IMAGESAT INTERNATIONAL (I.S.I) LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

INDEX

* This Financial Statements is a translation of the Hebrew Financial Statements reported on March 13, 2024. In the event of any conflicts between the English and the Hebrew version, the Hebrew version shall supersede

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AUDITORS' REPORT

To the Shareholders of

IMAGESAT INTERNATIONAL (I.S.I) LTD

We have audited the accompanying consolidated statements of financial position of Imagesat International (I.S.I) Ltd ("the Company") as of December 31, 2023 and 2022, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2023 and 2022, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2023, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Key matters in the audit

The following key matters in the audit represent the matters that were communicated, or required to be communicated, to the Company's board of directors, and which in our professional judgment, were the most important in the audit of the consolidated financial statements for the current period. These matters encompass, *inter alia*, any matter that (1) pertains, or may pertain, to material items or disclosures in the financial statements, and (2) our opinion in respect thereof was particularly challenging, subjective, or complex. These matters were addressed as part of our audit and in forming our opinion on the consolidated financial statements as a whole. It is important to note that the communication of these matters does not alter our opinion on the consolidated financial statements as a whole, nor do we provide therethrough a separate opinion on these matters or on the corresponding items or disclosures they refer to.

Recognition of revenue from contracts with customers – identification of performance obligations while assigning a sales price

As indicated in Note 2d and 3b to the consolidated financial statements, the Company's revenues comprise revenues from satellite services, analytics and artificial intelligence, and space-based intelligence infrastructures. In most instances, contracts with the Company's customers consist of these services and must be recognized as separate performance obligations. The Company examines the fair value for each identified performance obligation and subsequently allocates the consideration price across the components. This process necessitates the exercise of significant judgment by management.

To properly assess the allocation of consideration among the performance obligations, as well as changes in the fair value of the identified services over time, the auditor must exercise significant judgment, subjectivity, and diligence, as well as knowledge and experience in order to evaluate the reasonableness of the assumptions and data employed by management in determining the fair value of each component. Consequently, we have identified this matter as a key matter in the audit.

The audit procedures conducted in response to the key matter in the audit

The principal procedures performed in connection with this key matter as part of our audit include, but are not limited to: (1) reviewing the contracts and identifying the performance obligations; (2) examining the allocations key across the various contract components; (3) scrutinizing and evaluating the estimates underlying the allocation; (4) assessing the reasonableness of the estimates in comparison to the Company's past and current data; (5) conducting a sensitivity analysis on management's significant assumptions underlying the allocation; and (6) reviewing the adequacy of the disclosures in the financial statements pertaining to revenue recognition.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 12, 2024

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023	December 31, 2022
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	37,107	27,173
Restricted cash	6b	93	20,093
Short-term deposits	6a	-	22,250
Trade and income receivables	7	11,654	4,057
Other account receivables	8	14,942	8,896
Income tax receivables		126	-
Inventories		1,098	1,306
		65,020	83,775
NON-CURRENT ASSETS:			
Property and equipment, net	12	180,300	8,710
Fixed assets under construction	11	13,519	180,143
Advances on account of property and equipment	11	2,261	12,017
Right-of-use assets	9c	8,210	7,738
Intangible assets	13	583	690
Deferred taxes	18e	-	560
		204,873	209,858
		269,893	293,633

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023	December 31, 2022
		U.S. dollars in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of lease liabilities	16b(4)	1,078	806
Current maturities of loan from related party	16b	20,977	9,955
Trade payables		2,906	618
Deferred revenues		7,319	7,954
Income tax payable	18	-	664
Other account payables	14	40,303	29,275
		72,583	49,272
NON-CURRENT LIABILITIES:			
Lease liabilities		5,977	5,824
Other liabilities	15	166	33,166
Deferred revenues	15	2,439	13,623
Employee benefit liabilities	17b	72	90
Deferred taxes	18e	753	-
Loan from related party	16b	20,642	29,863
		30,049	82,566
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	20		
Share capital		-	-
Share premium and capital reserves		206,040	205,905
Share-based payment transactions reserve	21	2,898	2,266
Accumulated deficit		(41,677)	(46,376)
		167,261	161,795
		269,893	293,633

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

March 12, 2024			
Date of approval of the Financial statements	Gillon Beck Chairman of the Board	Noam Segal CEO	Yuval Sipper CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31, 2023	2022	2021
		U.S. dollars in thousands (except per share data)		
Revenues	22a	43,913	33,692	36,268
Operating costs	22b	12,637	15,190	10,881
Depreciation	12, 13	11,042	3,229	3,223
Gross profit		20,234	15,273	22,164
Selling and marketing	22c	3,993	3,869	2,568
General and administrative	22d	5,154	4,777	3,771
Research and development	22e	3,806	2,571	4,890
Operating income		7,281	4,056	10,935
Finance income	22f	1,568	2,300	319
Finance expenses	22f	2,991	2,656	2,217
Income before taxes on income		5,858	3,700	9,037
Taxes on income	18f	1,185	881	1,604
Net income		4,673	2,819	7,433
Other comprehensive income (loss) (net of taxes):				
Income (loss) from remeasurement of defined benefit plans		26	72	(83)
Total other comprehensive income (loss)		26	72	(83)
Total comprehensive income		4,699	2,891	7,350
Net earnings per share attributable to equity holders of the Company				
Net earnings, basic	23	0.08	0.05	0.15*
Net earnings, diluted		0.08	0.05	0.15*

*Retroactively adjusted due to share split

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium and capital reserves	Share-based payment transactions reserve	Accumulated net income (deficit)	Total equity
	U.S. dollars in thousands				
Balance as of January 31, 2021	-	144,485	496	(56,617)	88,364
Net income	-	-	-	7,433	7,433
Share-based compensation	-	-	428	-	428
Other comprehensive loss for the year	-	-	-	(83)	(83)
Balance as of December 31, 2021	-	144,485	924	(49,267)	96,142
Net income	-	-	-	2,819	2,819
Net proceeds from share issuance	-	61,263	-	-	61,263
Exercise of options	-	157	(157)	-	-
Share-based compensation	-	-	1,499	-	1,499
Other comprehensive income for the year	-	-	-	72	72
Balance as of December 31, 2022	-	205,905	2,266	(46,376)	161,795
Net income	-	-	-	4,673	4,673
Exercise of options	-	135	(135)	-	-
Share-based compensation	-	-	767	-	767
Other comprehensive income for the year	-	-	-	26	26
Balance as of December 31, 2023	-	206,040	2,898	(41,677)	167,261

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income	4,673	2,819	7,433
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation of property and equipment	10,935	3,080	2,592
Depreciation of intangible asset	107	149	631
Amortization of right-of-use asset	1,057	519	644
Share-based compensation	767	1,499	428
Finance expenses, net	750	*1,037	*1,715
Taxes on income	1,185	881	1,604
Change in employee benefit liabilities, net	(18)	(7)	(4)
	14,783	7,158	7,610
Changes in asset and liability items:			
Decrease (increase) in trade and income receivables	(7,597)	2,928	(1,289)
Increase in other accounts receivables	(4,940)	*(6,591)	*(1,468)
Decrease (increase) in inventories	208	(226)	(303)
Increase in trade payables	429	193	146
Increase (decrease) in deferred revenues	(11,819)	(2,324)	21,007
Increase in other account payables	2,816	1,564	923
	(20,903)	(4,456)	19,016
Cash paid or received during the year for:			
Interest received	2,283	908	271
Interest paid	(488)	*(484)	*(287)
Taxes paid, net	(667)	(1,892)	(846)
	1,128	(1,468)	(862)
Net cash provided by (used for) operating activities	(319)	4,053	33,197

* Reclassification in an immaterial amount.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Cash flows from investing activities:			
Purchase of property and equipment	(27,173)	(3,502)	(1,760)
Investment in intangible assets	-	-	(102)
Advances on account of fixed assets under construction	(3,307)	(39,888)	-
Advances on account of property and equipment	(451)	(4,794)	(21,854)
Change in bank deposits, net	22,250	2,500	(13,750)
Release of pledged cash	20,000	599	2,509
Net cash provided by (used for) investing activities	11,319	(45,085)	(34,957)
Cash flows from financing activities:			
Share capital investment, net	-	61,170	-
Repayment of lease liabilities	(803)	(1,203)	(607)
Financing of lease	(263)	(164)	(50)
Grants received	-	-	85
Net cash provided by (used in) financing activities	(1,066)	59,803	(572)
Increase (decrease) in cash and cash equivalents	9,934	18,771	(2,332)
Cash and cash equivalents at the beginning of the year	27,173	8,402	10,734
Cash and cash equivalents at the end of the year	37,107	27,173	8,402
Significant non-cash transactions:			
Purchase of fixed assets under construction vs. trade payables	-	56,086	-
Purchase of property and equipment vs. trade payables	-	-	339
Recognition of right-of-use assets vs. lease liability	1,286	2,243	5,620
Classification of advances on account of property and equipment to property and equipment	-	-	557

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

NOTE 1:- GENERAL

a. Imagesat International (I.S.I) Ltd (“Imagesat” or "the Company") and its subsidiaries ("the Group") specialize in providing space-based intelligence solutions, very-very high-resolution satellite imagery and data analytics specifically tailored for homeland defense markets and civilian markets, in Israel and worldwide. The Company was incorporated in Israel on January 26, 1999 as a limited private company. On September 7, 2000, the Company changed its name to Imagesat Israel Ltd. (previously West Indian Space Israel Ltd.) and, on September 2, 2021, the Company changed its name to Imagesat International (I.S.I) Ltd.

The Company launched its first Earth Remote Observation Satellite ("EROS"), EROS A, on December 5, 2000 (ceased to operate effectively on May 2016) and its second satellite, EROS B, on April 25, 2006.

On December 30, 2022, the company launched the EROS C3 satellite, which is an electro-optical satellite with very very high resolution and capable of color photography (Multi-Spectrali). On June 26, 2023, a series of in-orbit acceptance tests was completed and the EROS C3 satellite entered commercial activity and began operating as part of the Company's EROS NG constellation. For more details see Note 24e (4).

On June 13, 2023, the Company launched the RUNNER satellite ("Runner"), which is an electro-optical satellite with very high resolution and the ability of color video photography. Runner is a satellite from the New Space family and part of the Company's Global-Eye constellation. As of the report date, the satellite is in the technical launch process, in preparation for its entry into service.

b. Financing

As of the report date, the Company's current liabilities exceed its current assets by approximately $7.6 million, stemming from payments totaling approximately $52.3 million which the Company owes to a material shareholder, Israel Aerospace Industries ("IAI"), which are classified under the payables item, as well as under current maturity due to a loan from a related party, as detailed below. As described in Note 24(4), as of December 31, 2023, the balance of payables to IAI in respect of the manufacturing of the EROS C3 satellite amounts to $ 31.3 million, which is to be repaid within the current year. Furthermore, a current maturity of approximately $ 10.4 million, in connection with a loan from IAI as detailed in Note 16b, was repaid subsequent to the balance sheet date, as explained in Note 25a. Pursuant to the terms of the loan, the next payment in the amount of approximately $ 10.9 million is due at the end of December 2024.

The Company is actively seeking financing options to fulfill these payment obligations. Currently, the Company is engaged in advanced discussions with banking corporations and anticipates signing a loan agreement by the end of the second quarter of 2024. Additionally, the Company foresees growth in its business operations, aligned with its business plans and resulting from increased cash flow generated from its current activities. Consequently, as of the report date, the Company is in advanced negotiations with several prospective clients, which it expects to finalize in the course of 2024. In light of the aforementioned factors, and based on the Company's management estimation based on its plans, the Company will successfully fulfill its obligations in the foreseeable future.

NOTE 1:- GENERAL (Cont.)

c. The Company IPO

On February 11, 2022, the Company became a public company and its shares were listed on the Tel Aviv Stock Exchange. Pursuant to the Prospectus, 11,228,070 ordinary shares with no par value of the Company (the "Ordinary Shares") were offered by the Company by way of an initial public offering and 5,614,035 Ordinary Shares of the Company were offered by the Offerors (as defined in the Prospectus) by way of an offer for sale, amounting to 16,842,105 Ordinary Shares of the Company in total, at a price of NIS 19 per share by way of a non-uniform offer, as that term is defined under the Israel Securities Regulations (Manner of Offering Securities to the Public). The gross proceeds for the sale of the shares offered pursuant to the Prospectus are divided between the Company and the Offerors (as set out in the Prospectus) in the amount of NIS 213 million and NIS 107 million, respectively, amounting to NIS 320 million in total. The total costs of the offering borne by the Company amount to USD 5 million.

d. Special report in accordance with Regulation 9C:

The Company has not appended separate financial information to the financial statements in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 given that separate financial statements will be of no effect since they will not add material information for the reasonable investor that is not included in the consolidated financial statements of the Company. In light of this and given the negligible amount of additional information that will be given to the investor in separate financial statements over the information included in the consolidated financial statements of the Group, the Company has chosen not to present separate financial information in the statements for the interim period ended on December 31, 2023.

e. The "Swords of Iron" War

As of the date of publication of this report, the State of Israel is currently engaged in a military conflict in Gaza and other areas, following a terrorist attack launched by the Hamas terrorist organization against the State of Israel on October 7, 2023, (the "War"). It should be noted that since the outbreak of the War, the Company has maintained its routine operational and business activities and regularly monitors developments, and that, as with the entire economy, the War gave rise to a number of challenges resulting, among other things, from the recruitment of employees in the various departments of the Company, which affects, among other things, the progress of development activities and systems readiness; Additionally, logistical difficulties have arisen in reaching customer sites; Negative geopolitical effects have been observed in some of the Company's target markets and more.

As of the report date, the Company has no indication of any material impact of the War on its business operations. However, it is not possible to predict the War's duration or the extent of its potential future effects, if any, on the Company's activities and business results.

NOTE 1:- GENERAL (Cont.)

e. The "Swords of Iron" War (continued)

Currently, the Company is closely monitoring the political developments in relation to the President of Chile's anti-Israel positions. Of particular concern are Chile's recent appeal to the International Court of Justice at The Hague and the boycott imposed on the participation of Israeli companies in the aerospace conference hosted by Chile, in the context of the Iron Swords War. These days, the political climate in Chile is challenging for Israeli companies. Nevertheless, the work on the Chilean space project with the customer is maintained, and the Company is in communication with it daily, and is examining the situation on an ongoing basis.

f. The effect of inflation and the increase in the interest rate

In 2023, there was a notable rise of approximately 3% in the consumer price index compared to the corresponding period in the previous year of approximately 5.3%. In an effort to combat inflation and control consumer spending, the interest rate in Israel was raised to 4.75% in 2023. Subsequent to the balance sheet date, on January 1, 2024, the Bank of Israel resolved to lower the interest rate to 4.5%. According to the Bank of Israel's forecast for February 2024, it is anticipated that the inflation rate for the next four quarters (ending in the fourth quarter of 2024) will be approximately 2.4%. Furthermore, the interest rate is expected to be around 3.75 - 4% in the fourth quarter of 2024 .

The impact of the increased interest rate was reflected in the financial statements, in the section outlining the interest income received on bank deposits.

Furthermore, as of the date of approval of the report, the Company does not anticipate any significant effects on the Group's financial position, operational results, or cash flows arising from changes in interest rates and inflation (including the Bank of Israel's projections regarding potential future increases in interest rates and inflation).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis.

The Company has elected to present profit or loss items using the function of expense method.

b. The operating cycle:

The Group's operating cycle is one year.

c. Functional currency and presentation currency:

The functional and presentation currency of the financial statements is the U.S. Dollar ("dollar").

d. Revenue recognition:

Revenue from contracts with customers in the field of satellite services, analytics and artificial intelligence and space-based intelligence infrastructures is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Revenue from rendering of services:

Revenue from rendering of satellite services, analytics and artificial intelligence services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability.

Revenues from the sale of products – space-based intelligence infrastructures

Revenues from the sale of products – space-based intelligence infrastructures, such as satellites, hardware and software used to build ground stations and decoding centers are recognized in profit or loss at a point in time, upon the transfer of control over the goods sold to the customer. Control is usually transferred at the time the product is delivered to the customer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Revenue recognition (continued)

Costs of obtaining a contract:

In order to obtain certain contracts with customers, the Company incurs incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Company expects to recover are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract. An impairment loss in respect of capitalized costs of obtaining a contract is recognized in profit or loss when the carrying amount of the asset exceeds the remaining amount of consideration that the Company expects to receive for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

The Company has elected to apply the practical expedient allowed by the Standard according to which incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset is one year or less.

Allocating the transaction price:

For contracts that consist of more than one performance obligation, at contract inception the Company allocates the contract transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Company would sell the promised goods or services separately to a customer. When the stand-alone selling price is not directly observable by reference to similar transactions with similar customers, the Company applies suitable methods for estimating the stand-alone selling price including: the adjusted market assessment approach, the expected cost plus a margin approach and the residual approach. The Company may also use a combination of these approaches to allocate the transaction price in the contract.

e. Fixed assets:

Items of fixed assets are measured at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment. A part of a fixed assets item with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Fixed assets (continued)

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
EROS C3	12
EROS B	19
Ground stations	3 – 14
Other office equipment	3
Leasehold improvements	See below

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Costs that arise and are paid in advance for a future asset are first recorded as advances on account of a fixed asset. After the asset is fully developed and moves to the stage of a series of tests, the asset is classified as a fixed asset under construction. When the asset completes the series of tests and is ready for use as defined in advance, the asset is classified as a fixed asset.

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The Company conducted an examination of signs of impairment of assets. The examination included an examination of the satellite manufacturer's reports, internal performance reports, an examination of similar satellites, and expected signing of future contracts. After examining and weighing all the tests mentioned above, the Company does not identify signs of impairment.

NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- The timing for the fulfillment of performance obligations

  In order to determine the timing of recognizing revenues from contracts with customers at a point in time or over time, the Company evaluates the date of transfer of control over the assets or services promised in the contracts. Among others, the Company evaluates whether the customer obtains control of the asset at a specific point in time or consumes the economic benefits associated with the contract simultaneously with the Company's performance. In determining the timing of revenue recognition, the Company also considers the provisions of applicable laws and regulations

- The discount rate for lease liabilities

  When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, the Company is assisted by an external valuation expert in determining the incremental borrowing rate.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. In formulating the accounting estimates, the Company's management relies on past experience, various facts, external factors and reasonable assumptions, depending on the circumstances. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTE 3:- SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

b. Estimates and assumptions (continued)

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits against which it will be possible to utilize carried losses, its source and the tax planning strategy. In accordance with the changes in these assumptions, the Company will create or derecognize a deferred tax asset.

- EROS C3 Satellite useful life:

  See Note 12b.

- Identification of performance obligations in contracts with clients

  At the time of execution of the contract, the Company examines the products or services promised in the contract with the client and recognizes as a performance obligation any promise to transfer to the client a product or service that is differentiated, or a series of products or differentiated services that are identical and have the same transfer pattern to the client. The Company examines the fair value of the identified products and services and accordingly allocates the consideration price between all components. The possible consequences on the financial statements are a change in the timing of the recognition of income throughout the contract period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. Amendment to IAS 1, "Presentation of Financial Statements":

In February 2021, the IASB issued an amendment to International Accounting Standard (IAS) 1, Presentation of Financial Statements ("the Amendment"). Pursuant to the Amendment, companies are required to provide disclosure of their material accounting policies in lieu of the current requirement to provide disclosure of their significant accounting policies. One of the main reasons for this amendment stems from the fact that the term "significant" does not have a definition in IFRS while the term "material" has a definition in various standards and in particular in IAS1. The Amendment is effective for annual periods beginning on January 1, 2023.

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Cash for immediate withdrawal	16,236	27,173
Cash equivalent – short-term deposits	20,871	-
	37,107	27,173

NOTE 6:- SHORT-TERM DEPOSITS AND RESTRICTED CASH

a. Short-term deposits:

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Deposits in banking corporations	-	22,250

b. Restricted cash:

As of December 31, 2023 and 2022, the Company has restricted deposits in the amount of \$ 93 thousand and \$ 20,093 thousand, respectively.

NOTE 7:- TRADE AND INCOME RECEIVABLES

Trade and income receivables, net

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Billed	187	364
Unbilled	11,475	3,701
Net of – allowance for doubtful accounts	8	8
Trade and income receivables, net	11,654	4,057

As a rule, the Company grants its customers interest-free credit for periods of 30-90 days. Customer impairment is handled by recording a provision for doubtful debts.

Information about the credit risk exposure of the Company's trade receivables – billed debts:

	Not past due	Past due trade receivables < 30 days	31- 60 days	61 - 90 days	91 - 120 days	>120 days	Total
	U.S. dollars in thousands						
	As at December 31, 2023						
Gross carrying amount	31	-	-	4	69	83	187
Allowance for doubtful accounts	-	-	-	-	-	(8)	(8)
	As at December 31, 2022						
Gross carrying amount	349	-	-	-	-	15	364
Allowance for doubtful accounts	-	-	-	-	-	(8)	(8)

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

a. Current receivables:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Deferred expenses and advances to suppliers	13,808	3,891
Prepaid insurance expenses	356	387
Governmental institutions	495	3,545
Accrued interest	51	804
Other	232	269
	14,942	8,896

NOTE 9:- LEASES

The Company has entered into buildings lease agreements which are used for the Company's operations. Leases of buildings generally have lease terms of five years. Some of the leases entered into by the Company include extension options that take into consideration in the accounting treatment.

a. Engagements

- On October 6, 2010, a lease agreement, as amended from time to time, was signed between the Company and an unrelated third party regarding space and parking in the Aviv 2000 Building at 6 Yonatan Netanyahu St. in Or Yehuda, which is used by the Company for offices and a ground station for satellites operation (the "Lease Agreement"). The lease period is five years (starting on April 1, 2023) for an area of approximately 527 square meters of office space, the roof of the building and 30 parking spaces, with the Company having the option to extend the lease period for another five years.

  Subject to the provisions of the Lease Agreement, throughout the lease period the Company will pay the lessor a monthly amount of approximately NIS 42 thousand, NIS 10,000 for the use of the roof floor as well as an immaterial monthly amount for each of the parking spaces. During the option period, the rent will increase at a rate of 10% compared to the rent for the leased area paid in the last month of the lease period. In addition, the Company provided the lessor with an autonomous bank guarantee and a promissory note to secure the Lease Agreement.

NOTE 9:- LEASES (Cont.)

a. Engagements (continued)

- In October 2021, the Company signed with an unrelated third party a new office lease agreement, as updated from time to time, at 4 Yonatan Netanyahu Street in Or Yehuda, for five years with an option to extend the lease for another five years. The area of the property is approximately 3,000 square meters. Subject to the provisions of the lease agreement, during the lease period the Company will pay the lessor, for each calendar month, a monthly amount of approximately NIS 143 thousand, linked to the consumer price index. The Company has an option to leave the office space, for any reason and at any time, while giving 10 months' prior notice. During the option period, the rent will increase at a rate of 5% compared to the rent for the leased area paid in the last month of the lease period.

b. Information on leases:

	Year ended December 31,	
	2023	**2022**
	U.S. dollars in thousands	
Financing expense on lease liabilities	(38)	(679)
Total negative cash flow for leases	1,066	1,368
	1,028	689

c. Disclosures in respect of right-of-use assets:

2022

	U.S. dollars in thousands
Cost:	
Balance as of January 1, 2023	9,904
Additions during the year:	1,529
Balance as of December 31, 2023	11,433
Accumulated depreciation:	
Balance as of January 1, 2023	2,166
Depreciation during the year:	1,057
Balance as of December 31, 2023	3,223
Depreciated cost as of December 31, 2023	8,210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- LEASES (Cont.)

c. Disclosures in respect of right-of-use assets (continued)

2022

	U.S. dollars in thousands
Cost:	
Balance as of January 1, 2022	7,661
Additions during the year:	2,243
Balance as of December 31, 2022	9,904
Accumulated depreciation:	
Balance as of January 1, 2022	1,647
Depreciation during the year:	519
Balance as of December 31, 2022	2,166
Depreciated cost as of December 31, 2022	7,738

NOTE 10:- INVESTMENTS IN SUBSIDIARIES

	December 31,			
	2023		2022	
	Shares conferring voting rights	Shares conferring rights to profits	Shares conferring voting rights	Shares conferring rights to profits
ImageSat NV (*)	100%	100%	100%	100%
ISI USA LLC (**)	100%	100%	100%	100%

(*) The Company holds 99.996% of ImageSat NV. See also Note 20c.

(**) Inactive company.

NOTE 11:- FIXED ASSETS UNDER CONSTRUCTION AND ADVANCES ON ACCOUNT OF FIXED ASSETS

Composition:

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Fixed assets under construction	13,519	180,143

In the course of 2023, the classification of the EROS C3 satellite was changed from a fixed asset under construction to a fixed asset. For more details see Note 12b.

The amount for 2023 consist of the Runner satellite. For more details see Note 1a.

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Advances on account on fixes assets:		
Satellites	2,261	11,932
Other	-	85
	2,261	12,017

As of December 31, 2023 and 2023, salary expenses of $ 816 and $ 4,333 thousand, respectively, have been capitalized to advances on account of fixed assets.

The remaining amount for 2023 is for the Knight satellite, an electro-optical satellite with very high resolution and color video photography capabilities. The Knight is a satellite from the New Space family and part of the Company's Global-Eye constellation. The satellite is in the R&D phase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- FIXED ASSETS

a. Composition and movement:

2023

	EROS C	EROS B	Ground stations	Office furniture and equipment	Computers and peripheral equipment	Leasehold improvements	Total
	U.S. dollars in thousands						
Cost:							
Balance at January 1, 2023	-	90,048	8,620	612	5,054	3,483	107,817
Additions during the year	180,591	-	55	293	182	1,404	182,522
Balance at December 31, 2023	180,591	90,048	8,675	905	5,236	4,887	290,342
Accumulated depreciation:							
Balance at January 1, 2023	-	88,431	4,986	185	4,250	1,255	99,107
Additions during the year	7,752	847	1,509	64	443	320	10,935
Balance at December 31, 2023	7,752	89,278	6,495	249	4,693	1,575	110,042
Depreciated cost at December 31, 2023	172,839	770	2,180	653	546	3,312	180,300

2022

	EROS B	Ground stations	Office furniture and equipment	Computers and peripheral equipment	Leasehold improvements	Total
	U.S. dollars in thousands					
Cost:						
Balance at January 1, 2022	90,048	7,830	397	4,426	1,244	103,945
Additions during the year	-	790	215	628	2,239	3,872
Balance at December 31, 2022	90,048	8,620	612	5,054	3,483	107,817
Accumulated depreciation:						
Balance at January 1, 2022	87,585	3,489	167	3,889	897	96,027
Additions during the year	846	1,497	18	361	358	3,080
Balance at December 31, 2022	88,431	4,986	185	4,250	1,255	99,107
Depreciated cost at December 31, 2022	1,617	3,634	427	804	2,228	8,710

NOTE 12:- FIXED ASSETS (Cont.)

b. The EROS C3 satellite:

On June 26, 2023, a series of space acceptance tests of the EROS C3 satellite was completed and it began integration into the Company's commercial activity. As of the date of completion of the acceptance tests in space, the satellite was classified from a fixed asset under construction to a fixed asset and began to be depreciated in the Company's books.

The depreciation rate set for the satellite is 8.33% and is based on the satellite manufacturer's report, internal performance reports, an examination of similar satellites in the industry and the signing of a future contract.

NOTE 13:- INTANGIBLE ASSETS

a. Composition and movement:

2023:

	Kingfisher	**Software**	**Total**
	U.S. dollars in thousands		
Cost:			
Balance at January 1, 2023	1,602	892	2,494
Balance at December 31, 2021	1,602	892	2,494
Accumulated amortization:			
Balance at January 1, 2023	1,602	202	1,804
		מצק מ	
Amortization recognized in the year	-	107	107
Balance at December 31, 2023	1,602	309	1,911
Net balance at December 31, 2023	-	583	583

NOTE 13:- INTANGIBLE ASSETS (Cont.)

2022:

	Kingfisher	**Special Purpose Software**	**Total**
	U.S. dollars in thousands		
Cost:			
Balance at January 1, 2022	1,602	892	2,494

Balance at December 31, 2022	1,602	892	2,494
Accumulated amortization:			
Balance at January 1, 2022	1,558	97	1,655
Amortization recognized in the year	44	105	149
Balance at December 31, 2022	1,602	202	1,804
Net balance at December 31, 2022	-	690	690

NOTE 14:- OTHER ACCOUNT PAYABLES

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Current liability to interested party (note 24e (4))	31,300	20,000
Accrued expenses	7,665	7,649
Employees and payroll related accruals	758	1,032
Accrued vacation pay	547	588
Other	33	6
	40,303	29,275

NOTE 15:- NON-CURRENT LIABILITIES

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Other liabilities (1)	166	166
Advances and deferred revenues (2)	2,439	13,623
Non-current liability to interested party (note 24e (4))	-	33,000
Non-current liabilities	2,605	46,789

1. Government grant from the Innovation Authority – In the course of 2016-2018, the Company received a grant from the Innovation Authority to support the research and development project of a system for monitoring and tracking in the maritime space. In exchange for the Innovation Authority's support for the project, the Company is obligated to pay royalties at a rate of 3% - 3.5% of the future sales of the developed product, until the return of 100% of the grant amount received and with the addition of interest and linkage to the Consumer Price Index in Israel. The total grant received until December 31, 2023 and December 31, 2022 is $ 191 thousand and $ 189 thousand, respectively. As of 2023, the Company is expected to pay royalties of less than one thousand dollars.

2. In May 2021, the Company signed a new contract of approximately $ 110 million under which the Company will supply Chile’s national space program. The contract includes the sale of data from the satellites of the Company, the construction and launch of satellites for the customer and the creation of satellite and intelligence capabilities for the customer. In August 2021, an advance of $ 24,630 thousand was received from the customer, which was recorded under current liabilities and non-current liabilities and is reduced in accordance with the rate of progress of the project.

NOTE 16:- FINANCIAL INSTRUMENTS

a. Financial assets:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Trade and income receivables	11,572	4,057
Short-term deposits	-	22,250
	11,572	26,307

b. Financial liabilities:

	Effective interest rate	Maturity date	December 31, 2023	December 31, 2022
			U.S. dollars in thousands	
Current liabilities:				
Loan from related party (*)			20,977	9,955
Non-current liabilities:				
Loan from related party (*)	4.53%	See below	20,642	29,863
			41,619	39,818

As per management's assessment, the carrying amount of financial instruments approximates their fair value.

(*) The remaining loan is repayable in four annual installments – the first at a rate of 25% of the remaining loan on the same date, the second at a rate of 33.33% on the same date, the third at a rate of 50% on the same date and the fourth at a rate of 100% on the same date.

As a rule, the first installment shall be payable: (i) one year from the date of launch of the EROS C3 satellite. At the beginning of January 2024, the Company repaid the first payment of the loan. For more details see Note 25a.

1. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as share price risk and commodity risk. Financial instruments affected by market risk include, among others, loans and deposits.

2. Credit risk:

Credit risk is the risk that the counterparty will not meet its obligations as a customer or its obligations arising from a financial instrument, resulting in a loss for the Group. The Group is exposed to credit risk as a result of its operational activity (mainly client balances and contract assets) and its financial activity, including deposits in banks and other financial institutions, foreign currency transactions and other financial instruments.

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

3. Financial liabilities:

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2023

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	Dollars in thousands						
Trade payables	2,906	-	-	-	-	-	2,906
Payables	40,303	-	-	-	-	-	40,303
Other liabilities	166	-	-	-	-	-	166
Loan from related party	20,977	10,321	10,321	-	-	-	41,619
Lease liabilities	1,078	1,078	1,086	1,118	918	2,312	7,590
	65,430	11,399	11,407	1,118	918	2,312	92,584

December 31, 2022

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	Dollars in thousands						
Trade payables	618	-	-	-	-	-	618
Payables	29,275	-	-	-	-	-	29,275
Other liabilities	55	55	67	-	-	-	177
Loan from related party	9,955	9,955	9,954	9,954	-	-	39,818
Lease liabilities	806	808	808	816	848	3,099	7,185
	40,711	10,823	10,822	10,770	848	3,099	77,073

NOTE 17:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits:

Labor laws and the Severance Pay Law in Israel require the Company to pay compensation to employees upon dismissal or retirement or to make regular deposits in defined deposit plans pursuant to Section 14 of the severance compensation law as described below.

Regarding most of the Company's employees, the terms of Section 14 of the Severance Pay Law, 1963, apply, according to which the Group's current deposits in pension funds and/or policies in insurance companies exempt it from any additional obligation to the employees, for whom the amounts were deposited as mentioned above, in connection with payment of severance pay upon termination of employment. These deposits as well as deposits for rewards constitute defined contribution plans.

NOTE 17:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

a. Post-employment benefits (continued)

The part of the severance payments that is not covered by deposits in defined contribution plans (that is, for the rest of the Company's employees to whom Section 14 of the Severance Pay Law, 1963 does not apply), as stated above, is handled by the Company as a defined benefit plan.

b. Composition:

	December 31,	
	2023	**2022**
	U.S. dollars in thousands	
Defined benefit obligation	867	818
Fair value of plan assets	(795)	(728)
Net defined benefit liability	72	90

c. Actuarial assumptions:

	2023	**2022**	**2021**
Discount rate as of December 31,	5.78%	5.41%	2.81%
Rate of salary increase for existing employees	5%	4.9%	4.6%

NOTE 18:- TAXES ON INCOME

a. Tax jurisdictions applicable to the Company:

The Company has only been assessed for tax purposes in Israel since inception.

ImageSat NV has been assessed for tax purposes as an Israeli resident company since 2013 is concurrently also subject to tax laws in its country of incorporation – Curacao. From its inception through the end of the 2023 tax year, ImageSat NV has never paid taxes in Curacao. As of December 31, 2023, ImageSat NV is tax exempt in Curacao.

The U.S. subsidiary, ISI USA LLC, has not yet begun operating and is therefore exempt from reporting to the IRS (other than a technical declaration of inactivity and fee payment).

NOTE 18:- TAXES ON INCOME (Cont.)

b. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 68)

In January 2011, the Economic Policy Law for 2011 and 2012 (Legislative Amendments), 2011 was published and, *inter alia*, that law made amendments to the Encouragement of Capital Investments Law, 1959 ("the Law"). The amendment changed the benefits tracks under the Law and applied a uniform tax rate to all of the surplus income of the Company, which was to be deemed to be a preferred company holding a preferred enterprise. Effective from the 2011 tax year, the Company was entitled to elect (such election being irrevocable) whether to adopt the amendment, such that the amended tax rates set forth below would apply to all of its preferred income from the preferred enterprise as from the tax year in respect of which the election would be made.

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 71)

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 was published. This included Amendment No. 71 to the Encouragement of Capital Investments Law ("the "Amendment"). The Amendment provided that the tax rate on the preferred income of a preferred enterprise in 2014 and onward would be 16% (in Development Area A, 9%). See below regarding the changes to the tax rates arising from Amendment No. 73 of the Law.

In addition, the Amendment provided that a tax rate of 20% would apply to a distribution of dividends to an individual or a foreign resident out of the profits of the preferred enterprise.

NOTE 18:- TAXES ON INCOME (Cont.)

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 73)

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017 was published. This included Amendment No. 73 to the Encouragement of Capital Investments Law ("the "Amendment"). The Amendment provided that the tax rate that would apply from January 1, 2017 and onward to a preferred enterprise located in Development Area A would be 7.5% instead of 9% (the tax rate for a preferred enterprise not located in Development Area A remained 16%).

In addition, Amendment No. 73 to the Encouragement of Capital Investments Law established special tax tracks for technology enterprises, which entered into effect in 2017, as follows:

A preferred technology enterprise, as defined in the Encouragement of Capital Investments Law, whose group has total income in the tax year of less than NIS 10 billion, would be subject to corporate tax at a rate of 12% in respect of profits arising from intellectual property (in Development Area A, 7.5%).

A special preferred technology enterprise – whose group has income exceeding NIS 10 billion in the tax year – would be subject to a tax rate of 6% irrespective of the geographic location of the enterprise.

A distribution of dividends to a "foreign resident company," as defined in the Law, originating from income from technology enterprises would be subject to tax at a rate of 4% subject to the conditions prescribed in Section 51 of the Encouragement of Capital Investments Law.

In light of the Restructuring described in Note 20d, the Company met the definition of preferred technology enterprise effective from 2021.

c. Tax rates applicable to the Group:

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

The Israeli corporate tax rate was 23% in 2021 to 2023.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

NOTE 18:- TAXES ON INCOME (Cont.)

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was enacted. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

d. Tax assessments:

Tax assessments filed by the Company and ImageSat NV by 2017 are considered final.

e. Deferred taxes:

The Company recognizes deferred taxes due to timing differences arising from the gap between recognizing income or expenses in conformity with IFRS and in conformity with Israeli tax laws.

Deferred taxes are presented in the statements of financial position as follows:

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Non-current assets	-	560
Non-current liabilities	753	-
Total	753	560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- TAXES ON INCOME (Cont.)

Composition and movement:

	Statements of financial position December 31,		Statements of profit or loss Year ended December 31,		
	2023	2022	2023	2022	2021
	U.S. dollars in thousands				
Deferred tax liabilities:					
Lease liability	201	193	8	193	-
Fixed assets	2,758	195	2,563	(146)	(446)
Tax reserve on fair value of related party loan	58	125	(67)	(51)	(146)
	3,017	513	2,504	(4)	(592)
Deferred tax assets:					
R&D expenses	591	602	11	76	72
Carryforward losses for tax purposes	-	-	-	-	348
Employee benefits and other provisions	171	197	26	3	42
Lease asset	-	-	-	64	(28)
Prepayments for surplus expenses	-	-	-	-	(7)
Losses carried forward for tax purposes	1,356	-	(1,356)	-	-
Other expenses	146	274	-	-	-
	2,264	1,073	(1,319)	143	427
Deferred tax expenses (income)			1,185	139	(165)
Deferred tax assets (liabilities), net	(753)	560			

f. Taxes on income included in profit or loss:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Current taxes	-	742	1,769
Deferred taxes, see also e above	1,185	139	(165)
	1,185	881	1,604

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- TAXES ON INCOME (Cont.)

g. Theoretical tax:

	Year ended December 31,		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Income before taxes on income	5,858	3,700	9,037
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	1,347	851	2,078
Increase (decrease) in taxes on income due to the following factors:			
Non-deductible expenses	220	348	194
Effect of change in tax rate	(382)	(331)	(668)
Other	-	13	-
Taxes on income	1,185	881	1,604

NOTE 19:- GUARANTEES

The Company issued financial guarantees to several of its business partners to secure its liabilities:

	December 31,	
	2023	**2022**
	U.S. dollars in thousands	
Building lease related guarantee	93	93
Performance and advance guarantees for customer *	35,620	35,636
	35,713	35,729

(*) following Note 15(2), the Company has placed an advance guarantee totaling $ 24,630 thousand for the purpose of guaranteeing the advance which will be gradually reduced during the project period.

In addition, the Company, in favor of the same client, provided performance guarantees totaling $ 10,990 thousand which will be reduced over the course of the project's progress. For the purpose of granting the guarantees, the Company was not required to pledge assets, but on the other hand, it undertook to maintain a financial ratio according to which the equity ratio of the total consolidated balance sheet would be no less than 35% at any time, as of the date of the report, the Company meets this condition.

As of the date of the report, the Company is working with the client for the purpose of reducing guarantees in accordance with the project's progress.

NOTE 20:- EQUITY

a. Composition of share capital:

	December 31,	
	2023	2022
	Issued and outstanding	Issued and outstanding
	Number of shares	
Ordinary shares with no par value	61,165,687	60,984,732
	61,165,687	60,984,732

b. Rights attached to shares:

1. General:

Ordinary shares confer their holders a right to vote in shareholders' meetings, a right to appoint directors, a right to receive dividends and a right to a share of the Company's assets upon liquidation or sale.

2. Dividend and distribution order and preference:

The agreement includes a restriction on the distribution of dividends, according to which the Company will not make a distribution until IAI receives at least 80% of the total amount to be paid for the EROS-C3 satellite in accordance with its purchase agreement.

c. Restructuring:

The Company was founded as a wholly-owned subsidiary of ImageSat International N.V. ("ImageSat NV"), a foreign company incorporated in Curacao and registered in the Israeli Registrar of Companies as a foreign company. ImageSat NV was co-founded in 1997 by Israel Aerospace Industries Ltd. ("IAI"), and other investors in order to commercialize the Israeli aerospace industry's technology and operational experience.

Prior to the Restructuring, ImageSat NV had two wholly-owned subsidiaries: the Company, through which most of ImageSat NV's operations were performed, and ImageSat Israel Securities Ltd., an SPV (Special Purpose Vehicle) which was founded for raising funds for purchasing the EROS B, which discontinued its operation at the end of 2014 and was voluntarily liquidated on January 5, 2020.

In 2017, ImageSat NV founded its U.S. subsidiary named ISI USA LLC, which as of the date of signing these financial statements has not yet begun operating.

NOTE 20:- EQUITY (Cont.)

c. Restructuring (continued)

On May 13, 2021, the Company and ImageSat NV completed the Restructuring process which took place in three stages simultaneously, which applies retroactively as from January 1, 2021. In stage one, ImageSat NV assigned and transferred its assets and liabilities, including interests in the Company and excluding contracts with parties and/or customers that could not be assigned ("the transferred operation" and "the continuing operation", respectively), to a new sister company ("Newco"). In the second stage, the Newco merged with the Company and transferred the entire assets and liabilities to the Company and was then dissolved without liquidation. Immediately thereafter, in the third stage, 99.996% of ImageSat NV's shareholders transferred their interests in ImageSat NV to the Company for allocation of shares in the Company (the remaining 0.004% of the Company's share capital will be held by a trustee in trust until and subject to the transfer of rights to the shareholders). The Company also allocated employees stock options to ImageSat NV's stock options holders instead of the options held by such stock options holders in ImageSat NV ("the Restructuring").

d. Investment in the Company shares:

In the course of February, 2022, the Company listed its shares on the Tel Aviv Stock Exchange. For more details see Note 1c.

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS

a. Expenses recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Equity-settled share-based payment plans	767	1,499	428

b. Share-based payment plan:

On August 12, 2018, the Company's Board approved the 2018 option plan. According to the plan, 178,973 options for the purchase of ordinary shares can be granted to employees, consultants and directors of the Company. According to the Plan, the options vest over a period of up to four years, and their term period is ten years. Each option granted under the plan can be exercised into one ordinary share (with no par value) and will expire as stated in the letter of grant. Each forfeited or unexercised option will be available for future grants.

On November 15, 2021, the Company's Board increased the option pool under the plan by another 108,820 options with no other change in the plan terms.

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

b. Share-based payment plan (continued)

Upon completion of the issuance as described in Note 20d, the amount of the aforementioned options was split so that each one option would be equivalent to ten options.

On January 26, 2022, the Company's Board increased the option pool under the plan by another 1,500,000 options with no other change in the plan terms and subject to the completion of the offer according to the company's prospectus and prior to the listing for trading of the company's shares on the Tel Aviv Stock Exchange.

c. Grants:

Following is a description of the share-based payment transactions entered into between the Company and employees in the context of the 2018 option plan:

1. Subject to the Plan terms and condition, the Company issued 159,798 stock options to few management members on September 20, 2018. The vesting period is graded so that the options shall be vested in three equal portions, each at the end of 2019, 2021 and 2021. The options shall be expired six years from the grant date. The exercise price is $ 18.28061 per share. The fair value of each option is $ 2.25, calculated based on the Black & Scholes model. The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

2. On September 8, 2021, the Company's CEO was granted options for the purchase of 7,717 Ordinary shares. The vesting period is two years from the grant date. The options expire six years from the grant date. The exercise price is $ 18.28061 per share. The fair value of each option is $ 15.56, calculated based on the Black & Scholes model. The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

3. On November 15, 2021, the Company’s board of directors approved an aggregate grant of 103,820 options to purchase 103,820 ordinary shares, to several key management personnel. The vesting period is graded and the options will vest in three equal annual portions as follows: 50% vest on July 15, 2022 (in case of IPO an acceleration will be made on half of this portion), 25% vest on July 15, 2023 and 25% vest on July 15, 2024. The opinions will expire 6 years from the grant date. The exercise price of the options granted is $ 37.490135 per share. The fair value of each option is $ 8.9, calculated based on the Black & Scholes model The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

c. Grants (continued)

4. In January 2022, the board of directors of the Company approved an allotment of 1,500,000 (non-negotiable) options convertible into up to 1,500,000 Ordinary Shares of the Company to 36 employees of the Company, as follows: (a) 350,000 options to the CEO; (b) 495,000 options to 7 officers who report to the CEO and (c) 655,000 options to 28 employees who are not officers. The options were granted subject to the completion of the offering (which was indeed completed, as described above) and subject to a 1-for-10 split of the shares of the Company (such that each share would be split into 10 shares).

5. On September 6, 2022, options were granted to the CFO for the purchase of 30,000 Ordinary Shares. The vesting period of each grant is staggered so that the options will vest in three groups as follows: 33% will vest on September 6, 2024, 33% will vest on September 6, 2025 and 33% will vest on September 6, 2026. The options will expire after six years from the date of the grant. The exercise price of each option was set at NIS 18.16 per share. The fair value set for each option was NIS 6.64 based on the Black and Scholes Model. The grants were made pursuant to the equity track (with a trustee) under Section 102 of the Income Tax Ordinance.

d. Movement in the number of share options and their related weighted average exercise prices are as follows:

The following table presents the changes in the number of share options and the weighted average exercise prices of share options:

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding at beginning of year	3,481,341	2.47558	2,713,350	2.563069
Granted during the year	-	-	1,464,000	5.75231
Write-off during the year	(471,000)	5.39215	-	-
Exercise of options	(374,798)	2.39697	(696,009)	1.828061
Outstanding at end of year	2,635,543	2.46431	3,481,341	2.47558
Exercisable at end of year	1,327,493	2.71387	1,498,241	2.49362

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

e. Measurement of the fair value of equity-settled share options:

The Company uses the Black & Scholes model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

The following table lists the inputs to the Black & Scholes model used for the fair value measurement of equity-settled share options for the Company's plan:

	Grant made on	
	September 15, 2022	February 10, 2022
Dividend yield (%)	-	-
Expected volatility of the share prices (%)	52.7%	52.22%
Risk-free interest rate (%)	2.77%	0.87%
Expected life of share options (years)	6	6
Calculated Ordinary share price ($)	5.32	5.9
Calculated fair value of option ($)	1.94	2.55

The expected life of share options is based on their contractual life and on various evaluations which do not necessarily reflect the future exercise patterns of the share options.

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

a. Information on revenues according to customers:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Revenues from significant customers each accounting for 10% or more of total revenues reported in the financial statements:			
Customer A	8,000	8,917	9,000
Customer B	7,425	7,937	6,810
Customer C	-	1,015	2,383
Customer D	10,824	5,730	2,198
Customer E	3,202	1,248	10,100
Customer F	10,460	7,123	1,843
	39,911	31,970	32,334

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

Information on revenues according to geographical location:

The revenues reported in the financial statements were produced in the Company's country of residence (Israel) and overseas based on the location of customers, as follows:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Israel	2,243	817	1,331
Overseas	41,670	32,875	34,937
	43,913	33,692	36,268

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Asia	29,452	23,833	28,931
America	11,332	7,565	3,033
Africa	-	1,014	2,463
Europe	886	463	510
Israel	2,243	817	1,331
	43,913	33,692	36,268

b. Operating costs:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages, salaries and related expenses	2,162	2,419	1,859
Satellite operating costs	1,314	1,140	719
Satellite insurance costs	530	991	1,191
Depreciation of right-of-use assets and related expenses	465	321	349
Equipment, procurement and labor delivered to customers	6,336	9,480	5,273
Sales promotion and customer liaison expenses	1,830	839	1,490
	12,637	15,190	10,881

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

c. Selling and marketing expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages, salaries and related expenses	2,258	2,295	1,831
Travel and related expenses	344	452	193
Subcontractor costs	799	515	228
Business development and showcase expenses	332	470	123
Depreciation of right-of-use assets and related expenses	201	113	89
Other	59	24	104
	3,993	3,869	2,568

d. General and administrative expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages, salaries and related expenses	2,317	2,614	1,526
IT and data security	527	451	503
Professional services	585	482	823
Directors' fees	405	381	182
Depreciation of right-of-use assets and related expenses	385	174	188
Other	935	675	549
	5,154	4,777	3,771

e. Research and development expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages, salaries and related expenses	2,278	1,719	3,981
Subcontractor costs	426	105	382
Depreciation of right-of-use assets and related expenses	922	535	667
Other research and development expenses	180	212	(140)
	3,806	2,571	4,890

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

f. Finance expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Finance income:			
Interest income from bank deposits	1,530	1,619	220
Finance income in respect of lease	38	681	-
Income from exchange rate fluctuations	-	-	99
	1,568	2,300	319
Finance expenses:			
Interest expenses from loan from related party	1,804	1,726	1,651
Lease related finance expenses	-	-	279
Exchange rate fluctuations losses	699	446	-
Other	488	484	287
	2,991	2,656	2,217
	1,423	356	1,898

NOTE 23:- NET EARNINGS PER SHARE

Details of the number of shares and income used in the computation of net earnings per share:

	Year ended December 31,					
	2023		2022		2021	
	Weighted number of shares	Net income	Weighted number of shares	Net income	Weighted number of shares	Net income
	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
Number of shares and income for calculating basic net profit	61,161	4,673	59,328	2,819	*49,273	7,433

* Retroactively adjusted due to share split

NOTE 24:- BALANCES AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND RELATED PARTIES

a. The parent company, controlling shareholder and subsidiaries:

The controlling shareholder in the Company is FIMI. As for subsidiaries, see Note 10.

b. Balances with related parties:

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Payables:		
Loan from a related party (see Note 24e (3))	41,619	39,818
Related party trade payable (see Note 24e (7))	2,175	-
Expenses to related party (see Note 24e(1)(b))	271	369
Expenses to related party (see Note 24e (2))	46	-
Expenses to related party (see Note 24e (4))	31,300	53,000
Director's fee	59	51

c. Transactions with controlling shareholders and related parties:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Revenues to a related party (see Note 24e(1)(a))	120	39	351
Purchase from a related party (see Note 24e(1)(b))	73	108	224
Purchase from a related party (see Note 24e (2))	46	289	113
Purchase from a related party (see Note 24e (6))	7	8	22
Purchase from a related party (see Note 24e (7))	6,392	-	-
Controlling shareholder management fees	181	180	182
Director's fee	224	201	-
Finance expenses on loan from a related party (see Note 24e (3))	1,804	1,726	1,651

NOTE 24:- BALANCES AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND RELATED PARTIES (Cont.)

d. Remuneration of key management personnel:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Short-term employee benefits	1,348	1,396	1,463
Grants	320	439	-
Share-based compensation	569	809	357
	2,237	2,644	1,820
No. of employees to whom the benefit relates	5	5	5

e. Details of transactions:

1. Current operations with IAI:

   a) The Company recognizes revenues from current operations with IAI consisting of operating services for the Venus research satellite owned by a third party and for development services. In 2023 and 2022, there is no outstanding debt vis-à-vis the client.

   b) The Company receives from IAI support services for its satellites and for third-party satellites and the ground station.

2. Current operations with a subsidiary of the controlling shareholder:

   The Company purchases, from a subsidiary of the controlling shareholder, software and hardware which is used by the Company's ground station and by the ground stations set up on the Company's customer sites. The subsidiary is defined as a related party.

3. Loan from IAI:

   See Note 16b.

NOTE 24:- BALANCES AND TRANSACTIONS WITH CONTROLLING SHAREHOLDERS AND RELATED PARTIES (Cont.)

4. Purchase of EROS C3:

On December 28 2017, the Company entered into an agreement with IAI for the purchase of the EROS C3 satellite (the "Satellite"). The Satellite is an advanced OptSat 3000 model satellite with very-very high resolution and multi spectral capabilities.

On December 30, 2022, the Company launched the Satellite and according to the original launch plan, the Satellite entered normal orbit around the Earth and began transmitting data. Furthermore, a comprehensive and planned series of tests has begun to verify its integrity and level of performance until the Satellite enters full commercial activity.

On June 26, 2023, a series of space acceptance tests of the Satellite was completed and it began to be integrated into the Company's commercial activity.

As of December 31, 2023, the outstanding payment to IAI for the Satellite (after offsetting of an agreed fine in the amount of $ 1.7 million for delays in the Satellite's delivery) is $ 31.3 million and it shall be paid pursuant to the agreement 12 months after the In Orbit Acceptance Test (or earlier in case of a " Dissolution Event" as defined in the purchase agreement).

5. Management fees to controlling shareholder:

The Company is engaged with FIMI for management services for an annual fee of $180.

6. Current operations with a subsidiary of the controlling shareholder:

The Company purchases software licenses and support services from a subsidiary of the controlling shareholder. The controlling shareholder's subsidiary is defined as a related party.

7. Purchases from a subsidiary of the controlling shareholder:

The Company purchases hardware and software infrastructure from a subsidiary of the controlling shareholder. The controlling shareholder's subsidiary is defined as a related party.

NOTE 25:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. At the beginning of January 2024, the Company paid IAI a total of $ 10.448 million for the repayment of 25% of the loan balance at that time, in accordance with the terms of the loan agreement as detailed in Note 16b above.

b. On January 7, 2024, the Company contracted through a local company with the Company's Client B for a period of five years, for the provision of services from the EROS C2 and EROS C3 satellites as well as for ancillary maintenance/ground services (the "Agreement", the "Agreement Period", and the "Services", respectively). The Agreement entered into force on November 1, 2023, when in exchange for the Services, Client B undertook to pay the Company, through the aforementioned local company, approximately $ 7.5 million per year, subject to the Company's commitment to provide the Services in accordance with the scope established in the Agreement (a total of approximately $37.5 million throughout the entire Agreement Period).

c. On February 15, 2024, the Company (of the first part), entered into a strategic cooperation agreement with ST Engineering Satellite Systems Pte Ltd. and ST Engineering Geo-Insights Pte Ltd. from Singapore (on the second part, jointly and severally) (together in this section: the "Parties") for the development and manufacturing of an electro-optical sensing satellite of the KNIGHT model (in this section: the "Agreement"), which will be jointly owned by the Parties in equal parts (50/50). The Parties agreed on joint commercialization of the satellite(s) to be manufactured and launched into space in accordance with the terms of the Agreement. The Company estimates that the first satellite of this type is expected to be launched within about 3 years from the date of execution of the Agreement. Moreover, in the Company's estimation, this is a material engagement for the Company's operations, among other things, in light of the promotion of the KNIGHT satellite activity and the strategic cooperation with the parties to the agreement.

d. On March 12, 2024, the Company's board of directors, in accordance with the recommendation made by the Compensation Committee, resolved to extend the expiration date of 638,173 options (non-tradable) of the Company's CEO and other officers until September 20, 2025 (in lieu of the expiration date of those options – this is an extension of year). The valuation of the update of the expiration date of the options amounted to a total of approximately $68 thousand. The aforementioned change was classified as an immaterial change in the existing terms of compensation of the above-mentioned officers, including the Company CEO. The other terms of the options remain unchanged.

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