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SHEFA YAMIM (A.T.M.) LTD.

Annual Report and Accounts

for the year ended 31 December 2018

Contents

Directors, Secretary & Advisors

Directors

Abraham 'Avi' Taub
Chief Executive Officer & Executive Chairman

Michael Rosenberg, OBE
Independent Non-Executive Director
(Chairman designate)

James AH Campbell
Independent Non-Executive Director

Nathalie Schwarz
Independent Non-Executive Director

David Nachshon
Independent Non-Executive Director

Gershon Fraenkel
Independent Non-Executive Director

Hanoch Ehrlich
Independent Non-Executive Director

David Ben-David
Chief Financial Officer

Vered Toledo
Chief Operational Officer

Registered Office

90 Herzel Street, P.O.Box 720,
Netanya – 4210602, Israel

Operational Area & Laboratories

Southern Industrial Zone – Akko, Israel

Management Company

One Hundred & One Gold Holdings Ltd.
("101 Gold Holdings Ltd"). Netanya Israel

Financial Adviser

VSA Capital Limited
New Liverpool House, 15 Eldon Street,
London, EC2M 7LD

Broker

SI Capital Limited
13 Hanover Square London, W1S 1HN

Auditors and Reporting Accountants

Barzily & Co.
Har Hotzvim' 19 Hartom9, Jerusalem,
197775, Israel

Registrar

Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street,
St Helier, Jersey, JE11ES

Legal advisers to the Company as to English law

Axiom Stone Solicitors
1 Berkeley Street, Mayfair, London, W1J 8DJ

Legal advisers to the Company as to Israeli law

ABDGM & Co Law Firm
Giborey Israel Street 24, Netanya – 42504,
Israel (P.O.B 8716)

Financial PR

Luther Pendragon
48 Gracechurch Street, London, EC3V 0EJ

Depositary Computershare Investor Services Plc

The Pavilions
Bridgwater Road, Bristol, BS13 8AE

2018 Highlights and Post Period End Events

- **Kishon Mid-Reach (The Company's most advanced exploration target is 4.5km long and approximately 150m wide)**
  - Results of exploration activity for Zones 1-3 show a significant increase in total volumes of mineralised placer gravels from approximately 1.1 million tonnes (Mt) to 5 Mt
  - Completed bulk sampling campaign in Zone 1 with 137 drilling surveys and 14 bulk samples
    - Produced 9,778.15 carats of gemstones from 6,384 tonnes of gravel
  - Increased gemstone suite to nine precious stones ("Gem Box"), with the potential to expand further, as spinel, ilmenite and garnet are deemed to be of 'gem quality'
  - Granted first Prospecting Licence (869C9) and made good progress with planning and regulatory procedures to advance the Kishon Mid-Reach Zone 1 area
  - Received official recognition on a new mineral in nature named Carmeltazite, discovered by Shefa Yamim, and found in its gemstone, the Carmel Sapphire™
  - Macquarie University find Permo-Triassic-Jurassic rocks beneath Mount Carmel – these ancient volcanic rocks refine the geological history of the region and expand exploration potential
  - Renewed Exploration permit (869B8) covering an area of 17.36 hectares

- **Corporate and Financial**
  - In October, raised approximately £250,000 cash (before expenses) through the subscription by new and existing investors

- **Post Period Highlights**
  - Paradigm Project Management (Pty) Ltd ("PPM"), completed its Technical Economic Evaluation ("TEE") report placing the first mine in Kishon Mid-Reach Zone 1 at the lower end of the cost curve
  - World-renowned jewellery designer, Yossi Harari, completed exclusive 31-piece jewellery set titled "Heaven on Earth", the first ever collection using Shefa Yamim gemstones
  - Excellent progress in Zone 2 with results processed from five bulk samples
    - Total of 3,935.60 carats of gemstones recovered from five bulk samples from a total of 2,908.8 tonnes of gravel
  - Extended prospecting permits 837A12 and 899A7 covering a total area of 44,045 hectares
  - Received an independent valuation of its precious stones from Dr. Gavrielov Gila, a renowned gemmologist with over 40 years of expertise – cut and polished Blue Carmel Sapphire™ valued at US$7,000 per carat and Natural Moissanite™ valued at US$10,000 per carat with the remainder gemstones ranging from US$25 – US$ 5,000 per carat
  - On 11 of April 2019, the Company announced:
    - It is separating the roles of the Chairman and Chief Executive Officer. Mr Michael Rosenberg, OBE, independent Non-Executive Director, will be appointed as Chairman effective from 1 May 2019. Mr Avi Taub will continue in his role as Chief Executive Officer.
    - Intention to change the English name of the Company to Shefa Gems Ltd.

Business Review & Strategic Report

Chairman's Statement and Operational Review

It has been a year of excellent progress for Shefa Yamim which has seen the Company reach several key milestones in our first full year since listing on the London Stock Exchange in December 2017. We advanced exploration in our primary target, the Kishon Mid-Reach by completing exploration campaigns in Zone 1, and look forward to a further campaign planned in Zone 2 in Q2 and Q3 2019.

Exploration results saw a significant increase in the estimated volume of mineralised tonnage from a total of 1.1 Mt to almost 5 Mt in the Kishon Mid-Reach, which triples the potential quantity of our rare and diverse Gem Box of precious stones. In addition, we are delighted that Carmeltazite, a mineral discovered by Shefa Yamim and found in our gemstone the Carmel Sapphire™, has been internationally recognised by the IMA as a new, rare mineral in nature, which we believe further adds potential value to our suite of gemstones.

Our work in 2018 has laid the foundation for a strong start to 2019. The completion of the TEE report and the launch of our first and exclusive jewellery collection, created by world-renowned designer Yossi Harari are significant milestones for Shefa Yamim in our ambition to unlock the true potential of our gemstones from the Holy Land.

In addition, in March 2019, we received an independent valuation of our precious stones from Dr Gavrielov Gila, a renowned gemmologist with over 40 years of expertise. She valued the cut and polished Blue Carmel Sapphire™ at US$7,000 per carat, the Natural Moissanite™ at US$10,000 per carat and the remainder gemstones from US$25 – US$ 5,000 per carat.

Technical Economic Evaluation Report

In July 2018, Shefa Yamim appointed PPM to conduct an independent Technical Economic Evaluation for the first mine of the Kishon Mid-Reach Zone 1, which was completed in February 2019 with encouraging findings.

A summary of the key points are as follows:

- The mine can potentially process a total of 1.5 Mt of gravel over an 11-year Life of Mine ('LoM')
- The overburden removed would be 1.8 Mt
- The operating cost budget over LoM has been estimated at US$26/t processed
- The capital expenditure for the development of the mine using new equipment has been estimated at US$11.30 million. If contract mining is undertaken, the capital expenditure for the mine can be reduced to US$7.5 million again using new equipment; but the operating cost budget over the LoM increases to US$27/t processed

PPM also identified a number of opportunities to significantly reduce both the capital and operating cost, which include using second hand equipment, upgrading the existing plant, contract mining, expanding the mineral resource and most importantly increasing the mined throughput ('economies of scale'). Due to earlier investments in the machinery and processing capability by Shefa Yamim, for a further relatively small amount of investment of up to US$1 million, we will be able to upgrade our new processing plant and machinery, which will double our processing capacity to 100 tonnes per hour. and potentially halve the unit operating cost to between $10-15/tonne once in steady state operations.

The report suggests that the first mine in Kishon Mid-Reach Zone 1 is at the lower end of the cost curve, placing the costs on a par with comparable diamond producers and at the lower end of the precious stone producers. The report provides us with the work and capital costs of bringing the Kishon Mid-Reach project into production which gives Shefa Yamim a base case for the development of the Kishon Mid-Reach Zone 1 project.

Business Review & Strategic Report

Heaven on Earth jewellery collection

In 2018, we entered into a collaboration with Yossi Harari, the world-renowned jewellery designer, to create a unique jewellery collection and the world's first collection using precious stones from the Kishon Mid-Reach area. In February 2019, the "Heaven on Earth" collection was completed and comprises of 31 unique, handcrafted, individual pieces of jewellery, 13 more than was originally planned, creating a uniquely designed and branded jewellery line mounted with Shefa Yamim's precious gemstones from the Kishon Mid-Reach area.

The collection includes 11 necklaces, 10 rings, 4 pendants, 4 pairs of earrings and 2 bracelets. Harari had originally planned to create 18 pieces but created an additional 13 pieces as a result of the variety, sizes and quality of Shefa Yamim's gemstones capability to be adapted in such a wide range of jewellery. The prices for each piece of jewellery in this collection range from $1,000 to $85,000.

The collaboration is a significant step for Shefa Yamim and we are extremely fortunate to have Yossi Harari create our first jewellery collection using our gemstones. His luxurious designs demonstrate the versatility and value of our stones. This is a momentous occasion as it marks the first stage in building up our "Mine to Market" strategy which is intended to promote more unique jewellery collections utilising our suite of precious gems that will be marketed worldwide.

Kishon Mid-Reach

The Kishon Mid-Reach placer is our most advanced exploration project and ongoing exploration activities are being undertaken with the aim of defining a SAMREC 2016 compliant Mineral Resource through trial mining which is common for this type of mineralisation. The target is 4.5km long and approximately 150 metres wide (right bank of the Kishon) with gravel layers of variable thicknesses between 0.5m and 4.5m. The TMA Suite includes the following gemstones; Diamond (rare), Spinel, Carmel Sapphire™, Sapphire, Ruby, Natural Moissanite™, Hibonite, Garnet, Ilmenite, Zircon and Rutile are found within the gravel layers.

Zone 1 Bulk Sampling

In May 2018, Shefa Yamim completed its bulk sampling campaign in Zone 1 of the Kishon Mid-Reach following 137 drilling surveys and fourteen-bulk sample campaign.

Following the results, the Company updated its Target Mineral Assemblage ("TMA"). The TMA recovered from the 6,384 tonnes sampling campaign in Zone 1 increased from a total of 5,825.24 carats ("cts") to a new total of approximately 9,778.15 cts enabling the original TMA to be updated to a predominantly gemstone suite (99.5%) of potentially nine gemstone minerals, including the new addition of Spinel, often found in large crystals.

The largest gems recovered were: Natural Moissanite™ 4.14mm, Carmel Sapphire™ 33.3ct, garnet 13.6ct, sapphire 5.7ct, spinel 6.2ct, hibonite 2.8ct and ruby 1.7ct. The overall TMA grade was some 153 cpht (at a bottom screen size of 1 mm), with the grade dominated by 4 Gem Box suite minerals: spinel (69.91 cpht); Carmel Sapphire™ (39.36 cpht); garnet (34.09 cpht) and ilmenite (12.06 cpht).

Business Review & Strategic Report

Zone 2 Bulk Sampling

Progress continued in 2018 on exploration in Zone 2 to determine the potential resource for the Kishon Mid-Reach Zone 2.

In July 2018, we announced the first results from bulk sample BS-1230, the first of five bulk samples collected at the end of 2017. Post period, in January 2019, the processing results for the remaining four bulk samples 1223, 1224, 1225, 1229, were completed.

A total of five bulk samples resulted in 3,935.60 cts of gemstones recovered from 2,908.8 tonnes ('t') of basal gravels with an overall TMA recovered grade of 135.30 carats per hundred tonnes ("cpht") at a bottom screen size of 1mm.

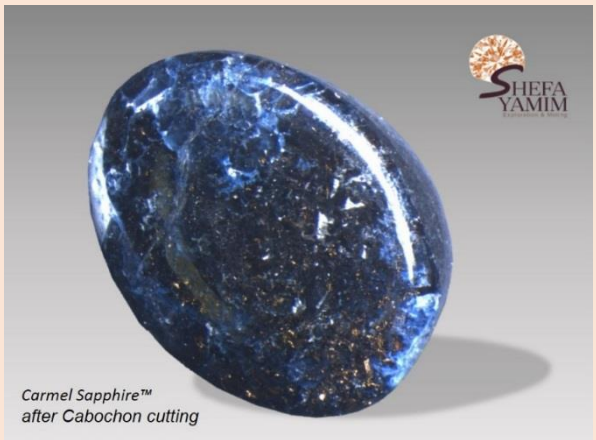
A selection of the largest gemstones recovered included a Natural Moissanite™ 4.1mm, 3.90 ct Sapphire, 5.26 ct Carmel Sapphire™, 6.68 ct spinel and a 3.61 ct garnet. The variety of gemstones recovered is consistent with previous bulk sample results strengthening Shefa Yamim's position as a multi-commodity company.

In Q2 and Q3 2019, the Company plans to carry out an additional three bulk samples in Zone 2 in the area where 26 drilling surveys were completed in June 2018. These three bulk samples planned by Shefa Yamim will conclude its exploration activity in Zone 2, preparing the Company for progress towards trial mining.

Processing and exploration

New and rare mineral found in nature

In December 2018, we received official international recognition on a new mineral in nature named Carmeltazite, discovered by Shefa Yamim and found in its gemstone, the Carmel Sapphire™. Carmeltazite was recognised and approved as a new mineral by the International Mineralogical Association ("IMA") Commission on New Minerals, Nomenclature and Classification, as stated in the published article entitled *Carmeltazite, ZrAl2Ti4O11, a New Mineral Trapped in Corundum from Volcanic Rocks of Mt Carmel, Northern Israel.* The Company has already received a trademark from the Israeli Government to market the stones under the name "Carmel Sapphire". Carmeltazite was given its name due to its location of discovery on Mt Carmel ("CARMEL"), and due to its major chemical components, namely, Titanium, Aluminum and Zirconium ("TAZ").



Business Review & Strategic Report

Upgraded TMA and expanded Gem-Box suite

In July 2018, following the results of its 137 drilling surveys and 14 bulk sampling campaign at the Kishon Mid-Reach Zone 1, Shefa Yamim announced the addition of a ninth gemstone to its Gem-Box suite, spinel. The inclusion of spinel, as well as ilmenite and garnet to the Company's Gem-Box suite, follows a re-classification of these gemstones which were deemed to be of high enough quality to be considered 'gemstones'.

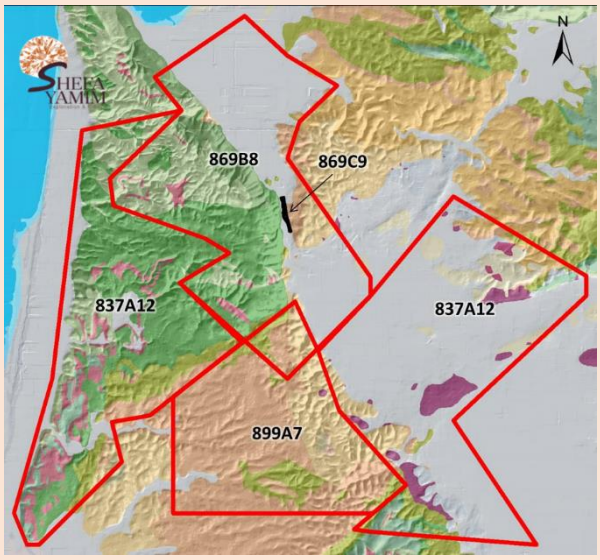
Permo-Triassic-Jurassic rocks

In February 2018, we announced the results of studies conducted by Macquarie University, led by Professor William Griffin, provided a clearer understanding of why Shefa Yamim has been able to find a suite of gemstones in its exploration area, including Natural Moissanite™ and Carmel Sapphire™. The analysis revealed that besides zircons from the known volcanoes on Mount Carmel, the alluvial samples also contain zircons from other Cretaceous eruptions. The research implies that there are other primary sources of gemstones yet to be found in the area surrounding Mount Carmel and the Kishon River.

Permits

In August 2018, Shefa Yamim received its first Prospecting Licence (869C9), granted for diam onds, gold and precious stones in the Kishon Mid-Reach Zone 1 that covers an area of 252 Dunams (25.2 hectares). The licence is another important step towards a 'Certificate of Discovery' and its first mining licence. Once the working plan, according to the Prospecting Licence requirements have been met, the Company will apply for a 'Certificate of Discovery', providing the Company with exclusive rights over a mining licence.

In addition, the Company renewed Exploration Permit (869B8) that covers an area of 173,636 Dunams (17.3636 hectares) and two of its prospecting permits (837A12 and 899A7) covering a total of 440,455 Dunams (44,045 hectares). The permits provide the Company with exclusive prospecting rights for diamonds, gold and precious stones over the permitted areas for a period of a year and entitles the Company to conduct all required actions connected with prospecting for the minerals specified above.



Business Review & Strategic Report

Notable post period developments

Independent Valuation of Shefa Yamim's Suite of Precious Stones

In March 2019, we were delighted to receive an independent expert opinion and valuation of our suite of precious stones. The report was compiled by Dr Gavrielov Gila a gemmologist with over 40 years of expertise and experience in the appraisal and purchase of precious stones for use in jewellery.

Independent valuation of stones in Shefa Yamim's Gem Box:

Shefa Yamim Gemstone	Cut & Polished price per carat (US$)
Natural Moissanite™ (crystals till <4mm and rough only)	10,000
Blue Carmel Sapphire™ (Cabochon cut)	7,000
Black Carmel Sapphire™ (Cabochon cut)	5,000
Hibonite	1000
Sapphire	500
Ruby	500
Spinel	150
Ilmenite	105
Garnet	50
Zircon	100
CPX	45
Mix KIM's (Garnet, ilmenite, spinel, CPX)	30
Rutile	25

The report, in conjunction with the Technical Economic Evaluation for our Kishon Mid-Reach Zone 1 project, has confirmed our assumptions regarding the significant commercial potential of the project as we move towards developing our first mine in the Kishon Mid-Reach Zone 1.

Appointment of Chairman

In April 2019, we announced that in line with our commitment to high corporate governance standards, the Company is separating the roles of the Chairman and Chief Executive Officer. I am delighted that our UK-based independent non-executive director, Michael Rosenberg, OBE, has agreed to be the Chairman of the Company, effective from 1 May 2019. His experience of the London markets will be invaluable as we navigate through this period of major change. I will continue in my role as Chief Executive Officer.

Change of name

In April, we announced our intention to change the English name of the Company to **Shefa Gems Ltd.** The proposed change is a reflection of the Company's "Mine to Market" strategy. By renaming itself as Shefa Gems, it will enable the Company to build a global brand by leveraging the positive brand-value associated with the rare gemstones amongst the suite of precious stones found in the Kishon Mid-Reach area. A special resolution to approve the name change will be proposed at the Group's Annual General Meeting, which will be held on 23 May 2019.

Review & Strategic Report

Outlook

Looking ahead to 2019, the TEE report in conjunction with the independent valuation of our gemstones provides Shefa Yamim with an important base case for the development of the Kishon Mid-Reach Zone 1 project as we continue to progress towards trial mining in Zone 1. The collaboration with Yossi Harari and the recent launch of the "Heaven on Earth" jewellery collection is an important step and will play a significant part in Shefa Yamim's Mine to Market development strategy, which includes exploration, mining, as well as designing and selling its jewelry pieces containing gemstones from the Holy Land.

The next steps for the Company will be to:

- Continue progress with planning and regulatory procedures to advance the Kishon Mid-Reach Zone 1 area in accordance with the Prospecting License
- Advance exploration of its primary target in the Kishon Mid-Reach area starting with further exploration of Zone 2 scheduled to begin in Q2 2019
- Expand exploration efforts to Zone 3 of the Kishon Mid-Reach area
- Build on the launch of the "Heaven on Earth" collection and develop the Company's mine to market strategy, which is intended to promote unique jewellery collections utilising Shefa Yamim's suite of precious gems that will be marketed worldwide

Following our first full year as a listed company, Shefa Yamim is more advanced and in a stronger position to pursue its twin-track strategy of advancing exploration in the Kishon Mid-Reach towards trial mining, whilst continuing to pursue our "Mine to Market" strategy.

Avi Taub
Chairman & CEO
April 30, 2019






Chief Financial Officer's Review

Over the last 12 months, the Company recorded a profit of TNIS (in thousands) 6,009 (2017: TNIS 16,258 loss), equating to a profit of NIS 0.431 (2017: 1.703 loss) per share. TNIS 6,009 are attributed to financial income due to adjustment of the value of a financial liability at fair value, net of general and administrative expenses. At the end of the year, the Company's cash and cash equivalents stood at TNIS 209.

As previously stated, Shefa Yamim is in a similar position to many exploration companies and is not expected to generate revenues at this stage of its development. As such the Company frequently needs to raise further capital as it progresses towards trial mining and commencement of commercial mining.

In view of past experience, the Company believes that it continues to have access to finance from certain supportive shareholders who have provided funds previously and have indicated that they will be in a position to do so again, should the Company require it.

The Company recently appointed SI Capital Limited ("SI Capital") as sole broker and strategic advisor to the Company. SI Capital will be assisting Shefa Yamim as broker to interact with the market and shareholders as Shefa Yamim moves towards its objective to begin commercial mining and generating revenues.

In accordance with the approval of the AGM from last year (6 of September 2018) the parent company ("Top-Co") – has submitted to the Tel Aviv Court an application for approval, inter alia, of the distribution of all of its holdings in the Company pro-rata to all of its shareholders and a complete separation between the Top-Co and the Company. Further details of this will be provided once all negotiations between the Company and Top Co have been concluded and the Court has given its approval.

Principal Risks and Uncertainties

The Company is currently at an early stage of mining at the Kishon Mid Reach Project. The Company currently has no cash producing properties and therefore no positive cash flow. The Company will continue to have negative operating cash flow until commercial production is reached.

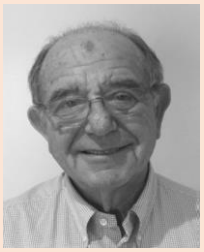
The ability of the Company to continue its activities as a going concern depends to a greater extent on its ability to continue to raise capital and/or loans. As there has been no previous attempt to mine for precious stones in Israel, there is a risk as with all exploration companies that the Company would require additional funding to complete the exploration plans.

Directors' Biographies

Abraham 'Avi' Taub

Chief Executive Officer, Executive Chairman

Avi Taub, Chief Executive Officer, served in the Israeli Defence Forces for four years, compulsory in Israel, later becoming a commander in an elite unit. He has over 45 years' experience in all stages of the precious stone industry, including treatment of raw diamonds, polishing and cutting at his family-owned business, one of the supplier of diamonds to the illustrious Israeli diamond industry. He later diversified his professionalism from diamonds to precious stones and jewellery design, providing him with invaluable experience and contacts within the jewellery industry.



Michael Rosenberg, OBE

Independent Non-Executive Director and Chairman designate

Michael Rosenberg, Independent Non-Executive Director, spent his early business years with the merchant bank, Samuel Montagu and Co. Ltd and joined the board in 1971 as Director of Corporate Finance. In 1974, he left the bank to co-found a healthcare business which became a global business over the next 10 years. From 1987 to 1999 he was a shareholder, director and later chairman of Raphael Zorn Helmsley Holdings Ltd (now Numis Corporation). During that period, he was instrumental in bringing Israeli companies to the AIM market. He has served on a number of Israeli boards both as an external director and as chairman including: Amiad Filtration Services Ltd, Dori Media Ltd, Pilat Global Media Plc and more recently Starcom plc, where he is Non-Executive Chairman. He is Non-Executive Chairman of Catalyst Media Group plc. He is also a Non- Executive Director of Ion Pacific (UK) Ltd, an FCA regulated company. Mr Rosenberg chaired a DTI committee on trade with Hong Kong for several years and also served on the board of the China British Business Council. He was awarded the OBE for services to exports in 1994. He is a published author of children's books and mentor to the Princes Trust, helping young people to start new businesses.

James AH Campbell

Independent Non-Executive Director

James AH Campbell, Independent Non-Executive Director, graduated as a geologist from the Royal School of Mines (Imperial College, London University) in 1985 and completed an MBA at Durham University in 1998. He has over 30 years' experience in the diamond industry having spent over 20 years' with De Beers' Global Mining and Exploration Group before becoming Managing Director of African Diamonds plc in 2006. Mr Campbell has extensive board and sector experience and has served on several UK and Canadian boards including African Diamonds plc, West African Diamonds, Stellar Diamonds plc and Rockwell Diamonds Inc. He is currently Managing Director of Botswana Diamonds plc. Mr Campbell is a Fellow of the Institute of Mining, Metallurgy & Materials, a Fellow of the South African Institute of Mining, a Fellow of the South African Institute of Mining, Metallurgy & Materials, a Fellow of the South African Institute of Mining & Metallurgy, Chartered Engineer (UK), Chartered Scientist (UK), a Professional Natural Scientist (RSA) and a Fellow of the Institute of Directors South Africa.

Nathalie Schwarz

Independent Non-Executive Director

Nathalie Schwartz, Independent Non-Executive Director, a graduate from the University of Manchester and a qualified lawyer, started her career at leading global law firm Clifford Chance focusing on cross-border mergers and acquisitions, corporate restructurings, IPOs and private equity. Ms Schwartz has operated as an Executive Director on the boards of two of the UK's leading public companies in the media and digital technology sector, namely as Group Commercial Director at Channel 4 Television Corporation and as Group Strategy and Development Director at Capital Radio PLC. She also served as a Non-Executive Director on the Board of Matomy Media PLC (digital advertising services), which listed on the London Stock Exchange in 2014 and was a Non-Executive Director on the board of publicly listed companies Amiad Water Systems PLC (water filtration) and Photon Kathaas (Indian film production and distribution). She is currently a non-executive director of UK publicly listed company Wilmington Group PLC (digital data, publishing and training). Ms Schwartz specialises in growing businesses, strategy, operational management, developing new commercial and technological opportunities and mergers and acquisitions.

Directors' Biographies

David Nachshon

Independent Non-Executive Director

Israel David Nachshon, Independent Non-Executive Director, a graduate in Rabbinical Ordination, has extensive ties within the Jewish community worldwide as well as established government relations in Israel. He has been on the board of Shefa Yamim (A.T.M.) Ltd and Shefa Yamim Ltd since 1999, when the company was founded. Mr Nachshon is a Board member of the Jewish community institution in Kiev, Ukraine, Chairman of the Chabad Jewish Mobil Mitzva Centre, Chabad Youth Movement Tzivos Hashem and Chabad Educational Institutions.

Gershon Fraenkel

Independent Non-Executive Director

Gershon Fraenkel, Independent Non-Executive Director, is a British Citizen and founder of WST Charity Ltd, in North West London which focuses on alleviating poverty within the Jewish Community in the area. He has successfully launched many international businesses in the last 25 years, including SEACO Group of Companies and Linkedell Ltd, as result of which he acts as an intermediary and adviser of international transactions to companies in Israel and the UK. Mr Fraenkel is fluent in English, Hebrew and Yiddish.

Hanoch Ehrlich

Independent Non-Executive Director

Hanoch Ehrlich, Independent Non-Executive Director, is a qualified lawyer and has held an Israel Bar Association licence since May 1994. Mr Ehrlich is specialised in contract law, company law and all aspects of commercial law. He has worked on several international M&A transactions, including advising companies in Central and Eastern Europe. He is experienced in litigation, having represented various entities such as the Israel Military Industries Ltd., the Shikun U'binui Group (the largest construction conglomerate in Israel), the Ofer Brothers Group, the Yitzhak Tshuva Group, Bank HaPoalim, the Israel Discount Bank, the Industrial Development.

Directors Report

Principal Activities

Shefa Yamim, founded in 1999, is the only coloured precious stone exploration company in northern Israel. The Company's exploration and prospecting permits are located across the Kishon River catchment area of Haifa and Mt Carmel in northern Israel, covering a total area of 614 km^2, some 85km north of Tel Aviv. The Company also maintains an operational centre with a processing facility and laboratory in Akko, a town north of Haifa.

Financial Statements

The Directors present their report together with the audited financial statements for the year ended 31 December 2018. The results of the year are set out in the statement of profit or loss.

Dividends

The Board is not proposing a dividend this year.

Business and Strategic Review

The review of Shefa Yamim's business operations, including processing and exploration activity, corporate overview and outlook, are set out in the Strategic Report section on pages 5 to 10 together with this Directors' Report.

Directors

The Directors' who have held office for the year ended 31 December 2018 and are currently serving are as follows:

Abraham 'Avi' Taub - Chief Executive Officer & Executive Chairman
Michael Rosenberg, OBE - Independent Non-Executive Director (Chairman designate)
James AH Campbell - Independent Non-Executive Director
Nathalie Schwarz - Independent Non-Executive Director
David Nachshon - Independent Non-Executive Director
Hanoch Ehrlich - Independent Non-Executive Director
Gershon Fraenkel - Independent Non-Executive Director

Corporate Governance Statement

The information that fulfils the requirement of the corporate governance statement in accordance with Rule 7.2 of the Financial Conduct Authority's Disclosure and Transparency Rules can be found in this Directors' Report and in the Corporate Governance information on pages 18 to 22 which is incorporated into the Directors' Report by reference.

Directors' Remuneration and Interests

The Directors remuneration and interests are set out in the Directors Remuneration Report on pages 23 to 26.

Rules about appointment and replacement of Directors; Amendment of Articles

Pursuant to the Company's articles of association and Israeli Companies Law, Directors are elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of Directors. Each director (except for the public external appointed Directors) shall serve until the next Annual General Meeting following the Annual General Meeting at which such director was appointed, or his earlier removal. The holders of a majority of the voting power represented at a General Meeting and voting thereon shall be entitled to remove any director(s) from office, to elect Directors in place of the Directors so removed or to fill any vacancy, however created, in the Board of Directors by way of ordinary resolution. Each non-executive director will serve until the next Annual General Meeting following his or her election and his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal by a vote of the majority voting power of the Company's shareholders at a general meeting of the Company's shareholders or until his or her office expires by operation of law.

Apart from the authority of the General Meeting to remove a director from office, subject to giving such director a reasonable opportunity to present his position to the General Meeting, under the Company's articles, the office of a director shall be vacated ipso facto, upon his death, or if he be found to be of unsound mind, or becomes bankrupt or if he becomes prohibited by law from being a director in a public company, or if the director is a company upon its winding up.

Under the Israeli Companies Law a company may amend its articles by a simple majority of the shareholders at a General Meeting. Any proposed amendments to the articles regarding modification of rights attached to shares of the Company and / or dividing the share capital into various classes of shares requires the approval of the holders of 75% of the issued shares in the Company.

Going Concern

Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, as a result, the Company does not as yet have revenues, rather only expenses. Financing of its operations has been performed until now by infusions of capital and/ or by loans received by the parent company, top-co, and transferred in part to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon the further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern."

These financial statements do not contain any adjustments for valuation of assets and liabilities or their classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern."

Directors' Remuneration and Interests

Reporting obligations in respect of Companies law

The Company is an Israeli company registered with the Israeli Registrar of Companies in 1999, and accordingly is subject to the laws of the State of Israel in general and the "*Israeli Companies Law*" in particular.

Since December 2017, the Company's shares are traded on the London Stock Exchange – yet the Company is still registered as an Israeli company based in Israel and paying taxes in Israel, and **bears the reporting obligations of Israeli companies in accordance with the Israeli Companies Law**.

The Company's business activity focuses solely on the exploration and prospecting of precious stones in northern Israel; An activity which, by its nature, does not generate revenue - until the stage of opening a profitable commercial mine (Expected goal to be implemented by the first quarter of 2020).

Over the past 20 years, since the establishment of the Company, its operations have been financed by private investors in consideration for allocation of shares, and in exceptional cases also through loans of interested parties.

Also, as part of the Company's agreements with suppliers, the Company inform them of its financial position and type of activity, and accordingly the suppliers decide whether and to what extent of credit will be given to the Company.

The Company is required to report, with respect to its financial status, to the tax authorities and the Companies Register - **once a year with the submission of the company's annual financial statements**.

The Israeli Companies Law states, that the Company's shareholders, in the annual general meeting, appoint the Company's Board of Directors in order to supervise and keep up-to-date with respect to the Company's active management function, the company's financial and cash flow position and its ability to meet its obligations, and the setting of the credit framework that the Company may take.

The Company's Board of Directors is required to report to the shareholders of the Company with respect to any matter related to the Company's business activity – **once a year at the Annual General Meeting**.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable laws and regulations. The Directors are required to prepare financial statements for the Company in accordance with International Financial Reporting Standards as issued by the International accounting standard Board (IFRS). Israeli company law requires the Directors to prepare such financial statements. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a true and fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors' Remuneration and Interests

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the Company's ability to continue as a going concern and disclose where they consider it appropriate; and provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors Report and Directors Remuneration Report which comply with the Listing Rules and the Disclosure and Transparency rules.

Legislation in Israel governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors confirms to the best of his or her knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
3. the annual report and financial statements, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Accountability and Audit

Barzily & Co has expressed its willingness to continue in office and a resolution to re-appoint the firm will be proposed at the annual general meeting.

The Directors' Report has been brought for review to the board and has been approved in its present form. The Directors' Report is signed on behalf of the Board by:

Avi Taub
Chairman & CEO
April 30, 2019

Corporate Governance Report

The Company will generally observe the requirements of the UK Corporate Governance Code. As at the date of this Document, the Company is in compliance with the UK Corporate Governance Code, save as set out below:

The UK Corporate Governance Code also recommends the submission of all Directors for re-election at annual intervals. Directors will be required to submit for re-election every three years from Admission.

The Board – leadership and effectiveness

The Board, which currently comprises one Executive and six non-executive Directors, is responsible collectively for the long-term success of the Company. In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance.

Meetings

During the period ended 31 December 2018, a total of six Board meetings were held. All Directors were in attendance at these meetings, either in person or by conference call.

There is not a formal schedule of matters specifically reserved to the Board for its decision, as set out in A.1.1 of the Governance Code, since the Israeli Companies Law which applies to the Company sets out and defines the responsibilities and duties of and areas of decision for the Board. These include approval of financial statements, dividends, Board appointments and removals, long-term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements. The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the Company's position, lies with the Board. These provisions have been fully complied with.

The Board comprises seven Directors, six of whom are non-executive Directors, under the chairmanship of CEO, Avi Taub. The Board's members have a wide breadth of experience in areas relating to the Company's activities and the non-executive Directors in particular bring additional expertise to matters affecting the Company. All of the Directors are of a high calibre and standing. The biographies of all the members of the Board are set out on pages 12 to 13. The interest of the Directors in the Company and their shareholdings are set out on page 24. All the non-executive Directors are independent of management and not involved in any business or other relationship that could materially interfere with the exercise of their independent judgment. The Board is of the opinion that each of its members has the skills, knowledge, aptitude and experience to perform the functions required of a director of a listed Company and that the Board is comprised of a good balance of executive and non-executive Directors.

The induction of newly elected Directors into office is the responsibility of the Chairman of the Board. The new Directors receive a memorandum on the responsibilities and liabilities of Directors from the Company's general counsel as well as presentations of all activities of the Company by senior members of management and a guided tour of the Company's premises. All Directors are invited to visit the Company premises and its manufacturing facilities.

Corporate Governance Report

The Directors receive periodically a detailed operating report on the performance of the Company in the relevant period, including a statement of financial position. A fuller report on the trading and half year results of the Company is provided at every Board meeting. Once per year a budget is discussed and approved by the Board for the following year. All Directors are properly briefed on issues arising at Board meetings and any further information requested by a Director is always made available.

The Directors may take independent professional advice at the Company's expense in furtherance of their duties in accordance with section B.5.1. of the Governance Code.

Relations with Shareholders and Significant Shareholders

Communication with shareholders is given high priority. The half-yearly and annual results are intended to give a detailed review of the business and developments. A full Annual Report is made available on the Company's website to all shareholders. The Company's website (www.shefayamim.com) contains up to date information on the Company's activities and published financial results. The Company solicits regular dialogue with institutional shareholders (other than during closed periods) to understand shareholders views. The Board also uses the Annual General Meeting to communicate with all shareholders and welcomes their participation. Directors are available to meet with shareholders at appropriate times. The Company is committed to having a constructive engagement with its shareholders.

As of 31 December 2018, to the best of the Company's knowledge, the following persons or entities had a significant holding of over 3% in Shefa Yamim ordinary shares:
Parent company Shefa Yamim Limited (TASE: SEFA) owns 47.77% and has been traded on Tel Aviv Stock Exchange since 2012. (MCAP: ILS17.3m, GBP3.6m).
Eight – O – Eight Global Corp 6.91%
One Hundred and One Gold Holdings 3.31%
Michael Zeller 5.09%
BH26 Investments 4.39%
EOM Investments 4.67%
GEM Capital 4.74%
Haifa Investments 4.71%

Committees

The Company has established remuneration, audit and nomination committees, as follows:

Remuneration Committee

The Remuneration Committee provides recommendation on the Company's policy on executive remuneration, determines the levels of remuneration for executive Directors and the chairman and other senior executives. The Remuneration Committee will normally meet not less than twice a year.

The Remuneration Committee is chaired by James Campbell and its other members are Michael Rosenberg, Gershon Fraenkel and Nathalie Schwarz. The Committee did not meet in 2018. The UK Corporate Governance Code recommends that all members of the Remuneration Committee be non-executive Directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers that the Company complies with the requirements of the UK Corporate Governance Code in this respect.

Corporate Governance Report

Under the Israeli Companies Law, the board of Directors of a public company must appoint a remuneration committee. The remuneration committee must be comprised of at least three Directors, including all of the external Directors, who must constitute a majority of the members of the remuneration committee. Each remuneration committee member that is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director. The remuneration committee is subject to the same Israeli Companies Law restrictions as the audit committee as to who may not be a member of the committee.

The duties of the remuneration committee include the recommendation to the Company's Board of a policy regarding the terms of engagement of office holders, referred to as a compensation policy. That policy must be adopted by the Company's Board, after considering the recommendations of the remuneration committee, and will need to be brought for approval by the Company's shareholders, which approval requires a special approval for compensation. A special approval for compensation requires shareholder approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not Controlling Shareholders and do not have a personal interest in such compensation arrangement; or (b) the total number of shares of non-Controlling Shareholders and shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights. The Company will be required to adopt a compensation policy within nine months following Admission.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the Company's objectives, the Company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the Company's risk management, size and the nature of its operations.

Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Company's financial statements and accounting policies, audits and controls (both internal and external), reviewing and monitoring the scope of the annual audit, advising on the appointment of external auditor and reviewing the effectiveness of audit controls.

The Audit Committee comprises Michael Rosenberg as chairman and includes James Campbell, Gershon Fraenkel and Nathalie Schwarz, and will meet as and when necessary, and not less than twice per year. In 2018, the Committee met two times to execute its responsibilities. The meetings focused on audit planning, risk management, and approval of the interim and final results. The Board has voluntarily adopted a dealing code for Directors' dealings based on the Institute of Chartered Accountants and Administrators specimen. The Board will be responsible for taking all proper and reasonable steps to ensure compliance with the dealing code by the Directors and to ensure that the Company, the Directors, any PDMRs and their respective PCAs are in compliance with the provisions of the Market Abuse Regulation.

Corporate Governance Report

If at the time at which an external director is appointed all members of the Board who are not Controlling Shareholders or relatives of Controlling Shareholders of the Company are of the same gender, the external director to be appointed must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

Under the Israeli Companies Law, the Company is required to appoint an audit committee. The Audit Committee must be comprised of at least three Directors, including all of the external Directors and one of whom must serve as chairman of the committee. The Audit Committee may not include the Chairman, a Controlling Shareholder of the Company or a relative of a controlling shareholder, a director employed by or providing services on a regular basis to the company, to a controlling shareholder or to an entity controlled by a controlling shareholder or a director who derives most of his or her income from a controlling shareholder.

In addition, under the Israeli Companies Law, the audit committee must consist of a majority of unaffiliated Directors. In general, an "unaffiliated director" under the Israeli Companies Law is defined as either an external director or as a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an external director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies such as ours whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service

Nomination Committee

The Nomination Committee is responsible for recommendations to the Board for the appointment of additional Directors or replacement of current Directors, for reviewing the composition and makeup of the Board, and for succession planning, taking into account the skills, knowledge and experience that will be needed on the Board in the future. The Nomination Committee comprises Avi Taub as chairman and includes James Campbell and Michael Rosenberg and will meet as and when necessary.

Each committee of the Board that exercises the powers of the Board must include at least one external director, except that the audit committee and the compensation committee must include all external Directors then serving on the board of Directors and an external director must serve as chair thereof.

Conflicts

Throughout 2018 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively and this has also been considered at a committee level where appropriate. During 2018 no conflicts arose which would require the Board to exercise authority or discretion in relation to such conflicts.

Corporate Governance Report

Risk Management and Internal Control

Risk management is currently reviewed on an ongoing basis by the Board as a whole.

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company that have been in place from 2012 and up to the date of approval of the Annual Report and Financial Statements. Principal controls are managed by the executive Directors and key employees, including regular review by management and the Board of the operations and the financial statements of the Company.

The Board has overall responsibility for ensuring that the Company maintains adequate systems of internal control and for determining the nature and extent of principal risks. The Board confirms that they have carried out during 2018 a robust assessment of such risks accordingly, including those that would impact the Company's business model, future performance, solvency or liquidity, and have considered how they are to be mitigated.

The key features of the financial controls of the Company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures.

The main elements of internal control currently include:

- **Operating Controls:** The identification and mitigation of major business risks on a daily basis is the responsibility of the executive Directors and senior management. Each business function within the Company maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the Company's standards and guidelines. These include procedures and guidelines to identify, evaluate the likelihood of and mitigate all types of risks on an ongoing basis.

- **Information and Communication:** The Group operating procedures include a comprehensive system for reporting financial and non-financial information to the Directors. Financial projections, including revenue and profit forecasts, are reported on a monthly basis to senior management compared with corresponding results for previous periods. The central process for evaluating and managing nonfinancial risk is monthly meetings of business functions, each involving at least one Director, together with periodic meetings of executive Directors and senior management.

- **Finance Management:** The finance department operates within policies approved by the Directors and the Chief Financial Officer. Expenditures are tightly controlled with stringent approvals required based on amount. Duties such as legal, finance, sales and operations are also strictly segregated to minimise risk.

- **Insurance:** Insurance coverage is provided externally and depends on the scale of the risk in question and the availability of coverage in the external market.

Directors' Remuneration Report

Introduction

This report sets out Shefa Yamim's executive remuneration policy and details Directors' remuneration and benefits for the financial year under review. The recent amendments to the UK Companies Act 2016 in relation to the preparation and approval of Directors remuneration policies and reports for certain listed companies do not apply to Shefa Yamim as it is not incorporated in England. The remuneration policy and report referred to below are not necessarily intended to comply with the provisions of such laws, although the Board considers that the Company's current remuneration policy would comply with the Governance Code and have taken into account the requirement that the Company's remuneration policies (including any performance-related elements of executive remuneration) must be designed to promote the long-term success of the Company.

In accordance with Israeli Companies Law, the Board recommends and the General Meeting of the Company is asked to approve the remuneration policy of the Company for executives in the Company, after it has been first approved by the Company's Remuneration Committee and Board of Directors.

The Reporting Regulations (International Auditing Reporting Standards) also require the auditors to report to the Company's members in the financial statement within this report and to state whether in their opinion that part of the report has been properly prepared. The report is therefore divided into separate sections for audited and unaudited information. No remuneration consultants were engaged by the Company in 2018.

Audited information

The table of Directors' Annual remuneration is set out below

Emoluments of the Ordinary Directors and Non-executive Directors with comparatives

	Basic annual Salary	Face-to-face meeting	Meeting via conference call	Performance Bonus	Other	2018 Total
James AH Campbell (NED)	£20,000	£860	£576	-		£23,580
Michael Rosenberg (NED)	£20,000	£860	£576	-		£24,240
Nathalie Schwarz (NED)	£20,000	£860	£576	-		£21,243
David Nachshon	NIS 26,000	NIS 620	NIS 370	-		-
Gershon Fraenkel	NIS 26,000	NIS 620	NIS 370	-		-
Hanoch Erlich	NIS 26,000	NIS 620	NIS 370	-		NIS 9,325

Emoluments of the Chairman of the Board & CEO - in the frame of the agreement with 101 Gold Holdings Ltd, the management company:

Directors' Remuneration Report

For efficiency and cost savings, the Company is managed at two sites:

Firstly, in the Company's operational site and laboratories in the industrial zone of Akko, where all exploratory activities take place, including the entire operational and field activities inclusive of; research, explorations, field investigations, classification, geologists, gemologists and geological reports on the exploration activity.

Secondly, the Company outsources all its administrative functions to the management company 101 Gold Holdings Ltd ("101"). 101 provides the Company with all its office facilities in the city Netanya (which is located in the center of Israel) including services of CEO & Chairman (Mr. Avi Taub).

In addition to that, 101 through and by its employees also provides the Company with professional secretarial support and ongoing maintenance with supervision and control on the Finance, Administration, Legal, Regulation, Marketing, Investor relations, Insurance, Payroll, Manpower, as well as ongoing support in the handling of renewal of the various licenses according to which the Company operates.

For all services 101 is providing to the Company, 101 receives a monthly payment of NIS 85,000 plus VAT (out of that amount 101 is paying Mr. Taub salary).

Major Shareholders and Other Interests

As at 31 December 2018, the following person had a notifiable interest (being more than three per cent. of the voting rights) in the issued Shares of the Company:

Parent company Shefa Yamim Limited (TASE: SEFA) owns 47.77**%** and has been traded on Tel Aviv Stock Exchange since 2012. (MCAP: ILS17.3m, GBP3.6m).
Eight – O – Eight Global Corp 6.91%
One Hundred and One Gold Holdings 3.31%
Michael Zeller 5.09%
BH26 Investments 4.39%
EOM Investments 4.67%
GEM Capital 4.74%
Haifa Investments 4.71%

Interests of the Directors

The interests of the Directors, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2018 were as follows:

Director	No. of Shares	Percentage of Enlarged Issued Share Capital
Abraham (Avi) Taub	-	-
James AH Campbell	22,728	0.16%
Michael Rosenberg	22,728	0.16%
Nathalie Schwarz	-	-
David Nachshon	-	-
Gershon Fraenkel	5,000	0.04%
Hanoch Erlich	-	-

Directors' Remuneration Report

Share Options

In December 2017, Directors were granted share options exercisable into shares of the Company as follows:

Director	No. of options	Exercise price	Exercise period
Abraham (Avi) Taub	-	-	-
James AH Campbell	22,728	£1.10	18 months
Michael Rosenberg	22,728	£1.10	18 months
Nathalie Schwarz	-	-	-
David Nachshon	-	-	-
Gershon Fraenkel	-	-	-
Hanoch Erlich	-	-	-

Subject to specified exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires the Company and its employees to make payments to the National Insurance Institute. Our employees have defined benefit pension plans that comply with the applicable Israeli legal requirements.

The Company's obligation to make pension payments is covered by regular deposits with defined contribution plans. The amounts deposited are not reflected in the statements of financial position in the Company's working capital.

Corporate, Social and Environmental Responsibility

Preserving Nature and the Environment

Shefa Yamim protects nature and the environment in which it operates. The Company fully cooperates with all environmental authorities, including the Israel Nature and Parks Authority, the Kishon River Authority and the Kishon River Drainage Authority. Landowners are also engaged prior to any exploration activity in their fields, promoting binding relationships.

Shefa Yamim recognises that its operations, more particularly sample excavation and drilling, can have a damaging impact on the environment. Consequently, the Company is committed to minimising environmental harm and rehabilitating disturbed sites to their original form.

In addition, Shefa Yamim is mindful of the country's scarce water resources and thus utilises advanced technology to recycle water that is needed for sample treatment. No chemicals and pollutants are used throughout the entire treatment process. All reject materials, such as clay and coarse gravel from the treatment process, are trucked to the original site from which they were removed. These are used to restore disturbed sites.

The Company's environmental responsibility also extends to daily work activities where paper recycling, electricity and water saving, and transport sharing are practised.

Directors' Remuneration Report

Human Capital

The core of Shefa Yamim's human resources is local personnel that have diverse expertise and educational backgrounds. In addition to this, Shefa Yamim hires the services of world leading professionals that are experts in the fields of mineral exploration and precious minerals. Besides providing technical input and guidance, they ensure that programmes are designed and implemented according to international standards dictated by the SAMREC Code. This also facilitates regular auditing of Shefa Yamim's results.

Training of personnel is an important part of Shefa Yamim's human resource development. All employees undergo internal and external training provided by professional consultants.

The training extends to all operational areas including fieldwork, sample processing and laboratory work (microscopy and mineral identification). Consequently, skills continue to be improved in concert with the latest technological and scientific trends.

Shefa Yamim (A.T.M.)
Financial Statements

for the year ended 31 December 2018

Barzily&Co.
Certified Public Accountants
ברזלי ושות', רואי חשבון

Jerusalem, March 31, 2019

REPORT OF INDEPENDENT AUDITORS
To the Shareholders of
SHEFA YAMIM (A.T.M.) LTD.

We have audited the accompanying statements of financial position of Shefa Yamim (A.T.M.) Ltd. (hereinafter - "the Company") as of December 31, 2018 and 2017, and the related statements of comprehensive income (loss) , changes in equity and cash flows for each of the three years in the period ended December 31, 2018. 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 Israeli Auditors' Regulations (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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017 and the results of its operations, the changes in its equity and cash flows for each of the three years in the period ended December 31, 2018, in conformity with international financial reporting standards (IFRS).

Without qualifying our opinion, we draw attention to Note 1c of these financial statements -

Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, as a result, the Company does not as yet have revenues, rather only expenses. Financing of its operations has been performed until now by infusions of capital and/ or by loans received by the parent company, top-co, and transferred in part to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon the further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern." These financial statements do not contain any adjustments for valuation of assets and liabilities or their classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern."

Barzily & Co.
Certified Public Accountants
A Member of MSI Worldwide

SHEFA YAMIM (A.T.M.) LTD.
STATEMENTS OF FINANCIAL POSITION

NIS in thousands

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-Current Assets:			
Fixed assets	6	1,736	2,130
Loans to top-co	7	2,494	2,342
Interested party		77	77
Assets for exploration and evaluation of precious stones	8	59,128	55,259
Total non-current assets		63,435	59,808
Current Assets:			
Cash in foreign currency		209	6,489
Deposit in bank	4	- . -	173
Receivables	5	779	368
Total current assets		988	7,030
Total Assets		64,423	66,838
EQUITY AND LIABILITIES			
Equity	18	59,544	52,488
Non-current Liabilities:			
Long-term loans from interested party and others	15	560	800
Financial lease	16	- . -	49
Liability for severance pay	3j	138	118
Options convertible to shares	17	564	9,834
Total Non-current Liabilities		1,262	10,801
Current Liabilities:			
Short-term credit from bank and others	9	456	467
Trade payables	10	1,368	1,766
Interested parties	11	114	110
Other accounts payable	12	907	1,206
Loans from shareholders	13	772	- . -
Loans convertible to shares	14	- . -	- . -
Total current liabilities		3,617	3,549
Total Equity and Liabilities		64,423	66,838

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

March 31, 2019		
Date of Approval of the Financial Statements	Avraham (Avi) Taub CEO and Chairman of the Board of Directors	David Ben David Vice - CFO

SHEFA YAMIM (A.T.M.) LTD.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
NIS in thousands (except for income (loss) per share)

	Note	For the Year Ended December 31, 2018	2017	2016
Costs and expenses -				
General and administrative expenses	19	(3,410)	(541)	(914)
Capital gain		- . -	- . -	178
Operating loss		(3,410)	(541)	(736)
Financial expenses		(218)	(15,954)	(383)
Financial income		9,637	237	570
Financial income (expenses), net	20	9,419	(15,717)	187
Profit (Loss) for the year and comprehensive profit (loss) for the year		6,009	(16,258)	(549)
Basic and diluted income (loss) per share (in NIS)	24	0.431	(1.703)	(0.058)

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

SHEFA YAMIM (A.T.M.) LTD.
STATEMENT OF CHANGES IN EQUITY

NIS in thousands

	Share Capital	Additional Paid-in Capita, netl	Capital Reserve for Share-Based Payments	Capital Reserve from Transactions with Interested Party	Accumulated Deficit	Total Equity Attributed to Shareholders
Balance as of January 1, 2016	9,387	75,832	4,416	6,312	(50,247)	45,700
Comprehensive Loss for the year	- . -	- . -	- . -	- . -	(549)	(549)
Share based payment	- . -	- . -	875	- . -	- . -	875
Receipts for issue of shares during 2012 *	- . -	2,794	- . -	- . -	- . -	2,794
Balance as of December 31, 2016	9,387	78,626	5,291	6,312	(50,796)	48,820
Comprehensive Loss for the year	- . -	- . -	- . -	- . -	(16,258)	(16,258)
Issuance of shares	**4,518	** 14,339	- . -	- . -	- . -	18,857
Share based payment	- . -	- . -	292	- . -	- . -	292
Receipts for issue of shares during 2012 *	- . -	777	- . -	- . -	- . -	777
Balance as of December 31, 2017	13,905	93,742	5,583	6,312	(67,054)	52,488
Comprehensive Income for the year	- . -	- . -	- . -	- . -	6,009	6,009
Issuance of shares	319	595	- . -	- . -	- . -	914
Share based payment	- . -	- . -	133	- . -	- . -	133
Balance as of December 31, 2018	14,224	94,337	5,716	6,312	(61,045)	59,544

* See Note 1d, 18c.

** Net of issuance expenses and fees in the amount of approximately NIS 4,470 thousand. See Note 18b.

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

SHEFA YAMIM (A.T.M.) LTD.
STATEMENTS OF CASH FLOWS

NIS in thousands

	For the Year Ended December 31,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Profit (Loss) for the year	6,009	(16,258)	(549)
Appendix A - Adjustments required to reconcile profit (loss) for the year to net cash provided by (used in) operating activities	(9,931)	17,114	(151)
Net cash provided by (used in) operating activities	(3,922)	856	(700)
Cash flows from investing activities:			
Purchase of fixed assets	(391)	(531)	(305)
Consideration from sale of fixed assets	55	- . -	180
Deposits	173	- . -	- . -
Investment in exploration and evaluation assets	(3,541)	(4,375)	(2,638)
Loan rendered to the top-co	(84)	(1,177)	- . -
Interest received	- . -	188	530
Net cash used in investing activities	(3,788)	(5,895)	(2,233)
Cash flows from financing activities:			
Consideration received for issuance of share capital and options (including additional capital), net	908	137	2,794
Increase in deferred issuance expenses	- . -	(4,707)	(239)
Receipt (Repayment) of credits from banks and others, net	(2)	(205)	168
Receipt (Repayment) of loans from interested parties, net	(111)	446	(101)
Liabilities to shareholders	685	- . -	- . -
Receipt of loans convertible to shares	- . -	16,611	504
Repayment of long-term loans	(25)	(40)	(46)
Interest paid	(106)	(458)	(157)
Net cash provided by financing activities	1,349	11,784	2,923
Linkage differences in regard to cash and cash equivalents	81	(257)	10
Increase (Decrease) in cash and cash equivalents	(6,280)	6,488	- . -
Cash and cash equivalents at the beginning of the year	6,489	1	1
Cash and cash equivalents at the end of the year	209	6,489	1

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

SHEFA YAMIM (A.T.M.) LTD.
STATEMENTS OF CASH FLOWS

NIS in thousands

APPENDIX A

Adjustments required to show the cash flows from current operations:	For the Year Ended December 31, 2018	2017	2016
Expenses (Income) not involving cash flows:			
Depreciation *	54	60	72
Capital gain	- . -	- . -	(178)
Share based payment	25	46	152
Finance expenses (income), net	(9,419)	15,717	(187)
	(9,340)	15,823	(141)
Changes in asset and liability items:			
Increase in receivables	(169)	(64)	(174)
Increase (Decrease) in trade payables	121	1,403	(95)
Increase (Decrease) in liability to an interested party	(242)	- . -	297
Decrease in other accounts payable	(301)	(48)	(38)
	(591)	1,291	(10)
	(9,931)	17,114	(151)

* Net of depreciation encumbered on the exploration and evaluation of assets for precious stones.

APPENDIX B

Significant non-cash flow operations:	For the Year Ended December 31, 2018	2017	2016
Accounts payable in regard to exploration and evaluation assets for precious stones	428	1,550	1,024
Loan for acquisition of fixed assets	124	240	- . -
Loans assigned to capital	- . -	20,518	- . -
Loan from interested parties that is assigned to capital	- . -	1,659	- . -
Balance from a supplier assigned to capital	223	1,152	- . -
Payables in regard to deferred issuance expenses	- . -	742	610
Assignment of a receivable balance from the chairman of the board of directors to the top-co	- . -	640	- . -

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

NOTE 1:- GENERAL

1)

a) **The reported entity –**
Shefa Yamim (A.T.M.) Ltd. (hereinafter – "the Company") is an Israeli company.

The Company is held by Shefa Yamim Ltd. (hereinafter – "the top-co"). As of December 31, 2018 share of top-co in the Company was 47.81%.

Until December 2017 the top-co owned 75% of the Company's share capital. As a result of the Company's issuance of shares on the London Stock Exchange (AIM) on December 18, 2017 (see Note 18b) the top-co's ownership was reduced to 50.63%. The top-co is a public company whose shares are traded on the Tel Aviv Stock Exchange.

b) The Company engages in prospecting and exploration for diamonds, precious stones and gold ("precious stones") in Northern Israel, along the length of the Nahal Kishon riverbed in the Zevulun Valley, in Emek Yizrael, on designated slopes of Mount Carmel and in the Ramot Menashe and Migdal Haemek areas based on prospecting and exploration permits received from the Superintendent of Mining in the Office of National Infrastructure of the Government of Israel, in accordance with the Mines Ordinance.

Proximate to date of approval of the financial statements, the Company continues to conduct prospecting and explorations in accordance with current valid permits granted for an inclusive area of approximately 614 thousand dunam.

The Company has exclusive Prospecting Permit No. 869-B8 that is valid until June 5, 2019 and covers an inclusive area of 173,636 dunam. Concurrently, the Company has two additional Exploration Permits: Exploration Permit No. 837-A12, for an inclusive area of 327,551 dunam, that is valid until December 20, 2019, and Exploration Permit No. 899-A7, for an inclusive area of approximately 112,904 dunam, that is also valid until December 20, 2019.

In addition, commencing June 6, 2018, the Company holds Exploration Permit 869C9 for an area of 252 dunam located in territory known as Zone 1 in the middle segment of the Nahal Kishon area.

The Company's goal is finding precious stones in the existing permitted areas and/or future areas in sufficient quantities to obtain exclusive mining rights and/or a mining contract. In the event of positive exploration and prospecting results, the Company will receive a "Discovery Certificate" and will be eligible to receive an exclusive mining license from the Government of Israel regarding diamonds, gold and precious stones.

In accordance with the Mining Ordinance, subsequent to exposure of the mine and quarry of precious minerals, the Company will be required to pay royalties to the Israeli Government, as outlined in the Mining Ordinance, at the rate of at least 5% of the value of the mined minerals or their value while still unmined.

c) Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, as a result, the Company does not as yet have revenues, rather only expenses. Financing of its operations has been performed until now by infusions of capital and/ or by loans and convertible loans received by the Company from third parties and from the top-co and transferred in parts to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon the further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern.".

These financial statements do not contain any adjustments for valuation of assets and liabilities or their

classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern."

d) On February 22, 2012 the Tel Aviv-Yafo District Court approved the top-co request for an arrangement with creditors in accordance with Sections 350 and 303 of the Corporate Ordinance – 1999.
In the framework of the arrangement with creditors, the top-co allocated 23,817,790,260 new shares without par value that constitute, subsequent to their allocation, 99% of the issued and outstanding top-co fully diluted share capital. 9% of this allocation was allocated to Pareto Mergers and Acquisitions Ltd. (hereinafter: "Pareto") and 90% (fully diluted) was allocated to shareholders of the Company.

As consideration for the allocation of new shares, shareholders of the Company and Pareto invested an amount of NIS 1,250 thousand in the top-co (NIS 1,125 thousand from the Company's shareholders and NIS 125 thousand from Pareto).

These amounts were transferred to the trustee's fund wherein all assets and liabilities of the top-co company have been assigned in the framework of the creditors arrangement.

On April 4, 2012, in accordance with allocation of the shares to Pareto and to the Company shareholders as abovementioned, the Company allocated 7,040,700 ordinary shares to the top-co so that upon completion of the transaction, the top-co held shares that constitute 75% of the Company's issued and outstanding share capital subsequent to the allocation (fully diluted).

The Company is entitled to payment of NIS 280 million for this shares allocation (hereinafter: "the debt"). Amount of the debt is linked to the Consumer Price Index and bears interest of 4% per annum. The debt will be paid exclusively from future top-co mobilizations of capital, with the Company entitled to 85% of any future mobilized capital (net after expenses) until repayment of the entire debt.

Until December 31, 2018, the Company received NIS 23,912 thousand (including NIS 2,637 thousand in regard to interest) from mobilizations of capital. See Note 18.

In the event that future mobilizations of capital will not complete repayment of the debt, this does not constitute grounds for nullification of the agreement or a change in its terms and the Company will have no recourse to collect from top-co in any other manner.

In view of the uncertainties in regard to future mobilizations of capital by top-co, the Company recorded the proceeds from the abovementioned issue in accordance with actual mobilizations of top-co.

e) On December 18, 2017 the Company completed its IPO on the AIM Stock Market in London. In this framework, the Company registered for trade 4,517,456 Ordinary shares. As a result of this issuance, top-co holds shares that constitute 50.63% of the outstanding share capital of the Company. See also Note 18.

f) Definitions -
In these financial statements:

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB) that include international financial reporting standards (IFRS) and international accounting standards (IAS), and interpretations of these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.
"The Company" – Shefa Yamim (A.T.M.) Ltd.
"Top-co Company" – Shefa Yamim Ltd.
"Related Party" – As defined in IAS 24 and by the International Accounting Standards Board (IASB).
"Interested Party" – as defined in the Securities Act – 1968, and its Amendments.
"101" – One Hundred One – Gold Holdings Ltd. – An interested party (hereinafter: "101").
"808" – Eight O Eight Global Corp. – An interested party (hereinafter: "808").
"Index" – The Consumer Price Index published by the Central Bureau of Statistics.
"Dollar" or $ - The U.S. dollar.

NOTE 2:- BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

a) **Declaration in regard to Implementation of International Financial Reporting Standards (IFRS)**
The Company's financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") and related clarifications published by the International Accounting Standards Board ("IASB").

The significant accounting principles detailed below were consistently implemented for all reporting periods presented in these financial statements except for changes in the accounting policies that derive from application of standards, amendments to standards and clarifications that became effective at the date of the financial statements.

The financial statements were approved by the board of directors on March 31, 2019.

b) **Functional Currency and Presentation Currency**
The financial statements are presented in New Israel Shekels (NIS) that is the functional currency of the Company, and are rounded to the nearest thousand. The Shekel is the representative currency of the main economic environment wherein the Company operates.

c) **Basis for preparation of financial statements**
These financial statements are prepared on the basis of historical cost. The statement of comprehensive income was included according to characteristics of operations.

Value of non-cash assets and detail of share capital measured on the basis of historical cost, were adjusted to changes in the Consumer Price Index until December 31, 2003 since until that date the Israeli economy was considered to be hyper-inflationary.

d) **The operating turnover cycle**
The ordinary operating turnover cycle for the Company is one year. The assets and liabilities attributed to this operation and that are intended to be realized during this operating period are shown in the framework of current assets and current liabilities.

e) **Foreign currency and linkage basis**
Transactions stated in foreign currency are translated into the functional currency of the Company at dates of transactions, using the representative exchange rate. Financial assets and liabilities designated in foreign currency at reported date have been included in the financial statements according to the prevailing representative exchange rates as published by the Bank of Israel at the balance sheet date. Non-monetary items designated in foreign currency and measured at fair value are translated into the functional currency at the exchange rate prevailing when the fair value was determined. Non-monetary items measured at cost are translated into the effective exchange rate at transaction date for the non-monetary item.

Detail in regard to the Consumer Price Index and the exchange rate of the U.S. dollar and the British pound:

	December 31,		
	2018	**2017**	**2016**
CPI in points (applicable) *	124.31	123.33	122.84
CPI in points (known) *	124.68	123.21	122.84
Exchange Rate of U.S. $ in NIS	3.748	3.467	3.845
Exchange Rate of British £ in NIS	4.793	4.682	4.725

* Base Index 2002 = 100.

	Year ended December 31,		
	2018	**2017**	**2016**
Change in CPI (applicable)	0.80%	0.40%	(0.20%)
Change in CPI (known)	1.20%	0.30%	(0.30%)
Change in rate of exchange- U.S. $	8.10%	(9.83%)	(1.46%)
Change in rate of exchange- Brit. £	2.38%	(0.91%)	(18.31%)

f) **Critical accounting decisions**

Implementation of accounting policies adopted by the Company requires Company management, in certain instances, to implement broad accounting decisions (as opposed to accounting decisions that related to determination of estimates and valuations as detailed in Section g. below). These broad decisions relate mainly to adoption of the accounting principle most suitable to the circumstances, or rendering of an acceptable interpretation under circumstances where the accounting regulation does not render a full or clear response for the specific circumstances. A critical accounting decision is such that the results may have a significant effect on the financial situation and results of operations of the Company as reflected in the financial statements and with other basic assumptions could lead to an accounting result significantly different than the one presented therein. By its nature, an accounting decision as such is partially subjective. Concurrently, by implementing a critical accounting decision, Company management bases its conclusion on understanding of the accounting principles for implementation of its operations and, where relevant, the Company consults with external experts in the relevant field.

g) **Essential estimates and uncertainties**

Upon preparation of the financial statements, Company management is required to utilize estimates or valuations in regard to transactions or matters that their final effect on the financial statements cannot be accurately determined at the time. The main basis for determination of the quantitative value of these estimates is assumptions adopted by Company management, taking into account the circumstances for the estimate, as well as the best of knowledge available at the time. It is natural, since these estimates and valuations are a result of decisions during uncertainty, that during significant moments, changes in the basic assumptions derived from changes that are not absolutely dependent on Company management, as well as additional information at a future date that was unavailable to the Company management at the time when the estimate was formulated, will result in changes in the quantitative value of the estimate. Thus, this will also influence the financial position of the Company and the results of its operations.

Therefore, though these estimates and valuations were concluded using the best of knowledge available to management, based on past experience and taking into account the singular circumstances, and, where relevant, reliance on external consultants, the final quantitative effect of transactions or circumstances requiring estimate can only be clarified when these transactions or circumstances reach their conclusions. Therefore, the actual results, upon final clarification of the results for an event that requires determination of estimates and valuations, may differ, sometimes significantly, from estimates and valuations that were determined initially and are updated over the period of the related events.The estimates and valuations that form the basis are examined currently and are updated as a result of information gained by management or of an event that occurred subsequent to the last date when the estimate was determined, and were not available at the previous period when the estimate was determined or examined. Changes in accounting estimates are charged to the period when the change occurs in the estimate, or also to subsequent periods following the change, when it is apparent that the implications of the change will have an effect on the present and future periods.

Following are areas where the valuation for the financial statements requires estimation and valuation that, in the opinion of management, will have a very significant effect:
1) fair value of prospecting assets
2) fair value of financial instruments
3) fair value of Options.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

a) **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments that are immediately realizable. This includes short-term bank deposits for immediate withdrawal and deposits with maturities of three months or less that are not limited in any way and no charges are placed thereon.

Deposits that are limited or that their maturity dates are in excess of three months but not in excess of one year are classified as deposits in the current assets section of the statements of financial position.

b) **Fixed assets**

Fixed assets are stated at cost net of accumulated depreciation and any losses in value that may have occurred.

The cost includes acquisition cost of the fixed assets as well as all costs that can be attributed directly to bringing the asset to its location and its current situation that are necessary for operations, using the methodology intended by management.

Vehicles purchased under financial lease agreements are presented at cost computed by estimated capitalization of the leasing costs in accordance with the leasing agreement.

Depreciation included in the statement of comprehensive income is calculated using the straight-line method based on the estimated useful lives of the assets, at the following annual rates:

	%
Office furniture and equipment	6-15
Laboratory machinery and equipment	10-15
Leasehold improvements – Establishment of a Laboratory	10
Vehicles	15
Computers	33

Depreciation expenses for vehicles and laboratory equipment used during explorations are charged to cost of assets for exploration and valuation of precious stones. Profit or loss arising from sale or decrement of a fixed asset item is determined as the difference between receipts from its sale and its book value at decrement date, and is included in operations.

c) **Assets for prospecting and evaluation of precious stones**

1. The Company has adopted the "Successful Efforts Method" in regard to the accounting treatment of expenses incurred in exploration, mining and extraction of precious stones. In accordance with this method:
    a) Expenses for participation in geologic tests and scans that occur prior to the exploration and valuation stage and prior to receiving a permit are charged immediately to the statements of comprehensive income when incurred
    b) Investments in explorations for precious stones during the exploration and valuation stages, relating to areas that it is as yet unproven whether they will indeed yield precious stones or are unprofitable, are shown in the statements of financial position at cost, as exploration and valuation assets that are stated as tangible or intangible assets in accordance with the essence of the asset. These investments include, inter alia, costs incurred for performance of geological research, drilling costs, operations relating to evaluation of technical ability for commercial existence of resources to be yielded as well as general and administrative costs of a headquarters (mainly to a related company) related to direct costs for exploration and valuation assets.

c) Investments in prospecting for precious stones that have an existing technical plan and the resource has a commercial existence will be restated and included as "investments in precious stones." Prior to their restatement, these items will be examined for decrease in value. In the event that a loss has been created, this will be recognized and included in the statements of comprehensive income. Investments in precious stones are amortized in the statements of comprehensive income on the basis of amounts extracted in relation to total proven reserves for the precious stones asset, as valuated by an external assessor with expertise in this area.

d) Prospecting and evaluation assets will be examined for decrease in value when events and occurrences would lead one to believe that their book value exceeds their attributed realization value. Such events and occurrences include, inter alia: expiration of exploration rights in a specified area or predictions that these rights will expire in the near future and renewal is not foreseen; prospecting for precious stones in a specific area have not resulted in proven commercial quantities of reserves of precious stones. In the event that there are signs of an impairment in value, as abovementioned, the realization value for the asset is estimated in accordance with IAS 36 (see Section 3ef').

2. "Investments in Precious Stones" in the statements of financial information will include, also, accumulated costs for development of infrastructures for the necessary bases in order to yield resources. These costs are capitalized and can include headquarters costs that are directly attributable to establishment of the assets and other direct overhead costs. They are shown in the statements of financial information at cost and are amortized in the statements of comprehensive income on the basis of quantity yielded in proportion to total proven reserves as evaluated by an external expert assessor, as stated in 1c abovementioned.

3. Investments in precious stones that have an existing technical plan are examined at each reporting period for any signs of a reduction in value. In the event that such signs exist, the realization value is computed in accordance with IAS 36 (see Sect. 3f).

4. The Company will recognize the liability and, correspondingly, the asset in regard to obligation of the Company to disassemble, clear and rehabilitate the site where the asset was established. The liability is initially measured at its present value and the expenses derived from its increase are depreciated over a period of time in the statement of comprehensive income. The asset is initially measured at its present value and is depreciated over a periodof time in the statement of comprehensive income in accordance with the useful life of the removed asset. Changes in timing and in the amount of the economic resources that are necessary for the removal of the liability as well as the change in the capitalization rate are added to or deducted from the asset during the current period corresponding to a change in the liability.

   Changes in the obligation to disassemble and clear items and rehabilitation of the site where they were established, except for changes deriving from timing, are added to or deducted from the asset cost during the period when incurred. The amount deducted from the asset cost will not exceed the book value of the asset and the balance, if any, is immediately recognized in the statements of comprehensive income.

The Company examines its projected obligations to rehabilitate and renew excavation sites and includes a provision, when necessary, in accordance with the current value of projected costs.

d) **Issue of a package of securities**

When securities are issued as a package, the consideration received is allotted (prior to issue expenses) to securities issued as a package in conjunction with the following order of allocation: financial derivatives and other financial items that are presented at fair value periodically. Subsequently, the fair value of the financial liabilities is determined, with the allotted consideration for capital instruments determined as the remaining value. Issue costs are allotted to each component

in accordance with the ratio of amounts determined for each component of the package.

e) **Impairment in value of assets**

At the close of every reporting period, the Company examines the book value of its tangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Company examines the realization value of the designated asset in order to determine the loss from impairment, if any.

The realization value is the higher of fair value of the asset net of sale costs as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset using a rate prior to taxes that reflects the present book value of the time span for the money and the specific risks for the asset that the estimated future cash flows were not adjusted for in this regard.

In the event that the book value of the asset is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

Prior devaluation of an asset is nullified, partially or completely, only when changes in the determinants of realization value of the asset have occurred. In the event of such an occurrence, the book value of the asset is increased to the estimated current fair value, but not in excess of the asset book value that would have existed had there not been devaluation and subsequent to deduction of any relevant depreciation. Such nullification is recognized immediately in the statements of comprehensive income.

f) **Financial instruments**

1. **Non-derivative financial instruments**

   Non-derivative financial instruments comprise various accounts receivable and cash and cash equivalents.

   Non-derivative financial instruments are recognized initially on the trade date at which the Company becomes a party to the contractual provisions allowing the Company to receive the financial instrument. Investments in these instruments are initially presented at their fair value with the addition of transaction costs.

   The Company classifies its financial assets as loans and receivables. This classification is determined in accordance with the purpose for holding the financial asset, when initial recognition of the financial asset occurs.

2. **Losses from impairment in value and write-off of non-derivative financial instruments**

   Financial instruments not classified at fair value through profit and loss are examined at each reporting period as to whether there are signs of impairment in value. Impairment occurs when there is objective evidence that as a result of a specific incident or occurrences, occurring subsequent to initial recognition date of the financial asset, a negative effect exists on the projected cash flows for the investment in this asset.

   In regard to financial assets that are included at amortized cost (mainly loans and receivables), the amount of impairment in value is the difference between the book value of the financial asset and the present value of the estimated future cash flows projected to derive from the asset, discounted at the original effective interest rate for the asset. This amount is charged to the statement of comprehensive income.

   In the event that during a parallel period to that when a loss was recorded for impairment in value for a financial asset included at amortized cost there are indications that the amount of the loss from impairment in value is less and is objectively related to an event occurring subsequent to recognition of the impairment, then the prior impairment loss will be written off, in part or completely, to profit and loss. The amount written off is limited so that the book value of the investment in the financial asset at the time of write-off of the loss from

impairment in value does not exceed the amortized cost of the asset at the cancellation date had there not been a prior recognition of impairment in value.

3. **Non-derivative financial liabilities**
The Company initially recognizes debt securities issued on the date that they originated. All other financial liabilities (including financial liabilities designated at fair value through profit and loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are reduced when the obligation of the Company, as specified in the agreement, expires or when it is discharged or written off.

Financial obligations are initially recognized in accordance with their fair value with the addition of attributable transaction costs. Subsequent measurement of financial liabilities is mainly on the basis of amortized cost using the effective interest method.

The Company has the following non-derivative financial liabilities: loans and credit from banks and others, and trade and other payables.

Financial assets and liabilities are offset and the net amounts are presented in the statement of financial position when the Company currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

g) **Leases**
The criteria for determining whether leases are financial or operating are based on the essence of the agreements, examined at the time when contracted in accordance with the regulations determined in IAS 17.

Leases that transfer all risks and benefits contained in ownership of the leased property are classified as financial leases.

Other leases are classified as operating leases and leasing payments are recognized as an expense in the statements of comprehensive loss and are prorated currently using the straight line method over the lease period.

Financial lease payments are divided between financing expense and amortization of the remaining liability.

h) **Provisions**
Provisions are recognized when the Company has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Company being required to provide additional benefits in order to settle this obligation. The amount recognized as a provision reflects the best estimate by management of the amount that will be required to settle the obligation currently at financial statements date, while taking into account the risks and uncertainties related to obligations. When provisions are determined by capitalization of projected cash flows in order to settle the obligation, the provision is the current value of the projected cash flows. Changes in projected time periods are charged to comprehensive income or loss. When the entire sum or a portion thereof necessary for current settlement of the liability will likely be repaid by a third party, the Company recognizes an asset for the return, up to the amount of the recognized provision, only when there is virtual certainty that the amount will be received and it can be reliably estimated.

i) **Liability in regard to employee benefits**
The Company has several benefit plans for its employees:

1. **Short-term employee benefits**
Short-term employee benefits include salaries, vacation days, recreation and employer deposits to the National Insurance Institute that are recognized as expenses when rendered.

A liability for a cash bonus or a plan for participation in Company earnings is recognized when the Company has a legal or derived responsibility for payment of the amount for services rendered in the past by the employee and the amount can be reliably measured.

2. **Benefits upon retirement -**
These plans generally are funded by deposits to insurance companies and pension funds and are classified as restricted deposit plans or as restricted benefits plans.

Some Company employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law, whereby the Company pays fixed amounts without bearing any legal or derived responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified for benefits or for compensation, and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

Concurrently, the Company operates a restricted benefit plan for severance pay as required by the Severance Pay Law. In accordance with the Severance Pay Law, employees are entitled to compensation upon retirement or upon termination of their employment.

The financial statements include a provision in the amount of the difference that the Company would be required to pay in the event that the employees would be entitled to severance pay at balance sheet date. No actuarial computations of possible obligation and actual value of deposits with the restricted benefits plan were made since, in the opinion of Company management, such computation would not have a material effect on the Company's financial statements.

j) **Financial income and expenses**
Financial income includes interest in regard to invested amounts, revenues from exchange rate differences that are recognized in the statements of comprehensive loss and interest income that is recognized upon accumulation, using the effective interest method.

Financial expenses include interest on loans received and changes in the time estimates of provisions.

Gains and losses from exchange rate differences are reported net. Costs of credit are recognized as an expense during the period of their inception, in accordance with the effective interest methodology.

k) **Deferred Taxes**
The Company creates deferred taxes in regard to temporary differences of value for tax purposes of assets and liabilities and their value in the financial statements. These deferred tax balances (asset or liability) are computed according to the projected tax rates occurring upon realization, based on tax rates and regulations in force or legislated fully at the date of the statements of financial position. Deferred tax liabilities are recognized, generally, for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized on the books for carryforward losses, tax benefits and temporary differences that are deductible to the extent that it is probable that future taxable profit will be available against which the temporary differences can be offset. Deferred tax assets are reviewed at every reporting date and, in the event that the related tax benefits will not be utilized, they are deducted.

In the absence of certainty regarding taxable income in the future, there was no recording of a tax deferred asset in regard to carryforward losses on the Company books of account.

l) **Statement of cash flows**
The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Company are included in the cash flows in the framework of finance operations.

m) **Loss per Share**

The Company computes the basic revenue or loss per share in regard to gain or loss that is attributed to the Company shareholders by dividing the income or loss, attributable to ordinary shareholders of the Company, by the weighted average of ordinary shares that exist in the volume during the reported period. The Company does not have any securities that are convertible to shares that would have a potential effect on the diluted income per share.

n) **Share Based Compensation**

In share based compensation, transactions with employees (including officers and others who provide similar services) that are cleared by Company capital instruments, the costed benefit of capital instruments granted is based on their fair value at grant date. The costed fair value upon granting of Options is measured on the basis of the Black-Sholes model. The abovementioned benefit is attributed to expenses in the profit and loss against a growth in share capital, straight-line over the vesting period of the capital instrument that was granted, so that every sub-granting is considered as a graded vesting. In transactions involving share based compensation with renderers of services, the Company measures the expense in accordance with the value of the services received. In share based compensation transactions cleared by cash payment, the Company measures the services acquired and the liability that was created, in accordance with the fair value of the liability. Until the liability is cleared, the Company remeasures the fair value of the liability at every reported period and upon clearance, so that any changes are recognized in the statement of comprehensive loss for the period.

o) **Initial Implementation of New Amendments**

IFRS 9 (2014) "Financial Instruments"

IFRS 9 (2014) "Financial Instruments" (hereinafter: "the Standard") is the final Standard of the Financial Instruments package. This Standard includes classification and measurement instructions for financial instruments as published in the first stage during 2009 and that were amended in this version. It also includes the classification and measurement regulations for financial liabilities, suggests an updated model that is based on principles in regard to hedging and presents a new model for examining a projected loss from decrement as detailed hereinafter.

The Standard determines that all financial instruments shall be handled as follows:

- Debit instruments will be classified and measured subsequent to initial recognition under one of the following alternatives: depreciated cost, fair value through profit and loss or fair value through other comprehensive income. Determination of the measurement model will take into account the business model of the entity in regard to management of financial assets and in accordance with the characteristics of the projected cash flows that derive from those financial assets.
- A debit instrument that was measured by depreciated cost or by fair value through other comprehensive income may be designated for fair value through profit and loss, but only if the designation will nullify lack of consistency in recognition and measurement that would be created if the asset was measured by depreciated cost or by fair value through other comprehensive income.
- As a rule, the financial instruments will be measured at fair value through profit and loss.
- Upon initial recognition, one may designate financial instruments at fair value through other comprehensive income. These instruments that will be designated in that manner, will not be subject any longer to the test of decrement, and profit or loss in their regard will not be transferred to profit or loss, including upon realization.
- Embedded derivatives will not be separated from the existing contract found at the beginning of the Amendment. Alternatively, mixed contracts will be measured generally at depreciated cost or at fair value, in accordance with the testers of the business model and the projected cash flows.
- Debt instruments will be reclassified only when the entity changes its business model to management of financial assets.
- Investments in capital instruments that do not have a quoted price on a functioning market, including the derivatives of these instruments, will be measured at fair value. The alternative measurement according to cost under certain circumstances is hereby nullified. However, the Standard declares that under certain circumstances the cost should be a proper measure of the fair value.

Financial Obligations
The Standard determines also the following procedures in regard to financial obligations:

- The change in fair value of financial liabilities that is intended, upon initial recognition, to be fair value through profit or loss, which is attributed to changes in the credit risk of the liability, will be directly charged to other comprehensive income unless such attribution will create or increase lack of consistency - an accounting mismatch.
- When a financial liability is paid or cleared, the amounts charged to other comprehensive income will not be classified to profit or loss.
- All the derivatives, whether they are assets or liabilities, will be measured at fair value through profit or loss, including a derived financial instrument that constitutes a liability related to an unquoted capital instrument that we are unable to measure its fair value in a reliable manner.

Hedging
The Standard determines new hedging procedures and provides the possibility to choose as an accounting policy whether to implement the new procedures detailed summarily below, or alternatively, those that exist in IAS 39. When the hedging project will be completed at a future date, the International Accounting Standards Board (IASB) will reexamine the possibility of choosing the abovementioned procedure.

In the framework of the Standard, the three hedging types of accounting remain in place: hedging of cash flows, fair value, and net investment in foreign activities.

Notwithstanding, significant changes were instituted in regard to the types of transactions appropriate for hedging accounts, especially expansion of the risks related to hedging accounts for non-financial items. Concurrently, changes also occurred in how to handle futures contracts and derivative Options when they constitute hedged instruments.

In addition, some of the effective hedging examinations were changed in the basic examination that is based on "economic relationships."

The exposure requirements in regard to Company risk management operations were expanded in the framework of the new Standard.

Decrements
The new model for decrement is based on projected credit losses and will be implemented for the debit instruments that are measured at depreciated cost or at fair value through other comprehensive income, receivables in regard to leasing, contract assets that are recognized according ot IFRS 15 and written obligations for rendering loans and financial guarantee contracts.

The provision for decrement will be in regard to reasonable projected losses within the following twelve months (the coming year), or reasonable failure to repay during the entire lifetime of the financial instrument. Examination for the entire lifetime of the instrument is necessary in the event that the credit risk for the asset rose significantly since the date of initial recognition. An alternative approach will be enforced if the financial asset was created or acquired when it was already credit impaired. The Standard adds policies for disclosure and presentation in regard to decrement of financial instruments.

Starting Date
The Standard will take effect in accordance with the annual reporting periods commencing January 1, 2018. The Company did not experience a significant effect from implementation of this Standard on its financial situation or on the results of its operations.

p) **Amendments, Interpretations and Corrections Applicable to Standards that have been published and are no longer valid, that were not adopted early by the Group, and that are expected to have an effect on future periods**

IFRS 16 "Leasing"
In January 2016 the IASB published IFRS 16 in regard to leasing (hereinafter: "the new Standard").

In accordance with the new Standard, a lease is defined as a contract, or part of a contract, that transfers the right to use the asset for a defined period of time in return for a consideration. Following are the terms of the new Standard:

1. The new Standard requires all lessees to recognize an asset against a liability in the statement of financial position (except for certain circumstances) so that the treatment will be similar to a financial lease, in accordance with the existing IAS 17 – "leases."
2. Lessees will recognize a liability in regard to lease payments and will recognize an asset that is the right of usage. Concurrently, the lessees will recognize related interest and depreciation expenses, separately.
3. Variable lease payments that are not dependent on the Consumer Price Index (CPI) or on interest but are based on performance or usage (e.g., a percentage of the redemption) will be recognized as an expense by the lessees or as income by the lessor upon occurrence.
4. In the event of a change in variable lease payments that are linked to the CPI, the lessee must recalculate the liability in regard to leasing with the effect of the change being attributed to the asset – right of usage.
5. The new Standard includes two exceptions wherein the lessees are permitted to handle the leases in accordance with the accounting treatment for operating leases; in the event that the leasing is for assets that have small monetary value or in the event that the leasing is for a period up to one year.
6. The accounting treatment for the lessor remains without significant change as compared with the existing Standard, that is, classification as financial or operating leasing.

The new Standard will be applicable commencing with the annual periods that start on January 1, 2019 or thereafter. Early adoption is possible, as long as IFRS 15 – "Recognition of Revenues from Contracts with Clients" is applied concurrently.

The new Standard allows lessees to choose a retroactive approach for implementation, either completely or partially, with certain allowances in regard to leases that exist during the transfer period, which will not require reclassification of the comparative figures.

The Company is examining the possible effects of the new Standard. At this stage, the Company has not yet completed its evaluation of the possible effects on its financial position and the results of its operations, but it does not expect a significant effect.

NOTE 4:- DEPOSIT IN BANK

A short-term deposit in foreign currency, bearing annual interest at 0.11% as of December 31, 2017.

NOTE 5:- RECEIVABLES

	December 31,	
	2018	**2017**
Advances to suppliers and others	277	268
Prepaid expenses	244	84
Interested parties	258	16
	779	368

NOTE 6:- FIXED ASSETS

	Machines and Laboratory Equipment *	Vehicles	Office Furniture and Equipment	Computers	Leasehold Improvements - Laboratory	Total
Cost:						
As of January 1, 2017	2,928	352	338	353	436	4,407
Additions	603	23	- . -	8	- . -	634
Decrements	- . -	- . -	- . -	- . -	- . -	- . -
As of December 31, 2017	3,531	375	338	361	436	5,041
Additions	270	- . -	- . -	6	- . -	276
Decrements	- . -	(306)	- . -	- . -	- . -	(306)
As of December 31, 2018	3,801	69	338	367	436	5,011
Accumulated Depreciation:						
As of January 1, 2017	1,441	116	295	339	270	2,461
Depreciation for the year	339	51	15	8	37	450
Decrements	- . -	- . -	- . -	- . -	- . -	- . -
As of December 31, 2017	1,780	167	310	347	307	2,911
Depreciation for the year	435	31	9	8	37	520
Decrements	- . -	(156)	- . -	- . -	- . -	(156)
As of December 31, 2018	2,215	42	319	355	344	3,275
Depreciated Cost:						
As of December 31, 2018	1,586	27	19	12	92	1,736
As of December 31, 2017	1,751	208	28	14	129	2,130

* In regard to equipment with liens, see Note 23b3.

NOTE 7:- LOANS TO TOP-CO

The loans are linked to the Consumer Price Index and bear annual interest at the rate of 4%. Terms of repayment are as yet undetermined.

NOTE 8:- ASSETS FOR EXPLORATION AND EVALUATION OF PRECIOUS STONES

a. The Company is the first and only company in Israel that is engaged in exploration (prospecting and exploration) related to precious stones (diamonds, gemstones and gold) since 1999, in the northern area of Israel.

The exploration operation performed by the Company is, actually, exploration and examination of the primary deposit in targeted entities and performance of work plans that are managed by a professional work team, expert and competent in the technical aspects necessary for implementation of exploration operations that include, inter alia: mapping, sampling, geophysical, geochemical and geological surveys, visual and mineral examination in the laboratory (established in the operating area of the Company in Acco) of the various findings using the most advanced methods known worldwide in order to assess the economic potential of the findings at each site that is part of the permit areas in order to raise expectations and reduce the risk level, and to identify the exact location where it will be possible to open a "mineralogical resource" and a commercial mine.

The Company's operating area is along the southern Acco industrial zone (Barbour Junction) that stretches over an area of approximately 6,000 sq. m. The area handles, currently, earth and rock samples ranging in size from 1 kg. up to 600 tons and more, that includes rinsing, straining, identification of minerals and their classification. The potential for storage of earth samples in the operating area that is adjacent to the exploration areas reaches approximately 3,500 tons in total (approximately 500 tons for each sample).

The exploration operations of the Company are performed in parallel to the original sources for finding precious minerals that are located in the volcanic areas of the Carmel mountain range, the Ramot Menashe area and the Lower Galilee area (primary source) and also in the alluvial secondary deposit area canals located in the Zevulun Valley and in Emek Yizrael.

The exploration procedures are in accordance with international specifications, as is customary in this field and, for this purpose, the Company is assisted with a wealth of progressive methods that are performed worldwide by other exploratory companies.

The exploratory Company operations are accompanied by a staff of geologists from abroad who are experts in their fields (hereinafter: "Company advisors from abroad") who have proven expertise in the fields of earth sciences, geology, geochemistry and geophysics, especially within the field of dynamic special explorations wherein the Company operates – prospecting for precious stones. At the beginning of 2014, the Company advisors from abroad developed a dynamic geologic module that is from Source to Sink in order to guide further Company procedures for identifying precious minerals that are known by the Company as the TMA (Target Mineral Assemblage) and to find a link between the Primary Sources and the Secondary Deposits.

The module is based on geologic guidelines as well as on data and Company findings, and designates areas that will, logically, contain concentrations of precious minerals. Since the work is performed parallel to the volcanic areas (Primary Sources) as well as in the drainage canals and their seams (Secondary Sources), the module allows for a three-dimensional encompassing approach to the findings and to the mining of material from the source to the areas of accumulation.

During the last few years, the Company is progressing with bulk samples gathered in the Kishon area known as the "Mid-Reach Area." The strata in this area have yielded TMA samples and, in addition, these strata are shallow, close to the surface being explored. As a result of the unique construction of this area, it was chosen as a preferred exploration area that is defined as an approachable Transient Deposit.

During the first quarter of 2015 and on the basis of the geological module, the Mid-Reach area of the Kishon riverbed constitutes an Exploration Target that is approachable for heavy and precious minerals. Analysis of initial results performed to date shows that the Mid-Reach area of the Kishon stretches over approximately 4.5 km. length and approximately 150 m. width (minimal) with a thickness of 0.5 – 4 m. of mineralized basal gravel. The exploration goal in the Kishon area has been to potentially and conservatively mine approximately 1.1 million tons of potentially mineralized gravel.

The Company has founded the TMA based on two leading mineral suites. These minerals, all or partially, were found initially by the Company at their primary sources of volcanoes on the Carmel mountain range, Ramot Menashe and at the secondary sources, the alluvial drainage basin areas of the Kishon Mid-Reach area.

1. The precious minerals package known as the GEM Suite includes: diamond, sapphire, ruby as well as the rarest natural mineral known as moissanite, hibonite and the Carmel sapphire, a mineral that, to the best of Company knowledge, exists only in Israel and has been registered as a trademark by the Company, granite, spinel and ilmenite.
2. The heavy industrial minerals (HIMs) include minerals that have a high specific gravity that can be utilized in manufacture, such as Zarconite and rotil.

The module allows a three-dimensional panoramic view of the findings at the sites and of the transport for the materials from their source to the accumulation areas.

Exploration of the volcanic sources on the Carmel mountain range (that constitute a Primary Source) shows that some of the sources have a constitution similar to kimberlite (a rock that is a source of diamonds) based on indicators of kimberlite sources. Moreover, a positive identification of a micro-diamond by the team of geologists from De Beers in a sample found and handled by them from one of the volcanic entities of the Carmel (Rakefet) shows that these, at least in part, contain diamonds.

The existence of indicators for kimberlite and for diamonds in the alluvial Kishon riverbed (Secondary Source) shows the existence of local primary sources in the Kishon riverbed and its seams. Thus, the erosion of rivers that sank in the streams of the Northern valleys contains material that is thin and sandy whose source is the Carmel mountains, valleys and its ranges. The map of ranging found by the Company guides the exploration in the direction of favored places, mainly in accordance with the mineral findings of the kimberlites. (we note that the diamonds were found mainly in the distal segment – the erosions of the Kishon river area in accordance with the Company geological module).

During 2015, scientific discoveries were uncovered (and publicized during 2016) in regard to the in-depth construction of the earth where the Company is operating. These discoveries relate to the Company findings (heavy and precious minerals) that were crystallized under the earth's surface and were raised to the surface by outbursts of lava (volcanic outbursts).

A scientific exploration for the past two years that has been conducted by Prof. Bill Griffin, who is an expert on the earth's geology at MacQuarie University of Australia, centers around the crystallization of the corundum and the derivation of the precious stones therefrom, the ruby and the sapphire, as sampled from primary sources on the Carmel mountain and logically related to the rare natural mineral, moissanite. The exploration and its results contribute to the key question in regard to geologic makeup of the deep earth's area in the zones where the Company operates. Results of the exploration and its conclusions were shown by Prof. Griffin during January 2016 and in that framework, it was determined, inter alia, that in view of the fact that the corundum stones found by the Company contain rare minerals, these stones are really gemstones. Upon the recommendation of Prof. Griffin, the corundum gemstones found by the Company were recorded and renamed by the Israel Patents Office as "the Carmel Diamond."

On April 12, 2018, subsequent to completion of the annual work plan and presentation of the summary report thereto, the Company received two Exploration Permits from the Superintendent of Mining at the Natural Resources Authority in the Energy Ministry of the Government of Israel for prospecting and exploration in regard to diamonds, gemstones and gold, as follows:
Exploration Permit 837A11 – the Carmel area – that stretches over 327,551 dunam;
Exploration Permit 899A6 – the Ramot Menashe area – that stretches over 112,904 dunam (hereinafter: "the Extended Permits"). The Extended Permits are for a one year period and replace the Exploration Permits that were rendered to the Company and that expired (Exploration Permit 837A10 and Exploration Permit 899A5) that relate to the same areas of exploration.
On January 17, 2019 the Company received two new Exploration Permits from the Superintendent of Mining: Carmel 837A12 and Ramot Menashe 899A7, that are valid until December 20, 2019.

In December 2017 the Company presented summary reports for the abovementioned Permits in accordance with and subsequent to completion of the work plans that were attached to the Permits, and requested an extension for an additional year. We note that the Company chose not to reduce the work areas of the Permits in view of a survey that was performed by Prof. Bill Griffin, with results that show that these areas contain the greatest potential for the Company's goals.

On August 19, 2018, subsequent to completion of the annual work plan and presentation of a report thereon, the Company received from the Superintendent an Exploration Permit 869B8 for the areas to identify gemstones, diamonds and gold. This Permit is valid until June 5, 2019 and replaces Permit 869B7. Area of exploration is spread over 173,636 dunam and includes, inter alia, the Emek Zevulun valley, northern area of Emek Yizrael and the eastern part of the Carmel range.

Subsequent to infusion of capital from the framework of shares issuance, the Company updated the machinery and the equipment in use for handling and straining samples. In this framework, the Company also updated the jigs used for classification so that one jig classifies samples from 1 mm. to 8 mm. while a second one classifies those that are from 8 mm. to 25 mm. This change has already proven its efficiency and raised the precision of examinations. Concurrently, the Company is engaged in additional updates for the exploration systems in order to raise the quantity of treated material per day from 20 tons to 25 tons.

On July 3, 2018 the Company completed and reported the results of its explorations for samples that were collected from the Kishon Zone 1 Mid-Reach area that included 137 drilling surveys, 14 tunnels (6,384 tons of sampled materials) and a quantity of findings that belongs to the targeted minerals with an inclusive

weight of 9,778 karats. For additional details in regard to Exploration and Prospecting Permits, see Note 23c.

On August 9, 2018 the Company received from the Superintendent of Mining a new Prospecting Permit 869C9 that is valid until June 5, 2019 and related to Zone 1 for an area of approximately 252 dunam. This Permit permits the Company to commence regulation proceedings and performance of a mining plan, including reference to the following aspects: mapping of infrastructure that is on the surface and below the surface, approaches, and division of the area into mining slots, stages of mining, and the mining pace, quantity expected for each area slot, the economic value of the area, area arrangement and rehabilitation, necessary permits and coordination, work tools and stations, etc.

b. Composition:

	December 31,	
	2018	**2017**
Purchase of exploration rights, fees and planning	4,848	4,496
Geologic research and laboratory maintenance *	19,945	17,627
Drilling for exploratory purposes	5,450	5,352
Headquarters operations expenses directly attributable to the asset (mainly to a related company) *	23,841	23,000
Other expenses	5,044	4,784
	59,128	55,259

* Includes share based compensation in 2018 in the amount of approximately NIS 1,076 thousand and approximately NIS 968 thousand in 2017.

NOTE 9:- SHORT – TERM CREDITS FROM BANK AND OTHERS

a.

Composition:	December 31,	
	2018	**2017**
Short-term bank credit	203	205
Short-term loan from shareholder *	129	109
Current maturities of long-term liabilities	124	153
	456	467

* A loan that is linked to the U.S. dollar and bears annual interest at the rate of 10%.

b. As of December 31, 2018 and 2017, the Company has a steady bank credit framework of approximately NIS 200 thousand. The overdraft account is secured by the personal guarantee of an interested party.

NOTE 10:- TRADE PAYABLES

	December 31,	
	2018	**2017**
Checks payable	287	689
Open balances	1,081	1,077
	1,368	1,766

NOTE 11:- INTERESTED PARTIES

	December 31,	
	2018	**2017**
Current maturities of long-term loan	114	110

NOTE 12:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2018	**2017**
Accrued expenses	292	663
Salaries and related items	277	205
Liability in regard to severance pay	338	338
	907	1,206

NOTE 13:- LOANS FROM SHAREHOLDERS

During the months of November and December 2018, two loans were received from shareholders in the comprehensive amount of $ 205 thousand. As yet, final terms for repayment are undetermined.

NOTE 14:- LOANS CONVERTIBLE TO SHARES

a. During December 2016 - October 2017, the Company contracted ten loan agreements, in a scope of approximately NIS 17 million (£ 3,641 thousand) that are convertible to shares on the date of completion of an issuance that is planned in London. The loans bear annual interest at the rate of 5% and are scheduled for repayment, in the event that the issuance will not be completed, with the addition of interest at the end of a year from the date of signing the agreement.

   In the event that the issuance will be completed, then the loans will be converted to shares at a price that is 15% lower than the issuance share price. In addition, the lenders will be issued non-marketable Options for each share, exercisable in accordance with the following timetable:

   For seven lenders, in a scope of approximately NIS 1 million (£ 251 thousand), one Option for each lender commencing with the issuance date for a period of 18 months at the share price upon issuance.

   For three lenders, in a scope of approximately NIS 16 million (£ 3,390 thousand), three Options that are exercisable for each lender:

   - One Option for each lender commencing with the issuance date for a period of 18 months at 15% less than the share price upon issuance.
   - A second Option commencing with the issuance date for a period of 24 months at the share price upon issuance.
   - A third Option commencing with the issuance date for a period of 36 months at the share price upon issuance with the addition of 25%.

   On December 18, 2017 the Company completed its issuance of shares on the main London Stock Market (AIM), see Note 18b. In regard to issuance of Options and fair value, see Note 17.

b.

Activity (NIS in thousands):	
Balance as of January 1, 2017	728
Receipt of loans convertible to Company shares	16,247
Revaluation (includes exchange rate differences)	3,196
Interest	347
Conversion to shares (see also Note 18)	(20,518)
Balance as of December 31, 2017	- . -

NOTE 15:- LONG-TERM LOANS FROM INTERESTED PARTY AND OTHERS

Composition:	**December 31,**	
	2018	**2017**
Loan from interested party (1)	674	781
Loan from supplier (2)	124	240
	798	1,021
Net of current maturities	(238)	(221)
	560	800

1. **Loan from an interested party –**
   a. A loan in NIS bearing annual interest of Prime + 3.6%.

   b. Payment dates of the loan:

	As of December 31, 2018	
	Principal	**Principal and Interest**
First year - current installments	114	145
Second year	118	145
Third year	124	145
Fourth year	130	145
Fifth year and beyond	188	208
	674	788

2. **Loan from a supplier –**

   a. A loan for purchase of a tractor (Shovel), that was received during December 2017 and is payable in 24 equal monthly installments. The loan is in NIS and bears annual interest of 5%.

   b. Payment dates of the loan:

	As of December 31, 2018	
	Principal	**Principal and Interest**
First year - current installments	124	127

NOTE 16:- FINANCE LEASE

a.

	December 31,	
	2018	**2017**
Composition:		
Liability	- . -	91
Net of current maturities	- . -	(42)
	- . -	49

b. Amount of the liability was computed by capitalization of the leasehold payments for the payments period at an annual interest rate of 6.9%. The amounts are linked to the Consumer Price Index.

NOTE 17:- OPTIONS CONVERTIBLE TO SHARES

a. On December 18, 2017, the Company completed its Initial Public Offering (IPO) on the London Stock Exchange in the framework of which convertible loans (see Note 14) were converted to 3,973,461 shares and an amount of 6,589,331 non-marketable Options. In accordance with the valuation of an independent external assessor, the Options have a fair value of approximately NIS 0.5 million as of December 31, 2018 and they have a value as of December 31, 2017 of approximately NIS 10 million. As of December 18, 2018 the Options have a fair value in the amount of approximately NIS 11 million.

   On October 31, 2018 the Company issued 300,625 shares and allotted 300,625 non-tradeable Options in their regard. In accordance with the valuation of an independent external assessor, it was determined that the fair value of the Options for shares that had been rendered, as of December 31, 2018 was in the amount of approximately NIS 69 thousand and as of October 31, 2018 the fair value was approximately NIS 217 thousand.

b. Parameters used in the fair value valuation:

	December 31, 2017	December 31, 2018
Projected fluctuations (in percentages)	53 - 61	41-53
Life of the Option (in years)	1.5 - 3	0.5-2
Rate of non-risk interest (in percentages)	0.45 – 0.55	0.720-0.825
Fair value (in £)	1.1	0.575

c. Fair value hierarchy -

   Measurement of fair value of financial instruments is performed using a fair value hierarchy that reflects the data that was used in performance of a measurement of fair value. The hierarchy of fair value is based on the following three levels:

   - Level 1 - Quoted prices (unadjusted) on the active markets for identical assets or liabilities.
   - Level 2 - Data that are not price quotes included in Level 1 abovementioned, that may be seen directly (that is, price quotes) or indirectly (that is, derivatives of price quotes).
   - Level 3 - Data in regard to an asset or liability that are not based on market information that may be seen (unseen data).

   As of December 31, 2018 and 2017, the liability in regard to allocation agreements and the liability in regard to the Options were measured using a valuation technique based on Level 2 while basing itself on visual market data.

NOTE 18:- SHARE CAPITAL

a. Composition:

Composition:	December 31, 2018 Number of Ordinary Shares		December 31, 2017 Number of Ordinary Shares	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Ordinary shares of NIS 1 par value.	100,000,000	14,224,551	100,000,000	13,905,056

b. On December 18, 2017 the Company completed its IPO on the London Stock Exchange in the framework of which 4,517,456 Ordinary Company shares were registered for trade as follows:

- 3,973,461 shares were allocated as a result of loan conversions to shares (see Note 14c).
- 320,856 shares were allocated to an interested party in the framework of a debt conversion. 202,230 shares were allocated in consideration for payment of debts to issuance advisors.
- 20,909 shares were allocated to subscribers on the issuance date.

4,294,317 shares were allocated at a 15% discount from the basic issuance price - £ 1.10.

The inclusive amount attributed to capital in accordance with the basic price per share is NIS 18,857 thousand (net of issuance expenses and fees in the amount of approximately NIS 4,470 thousand).

During 2018 the Company issued 319,495 shares to various investors.

c. On April 4, 2012 the Company allocated to the top-co, Shefa Yamim Ltd., 7,040,700 shares that constituted, subsequent to issuance, 75% of the Company share capital. In accordance with the agreement (see Note 1d), the amount received in consideration of the issuance from the agreement date until the balance sheet date is NIS 21,275 thousand.

d. The shares render to their owners the right to vote and to participate in meetings of the shareholders, the right to receive revenues and to participate in surplus assets upon dissolution of the Company.

e. In regard to agreements with interested parties – see Note 23a.

f. Allocation of Options for shares of top-co:
On August 26, 2015 the general meeting of the top-co approved the decision of the board of directors that was rendered on July 16, 2015 in regard to granting 2,160,000 Options convertible to shares of the top-co to officers, directors and Company employees. During September 2017 the Options were allocated. As of balance sheet date, the Options from the first and second rounds expired.

1. Division of Options by Offerees -

	Number of Options	
Officer - CFO	360,000	
Officer – Project Manager	195,000	
4 Directors	408,000	(102,000 Options each)
7 Employees	1,197,000	(6 employees, 195,000 Options each + one employee 27,000 Options)
	2,160,000	

2. Each Option may be exercised to one Company share. Price per share as of date of approval by the general meeting is NIS 1.18.

3. Maturation Dates -
The right to receive Options will crystallize in three rounds of 33.33% each. The first round was on July 19, 2016, the second round occurred on July 19, 2017 and the third round on July 19, 2018.

   The right to exercise each round of Options will be available to every offeree for a one year period from the date of formulation of the entitlement to obtain the relevant round.

4. Exercise price -
Exercise price for the first round – NIS 3.
Exercise price for the second round – NIS 4.

Exercise price for the third round – NIS 6.
However, the exercised Options will be without payment of the exercise price. Rather, they will be allocated to the offerees of allocated shares in an amount that will reflect the component benefit grossed up within those Options that are exercised, as will be computed on the exercise date.

5. Fair Value -
In accordance with the valuation by an independent external assessor, it was determined that the fair value of the Options is in the amount of NIS 561 thousand.
Fair value of the first round – NIS 70 thousand.
Fair value of the second round - NIS 243 thousand.
Fair value of the third round – NIS 248 thousand.

NOTE 19:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,		
	2018	**2017**	**2016**
Management fees and participation in expenses to an interested party (see Notes 22a, 23a1) **	763	389	* 467
Professional consultation	735	- . -	- . -
Advertising and marketing	669	16	- . -
Salaries to directors	367	- . -	- . -
Travel abroad	356	12	- . -
Fees	246	- . -	3
Other items	197	129	93
Depreciation	54	60	71
Office maintenance and office expenses	23	53	33
Office services to an interested party (see Notes 22a, 23a2)	- . -	32	35
Participation in expenses of the top-co (includes credit in regard to prior years)	- . -	(150)	212
	3,410	541	914
* Net of participation by the top-co in expenses	- . -	- . -	105
** Includes share based compensation	25	46	152

NOTE 20:- FINANCING INCOME (EXPENSES), NET

	Year Ended December 31,		
	2018	**2017**	**2016**
Finance expense -			
Adjustment of the value of a financial liability according to fair value	- . -	(12,867)	(223)
Issuance and fees expenses in regard to Options	- . -	(1,884)	(24)
Exchange rate differentials	- . -	(702)	- . -
Interest on convertible loans	- . -	(347)	- . -
Interest on loans from shareholders	(3)	- .-	- . -
Other expenses	(177)	(111)	(91)
Interest to a company that is an interested party	(38)	(43)	(45)
	(218)	(15,954)	(383)

	Year Ended December 31,		
	2018	2017	2016
Finance income -			
Interest income from the top-co	69	237	570
Adjustment of financial liability in regard to Options according to fair value	9,487	- . -	- . -
Exchange rate differentials	81	- . -	- . -
	9,637	237	570
	9,419	(15,717)	187

NOTE 21:- TAXES ON INCOME

a. Data in regard to the tax environment wherein the Company operates:

Tax rates

Corporate tax rate in Israel for 2018 was 23%. For 2017, the rate was 24% and during 2016 it was 25%. At the end of December 2016, the Knesset passed the Economic Efficiency Law (Amendments in order to achieve Budget Goals for the Budgeted Years 2017 and 2018) – 2016, (hereinafter: "the Law"). In the framework of the legislation, the corporate tax rate was reduced to 24% for the year 2017 and to 23% for 2018 and thereafter.

b. The Company received final assessments from the Income Tax Authorities through 2012.

c. The Company has a carryforward loss for tax purposes as of December 31, 2018 in the amount of approximately NIS 71 million. The tax benefit in this regard will be included in the financial statements at the time when realization is expected.

NOTE 22:- TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Transactions with interested parties:

	Year Ended December 31,		
	2018	2017	2016
Charged to statements of comprehensive income (loss):			
Management fees paid to "101"	763	389	467
Fees for office services paid to "808"	- . -	32	35
Finance expenses paid to "101"	38	43	45
Interest income received from the top-co	69	237	570
Finance expenses to interested parties	25	249	- . -
Finance expenses to a shareholder	3	- . -	- . -
Charged to the statement of financial position:			
Capitalized management fees and participation in expenses to "101"	841	630	1,724

b. Balances of interested and related parties:

	December 31,	
	2018	2017
In the framework of current assets:		
Receivables	258	16
In the framework of long-term assets:		
Interested parties	77	77
Loan to the top-co	2,494	2,342
In the framework of short-term liabilities:		
Interested parties	114	110
Shareholders' loans	772	- . -
In the framework of non-current liabilities:		
Loan from interested parties	560	671

c. Commitments:
See Note 23a.

d. Guarantees from interested parties for the Company's benefit:
See Note 23b.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS

a. Commitments with interested parties:

1. **Commitment regarding "101":**
Since 1999, when the Company was established, it has been managed by 101 Gold Holdings (hereinafter – "101"), an interested company, that holds at balance sheet date 3.3% of the Company shares and 5.91% fully diluted, in the framework of management agreements.

In view of the issuance of Company shares in London, the Company had to separate the general administration and the financial management between the Company and top-co. Therefore, on December 6, 2017 a new management agreement was signed between "101" and the Company only (without the management of top-co), for a new period of thirty six months commencing January 1, 2018 until December 31, 2020.

In accordance with the new agreement, "101" will provide for the Company management services that will include a Chairman, a CEO, secretarial services for management as well as office space that is owned by "101. These services will be rendered for a consideration of NIS 85 thousand per month with the addition of Value Added Tax (VAT) in accordance with the prevailing law (not including refund of expenses for maintaining a vehicle and a telephone for the CEO and refund of expenses for travel abroad in order to locate potential investors. Concurrently, the Company obligated to cover insurance for "101" employees who engage in rendering the abovementioned services to the Company. The amount of management fees will be linked to the Consumer Price Index once a year.

As of the balance sheet date, 101 held 3.31% of Company shares.

2. **Commitments regarding "808":**
On January 1, 2005 the Company signed an agreement with "808", an interested party in the Company, whereby "808" will assist in finding potential investors. In addition, "808" will provide collection services regarding the investment money of investors that were found by "808"for a consideration of 2% of the total gross investment by each such investor in the Company.

In addition, "808" will provide office services to the Company representatives in the United States for a fixed monthly retainer in the amount of $ 770. The Company and "808" agreed that the agreement will be valid until December 31, 2015. Each party has the right to bring the agreement to an early termination upon written notification six months in advance. The agreement was extended until December 31, 2018 under the same terms.

b. Guarantees and Liens:

1. The Company gave to a third party a guarantee through a bank in the amount of approximately NIS 7 thousand
2. The interested parties are personal guarantors (for an unlimited amount) to a bank in order to guarantee the Company's liabilities. Balance of the Company's liabilities as of December 31, 2017 that is guaranteed by the interested parties was in the amount of approximately NIS 203 thousand. See also Note 9b.
3. Engineering equipment at a cost of NIS 775 thousand had a charge placed on it in favor of the supplier of the equipment.

c. Information in Regard to Exploration and Prospecting Permits:

The Company received exploration and prospecting permits from the mining Inspector at the Government of Israel National Infrastructures Ministry. These exploration permits grant exclusive rights to perform geological explorations in specific areas of northern Israel. Prospecting and discovery of minerals in Israel is subject to the statutes detailed in the Mining Ordinance and Mining Amendments added thereto as well as the Mining Regulations subsequently appended.

Since commencement of the Company's operations in January 1999, the Company has acquired all necessary permits and licenses and maintains its schedule of operations determined in accordance with these licenses by the Mining Inspector in the National Infrastructures Ministry.

Prospecting permit:

A prospecting permit grants to its holder the right to enter any area included in the permit, in order to verify the presence or absence of minerals in the area and to dig up to two meters and tunnel up to a depth of ten meters. A prospecting permit holder is not allowed to drill or perform any other actions that have the intent or directly result in removal of minerals, unless other special terms were designated by the Inspector. The prospecting permit is also limited in regard to the exploration area and to the minerals that may be prospected. The permit does not grant exclusive rights to its holder in regard to area and to minerals that are permitted to be prospected. The prospecting permit is for an initial twelve month period and may then be renewed for an unlimited amount of months, subject to terms and conditions to be determined. Concurrently, the prospecting permit is not transferable.

Exploration permit:

An exploration permit grants exclusive rights to its holder for exploring in the area designated in the permit. An exploration permit may cover an area up to 500 sq. km. and is valid for a two-year period. The holder of an exploration permit is required to employ expert geologists and other trained individuals who are approved by the Inspector and have been hired to explore in accordance with the general guidelines published periodically by the Inspector. In addition, these individuals explore the rocks, minerals, quarries, ground and water supply in the area in accordance with the Inspector's opinion and they furnish reports, maps or other information as requested.

The Inspector has the right to nullify an exploration permit, completely or partially, without any compensation to the holder of the permit, in the event that the Inspector determines that the holder of the exploration permit is not conducting a survey of the area with proper expertise, as required by the Ordinance and instructions of the Inspector.

Prospecting License:

Subject to the limitations designated in the Ordinance and in the event that the prospecting that is conducted in accordance with the prospecting permit is completed satisfactorily, the holder of a prospecting permit may request a "prospecting license" for certain areas that he chooses from those areas

designated in the prospecting permit. The Inspector may choose to grant a prospecting license to an individual, subject, inter alia, to the fact that this person holds an exploration permit or a prospecting permit for the area that he requested and that this individual presented sufficient proofs that the minerals for which he wants to explore do exist in the requested license area.

In the event that the prospecting is for non-precious quarries, the prospecting license area will not exceed 1% of the prospecting permit area granted to the holder. In the event that the prospecting is for precious stones, then the prospecting license area will not exceed 0.5% of the prospecting permit area. (Precious stones are defined in the Ordinance as including gems, as well as diamonds, precious metals and metal ores.) In the event that the requestor does not hold a prospecting permit, then the area requested will not exceed 50 hectares (0.5 sq. km) for exploration of non-precious minerals; and will not exceed 20 hectares (0.2 sq. km.) if the individual wishes to explore for precious minerals in the determined area.

A prospecting license is granted for a period of from one up to five years. However, in the event that the license is granted for a period of less than one year, then the Inspector may decide to renew the license for a period of up to five years.

A prospecting license grants to its holder the exclusive right to explore the designated area and for this purpose, he is permitted, inter alia, to dig, drill or perform other work required to determine whether the area contains "sufficient quantities" of minerals for which the license was granted (that would enable continued operations on a commercial level) and to establish and maintain machinery and equipment and pave roads necessary for performance of the exploration.

The holder of a prospecting license is required to operate efficiently and with proper expertise. Failure to conform to these requirements can result in nullification of the license. Transfer to a third party of the license or any other right granted therein is subject to obtainment of written consent from the Inspector.

NOTE 24:- EARNINGS (LOSS) PER SHARE

	Year Ended December 31,		
	2018	**2017**	**2016**
Comprehensive earnings (loss) for the year (NIS in thousands)	6,009	(16,258)	(549)
Weighted number of Ordinary shares	14,224,551	9,548,938	9,387,600
Basic and diluted earnings (loss) per share (in NIS)	0.431	(1.703)	(0.058)

NOTE 25:- FINANCIAL INSTRUMENTS

a. Financial risk management

1. General

The Company is exposed to the following main risks arising from use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note will render information in regard to Company exposure for each of the risks abovementioned, Company goals, policies and procedures regarding gauging and management of these risks. Additional quantitative disclosure is included throughout these financial statements.

2. **Framework for risk management**
Company policy for risk management was formulated in order to identify and analyze the risks confronting the Company, to determine sufficient limitations to the risks, control while supervising the risks and compliance with limitations. The policies and methods for risk management are surveyed currently in order to reflect changes in the market conditions and the Company operations. The Company utilizes training and management procedures in order to develop a control environment that is efficient, wherein all employees understand their roles and responsibilities.

3. **Credit risk**
Credit risks arise from cash and cash equivalents, deposits in banks and receivable balances that are as yet unpaid. Company balances of cash and cash equivalents are deposited in a bank. The Company considers credit risks for unpaid receivable balances to be insignificant.

4. **Liquidity risk**
Liquidity risk is the danger that the Company will not be able to pay its obligations related to its financial liabilities that are cleared by cash payments or payment of another financial asset. The Company's approach to management of its liquidity risks is to assure, as much as possible, the necessary liquidity to meet its obligations on time, under ordinary terms and when pressured, without encountering undesired losses or damage to its reputation.

Hitherto, Company financing has been supplied by issuance of share capital, receipt of loans and use of credit from interested parties (management fees have been paid in accordance with the Company’s abilities).

5. **Market risks**
Market risks include the risk that changes in market prices, such as the exchange rates of foreign currencies, the Consumer Price Index, interest rates, and prices of capital instruments will have an effect on the value of Company holdings of financial instruments. The intent of market risk management is to manage and supervise exposure to market risks in the framework of accepted parameters, while maximizing yields.

The Company is exposed to the following risks:

Exchange rate risks:
Part of the Company's liabilities and mobilizations of capital is measured in dollars and pounds sterling. Therefore, the Company is exposed to changes in the exchange rates of the U.S. dollar and the British pound sterling. The Company has not utilized any protective measures against this exposure.

Risks of falling market prices for diamonds, gold and precious stones:
The Company is exposed to changes in market prices for diamonds, gold and precious stones. Despite the fact that the Company is still in the pre-production stage for the minerals, significant changes in the future market prices can and may have an effect on the preparation to repay investments in exploration and mining.

b. Interest rate risks

Exposures to interest rate risks and average weighted interest rates for financial assets and liabilities are detailed as follows:

	NIS				Foreign Currency		
	Linked to the CPI	Fixed Interest	Variable Interest	Non-Interest	Fixed Interest	Non-Interest	Total
	NIS in thousands						
31.12.2018							
Financial Assets:							
Cash and cash equivalents						209	209
Receivables				535			535
Interested party				77			77
top-co	2,494						2,494
Financial Liabilities:							
Short-term credit from banks and others			203		129		332
Shareholders' loans					772		772
Trade and other accounts payable				317		1,051	1,368
Long-term loans from bank and others		124	674				798

	Linked to the CPI	Fixed Interest	Variable Interest	Non-Interest	Fixed Interest	Non-Interest	Total
	NIS in thousands						
31.12.2017							
Financial Assets:							
Cash and cash equivalents						6,489	6,489
Deposit in bank					173		173
Receivables				284			284
Interested party				77			77
top-co	2,342						2,342
Financial Liabilities:							
Short-term credit from banks and others			205		109		314
Trade and other accounts payable				1,858		776	2,634
Long-term loans from bank and others		240	781				1,021
Financial leasing		91					91

c. Analysis of sensitivity

1. As of December 31, 2018 and 2017, the Company has net liabilities with variable interest rates in the amounts of NIS 877 thousand and NIS 986 thousand, respectively.

An increase in the market annual interest rate of 50% for the year ended December 31, 2018 is likely to increase interest expense in the amount of approximately NIS 7 thousand; to decrease net profit and shareholders' equity in the amounts of approximately NIS 7 thousand. A decrease in the market interest rate of 50% would decrease the interest and increase net profit and shareholders' equity by identical amounts. This analysis was performed assuming that there will not be any changes in other factors.

2. A stronger New Israel Shekel (NIS) against the U.S. dollar would increase (decrease) the shareholders' equity and net income or loss as follows. This analysis was performed assuming that all other variables, especially interest rates, will remain fixed.

Date	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
December 31, 2018	(87)	87`
December 31, 2017	289	(289)

d. Fair value

Book value of financial assets and liabilities, including cash and cash equivalents, other receivables, deposits, bank short-term credits, loans and overdrafts, trade payable and other payables is proximate to or equivalent to their fair value.

e. Liquidity risk

The Company has liabilities bearing interest at variable rates and is, therefore, exposed to changes in the market interest rate. See Section c.1 above. Information regarding repayment dates of long-term loans is shown in Note 15.

f. Chang es in the liabilities resulting from financing operations

	Bank and Other Credits	Deferred Issuance Expenses	Financial Obligations at Fair Value	Loans from Interested Parties	Financial Leasing	Receipts on Accoun t of Shares	Other	Total Flow from Financing Operations
Balance 1.1.2017	(519)	905	(504)	(3,086)	(131)	(20,498)	- . -	- . -
Consideration from issue of shares and Options (including additional paid-in capital), net	- . -	- . -	- . -	- . -	- . -	(777)	- . -	(777)
Increase in deferred issuance expenses	- . -	4,707	- . -	- . -	- . -	- . -	- . -	4,707
Repayment of loans from banks and others	205	- . -	- . -	- . -	- . -	- . -	- . -	205
Receipt of loans from an interested party, net	- . -	- . -	- . -	(446)	- . -	- . -	- . -	(446)
Receipt of loans convertible to shares	- . -	- . -	(16,611)	- . -	- . -	- . -	- . -	(16,611)
Repayment of long-term loans	- . -	- . -	- . -	- . -	40	- . -	- . -	40
Interest paid	- . -	- . -	347	- . -	- . -	- . -	111	458
Cash from financing	205	4,707	(16,264)	(446)	40	(777)	111	(12,424)
Issue expenses attributable to P&L		(1,884)						
Issue expenses attributable to paid-in capital		(4,470)						
Increase in suppliers in regard to issue expenses		683						
Increase in payables in regard to issue expenses		59						
Conversion of convertible shares			20,518					
Revaluation of finance obligations			(3,750)					
Finance paid to interested parties				(292)				
Conversion of a debit balance to shares				1,659				
Reduction of a debit balance attributable to exploration assets				1,400				
Conversion of a debit balance to the chairman of the board of directors of the top-co						(640)		
Balance as of 31.12.2017	(314)	- . -	- . -	(765)	(91)	(21,275)		

	Bank and Other Credits	Loans from Interested Parties	Options Converted to Shares	Shareholders' Loans	Financial Leasing	Loan From a Supplier	Receipts on Account of Shares	Other	Total Flow from Financing
Balance 31.12.2017	(314)	(765)	(9,834)		(91)	(240)	(21,275)	- . -	- . -
Consideration from issue of shares and Options (including additional paid-in capital), net			(214)				(694)	- . -	(908)
Repayment of loans from banks and others	2							- . -	2
Receipt of shareholders' loans, net				(772)				87	(685)
Repayment of long-term loans		111			25				136
Interest paid								106	106
	(312)	(654)	(10,048)	(772)	(66)	(240)	(21,969)	193	(1,349)
Issue expenses attributable to P&L		(16)							
Issue expenses attributable to paid-in capital									
Increase in receivables									
Increase in payables in regard to issue expenses									
Conversion of convertible shares									
Revaluation of finance obligations			9,484		66				
Finance paid to interested party and to others	(20)	(4)							
Conversion of a debit balance to shares									
Reduction of a debit balance attributable to exploration assets									
Conversion of a debit balance to the chairman of the board of directors of the top-co						116			
Balance as of 31.12.2018	(332)	(674)	(564)	(772)	- . -	(124)	(21,969)		

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SHEFA YAMIM (A.T.M.) LTD.

Annual Report and Accounts

for the year ended 31 December 2018