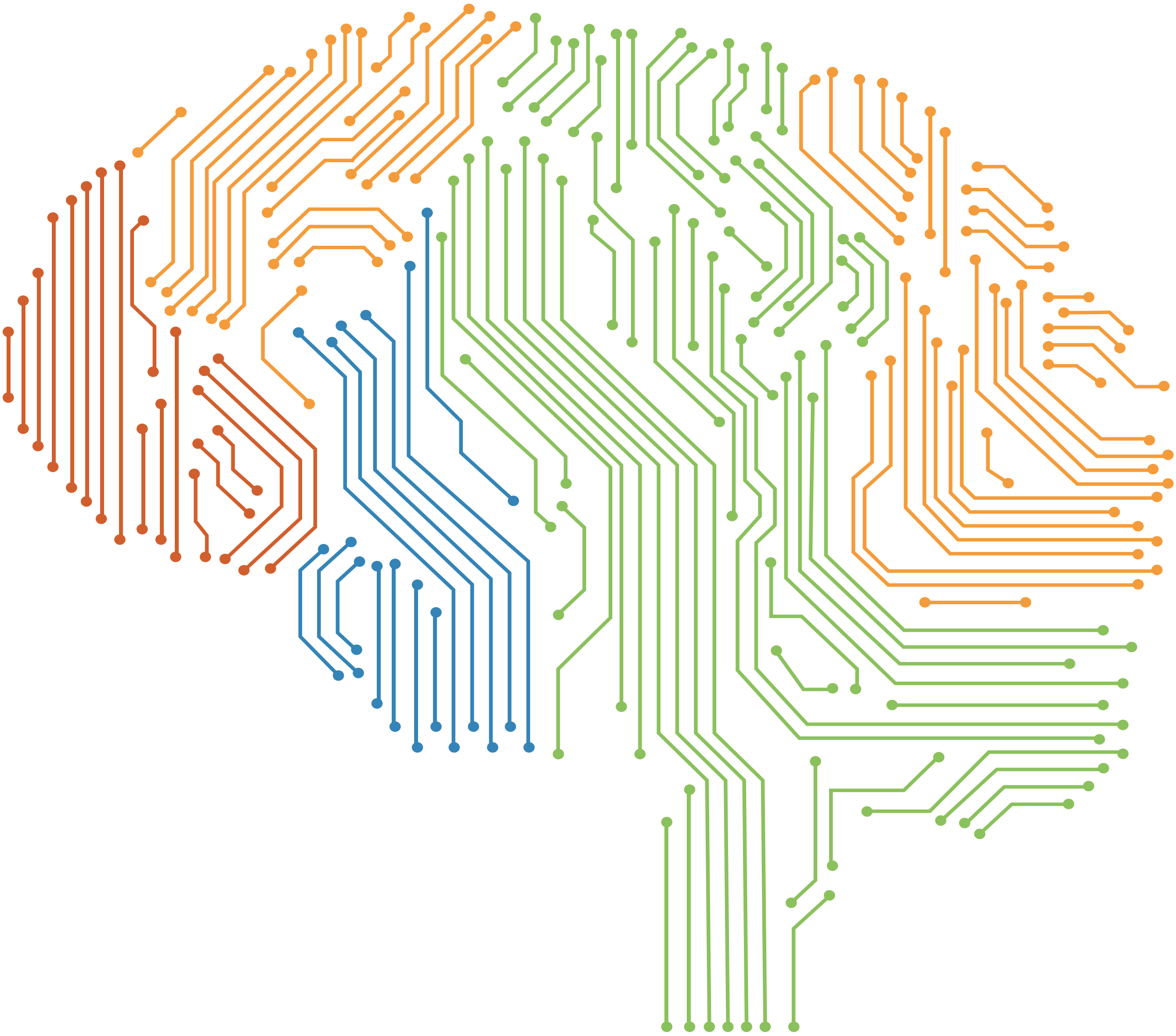
Adgorithms

Annual Report

for the year ended 31 December 2016



Cross Channel Autonomous Marketing
Software Powered by Artificial Intelligence

Established in 2010, we utilise cutting edge technology and advanced methods in order to provide the most effective service for each client's needs as demanded by the ever changing digital world.

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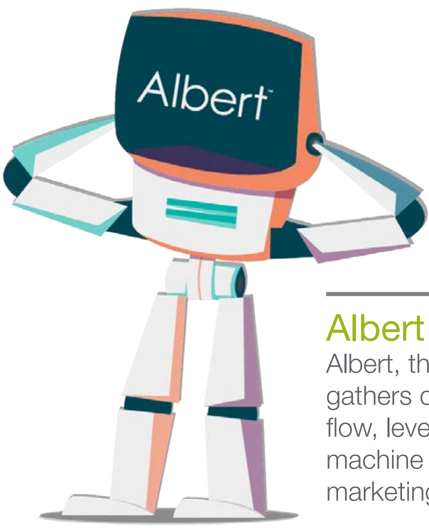


Albert

Albert, the AI brain behind the software, gathers data from all channels on one unified flow, leveraging artificial intelligence and machine learning to execute and optimise marketing strategies.

HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS

Financial Highlights (Adjusted*)

- Total revenue decreased 26% to $16.4m (2015: $22.1m)
- Adjusted EBITDA* loss of $7.9 million (2015: EBITDA of $2.2 million)
- Adjusted Research and Development expenses grew to $5.1 million (2015: $2.5 million), supporting the ongoing development of Adgorithms' SaaS platform
- Adjusted Sales and Marketing expenses grew to $4.1 million (2015: $0.95 million) reflecting the Company's expansion of its New York office to drive SaaS activity
- Adjusted General and Administrative expenses grew to $1.8 million (2015: $1.1 million) reflecting the Company's first full fiscal year of operation as a public company
- Net cash of $22.6 million (2015: $31.2 million) at year end

US$'000	2016 $'000	2015 $'000	Diff
Revenues	16,403	22,076	(5,673)
Cost of revenues*	(13,247)	(15,356)	2,109
Gross profit	**3,156**	**6,720**	**(3,564)**
% of revenues	19%	30%	
Research and Development expenses*	(5,096)	(2,462)	(2,634)
Selling and Marketing expenses*	(4,161)	(947)	(3,214)
General and Administrative expenses*	(1,821)	(1,146)	(675)
Total operating expenses	**(11,078)**	**(4,555)**	**(6,523)**
Operating profit (loss)*	**(7,922)**	**2,165**	**(10,087)**

* Non GAAP and unaudited, excludes share based compensation expenses of $1,064K (COGS-$20K, R&D-$519K, S&M-$366K and G&A-$159K) and $7,533K (COGS-$41K, R&D-$5,838K, S&M-$236K and G&A-$1,418K) in 2016 and 2015, respectively, depreciation expenses of $85K (COGS-$1K, R&D-$45K, S&M-$9K and G&A-$30K) and $45K (COGS-$1K, R&D-$29K, S&M-$10K and G&A-$5K) in 2016 and 2015, respectively, relocation bonus to the CTO in the amount of $50K in 2016, IPO bonuses in 2015 in the amount of $1,191K and relocation bonus to CEO in the amount of $50K in 2015.

HIGHLIGHTS continued

Operational highlights

- SaaS business summary:
  - At the end of 2016, the Company's SaaS offering had 21 paying clients, and 20 clients that are in various stages of integration or piloting. There has been a strategic focus on the key verticals of retail and apparel, consumer packaged goods, automotive and furniture to drive market awareness of Albert. We see very encouraging results for the beginning of the 2017 financial year with a growing pipeline of customers. This includes a major global consumer brand which recently signed up to Albert, following a trial to test the effectiveness of Albert's AI technology versus the results delivered by its incumbent agency.
  - Adgorithms has been recognised in recent months by some leading marketing publications and institutions, including Best in Biz - Best New Product of 2016; Deloitte North America Technology Fast 500 - #98; DMN Awards - Best Marketing Automation company; DMN Awards - Best Retail Campaign of the Year (with Harley Davidson);AI Awards - Best Application of the Year.
- Other key events in 2016 include:
  - Successful product launch of Albert 2.0, which simplifies the customer on boarding process and shortens the length of time needed to see significant ROI improvement
  - Establishment of a strong 15 person sales and marketing office in New York, led by our CRO and CMO
  - Increased market acceptance by industry opinion leaders (Forrester, Gartner)
  - Ongoing progress in the development of the Company's sales strategy through the rollout of our SaaS product
  - Successful pilot leading to full deployment with a global nutrition company, replacing its online media agency with Albert, in their most significant South American market in 2017
  - Structural shift within open Ad-exchanges witnessed in 2016 providing further impetus for market penetration of the Company's SaaS product
- In-direct trading remains negatively affected by industry wide changes which continued to pressure this segment's volumes and margins

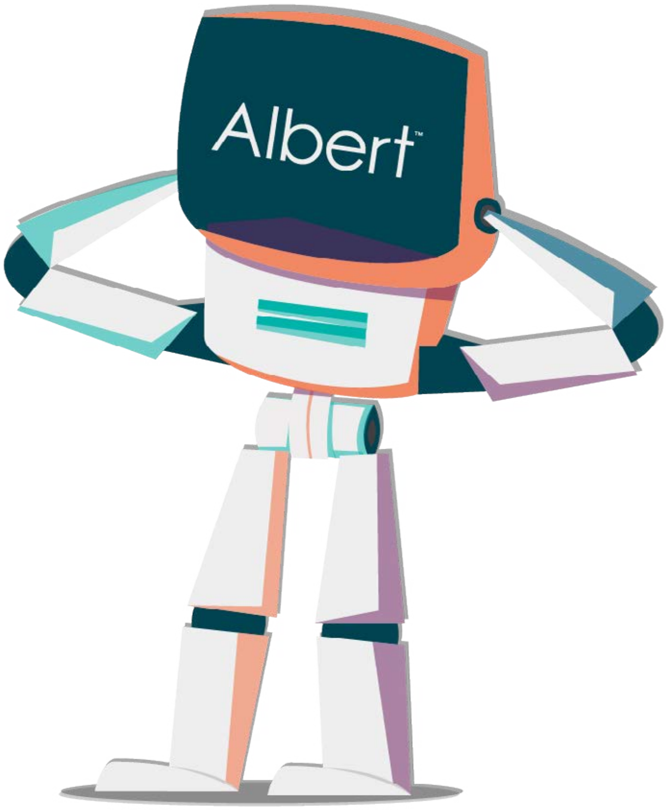
STRATEGIC REPORT

COMPANY AT A GLANCE

Founded in 2010, Adgorithms liberates marketers from the complexities of modern marketing and drives efficiency and return on marketing investment. The Company built “Albert” – the first-ever artificial intelligence (AI) marketing platform to serve as a highly intelligent and sophisticated element of a brand’s marketing team. Albert is able to perform many of the manual, time-consuming tasks that exist throughout a marketing campaign – from digital media buying to execution to optimization, and analysis. Albert additionally offers proactive, ongoing insights and recommendations on information he has learned and uncovered along his journey.

The Company employs software engineers and experts in the fields of artificial intelligence, data analysis, statistics, applied mathematics and behavioural sciences to continuously develop our software, Albert, and to deploy it in the leading marketing channels.

Albert is currently connected to the major marketing channels such as search, social, email marketing, display and video. It serves has been and developed for both the Company’s In-direct business and the new growing SaaS channel.



STRATEGIC REPORT continued

CHAIRMAN'S STATEMENT

This has been a year of significant progress for Adgorithms following the market disruption witnessed in 2015. Management has positioned the business well to take advantage of the exciting opportunities open to our leading edge AI for the marketing industry in 2017.

The Company consolidated its position at the forefront of marketing technology with the launch of Albert 2.0, our SaaS product, to make it even more user friendly and effective, while building a fully staffed, 15-strong sales and marketing team, working out of our New York office. This team includes highly talented individuals from our Group Chief Executive to our Chief Revenue Officer, Chief Marketing Officer and Chief Technology Officer and is focused on developing our client base in key verticals. This was all achieved while maintaining tight cost and cash control.

The fact that Albert had 21 paying clients at year end and 20 more in integration and piloting demonstrates both his appeal and the value of the investment made in the year. The quality of the results Albert delivers for brands, and the Company's wider potential, have been recognised with a number of industry awards, including: Best in Biz - Best New Product of 2016; Deloitte North America Technology Fast 500 - #98; DMN Awards - Best Marketing Automation company; DMN Awards - Best Retail Campaign of the Year (with Harley Davidson); AI Awards - Best Application of the Year.

The Indirect sales channel remains subject to volatility and the Group continues to pursue a strategy of diversifying the partner base to strengthen the revenue profile of All Aspect, its indirect business. All Aspect is run autonomously and through rigorous management, it continues to make a positive cashflow contribution to the Group.

The Board believes that the structural shift from open exchanges in 2016, which affected our Indirect business will provide further impetus to the market penetration of our SaaS product, Albert, and enable brands to take direct control of their online marketing activity.

As the Board and I look forward to 2017, we do so with a sense of excitement for the longer term. We have already seen encouraging developments at the start of the year, with new contract announcements reflecting the continued success of our sales and marketing efforts. Management is focused on building on the progress made in 2016 by developing the growing customer pipeline further, always with a close eye on the cash burn rate. This year will be pivotal in building scale in the SaaS offering as it becomes an increasingly meaningful contributor to Group revenue.

OPERATIONAL REVIEW

Introduction

We are pleased to report that 2016 has been a year in which we have achieved significant milestones in our strategy to develop our Direct Sales channel through the rollout of our SaaS product.

Key strategic milestone during the year include:

Key strategic priorities	Delivered in 2016
• To build a market tested state of the art product	• Successful product launch of Albert 2.0, which simplifies customer onboarding process and shortens the length of time needed to see significant ROI improvement
• Establish a robust and functioning sales and marketing team	• Establishment of a fully staffed sales and marketing office in New York
• Secure significant customer wins to prove to market opportunity for “Albert”	• Full deployment with a global nutrition company, replacing its online media agency with Albert, in their most significant South American market
• Control cash to enable further investment in this platform	• Measured deployment of capital to enhance long term revenue and EBITDA growth

A significant milestone was reached with the announcement that, following a successful pilot programme, a global nutrition company chose to replace its online media agency with Albert, in their most significant South American market. The impact of this endorsement by a major global consumer brand is already being felt, not only to the benefit of Adgorithms, but as representing a leap forwards for the Artificial Intelligence (AI) marketing technology industry.

Our Indirect Sales channel continues to be extremely volatile and the Group has taken steps to ensure its indirect revenue business, which represented the vast majority of the Company’s total revenue in 2016, continues to make a positive cashflow contribution to the Group. The Board believes the structural shift from open exchanges witnessed in 2016 will provide further impetus to market penetration of our SaaS product, enabling brands to take direct control of their online marketing activity.

We continue to invest in enhancing Albert to ensure it continues to be one of the most efficient, cost effective and scalable software platforms in the online advertising market. In the period, we have continued to develop Albert enabling it to operate across the leading digital marketing channels, including Facebook, Google, Bing and Twitter.

As part of our effort to bring our SaaS offering to market, we have built a fully staffed sales and marketing team based out of our New York office. This team is now 15 people strong and includes the Group CEO, CRO, CMO and CTO. In recent months, we have been very pleased by the strong support that we are seeing from leading brands, with the SaaS pipeline growing significantly in recent months.

Management continues to believe that Albert is well placed to capitalise on the significant market opportunity that exists within the online marketing segment.

STRATEGIC REPORT continued

Albert

Albert is the first artificial intelligence marketing platform for enterprises, driving fully autonomous digital marketing campaigns for some of the world's leading brands. Created by Adgorithms in 2010, Albert's mission is to liberate businesses from the complexities of digital marketing – not just by replicating their existing efforts, but by executing them at a pace and scale not previously possible. Albert serves as a highly intelligent and sophisticated member of brands' marketing teams, wading through mass amounts of data, converting this data into insights, and autonomously acting on these insights, across channels, devices and formats, in real time. This eliminates the manual and time-consuming tasks that currently limit the effectiveness and results of modern digital advertising and marketing. Brands such as Harley Davidson, EVISU and Cosabella credit Albert with significantly increased sales, an accelerated path to revenue, the ability to make more informed investment decisions, and reduced operational costs.

Business Summary

Land and Expand growth strategy

Central to Adgorithms' growth has been the adoption of its "Land and Expand" strategy. The aim is to allow brands to test Albert in a relatively small, controllable setting. For example, this could be an initial trial in one channel (e.g. Facebook) or with a relatively non-core sub brand or in a small geographical market. By working with Albert in this fashion, a brand manager gets access to Albert's dashboard and can trial the effectiveness of Albert. A key advantage of Albert, as opposed to the more established "marketing clouds" for example, is its ease of implementation. Whereas a brand would need to invest significant time and financial resource to implement an established marketing cloud, Albert can be connected in days, with no external set up costs to the brand.

In the case of nearly all brand managers presented with Albert in 2016, it was their first interaction with a fully autonomous campaign management system. Our experience has shown that once Albert performs in a controlled setting, the brand manager often wants to expand the use of Albert to further sub brands, additional channels and more geographies. The rate of expansion varies from brand to brand.

SaaS sales channel

Over the period, we have successfully implemented our "Land and Expand" strategy with a number of customers. Customers run campaigns autonomously through the platform and can view real-time results and insights through the dashboard, which gives visibility of the success of all campaigns running simultaneously. The Company's strategy is to sign up a customer for a trial, with a small proportion of existing online advertising spend spent via Albert, usually in one channel and one territory. Once the customer is able to see tangible results from this initial proportion of work, Adgorithms seeks to increase the proportion of the online advertising spend that is funnelled through Albert. SaaS revenue is generated as Adgorithms takes a proportion of the total online advertising spend.

OPERATIONAL REVIEW continued

Indirect sales channel

Adgorithms' proprietary technology can also be deployed in advertising exchanges in order to match undervalued inventory with suitable demand. This allows Adgorithms to provide trading desks with quality, fraud screened inventory at exact and fair prices. It also provides managed services for clients on a performance basis, whereby Adgorithms takes the risk of buying an impression and only gets paid by the customer on successful conversions.

In 2016 this channel has been impacted mostly by the move of premium paying brand customers away from exchanges to the relatively walled platforms of Google and Facebook. Several market analysts attribute over 100% of the growth of the entire online advertising market in 2016 to Google and Facebook (and their controlled inventory). Therefore, the market in which Adgorithms traditionally acted not only shrunk, but became a lot more competitive, compressing margins for the ecosystem.

Adgorithms experienced a slowdown in indirect trading activity in H2 2016. Whilst it expects the indirect channel to remain highly unpredictable, it expects it to continue to present value opportunities for the Group and management has taken steps to ensure its continued positive contribution to the overall business.

The Trend for Greater Control

Albert is benefiting from a growing trend of CMOs demanding greater control, transparency and ROI from their online advertising agencies. In recent months many leading CMOs have publicly stated that they are putting agency contracts under review and aim to bring the function of media buying in-house. The Board believes that Albert will be a market beneficiary of such a strategy as it gives brands the ability to run campaigns in-house resulting in greater control and transparency and improved returns on marketing investment.

Albert can deliver a number of advantages over competing technologies, including:

- Automation of campaign management
  Successful campaign management requires making decisions based on dozens of parameters and thousands of parameter combinations, for which the value of each decision is normally a fraction of one cent. Such a task is simply not possible for humans. In recent years, various tools have been developed to assist human campaign managers in this task. However, all of such tools still require a human operator. Albert on the other hand, is designed to continuously optimize advertising purchasing decisions and repeatedly learns and adjusts from the outcome of each decision made.

- Self-learning
  With every campaign, Albert is able to analyse data and the success of previous campaigns. It can then adapt subsequent campaigns for greater return on investment for customers, whilst also filtering out non-effective inventory, including fraudulent activity

- Cost of media / Improved ROI
  Albert can accurately attribute value to each impression, thereby appraising opportunities and maximizing a client's advertising budget. It will therefore only place advertisements where appropriate to maximise the ROI. In the same way, in the case of the Company's indirect channel, Albert acquires undervalued opportunities as inventory and sells these through advertising exchanges for an immediate profit

STRATEGIC REPORT continued

Outlook

Our main focus in 2016 was to establish the building blocks of our SaaS business which in our view are:

- Build a market tested state of the art product
- Establish a robust and functioning sales and marketing team
- Secure significant customer wins to prove to market opportunity for “Albert”
- Control cash to enable further investment in this platform.

Given our initial market penetration success, and the growing list of blue chip potential customers in various stages of our business pipeline, we feel confident about the adoption of Albert as a SaaS solution. In the final quarter of the year we’ve seen an encouraging number of new clients signing up for Albert.

Our indirect business however has continued to suffer in 2016. We have streamlined costs in the trading business in recent months to ensure its continued positive contribution to the business and have launched several new initiatives to diversify revenue dependencies, which we hope will bear fruit in 2017.

Management believes 2017 will be a pivotal year for the Company as we further expand our sales and marketing efforts and build greater market penetration of our SaaS business. We expect to continue implementation of our Land and Expand strategy and to reach a much higher number of brand customers by year end. Whilst SaaS revenue is expected to grow significantly, it is unlikely to fully offset the structural decline in Indirect Revenue in 2017 and therefore we anticipate that the Company will remain loss making in 2017. Existing cash reserves are sufficient to support continued development of the SaaS strategy to capitalise on the market opportunity that clearly exists and the Board remains positive about the Group’s prospects.

FINANCIAL REVIEW

The Group delivered revenues of $16.4m in 2016, down 26% on the prior year (2015: $22.1m).

Gross profit reduced to $3.1m (2015: $6.7m) due to structural changes which affected trading volumes in the advertising exchange and impacted margins in 2016. As a result of the shift within the Group's Indirect Sales channel, management has accelerated revenue diversity by connecting to a large number of new supply and demand sources. This expansion in indirect activity has allowed the Company to partially mitigate the effect of the market disruption that occurred during the second half of 2015 and continued during 2016.

Group adjusted EBITDA declined in the period to negative $7.9m (2015: EBITDA of $2.2m), reflecting the Group's investment in its SaaS solution, primarily in sales and marketing and in increased research and development.

US$'000	2016 $'000	2015 $'000	Diff
Revenues	16,403	22,076	(5,673)
Cost of revenues*	(13,247)	(15,356)	2,109
Gross profit	**3,156**	**6,720**	**(3,564)**
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GOVERNANCE

BOARD OF DIRECTORS

John Allwood, *Independent Non-Executive Chairman*

John Allwood is a non executive director of TalkTalk plc and Chairman of IMImobile plc. He has spent his career in media and telecoms holding a number of senior executive positions including Chief Executive of Orange UK and Chief Executive and Finance Director at Mirror Group plc. He also worked at News International plc, Mecom plc and Telegraph Media Group. He was appointed Independent non executive Chairman of Adgorithms in June 2015.

Or Shani, *Chief Executive Officer*

Or Shani founded Adgorithms in 2010. He has significant leadership experience from the online advertising industry, previously serving as the Head of Online Marketing at Online365 (now WebForce), Director of Trading Business Development at SupersonicAds and Head of Affiliates and Media Team at ValueNet. Previously, he worked at Mansion Group, an online gaming operator, in a Media Buying capacity. Or also served as an officer in the Israeli Air-Force for 8 years.

Ron Stern, *Chief Financial Officer **

Ron Stern has twelve years of M&A, Private Equity and Venture Capital experience. He was previously Senior Advisor to the Pritzker Group, Chicago-based investment firm, where he was responsible for deal sourcing in Israel. Previously, he assisted Kleiner Perkins Caufield & Byers in identifying and evaluating investment opportunities in Israel. Prior to his work with KPCB, Ron was a partner at Shamrock Capital Advisors, the investment arm of the Disney family. At Shamrock he was responsible for executing ten transactions and served as Executive Chairman of a U.S. technology company, where he led a successful turnaround of the business. Prior to Shamrock, he was a Senior Associate at Cap Gemini Ernst & Young in New York and worked at the purchasing department of Intel in Israel. Additionally, he is the 19 founder of Value Israel Ltd., a private investment advisory firm focused on the high tech and clean energy sectors in Israel. Ron is a graduate of the Hebrew University of Jerusalem and Columbia Business School, where he attained his MBA in Finance and Entrepreneurship.

Lisa Gordon, *Independent Non-Executive Director*

Lisa Gordon brings over 23 years of industry experience to Adgorithms. She was a founder Director and Corporate Development Director of Local World, a large media network focused on regional news via online and print titles in the UK which was acquired by Trinity Mirror Plc in November 2015. She previously served on the board of Chrysalis Group plc, as Corporate Development Director and latterly CEO of Chrysalis New Media. She started her career in the City as a research analyst and part of the No 1 Extel rated Media and Leisure team for County Natwest. She was appointed as Independent Non-Executive Director of Adgorithms in June 2015 and is also a Non-Executive Director of Alpha FX plc, the listed currency risk management business and Magic Light Pictures, the leading childrens' TV and Film producer.

*Ron Stern resigned and was replaced as Chief Financial Officer by Yoram Freund on 3 April 2017.

BOARD OF DIRECTORS continued

Barak Salomon, *Independent Non-Executive Director and External Director*

Barak Salomon has extensive experience in private equity investments in the technology and industrial sectors. Barak is serving for the past three years as NTT DoCoMo Ventures Israeli advisor. Previously, Barak was with Viola Private Equity, a technology growth capital and buyout fund, managing the investment team and executing investments in the technology and industrial sectors. Prior to Viola, Barak worked in the Technology group of Apax Partners in Israel. Barak holds an MBA from the MIT Sloan School of Management and a Bachelor's degree in mathematics and computer science (cum laude) from Bar Ilan University in Israel.

Ofir Gomeh, *Independent Non-Executive Director and External Director*

Ofir Gomeh has been a certified public accountant in Israel for the past 16 years. Ofir is the CEO of Clal Sun (the renewable energy arm of Clal Industries), leading major solar projects from development through to financing, construction and operation. Previously, Ofir was the CFO of Clal Sun. Prior to Clal Sun, Ofir was the CFO of Rafael Development company (RDC), a subsidiary of the renowned Israeli defence company, Rafael, focused on leveraging its technologies for civilian use. In his role, Ofir co-led the process of incubating a dozen start-up companies in various fields, from healthcare to communications. He was concurrently the CFO of RDC's subsidiary, Medingo, which was sold to Roche for $200m. Ofir has also held positions in the finance department of NASDAQ-listed Elron Electronic Industries, as well as at the big-4 auditing firm KPMG. Ofir holds a BA in Economics and Accounting from the Hebrew University of Jerusalem and is also a graduate of the Tel-Aviv University, where he attained his MBA in Finance and Accounting.

GOVERNANCE continued

DIRECTORS' REPORT

The Directors present their report and consolidated financial statements of the Company for the year ended 31 December 2015.

Results and review of the business

The Directors' Report should be read in conjunction with the full 2015 annual audited consolidated report and financial statements.

Dividends

The Board determined that it would be prudent not to pay a dividend for 2015. The Board expects to re-evaluate this decision once the Company returns to profitability. The Directors will continue to monitor the profitability of the Company; the level of cash retained within the business as well as investment opportunities available to the Group and, from time to time, review the continued appropriateness of such policy.

Directors

The Directors and their interests in the Ordinary Share capital of the Company as of 31 December 2015 were as follows:

	Number of Ordinary Shares
John Allwood, Independent Non-Executive Chairman	35,000
Or Shani, Chief Executive Officer	29,177,431
Ron Stern, Chief Financial Officer	162,500
Lisa Gordon, Independent Non-Executive Director	53,000
Barak Salomon, Independent Non-Executive Director and External Director	-
Ofir Gomeh, Independent Non-Executive Director and External Director	-

Share capital

Number of Ordinary Shares
On 31 December 2016 the Company had 61,725,271 shares issued.

Share capital

The authorised and issued share capital of the Company, together with details of the Shares allotted during the relevant period are shown in Note 8 of the financial statements.

Major shareholders

At 31 December 2016 the Company was aware of the following interests of shareholders in excess of 3%.

Shareholder	Percentage of issued Shareholder share capital
Or Eliezer Shani (1)	47.27%
Schroder Investment Management Limited	12.3%
Tomer Naveh	6.04%
Or Russo	5.87%
Rafael Zoldan	4.12%
Inflection Point Investments LLP	4.06%
Alon Michaely	3.55%
Rathbone Investment Management Limited	3.54%

(1) Held through the Or Shani Irrevocable Trust.

DIRECTORS' REPORT continued

Corporate Governance

The Directors acknowledge the importance of high standards of corporate governance. The Directors intend to comply with the requirements of the Corporate Governance Code to the extent that they consider it appropriate and having regard to the Company's size, board structure, stage of development, resources and jurisdiction of incorporation. The Board consists of six Directors, four of whom are non-executive Directors.

The Board convened by phone on a monthly basis and held twelve meetings in 2016. The Board met to discuss the Company's strategy, budget, corporate actions and major items of capital expenditure.

Remuneration Committee

The remuneration committee is comprised of Barak Salomon, Ofir Gomeh and Lisa Gordon and is chaired by Barak Salomon. The remuneration committee reviews the performance of the executive Directors and makes recommendations to the Board in respect of the Directors' remuneration and benefits packages, including share options and the terms of their appointment. The remuneration committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time.

Share option schemes

The Directors believe that the Company's success is dependent on the quality and loyalty of its staff. The Directors consider that, to assist in the recruitment, retention and motivation of high quality staff, the Company must have an effective remuneration strategy and that an important part of it is the ability to award equity incentives.

The Company has granted options over its Ordinary Shares to certain of the Directors, existing employees and consultants under the Share Option Plan. Options granted under the Plan generally vest over three years (1/3 at each year) and expire 10 years from the vesting commencing date.

As of 31 December 2016, 5,902,887 options are outstanding and 1,459,926 of such outstanding options are exercisable. For more information please refer to Note 8 in the financial statements.

Directors' remuneration

The Directors' remuneration for the year ended 31 December 2016 is set out in the table below (in $US).

	Management Salary	Bonus	Total
John Allwood	80,494	-	80,494
Or Shani	631,125	-	631,125
Ron Stern	156,250	25,000*	181,250
Lisa Gordon	53,844	-	53,844
Barak Salomon	26,297	-	26,297
Ofir Gomeh	26,301	-	26,301

*Deferred IPO bonus which was paid during 2016.

GOVERNANCE continued

DIRECTORS' REPORT continued

	Outstanding options as of 31 December 2016
John Allwood	67,100 (1)
Or Shani	- (2)
Ron Stern	1,496,000 (3)
Lisa Gordon	43,615 (4)
Barak Salomon	-
Ofir Gomeh	-

(1) 67,100 options which were granted upon IPO on 11 June 2015 with an exercise price of NIS0.01 and, as of 31 December 2016, are all exercisable.
(2) On 13 June 2016 Or Shani waived his rights with respect to all his existing options over 2,012,999 ordinary shares.
(3) Include (i) 325,000 options which were granted on 15 January 2015 with an exercise price of NIS0.01 and, as of 31 December 2016, 162,500 of which are exercisable (ii) 671,000 options which were granted upon IPO on 11 June 2015 with an exercise price of GBP1.33 and, as of 31 December 2016, 223,667 of which are exercisable (iii) 500,000 options which were granted on 10 June 2016 with an exercise price of NIS0.89 and, as of 31 December 2016, none are exercisable.
(4) 43,615 options which were granted upon IPO on 11 June 2015 with an exercise price of NIS0.01 and as of 31 December 2016 are all exercisable.

Audit Committee

The audit committee is comprised of Ofir Gomeh, Barak Salomon and Lisa Gordon and is chaired by Ofir Gomeh (CPA). The audit committee has primary responsibility for monitoring the quality of internal controls to ensure that the financial performance of the Company is properly measured and reported on. The audit committee, inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half yearly and annual accounts and the accounting and the internal control systems in use throughout the Company. The audit committee have unrestricted access to the Company's external auditors.

Internal controls

The Directors are responsible for the Company's internal controls, and have established a framework intended to provide reasonable assurance against material financial misstatement or loss. Shortly after the IPO, the Company hired a full time controller, who is a certified accountant and is a veteran of Ernst & Young. The Company engaged with internal auditor, Shlomi Drori (CPA), who conducted a risk survey upon which the audit committee approved a multiple year audit plan and serves as the Company's internal auditor. The Company's internal auditor established an internal audit plan with an adequate number of internal audit hours, reviewed and revised by the Audit Committee from time to time. The internal auditor has been granted access to all company financial reporting files and employees and reports only to the Audit Committee and the Board of Directors.

DIRECTORS' REPORT continued

Financial reporting

The Company's trading performance is monitored on an ongoing basis. An annual budget is prepared and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored daily and internal management and financial accounts are prepared periodically and at least once a quarter and are shared with the Board of Directors. The results are compared to a monthly budget and prior year performance.

Procedures

The Company's procedures are documented and set out for all employees to review. The Company's management is responsible for the implementation of these procedures and compliance is monitored.

Financial instruments

The Company's financial instruments are discussed in Note 10 to the financial statements.

Share dealing code

The Company has adopted a share dealing code for Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities. The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

The Company continues to take appropriate steps to ensure compliance by the Directors and applicable employees with the terms of the share dealing code and the relevant provisions of the AIM Rules.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for approving the annual reports and the Company and company financial statements in accordance with applicable law and regulations.

Under that law, and as required by the AIM Rules for Companies, the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). In preparing these financial statements, the Directors are required to:

- Present fairly the Company financial position, financial performance and cash flows;
- Select suitable accounting policies in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgments that are reasonable;
- Provide additional disclosures when compliance with the specific requirements in IFRSs, as adopted by the EU, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- State whether the Group and company financial statements have been prepared in accordance with IFRSs, as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

GOVERNANCE continued

DIRECTORS' REPORT continued

Directors' statement as to disclosure of information to auditors

- The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 8.
- Having made enquiries of fellow Directors and of the Company's auditors each of these Directors confirms that:
  - To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
  - Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Employees

The Directors recognise the value of involving employees in the business and ensure that matters of concern to them, including the Group's aims and objectives, are communicated in an open and regular manner. Management frequently briefs staff of the Group's performance and activities and discusses matters of concern or interest. Our employee initiatives include a confidential employee helpline. The Group's employees participate in the 2013 Israeli Share Option Plan. The Company provides equal opportunity in employment for all qualified persons and prohibits discrimination in employment on the basis of race, colour, religion, sex, sexual orientation, gender identity, national origin, creed, ancestry, age, veteran status, military service or other protected status.

Training programmes are held for all levels of staff. These are aimed at increasing skills and contribution.

Going concern

The Board is satisfied that the Company has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, the going concern basis is considered appropriate for the preparation of financial statements.

Auditor

A resolution to reappoint Kost Forer Gabbay & Kassierer, A Member of Ernst & Young Global, as auditors of the Company will be put to the Annual General Meeting. The Directors will also be given the authority to fix the auditors' remuneration.

By Order of the Board

Hadar Harosh Fabian
Company Secretary

20 Lincoln Street
Tel Aviv 6713412
Israel

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of ADGORITHMS LTD.

We have audited the accompanying financial statements of Adgorithms Ltd. and its subsidiaries ("the Company"), which comprise the consolidated statements of financial position as of 31 December 2016 and 2015, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the years then ended, and the related notes to the consolidated financial statements, which, as described in Note 2 to the consolidated financial statements, have been prepared on the basis of International Financial Reporting Standards as adopted by the European Union.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of 31 December 2016 and 2015, and the results of its operations and its cash flows for the two years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Kost Forer Gabbay and Kasierer

Tel Aviv, Israel
2 April 2017

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

US dollars in thousands

	Note	31 December 2016 $'000	31 December 2015 $'000
CURRENT ASSETS			
Cash and cash equivalents		22,577	31,189
Restricted cash		187	51
Trade receivables, net	3	3,239	4,740
Other accounts receivable and prepaid expenses		361	257
Total current assets		**26,364**	**36,237**
NON-CURRENT ASSETS			
Property and equipment, net	4	228	118
Total non-current assets		228	118
Total assets		26,592	36,355
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade payables		2,306	3,817
Other accounts payable and accrued expenses		981	1,110
Total current liabilities		3,287	4,927
NON-CURRENT LIABILITIES			
Employee benefit liabilities, net		112	85
EQUITY			
Share capital:			
Ordinary shares		160	160
Share premium		39,146	38,082
Capital reserve		(193)	(193)
Accumulated deficit		(15,920)	(6,706)
Total equity		23,193	31,343
Total liabilities and equity		26,592	36,355

2 April 2017		
Date of approval of the financial statements	Or Shani CEO and Director	Ron Stern Chief Financial Officer and Director

CONSOLIDATED STATEMENTS OF INCOME

US dollars in thousands (except per share data)

Year ended 31 December	Note	2016 $'000	2015 $'000
Revenues	9	16,403	22,076
Cost of revenues	11a	13,268	15,398
Gross profit		3,135	6,678
Operating expenses:			
Research and development	11b	5,710	8,329
Selling and marketing	11c	4,536	1,193
General and administrative	11d	2,010	2,619
Bonus expenses related to the IPO		-	1,191
Total operating expenses		12,256	13,332
Operating loss		(9,121)	(6,654)
Financial income		105	520
Financial expenses		(148)	**36,237**
Loss before taxes on income		(9,164)	(6,174)
Taxes on income	6e	50	681
Net loss		(9,214)	(6,855)
Net (loss)/income per share attributable to the Company's	13		
Basic and diluted loss per ordinary share		(0.15)	(0.15)

FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

US dollars in thousands

Year ended 31 December	2016 $'000	2015 $'000
Net loss	(9,214)	(6,855)
Other comprehensive loss: Amounts that will not be reclassified subsequently to profit or loss: - Remeasurement losses on defined benefit plan	-	(172)
Total other comprehensive loss	-	(172)
Total comprehensive loss	(9,214)	(7,027)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

US dollars in thousands

	Share capital $'000	Share premium $'000	Capital reserve $'000	Retained earnings (accumulated deficit) $'000	Total equity $'000
Balance as of 1 January 2015	*) -	2,303	(21)	149	2,431
Dividend distributed to shareholders			-	-	
(see note 9b)	-	(2,147)	-	-	(2,147)
Exercise of options and warrants	18	-	-	-	18
Issuance of Bonus shares	99	(99)	-	-	-
Issuance of Ordinary shares upon public				-	
offering, net of offering expenses of $3,691	43	30,283		-	30,326
Tax benefit in respect of offering expenses	-	209	-		209
Cost of share-based payment	-	7,533	-		7,533
Net loss	-	-	-	(6,855)	(6,855)
Total other comprehensive loss	-	-	(172)	-	(172)
Total comprehensive loss	**-**	**-**	**(172)**	**(6,855)**	**(7,027)**
Balance as of 31 December 2015	**160**	**38,082**	**(193)**	**(6,706)**	**31,343**
Exercise of options	*) -	-	-	-	*) -
Cost of share-based payment, net	-	1,064	-	-	1,064
Total comprehensive loss	-	-	-	(9,214)	(9,214)
Balance as of 31 December 2016	160	39,146	(193)	(15,920)	23,193

*) Represents an amount lower than $1.

FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

US dollars in thousands

	Year ended 31 December	
	2016 $'000	**2015 $'000**
Cash flows from operating activities:		
Net loss	(9,214)	(6,855)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Adjustments to the profit or loss items:		
Share-based payment	1,064	7,533
Tax expense	50	681
Depreciation	85	45
Financial expense (income) from exchange rate differences	105	(501)
	1,304	7,758
Changes in asset and liability items:		
Decrease in trade receivables	1,501	1,199
Increase in other accounts receivable and prepaid expenses	(104)	(83)
Decrease in deferred taxes	-	827
Increase (decrease) in trade payables	(1,511)90	277
Increase (decrease) in other accounts payable and accrued expenses	27	(997)
Increase in employee benefit liabilities, net		-
	3	1,223
Cash paid during the year for:		
Taxes	(229)	(981)
Net cash provided by (used in) financing activities	(8,136)	1,145

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY continued

US dollars in thousands

	Year ended 31 December	
	2016 $'000	**2015 $'000**
Cash flows from operating activities:		
Purchase of property and equipment	(195)	(51)
Investment in restricted cash	(136)	-
Net cash used in investing activities	(331)	(51)
Cash flows from operating activities:	-	
Tax withheld on dividend distributed in 2014	-	(607)
Dividend distributed to shareholders	*) -	(2,147)
Exercise of options	(40)	18
IPO proceeds, net		30,366
Net cash provided by (used in) financing activities	(40)	27,630
Exchange rate differences in respect of cash and cash equivalents	(105)	501
Increase (decrease) in cash and cash equivalents	(8,612)	29,225
Cash and cash equivalents at the beginning of the year	31,189	1,964
Cash and cash equivalents at the beginning of the year	22,577	31,189
Significant non-cash transactions:		
IPO expenses	-	40

*) Represents an amount lower than $ 1.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

1. GENERAL

a. **Company description**

Adgorithms Ltd. ("the Company") was incorporated under the laws of Israel and commenced operations in September 2010. The Company's registered address is 20 Lincoln Street, Tel-Aviv, Israel.

The Company is engaged in the field of solutions for online advertising including the use of Artificial Intelligence ("AI") technology. The Company develops and deploys algorithmic solutions aiming to maximise return on income ("ROI") for the brand advertiser. The Company operates across the channels of video, display, social, search and e-mail marketing on the platforms of desktop and mobile.

In June 2015 the Company completed an Initial Public Offering ("IPO") and was admitted to trading on AIM and issued 16,541,353 Ordinary shares at a price of 1.33 GBP per share, for a total consideration of $34,017 before underwriting and issuance expenses. Total net proceeds from the issuance amounted to $30,326.

b. In March 2014, the Company established a wholly-owned Subsidiary in the United States, Adgorithms Inc., which commenced operating in September 2015. Adgorithms Inc. is engaged in the distribution of the Company's products and service solutions in the United States market, and provides the Company with advisory and management services.

c. In August 2016, the Company established a wholly-owned subsidiary in Israel, AA Digital Media Ltd. (Adgorithms Inc. and AA Digital Media, collectively, "the Subsidiaries"), which commenced operating in November 2016. AA Digital Media is engaged in trading media in various strategies with an array of participants in the online advertising value chain.

d. The consolidated financial statements were approved for issuance by the Board of Directors on 2 April 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a. **Basis of presentation:**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

The consolidated financial statements have been prepared on a cost basis.

b. **Consolidated financial statements:**

The consolidated financial statements comprise the financial statements of the Company and subsidiaries that are controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and the Subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by the Company and the Subsidiaries. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

c. **Significant accounting judgments, estimates and assumptions used in the preparation of the consolidated financial statements:**

The preparation of the consolidated financial statements requires the management of the Company to make estimates and assumptions that have an effect on the application of accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

In the process of applying the significant accounting policies, the Company has made the following judgments which have a significant effect on the amounts recognised in the consolidated financial statements:

Development costs
The Company evaluates project development costs for capitalisation in accordance with its accounting policy. Before such costs can be capitalised, the Company needs to demonstrate that "the intangible asset will generate probable future economic benefits", among other factors. The Company does not meet the threshold requirements for capitalisation of project development costs and therefore expenses all such costs.

d. **Functional currency and foreign currency:**

1. Functional currency and presentation currency:
The consolidated financial statements are presented in U.S. dollars, the Company's and the Subsidiary in Israel functional currency, and are rounded to the nearest thousand, unless stated otherwise. The functional currency best reflects the economic environment in which the Company operates and conducts its transactions.

2. Transactions in foreign currency:
Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency existing as of the reporting date are translated into the functional currency at the exchange rate at each reporting date. Exchange differences are recorded in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the Company's functional currency using the exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate on the date that the fair value was determined.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

e. **Cash and cash equivalents:**

Cash includes cash balances available for immediate use. Cash equivalents include short-term highly liquid deposits in banks (with original maturities of three months or less) that are readily convertible into known amounts of cash and are part of the Company's cash management.

f. **Restricted cash:**

Restricted cash is primarily invested in deposits used as security for office leases, credit line limit and letter of credit to customer.

g. **Allowance for doubtful accounts:**

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of Company's management, is doubtful. Impaired debts are derecognised when they are assessed as uncollectible.

h. **Property and equipment, net:**

Items of property and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment losses, if any, and excluding day-to-day servicing expenses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the property and equipment (generally 1-7 years).

i. **Impairment of non-financial assets:**

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (less depreciation or amortisation) had no impairment loss been recognised for the asset in prior years and its recoverable amount. The reversal of the impairment loss is carried to profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

j. **Employee benefits:**

1. Post-employment benefits:

The Company has a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law in Israel. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets").

Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company.

The liability for employee benefits shown in the consolidated statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability in respect of the defined benefit plan are recognised in other comprehensive income in the period in which they occur.

On 1 January 2015 the Company agreed to adopt Section 14 to the Severance Pay Law under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions only for the period commencing from1 January 2015. Contributions in respect of severance pay are recognised as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

2. Short-term benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

k. **Share-based payment transactions:**

The cost of equity-settled transactions with employees and others is measured at the fair value of the equity instruments granted at grant date.

The cost of share-based payments is recognised in profit or loss, with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award. The amount recognised in profit or loss, taking the vesting conditions into account, consisting of service and performance conditions other than market conditions, is adjusted to reflect the actual number of equity instruments that are expected to ultimately vest.

l. **P rovisions:**

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

m. **Revenues:**

The Company derives its revenues from online advertising, including campaign management for clients (“Performance”), sales through bids for advertising spaces on advertising exchanges (“In-direct”) and SaaS (“Software as a Service”) revenue.

Revenue is recognised in profit or loss when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the associated costs can be measured reliably. Revenue is measured at the fair value of the consideration received, net of discounts. Revenue from SaaS is recognised based on the percentage of the actual media purchased by the client.

When the Company acts as an agent or as a broker without being exposed to the significant risks and rewards associated with the transaction, the amounts collected on behalf of the principal are not revenues, and revenues reflect the amount of the commission. When the Company acts as a principal and is exposed to the significant risks and rewards associated with the transaction, revenues reflect the gross inflows of the economic benefits.

In determining whether the Company is acting as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, because the Company is the primary obligor in the arrangement and is responsible for (i) selecting and contracting with third party suppliers for the purchase of inventory, (ii) having general inventory risk over advertising spaces bought, (iii) establishing the selling price, and (iv) assuming credit risk in the transaction, the Company acts as the principal in both Performance and In-direct arrangements and therefore reports all revenues earned and costs incurred on a gross basis.

With respect to SaaS revenues, the Company evaluated that it acts as an agent, based on the accounting guidance for principal-agent considerations, and therefore reports those revenues on net basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

Deferred revenues
Payments received from customers, which do not meet the criteria for revenue recognition, are recorded as deferred revenues.

n. **Research and development costs:**
Research expenditures are recognised in profit or loss when incurred. Development costs are also recognised in profit or loss unless they can be capitalised as an intangible asset because the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the ability to measure reliably the respective expenditure asset during its development.

o. **Taxes on income:**
Taxes on income in the consolidated statement of operations comprise current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the consolidated statement of operations except to the extent that the tax arises from items which are recognised directly in equity or in other comprehensive income.

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

2. Deferred taxes:
Deferred taxes are computed in respect of temporary differences between the carrying amounts in the consolidated financial statements and the amounts attributed for tax purposes.

Deferred tax balances are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilised. Simultaneously, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognised are reassessed and deferred tax assets are recognised to the extent that their recoverability is probable (see note 6d).

p. **Earnings (loss) per share:**
Earnings (loss) per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings (loss) per share only include shares that were actually outstanding during the period. Potential ordinary shares are only included in the computation of diluted earnings (loss) per share when their conversion has a dilutive effect on the earnings (loss) per share. Further, potential ordinary shares that are converted during the period are included in diluted earnings (loss) per share only until the conversion date and from that date in basic earnings (loss) per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

If the number of ordinary or potential ordinary shares outstanding changes as a result of a bonus issue or share split during the reported periods or after the reporting period but before the financial statements are authorised for issue, the calculations of basic and diluted earnings per share are adjusted retrospectively for all periods presented.

q. **Disclosure of new standards in the period prior to their adoption:**

IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognise revenue when the entity satisfies a performance obligation over time or at a point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of comparative periods is required.

The Company is still evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

Lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately.

Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognised as an expense by the lessees as incurred and recognised as income by the lessors as earned.

In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.

The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Company is evaluating the possible effects of the new Standard. At this stage, the Company is unable to quantify the impact on the financial statements.

3. TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.
As of 31 December 2016 trade receivables are net of an allowance for doubtful accounts in the amount of $ 35 (2015 - $ 6).

As of 31 December 2016 there are no past due receivables which are not impaired.

4. PROPERTY AND EQUIPMENT, NET

	31 December	
	2016 $'000	2015 $'000
Cost:		
Office furniture and equipment	56	35
Computers and software	118	65
Leasehold improvements	203	82
	377	182
Accumulated depreciation:	9	9
Office furniture and equipment	55	55
Computers and software	85	85
Leasehold improvements		
	149	64
Depreciated cost	228	118

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

5. OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December	
	2016 $'000	2015 $'000
Accrued expenses	324	448
Tax payable	17	100
Other governmental authorities	217	137
Deferred revenues	51	83
Employees and payroll accruals	372	342
	981	182

6. TAXES ON INCOME

a. ***The Law for the Encouragement of Capital Investments, 1959:***

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On 5 August 2013, the "Knesset" (Israeli Parliament) issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

In January 2014 the Company applied to the Israeli Tax Authorities for a "Preferred Enterprise" status under which the Company's revenues meet the definition of "Preferred Income" by the above law. In October 2014, the Company received final approval from the Israeli Tax Authorities. According to the approval, starting 2013, the Company's income derived from the right to use software, not including certain services as detailed in the approval, is deemed as "Preferred Income" under the Law for the Encouragement of Capital Investments, 1959. The approval is limited to the period between the tax years 2013 through 2017.

The tax benefits under "Preferred Enterprise" status are conditional upon the fulfilment of the conditions stipulated by the above law and the approval received by tax authorities.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

b. **Tax rates applicable:**

Tax rates in Israel:

The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from 1 January 2016.

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

As there are no deferred tax balances as of 1 January and 31 December 2016, the change in the tax rates had no effect in the financial statements.
Tax rates in the U.S:

A company incorporated in the U.S. - weighted tax at the rate of about 40% (Federal tax, State tax and City tax of the city where the company operates).

c. **Final tax assessments:**

The Company received final tax assessments until the year 2014. The Subsidiaries have yet to receive final tax assessments since their incorporation.

d. **Carryforward operating tax losses for tax purposes of the Company and the Israeli Subsidiary total approximately $6,913, as of 31 December 2016.**

Carryforward tax losses in Israel may be set against future taxable income. No deferred tax assets have been recorded in respect of these carryforward tax losses due to the uncertainty of their realisation.

e. **Taxes on income included in the consolidated statements of operations:**

	31 December	
	2016 $'000	**2015 $'000**
Current taxes	50	272
Deferred taxes *)	-	409
	50	681

*) As of 31 December 2015, the Company no longer considered it was probable that taxable profits will be available against which the deductible temporary Israeli corporate tax differences can be utilised. Therefore, the Company wrote-off the deferred tax benefit in the amount of $431.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

f. **Theoretical tax:**

	Year ended 31 December	
	2016 $'000	2015 $'000
Loss before taxes on income	(9,164)	(6,174)
Statutory tax rate	25%	26.5%
Tax computed at the statutory tax rate	(2,291)	(1,636)
Increase (decrease) in taxes on income resulting from the following factors:		
Effect of "Preferred Enterprise" status	680	632
Effect of non-deductible expenses	267	1,284
Effect of temporary differences and losses for which deferred taxes have not been recognised	1,371	431
Tax adjustment in respect of different tax rate of foreign subsidiaries	(28)	-
Other	51	(30)
Taxes on income	50	681

7. COMMITMENTS AND CONTINGENCIES

Lease commitments:

The Company leases office facilities under operating leases, which expire in 2017. Future minimum commitments under non-cancelable operating lease agreements as of 31 December 2016 are as follows:

2017	$333

Rental expenses for the years ended 31 December 2016 and 2015 amounted to $ 403 and $ 198, respectively.

Legal contingencies:

On 6 September 2016, a statement of claim was filed against the Company, Adgorithms' CEO and founder, Mr. Or Shani, and the Company's CFO, Mr. Ron Stern (the "Defendants") by Mr. Tal Saar (the "Plaintiff"), a former service provider of the Company, with the Magistrate Court of Tel-Aviv, Israel (the "Court") claiming, among other things, that the Defendants are liable for certain fees due to such service provider and demanding to receive information with respect to payments made to Mr. Stern by the Company (the "Claim"). A statement of defense and a motion to dismiss the Claim were filed by the Defendants with the Court on 20 November 2016 and 30 December 2016, respectively. A pre-trial hearing was held on 22 March 2017, and a second pre-trial hearing is scheduled for 24 April 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Plaintiff was ordered by the Court to submit his reply to the Defendants' motion to dismiss the Claim by the second pre-trial hearing date. No provision in respect of the Claim was recorded in the financial statements as of 31 December 2016, as the Company's current position is that all allegations are groundless and it is unlikely that any allegations brought against the Company, Mr. Shani and Mr. Stern will be accepted by the Court. However, due to the early stages of the proceedings, the Company cannot predict with certainty as to the final outcome of the Claim.

8. EQUITY

a. Composition of share capital:

	31 December 2016		31 December 2015	
	Authorised	Issued and outstanding	Authorised	Issued and outstanding
	Number of shares		Number of shares	
Ordinary Share of NIS 0.01 par value	100,000,000	61,725,271	100,000,000	61,698,853

On 3 June 2015, the Board of Directors and the shareholders of the Company approved an increase in the authorised share capital of the Company of NIS 900,000, which shall be divided into 90,000,000 Ordinary Shares par value of NIS 0.01 each, such that following such increase, the Company's authorised share capital shall be NIS 1,000,000, divided into 100,000,000 Ordinary Shares.

On 3 June 2015, the Board of Directors approved issuing to each Ordinary shareholder 2,499 additional Ordinary shares (stock split), for each issued and outstanding Ordinary share held, so that following such issuance of the Ordinary Bonus Shares each shareholder will hold 2,500 Ordinary shares for each ordinary share held prior to the stock split.

All Ordinary shares and per share data included in these financial statements for all periods presented have been retroactively adjusted to reflect the increase in authorised share capital and the issuance of Bonus shares on 3 June 2015.

On 3 June 2015, the Board of Directors approved the issuance to the Chief Executive Officer ("CEO") of warrant to purchase 6,837,500 Ordinary shares of the Company at a price per share equal to the par value of the Ordinary shares. The warrant was exercised and all Ordinary Shares underlying the warrant were issued on 9 June 2015, at the grant date.

The warrant was issued following the grant of option to certain employees of the Company (each an "Option Holder") approved by the board in 2015 ("2015 Grant"), which grant was made based on the understanding by all relevant Option Holders that the above warrant would be issued to the CEO in his capacity as the sole shareholder of the Company to prevent an unintended dilution of his holdings in the Company as a result of the 2015 Grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

In June 2015 the Company completed an Initial Public Offering ("IPO") and was admitted to trading on AIM and issued 16,541,353 ordinary shares at a price of 1.33 GBPper share, for a total consideration of $ 34,017 before underwriting and issuance expenses. Total net proceeds from the issuance amounted to $ 30,326.

b. **Dividend distribution:**

On 2 June 2015, the Company paid a dividend in an amount of $ 2.1 million (approximately $ 0.063 per share). The dividend was distributed following a capital reduction approval from the Israeli court.

c. **Share-based payments:**

In October 2013, the Board of Directors of the Company adopted the Company's 2013 Share Option Plan ("Plan"). The Plan provides for the grant of options to purchase Common shares of the Company to employees, officers, directors, consultants and advisors of the Company.

The share-based payments that the Company granted to its employees and non-employees are described below.

There have been no modifications to any of the options during 2015 and 2016, other than the acceleration mentioned below.

On 27 May 2015 and on 3 June 2015, the Board of Directors and the shareholders of the Company approved the acceleration of vesting of 5,754,167 options granted to certain employees. As a result of the aforementioned acceleration, the Company recorded in its consolidated statement of operations an expense amounting to $3,254.

In June 2016 the CEO and founder, Mr. Or Shani, waived his rights with respect to all of his existing options over 2,012,999 Ordinary shares.

As a result of the aforementioned waiver, an acceleration was recognised and accordingly, the Company recorded in its consolidated statement of operations an expense amounting to $146.

Option issued to employees:

Options granted under the Plan expire 10 years from the vesting commencing date. The options generally vest over three years (1/3 at each year).

In June 2016, the Company granted 3,072,981 options to its employees (the "June 2016 grant"). The June 2016 grant includes 1,302,085 options that in addition to a service condition require the employees to meet certain non-market performance goals. Of these options, the performance goals for 826,923 options were achieved as of 31 December 2016, and the related compensation costs, subject to service vesting conditions, are being recorded in the financial statements. For the remaining 475,162 performance-based options the Company management presently estimates that the performance goals will not be achieved, and accordingly, no compensation costs in respect of these options are being recorded in the financial statements.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

The following table lists the number of share options, the weighted average exercise prices of share options and movement in options during the year:

	Year ended 31 December			
	2016		2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at beginning of year	4,536,448	1.399	6,107,500	*) -
Granted	3,072,981	0.219	9,962,039	0.637
Exercised	(26,418)	0.003	(11,242,500)	*) -
Forfeited **)	(2,187,099)	1.504	(290,591)	0.003
Outstanding at end of year	5,395,912	0.489	4,536,448	1.399
Exercisable at end of year	1,217,125	0.606	-	-

*) The exercise price of the options granted in 2014 was almost nil.
**) Includes 2,012,999 options waived by the CEO - see above.

The Company estimates the fair value of stock options granted to its employees and non-employees using the Black-Scholes-Merton option-pricing model ("B&S"). The B&S requires a number of assumptions, of which the most significant estimates are as follows:

Volatility - as of grant dates the Company was not public nor the Company's ordinary shares had been publicly traded for long enough to accurately evaluate volatility, and therefore the volatility assumption is based on the volatilities of other publicly-traded companies that management considered as comparable to the Company.
Expected option term - the expected term of the options represents the period of time that the options are expected to be outstanding.

Risk-free interest - in 2015 the risk-free interest rate assumption is based on the yield of GBP sovereign curve, this curve is comprised of British pound-denominated UK government debt with an equivalent term to the expected life of the option. In 2016 the risk-free interest assumption is based on the exercise price currency, based on the ILS SHAHAR curve/US daily treasury yield curve rate, the curve is comprised of Israeli/US government debt with an equivalent term to the expected life of the option.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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The following table lists the inputs to the B&S model used for the fair value measurement of equity-settled share options for the above plan:

	January 2015	June 2015**)	June 2015 ***)	June 2016
Dividend yield (%)	1.09	1.09	1.09	-
Expected volatility of the share prices (%)	32.63%	32.15%	32.15%	52.35%
Risk-free interest rate (%)	0.69%-2.21%	0.68%-1.95%	1.35%	0.94%-1.31%
Expected life of share options (years)	0.4-3.1	0.16-3.16	6	5.83-6.25
Share price ($)	1.29	2.05	2.05	0.244
Exercise price ($)	*) -	*) -	2.05	*)- - 0.231

*) Represents an amount that approximately equals zero.
**) Grant to employees
***) Grant to management

Out of the 5,395,912 options outstanding as of 31 December 2016, the exercise price of 1,207,800 options is $1.63, the exercise price of 2,892,362 is $0.23 and the exercise price of 1,295,750 is almost nil.

The weighted average fair values of options granted for the years ended 31 December 2016 and 2015, were $ 0.132 and $ 0.89, respectively.

The weighted average remaining contractual life of the outstanding options as of 31 December 2016 and 2015, were 8.77 and 9.46 years, respectively.

For the options exercised during 2016 and 2015, the weighted average market price of the Company's shares is $0.25 and $2.05, respectively.

Options issued to non-employees:
The Company's outstanding options to non-employees as of 31 December 2016 were as follows:

Issuance date	Options to purchase Ordinary shares	Exercise price per share	Options exercisable At end of year	Expire Date
11 June 2015	506,975	0.003	242,801	4 June 2025

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

The cost of share based payments recognised in profit or loss for services received from employees and consultants is shown in the following table:

	Year ended 31 December	
	2016 $'000	2015 $'000
Cost of revenues	20	41
Research and development	519	5,838
Selling and marketing	366	236
General and administrative	159	1,418
	1,064	7,533

8. REPORTABLE SEGMENTS

a. Based on the management reporting system, the Company operates in a single operating segment as provider of on-line marketing services.

b. As described in Note 2m, the Company derives revenues from Performance, In-direct sales and SaaS as follows:

	Year ended 31 December	
	2016 $'000	2015 $'000
In-direct	15,063	20,060
Performance	1,130	2,004
SaaS	210	12
	16,403	22,076

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

c. Revenues based on the location of customers, are as follows:

	Year ended 31 December	
	2016 $'000	2015 $'000
United States	13,654	16,259
Europe	1,008	3,746
Other	1,741	2,071
	16,403	22,076

d. The Company's non-current assets are mostly located in Israel.

	Year ended 31 December	
	2016 $'000	2015 $'000
Customer A	39%	16%
Customer B	12%	41%
Customer C	*)	11%

*) Represents a percentage lower than 10%.

The Company's leading customers are global advertising exchanges.

In the fiscal year 2016, the Company's largest customer represented 39% (16% in fiscal year 2015) of the Company's revenues and the second largest customer represented 12% (41% in fiscal year 2015) of the Company's revenues. Due to the nature of operations and industry in which the Company operates the Company may or occasionally lose, or discontinue its engagement with major customers. The loss of a major customer may result in decrease of revenues and profitability.

During 2016, the Company made efforts to diversify its customer base in order to adjust to further disruption in the industry in which it operates. Customer concentration average in the second half of 2016 was less than the annual average.

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

US dollars in thousands, except share, per share data and dividend amounts

10. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies:

The Company is exposed to market risk and credit risk. The Company's senior management oversees the management of these risks.

a. **Market risk:**
Market risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. As of 31 December 2016 and 2015, the Company considers the exposure to market risk to be immaterial.

b. **Credit risk:**

Credit risk is the risk that counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Company. The Company is exposed to credit risk from its operating activity (primarily trade receivables) and from its financing activity, including deposits with banks and other financial institutions and foreign currency transactions.

1. Trade receivables:
Customer credit risk is managed in the Company subject to the Company's policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on a credit analysis and rating and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

The Company's trade receivables are derived from sales to customers located in Europe and in the United States. The Company's performs ongoing credit evaluations for its customers and an impairment analysis is performed at each reporting date on an individual basis for the Company's customers. The maximum exposure to credit risk as of the reporting date is the carrying value of trade receivables (see Note 3).

The Company does not hold collateral as security for these receivables. The Company evaluates the concentration of risk with respect to trade receivables as low.

2. Cash, cash equivalents and restricted deposits:
Credit risk from balances with banks and financial institutions is managed by the Company's management in accordance with the Company's policy. Cash, cash equivalents and restricted cash are deposited with major banks in Israel and in the US that are of high quality.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

US dollars in thousands, except share, per share data and dividend amounts

11. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF OPERATIONS

		Year ended 31 December	
		2016 $	2015 $
a.	**Cost of revenues:**		
	Cost of media	13,152	15,202
	Salaries and benefits	89	133
	Cost of share-based payment	20	41
	Other	7	22
		13,268	15,398
b.	**Research and development expenses:**		
	Salaries and benefits	3,410	1,830
	Cost of share-based payment	519	5,838
	Subcontractors	1,373	346
	Other	408	315
		5,710	8,329
c.	**Selling and marketing expenses:**		
	Salaries and benefits	2,693	580
	Cost of share-based payment	366	236
	Advertising and promotion	755	270
	Travel	130	-
	Other	592	107
		4,536	1,193
d.	**General and administrative expenses:**		
	Salaries and benefits	528	433
	Cost of share-based payment	159	1,418
	Public company costs	345	244
	Consulting	317	126
	Other	661	398
		2,010	2,169

FINANCIAL STATEMENTS continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December	
	2016 $'000	**2015 $'000**
Salaries	1,576	790
Bonus related to the IPO	-	835
Relocation Bonus	50	50
Post-employment benefits	50	250
Share-based compensation	324	6,217
	2,000	8,142

As of 31 December 2016 the Company has an open balance with one of its shareholders in the amount of $ 55. This amount is recorded as a current asset as part of the other receivables and prepaid expenses.

13. NET LOSS PER SHARE

a. **Basic net loss per share:**

1. Details of the loss used in the computation of basic and diluted net loss per share:

	Year ended 31 December	
	2016 $'000	**2015 $'000**
Net loss used in computation of basic and diluted net loss per share	(9,214)	(6,855)

2. Details of the number of shares used in the computation of basic and diluted net loss per share:

	Year ended 31 December	
	2016 $'000	**2015 $'000**
Denominator for basic net earnings per share Effect of dilutive securities: Options	61,703,256	47,128,959
Weighted average number of ordinary shares used in the computation of diluted net earnings per share	61,703,256	47,128,959

b. **Diluted net earnings per share:**

In 2015 and 2016, all outstanding options have been excluded from the calculation of the diluted net loss per share because they are anti-dilutive (decrease net loss per share).

COMPANY INFORMATION

Adgorithms' shares are traded on AIM, a market operated by the London Stock Exchange.

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