022 and 2021 the convertible loan fair value is 6,499 and 6,312, respectfully.

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NOTE 14 - EQUITY:

- In January 2022, the Company raised through a Share Placements and a Share Purchase Plan AUD 1,112,500 (approximately 792) by issuing of 5,562,500 fully paid ordinary shares of the Company at an issuance price of AUD 0.2 per share. Total issuance expenses amounted to 38 and were recognized against share premium.
- In January 2021, the Company raised AUD 2,100,000 (approximately 1,622) through the issuance of 13,125,000 fully paid ordinary shares of the Company at an issuance price of AUD 0.16 per share and 6,562,500 options, each option entitles the holder to acquire one ordinary share of the Company at an exercisable at a price of AUD 0.32 for a period of 12 months from the issuance date. The Company recorded the options as a derivative financial liability which represents the fair value of the options on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in AUD while the Company's functional currency is the USD. The derivative financial liability as of issuance date amounted to 176. On December 2021 it amounted to 2. The amounts was recorded according to its fair value according to management valuation performed with the assistance of an independent third party appraiser. During 2022, all options were expired. The issuance was led by a lead manager who received a 6% fee of the total funds raised, 1,050,000 fully paid ordinary shares and 15,000,000 options, exercisable at AUD 0.32 on or before 24 months following the issuance date. Total issuance expenses amounted to 199 and were recognized against equity and general and administrative expenses.

The fair value measurement of the options as of December 31, 2021 in the table below was measured using the Black-Scholes model. The key inputs that were used in measuring the fair value of the options were: risk free interest rate – -0.013%, expected volatility - 100%, dividend rate – 0%.

- In December 2021, the Company raised AUD 1,365,000 (approximately 983) through the issuance of 6,825,000 fully paid ordinary shares of the Company at an issuance price of AUD 0.2 per share. Total issuance expenses amounted to 43 and were recognized against equity.
- Upon listing on the ASX, the Company granted 11,563,732 performance rights (the "Performance Rights") to subscribe ordinary shares of the Company to four employees. During 2022, 5,781,866 were issued to two of them.

SHEKEL BRAINWEIGH LTD.
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NOTE 14 – EQUITY (CONT.):

	Date	Number of shares
Opening balance as at January 1, 2021	-	139,000,000
Issuance of ordinary shares	01/2021	13,125,000
Lead Manager	01/2021	1,050,000
Issuance of ordinary shares	12/2021	6,825,000
Closing balance at December 31, 2021	-	160,000,000
Issuance of ordinary shares	01/2022	5,562,500
Exercise of options, RSU's and warrants	2022	27,081,383
Closing balance at December 31, 2022	-	192,643,883

	Authorized	Issued and outstanding
	Number of shares as of December 31, 2022	
Ordinary shares par value of NIS 0 per share	400,000,000	192,643,883

	Authorized	Issued and outstanding
	Number of shares as of December 31, 2021	
Ordinary shares par value of NIS 0 per share	400,000,000	160,000,000

Ordinary shares confer upon their holders the rights to receive notice to participate and vote in general meeting of the Group, and the right to receive dividends if declared.

SHEKEL BRAINWEIGH LTD.
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NOTE 14 - EQUITY (CONT.):

Share based payment

On February 7, 2018 the Group established a share option plan (the "Plan"). Under the Plan a total of 19,427,064 options to subscribe ordinary shares have been granted to 3 employees. The options have an exercise price per share of 0.2 AUD. The vesting period is up to 4 years from the grant date, according to the following: 25% will vest within one year from grant date, 6.25% will vest equally at the end of each quarter starting the following quarter.

Contractual life of the options under the Plan is 4 years. The options were granted under section 102 of the Israeli tax ordinance which enables the employee to pay 25% of capital gain tax upon exercise.

The fair value of share options was estimated by using a Monte-Carlo simulation approach, which was aimed to model the value of the Company's assets over time. The simulation approach was designed to take into account the terms and conditions of the share options, as well as the capital structure of the Group and the volatility of its assets, on the date of grant based on certain assumptions. Those conditions are, among others:

- The expected volatility of the existing business is 20% and the expected volatility of the Smart Shelf is 50%.
- The dividend growth rate 0%,
- Expected term - 5.5 years

The valuation performed by an external valuator based on management's assumptions.

During 2022, all options were vested. 20,000 were converted to ordinary shares of the Company and 6,455,688 were expired. As of December 2022, the exercisable options are amounted to 12,951,376.

- In November 2018 the Group has granted the lead manager of the Company's IPO, a total of 4,170,000 options to subscribe ordinary shares. The options have an exercise price of 0.42 AUD each will vest 2 years after the Company's IPO and may be executed up to later than 3 years after the Company's IPO. During 2022, all options were expired.

SHEKEL BRAINWEIGH LTD.
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NOTE 14 - EQUITY (CONT.):

Share based payment (cont.)

The options to employees and to the lead manager outstanding as of December 31, 2022 and 2021 are comprised, as follows:

	Year ended December 31, 2022	
	Number of options	Weighted average Exercise price
Outstanding at beginning of year	38,597,064	\$ 0.196
Expiration	(10,625,688)	\$ 0.202
Conversion	20,000	\$ 0.150
Outstanding at end of year	27,951,376	\$ 0.180
Exercisable options	27,951,376	\$ 0.180

	Year ended December 31, 2021	
	Number of options	Weighted average Exercise price
Outstanding at beginning of year	23,597,064	\$ 0.185
Granted	15,000,000	\$ 0.249
Outstanding at end of year	38,597,064	\$ 0.196
Exercisable options	22,382,856	\$ 0.196

Restricted Stock Units

- On March 29, 2022, the Group established additional Restricted Stock Units plan (the "Second RSUs Plan"). Under the Second RSUs Plan a total of 1,731,000 RSUs have been granted to employees.

As for 861,000 RSUs - vesting period is up to a year from the grant date, according to the following: 50% vested immediately and 50% will vest upon the first anniversary of the grant date, subject to the Company meeting its 2022 revenue target.

As for 870,000 RSUs - vesting period is up to 4 years from the grant date, according to the following: 25% will vest within one year from grant date, 6.25% will vest equally at the end of each quarter starting the following quarter. Such RSU shall vest only if the average share price of the Company in the respective period ending on the respective Milestone date (calculated based on the average closing prices during such period) (the "Average PPS") shall be equal to or greater than AU\$ 0.35 (the "Target PPS"), the RSUs designated to vest on the Cliff Milestone, shall vest only if the Average PPS (calculated over the 30

SHEKEL BRAINWEIGH LTD.
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NOTE 14 - EQUITY (CONT.):

Restricted Stock Units (cont.)

consecutive trading days immediately preceding the Cliff Milestone Date) is equal to or exceeds the Target PPS; (ii) RSUs designated to vest on each of the Quarterly Milestones, shall vest only if the Average (PPS calculated over the 30 consecutive trading days immediately preceding the respective Quarterly Milestone Date) shall be equal to or greater than the Target PPS.

The fair value of the RSUs was estimated by using a Monte-Carlo simulation approach, which was aimed to model the value of the Group's assets over time. The simulation approach was designed to take into account the terms and conditions of the RSUs, as well as the capital structure of the Group and the volatility of its assets, on the date of grant based on certain assumptions. The valuation performed by management with the assistance of an external valuator based on management's assumptions. The RSUs were granted under section 102 of the Israeli tax ordinance which enables the employee to pay 25% of capital gain tax upon exercise.

2. On July 1, 2021 the Group established a Restricted Stock Units plan (the "RSUs Plan"). Under the RSUs Plan a total of 11,716,017 RSUs have been granted to employees.

As for 11,716,017 RSUs- the vesting period is up to a year from the grant date, according to the following: 50% will vest immediately, only if the average PPS (calculated over the 30 consecutive trading days immediately preceding the vesting date) is equal to or exceeds AUD 0.35 and 50% will vest equally at the end of each quarter starting the following quarter. Notwithstanding anything to the contrary above, all RSUs shall become fully vested upon the first anniversary of the grant date. As of December 2022, All RSUs were converted into ordinary shares of the Company.

As for 5,423,500 RSUs - the vesting period is up to 4 years from the grant date, according to the following: 25% will vest within one year from grant date, 6.25% will vest equally at the end of each quarter starting the following quarter. Such RSUs will vest only if the average share price in the respective period ending on the respective Milestone date (calculated based on the average closing prices during such period) shall be equal to or exceeds 0.35 AUD. As of December 2022, 3,063,500 were converted into ordinary shares of the Company.

The fair value of RSUs was estimated by using a Monte-Carlo simulation approach, which was aimed to model the value of the Company's assets over time. The simulation approach was designed to take into account the terms and conditions of the RSUs, as well as the capital structure of the Group and the volatility of its assets, on the date of grant based on certain assumptions. The valuation performed by an external

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NOTE 14 - EQUITY (CONT.):

Restricted Stock Units (cont.)

valuator based on management's assumptions. The RSUs were granted under section 102 of the Israeli tax ordinance which enables the employee to pay 25% of capital gain tax upon exercise.

Loss per share

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial periods, the weighted average number of equity shares in issue and profit for the period as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss for the year attributed to owners of the parent	(3,060)	(6,767)
Weighted average number of ordinary shares	181,659,401	152,372,397
Basic and diluted loss per share	\$ (0.02)	\$ (0.04)

NOTE 15 - REVENUES:

	Year ended December 31, 2022	Year ended December 31, 2021
Sale of goods	22,671	19,261
Services	3,684	3,843
	<u>26,355</u>	<u>23,104</u>

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NOTE 15 – REVENUES (CONT):

Geographical analysis of revenue:

	Year ended December 31, 2022	Year ended December 31, 2021
Israel	9,431	9,769
Europe	8,657	6,201
United States	5,701	5,757
Others	2,566	1,377
	<u>26,355</u>	<u>23,104</u>

NOTE 16 - COST OF REVENUES:

	Year ended December 31, 2022	Year ended December 31, 2021
Purchase of scales and raw materials	12,305	10,916
Salary and related expenses	3,779	3,208
Depreciation	564	509
Intangible asset amortization	467	467
Vehicle maintenance	308	254
Office maintenance	112	161
Change in inventories	(166)	(1,484)
Others	23	42
	<u>17,392</u>	<u>14,073</u>

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NOTE 17 - RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Salary and related expenses	3,016	2,957
Share based payment	279	827
Depreciation	227	213
Materials, subcontractors and related expenses	191	515
Impairment of intangible assets	184	-
Office maintenance	43	32
Vehicle maintenance	26	56
	<u>3,966</u>	<u>4,600</u>

NOTE 18 - SELLING AND MARKETING EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Salary and related expenses	2,295	2,233
Exhibitions, materials and promotions	751	478
Vehicles maintenance	252	175
Travel abroad	155	126
Transportation and deliveries	153	174
Depreciation	140	130
Office maintenance	57	42
	<u>3,803</u>	<u>3,358</u>

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NOTE 19 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Salary and related expenses	2,188	2,411
Professional fees	1,571	1,288
Share based payment	385	28
Office maintenance	340	290
Management fees	279	277
Depreciation	268	238
Directors' fees	223	214
VAT	191	-
Vehicles maintenance	64	74
Travel abroad	45	29
Others	7	28
	<u>5,561</u>	<u>4,877</u>

NOTE 20 - OTHER EXPENSES (INCOME):

	Year ended December 31, 2022	Year ended December 31, 2021
Capital gain from sale of Healthweigh products line	(2,183)	-
Capital loss (gain) from sale of property, plant and equipment	(19)	48
Other	-	205
	<u>(2,202)</u>	<u>253</u>

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NOTE 21 - FINANCIAL INCOME:

	Year ended December 31, 2022	Year ended December 31, 2021
Exchange rate differences, net	(1,705)	-
Change in fair value of warrants and options	(29)	*(174)
Dividend benefit to owners	(22)	(25)
	<u>(1,756)</u>	<u>(199)</u>

*Reclassified

NOTE 22 - FINANCIAL EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Convertible loan's change in fair value	925	996
Convertible loan's interest	344	232
Bank fees and interests	300	232
Linkage and interest	161	*-
Exchange rate differences, net	-	*899
Leases	288	*386
	<u>2,018</u>	<u>2,745</u>

* Reclassified

NOTE 23 - LEASES:

The Group has lease contracts for office facilities and vehicles used in its operations. Leases of office facilities generally have lease terms of between 2 and 24.5 years and vehicles generally have lease terms between 2 and 3 years. The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised in assessing the lease terms.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 23 – LEASES (CONT.):

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	<u>Office facilities</u>	<u>Vehicles</u>	<u>Total</u>
At January 1, 2022	5,420	873	6,293
Additions	-	588	588
Adjustments	277	(103)	174
Depreciation expense	(431)	(492)	(923)
As at December 31, 2022	<u>5,266</u>	<u>866</u>	<u>6,132</u>

Set out below are the carrying amounts of right-of-use assets recognized and the movements during 2021:

	<u>Office facilities</u>	<u>Vehicles</u>	<u>Total</u>
At January 1, 2021	1,520	524	2,044
Additions	5,340	889	6,229
Adjustments	(1,056)	(88)	(1,144)
Depreciation expense	(384)	(452)	(836)
As at December 31, 2021	<u>5,420</u>	<u>873</u>	<u>6,293</u>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<u>2022</u>
At January 1, 2022	6,706
Additions	569
Adjustments	174
Accretion of interest	288
Exchange rate differences	(784)
Interest payment	(288)
Principal payment	(810)
As at December 31, 2022	<u>5,855</u>

The following are the amounts recognized in profit or loss:

	<u>2022</u>
Depreciation expense of right-of-use assets	923
Exchange rate differences	(784)
Interest expense on lease liabilities	288
Total amount recognized in profit or loss	<u>427</u>

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NOTE 23 – LEASES (CONT.):

Set out below are the carrying amounts of lease liabilities and the movements during 2021:

	2021
At January 1, 2021	2,334
Additions	6,175
Disposals	(1,254)
Accretion of interest	199
Exchange rate differences	287
Interest payment	(178)
Principal payment	(857)
As at December 31, 2021	<u>6,706</u>

The following are the amounts recognized in profit or loss:

	2021
Depreciation expense of right-of-use assets	836
Exchange rate differences	100
Interest expense on lease liabilities	386
Total amount recognized in profit or loss	<u>1,322</u>

The Group had total cash outflows for leases of 1,098 and 1,035 in 2022 and 2021, respectively. The Group also had non-cash additions to right-of-use assets of 588 and 6,229 in 2022 and 2021, respectively.

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NOTE 24 - TAXES ON INCOME:

1. General tax rate applicable to income in Israel:

Israeli corporate tax rates are 23% in 2022 and 2021.

The Company in Israel has final tax assessments up until December 31, 2019.

2. Tax benefits under the law for the Encouragement of Capital Investments, 1959:

The tax rate on income generated by Preferred Enterprise is 16%. The tax rate that applied to the Israeli Company's taxable income which derived from its manufacturing activities is 16% in 2022 and 2021. The tax rates that applied to the Israeli Company's taxable income which do not derived from its manufacturing activities are 23% in 2022 and 2021, according to Israeli corporate tax rates.

3. Non - Israeli subsidiaries:

Non - Israeli subsidiaries are taxed based on tax laws in the country of domicile of subsidiary.

The Company's major subsidiaries' general tax rates are:

Shekel (Ningbo) Scales Ltd.: 25% in 2022 and 2021.

Abilanx: 25% in 2022 and 28% in 2021.

4. Composition of tax expenses charged to profit or loss:

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax expenses	279	72
	<u>279</u>	<u>72</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 24 - TAXES ON INCOME (CONT.):

5. Tax reconciliation:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss before taxation	(2,475)	(6,615)
Theoretical tax credit at applicable statutory 2022 & 2021: 23%	(569)	(1,521)
Effect of preferred enterprise tax rate in Israel (less non - manufacturing activities) and tax rates of subsidiaries	160	350
Deferred tax asset which was not recognized or reversed	224	1,877
Non-allowable expenses	536	293
Miscellaneous	(72)	(927)
Tax on income	<u>279</u>	<u>72</u>

6. Net losses carry forwards:

As of December 31, 2022, and 2021, the Group has estimated carry forward tax losses of approximately 12,600 and 10,072, respectively, which may be carried forward and offset against taxable income for an indefinite period in the future. The Group did not recognize deferred tax assets relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 25 - OPERATING SEGMENTS:

As of 2022, the products of the retail innovation division are in their commercialization stage and therefore the Group refers to it as part of the full retail solution it provides to the market and does not differentiate these products from its other retail solution products, resulting in the Group changing the internal reporting provided to the chief operating decision-maker, and the new reporting segments is by markets the products serve ,being: Retail, HealthCare and Industry.

In prior years, the Group has analyzed its segments under the traditional division and the retail innovation division.

According to IFRS 8 requirements, during 2022, the Group changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The corresponding items of segment information for earlier periods was reclassified.

Summarized financial information by segment, based on the Group's internal financial reporting system utilized by the Group's chief operating decision maker, follows:

For the year ended December 31, 2022:

	Retail	HealthCare	Industry	Total
Segment revenue	11,055	10,154	5,146	26,355
Segment operating profit (loss)	(5,112)	2,650	58	(2,404)
Financial expense, net				262
Loss before tax				(2,666)

For the year ended December 31, 2021:

	Retail	HealthCare	Industry	Total
Segment revenue	8,189	9,805	5,110	23,104
Segment operating profit (loss)	(4,215)	(29)	175	(4,069)
Financial expense, net				2,546
Loss before tax				(6,615)

SHEKEL BRAINWEIGH LTD.
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NOTE 26 - COMMITMENTS AND CONTINGENT LIABILITIES:

Liability for royalties payable

The Group is committed to pay royalties to the Israeli government on proceeds from sales of products in China. Under the terms of the Israeli government funding program, the Group will pay royalties of 3% of the increase in sales. Royalties payment shall not exceed 100% of the grant received. As of December 31, 2022 and 2021, the liability for royalties payable is 4 and 4 respectively.

Liens and guarantees

To secure the Group's bank liabilities, fixed liens have been registered on the Group's non-redeemable share capital. There is also a general lien on all Group property, its factory and all other assets and rights of any kind or type that the company currently has or will have in the future. Furthermore, there is a first-degree floating lien on all Group assets of any kind or type, as they exist or will exist in the future and on all rights stemming from the securing of the property subject of the lien.

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NOTE 27 - RELATED PARTIES AND SHAREHOLDERS:

The following transactions arose with related parties:

Transaction - expenses (income)	Year ended December 31, 2022	Year ended December 31, 2021
Salary expenses – Kibbutz Beit Keshet members (shareholder)	34	39
Financial expenses paid to Kibbutz Beit Keshet (shareholder) *	-	178
Wages for directors	223	214
Management fees	279	277
Consulting expenses	135	366
Interest income from shareholders	(22)	(25)

* Office lease

Receivables from related parties

Name	Nature of transaction	December 31, 2022	December 31, 2021
Related parties (presented under loan to related parties)	Loans to shareholders	157	447
Related parties (presented under other accounts receivables)	Ongoing transactions	40	66

Liabilities to related party

Name	Nature of transaction	December 31, 2022	December 31, 2021
Related parties (presented under trade accounts payable)	Ongoing transactions	(47)	(318)

Benefits to key management personnel

Nature of transaction	Year ended December 31, 2022	Year ended December 31, 2021
Salary and related expenses	2,623	2,612
Share based payment	415	582
	<u>3,038</u>	<u>3,194</u>

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NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Group is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial performance and position. The Group's financial instruments are its cash, trade accounts receivable and other accounts receivable, trade accounts payables and other accounts payables and loans. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Group's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk:

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances. The Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the statement of financial position net of doubtful debt provisions estimated by the management based on prior year experience and an evaluation of prevailing economic circumstances. Wherever possible and commercially practical the Group holds cash with major financial institutions In Israel.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalents	1,892	1,981
Trade accounts receivable	8,186	7,576
Other accounts receivable	1,031	293
Loans to related party	157	447
Total	<u>11,266</u>	<u>10,297</u>

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NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the NIS, AUD, Euro and CNY. The Group's policy is not to enter into any currency hedging transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

Assets

December 31, 2022

	NIS	AUD	EURO	CNY	TOTAL
Cash and cash equivalents	285	17	558	4	864
Trade accounts receivable	3,066	-	726	-	3,792
Other accounts receivable	28	-	-	13	41
Loans to related party	157	-	-	-	157
	3,536	17	1,284	17	4,855

Liabilities

	NIS	AUD	EURO	CNY	TOTAL
Short term loans	3,427	-	155	-	3,582
Trade accounts payable	1,347	39	315	136	1,837
Other accounts payable	1,930	97	2	81	2,110
Convertible loan	5,021	-	-	-	5,021
Long term loans	-	-	292	-	292
Lease liabilities	4,970	-	-	82	5,052
	16,695	136	764	299	17,894

Net	(13,159)	(119)	520	(282)	(13,039)
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SHEKEL BRAINWEIGH LTD.
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(US Dollar in thousands)

NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (cont.):

Assets

December 31, 2021

	<u>NIS</u>	<u>AUD</u>	<u>EURO</u>	<u>CNY</u>	<u>TOTAL</u>
Cash and cash equivalents	360	1,002	319	100	1,781
Trade accounts receivable	3,038	-	765	-	3,803
Other accounts receivable	194	-	92	14	300
Loans to related party	447	-	-	-	447
	<u>4,039</u>	<u>1,002</u>	<u>1,176</u>	<u>114</u>	<u>6,331</u>

Liabilities

	<u>NIS</u>	<u>AUD</u>	<u>EURO</u>	<u>CNY</u>	<u>TOTAL</u>
Short term loans	3,863	-	499	-	4,362
Trade accounts payable	1,787	75	335	396	2,593
Other accounts payable	2,460	90	192	204	2,946
Long term loans	-	-	404	-	404
Lease liabilities	5,723	-	-	176	5,899
	<u>13,833</u>	<u>165</u>	<u>1,430</u>	<u>776</u>	<u>16,204</u>

Net	<u><u>(9,794)</u></u>	<u><u>837</u></u>	<u><u>(254)</u></u>	<u><u>(662)</u></u>	<u><u>(9,873)</u></u>
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SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Sensitivity analysis:

A 10% strengthening of the United States Dollar against the following currencies would have (increased) decreased equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
NIS	1,316	979
AUD	12	(84)
EURO	(52)	25
CNY	28	66

Liquidity risks:

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The Group has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. Accordingly, the Group has a positive working capital.

SHEKEL BRAINWEIGH LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Liquidity risks (cont.):

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Up to 3	Between	Between	Between	Over	
At December 31, 2022	Months	3 and 12	1 and 2	2 and 5	5 years	Total
		months	year	years		
Short term loans	6,237	214	-	-	-	6,451
Trade accounts payable	2,294	-	-	-	-	2,294
Other accounts payable	2,628	1,290	-	-	-	3,918
Lease liabilities	-	-	702	1,073	6,421	8,196
Convertible loan at fair value	-	-	329	5,515	-	5,844
Long term loans	-	-	123	169	-	292
Liability for royalties payable	-	-	4	-	-	4
Total	11,159	1,504	1,158	6,757	6,421	26,999

	Up to 3	Between	Between	Between	Over	
At December 31, 2021	Months	3 and 12	1 and 2	2 and 5	5 years	Total
		months	year	years		
Short term loans	3,868	90	-	-	-	3,958
Trade accounts payable	2,769	-	-	-	-	2,769
Other accounts payable	2,542	1,075	-	-	-	3,617
Lease liabilities	-	-	967	1,322	7,251	9,540
Convertible loan at fair value	-	-	-	5,000	-	5,000
Long term loans	-	-	132	272	-	404
Liability for royalties payable	-	-	4	-	-	4
Total	9,179	1,165	1,103	6,594	7,251	25,292

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NOTE 28 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Fair value of financial liabilities

Items carried at fair value as of December 31, 2022 are classified in the table below:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
As of December 31, 2022				
Convertible loan	-	6,499	-	6,499
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
As of December 31, 2021				
Derivative financial liability	-	2	-	2
Convertible loan	-	6,312	-	6,312

NOTE 29 - SUBSIDIARIES:

The principal subsidiaries of Company, all of which have been consolidated in these consolidated financial statements, are as follows:

Entity name	Country of incorporation	Proportion of ownership interest at December 31,		Held by
		2022	2021	
Shekel Scales (2008) Ltd.	Israel	100%	100%	Shekel Brainweigh Ltd.
Shekel EU S.A	Luxemburg	100%	100%	Shekel Scales (2008) Ltd.
Shekel USA LLC	USA	-	100%	Shekel Scales (2008) Ltd.
Shekel (Ningbo) Scales Ltd.	China	100%	100%	Shekel Scales (2008) Ltd.
Abilanx	France	60%	60%	Shekel EU S.A
Goopi Ltd	UK	-	100%	Shekel Scales (2008) Ltd

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NOTE 30 - SUBSEQUENT EVENTS:

As of the date of approval of financial statements, the Company entered into a new loan and warrants agreement (the "Additional Loan and Warrants Agreement") with seven lenders subject to similar terms as the "Loan and Warrants Agreement" (See also note 11.4). According to the Additional Loan and Warrants Agreement, the Company will receive 2,953 from the lenders. The loan has a maturity of one year and bears interest rate of 8% per annum.

As part of the Additional Loan and Warrants Agreement, the lenders were given an option (the "Additional Warrants") to purchase the Company's ordinary shares (1.5 shares for every USD 1 loan) no par value per share at a price per share equal to 75% of the volume weighted average price of the Company's shares on ASX the 30 trading days preceding the exercise date of the Additional Warrants. The Additional Warrants may be exercised within 24 months from the funding date. The Additional Warrants fair value will measure at each cut-off date.