albert™

Annual Report

Year ended 31 December 2018

Albert is the self-learning digital marketing ally for marketers: a thinker, a doer, and a support system; automating, orchestrating and evolving campaigns.

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Company at a Glance

General

Founded in 2010, Albert Technologies Ltd. (AIM: ALB.L), a global software company, is the creator of Albert - the first-ever fully autonomous cross-channel artificial intelligence marketing platform. Albert is a cloud-based artificial intelligence platform that plugs into a digital marketer's existing tech stack and operates it. An intelligent collection of over 200 different skills, Albert is the self-learning digital marketing ally for marketers: a thinker, a doer, and a support system; automating, orchestrating and evolving campaigns. Always aware of the entire landscape, Albert analyses the previously unanalysable, taking purposeful action and flexibly optimizing against business goals. The result: better allocation of budget against channels, audiences and tactics in search, social and programmatic channels. Brands such as The Big Red Group and Dole Asia, and global advertising agencies, credit Albert with significantly increased sales, an accelerated path to revenue, the ability to make more informed investment decisions, and reduce operational costs.

We employ software engineers and experts in the fields of artificial intelligence, data analysis, statistics, applied mathematics and behavioural sciences to develop our software. Among the team members are a few former employees of the Israeli Army Elite Cyber Security Intelligence Unit, an organisation into which only a small number of the country's most talented individuals are recruited each year (one of whom is Tomer Naveh, our CTO).

Following eight years of research, development and investment, Albert is now being sold and marketed as an enterprise grade SaaS platform. Albert offers a single multi-channel end-to-end digital marketing solution from media buying to execution, optimization and analysis.

About Albert

Albert is integrated with Google's search and programmatic channels, as well as Facebook, Instagram, YouTube and Bing, delivering access to 90% of biddable inventory that drives the market.

Unlike AI technology that makes recommendations but leaves taking action up to humans, Albert is the world's first autonomous AI for digital marketers. Albert takes action on behalf of marketers, making adjustments and improvements every moment of every day without delay. Albert enables true agile cross channel management: the typical approach of setting channel budgets up front based on past performance and optimizing towards channel-specific metrics as proxies for business outcomes is an inexact science. Albert manages budgets flexibly in response to market conditions and autonomously optimizes against the business goal brands set, resulting in better allocation of budget against channels, audiences, tactics - all within the guardrails specified.

For example, in search campaigns, Albert continuously adjusts bids on audiences / schedule / devices / ads according to real-time data while shifting budget according to performance / engagement to ensure ads get in front of the right customers – all while avoiding over-bidding. In paid social, Albert gets detailed, machine-level reporting on how interests perform and uses that to optimize audiences, ad sets and lookalikes. This is an approach only an autonomous AI software tool can do. In programmatic, Albert leverages real-time engagement of display, cross-channel learning, and smart look-alike modelling. In each channel Albert expands cautiously, spending budget only after understanding what's working, without limiting campaign reach by just eliminating sources.

In addition, everything Albert does happens in clients' Google and Facebook accounts, so there is full transparency of cost and actions.

Albert is designed to learn, evolve, and improve performance over time, getting results for brands through a constant balancing act between spend vs. performance vs. creative fatigue vs. organic impact, retargeting vs. prospecting, branding vs. lower funnel activity and cross-channel budget allocations. These complex multivariate calculations deliver unprecedented impact for marketers.

Financial and Operational Highlights

Financial Highlights

- Revenues increased to $4.6m, an almost threefold increase on the $1.7m achieved in 2017
- 50% increase in average monthly revenue per customer, year on year
- Adjusted EBITDA* loss of $12.2m (2017: $11.4m)
- Operating loss of $12.7m (2017: $11.8m)
- Net cash of $15.4m at year end (2017: $11.1m), following successful fundraise of $16.8m, net, in May 2018

	2018 $'000	2017 $'000	Diff $'000
Revenues	4,609	1,733	2,876
Cost of revenues*	(724)	(284)	(440)
Gross profit	**3,885**	**1,449**	**2,436**
% of revenues	*84%*	*84%*	
Research and Development expenses*	(7,290)	(5,560)	(1,730)
Selling and Marketing expenses*	(6,602)	(5,360)	(1,242)
General and Administrative expenses*	(2,195)	(1,910)	(285)
Total operating expenses	**(16,087)**	**(12,830)**	**(3,257)**
Operating loss*	**(12,202)**	**(11,381)**	**(821)**

* Non-IFRS and unaudited, excludes share based compensation expenses of $434K (Cost of revenues-7K, R&D-$303K, S&M-$51K and G&A-$73K) and $361K (Cost of revenues-$10K, R&D-$197K, S&M-$99K and G&A-55K) in 2018 and 2017, respectively, and depreciation expenses of $106K (R&D-$78K, S&M-$21K and G&A-$7K) and $80K (Cost of revenues-$1K, R&D-$66K, S&M-$5K and G&A-$8K) in 2018 and 2017, respectively.

Operational Highlights

Significant progress with enterprise clients and agencies in the period:

- Fourfold increase in the number of enterprise clients
- Progress in direct activity with top global agencies
- Continued expansion of activity with existing enterprise clients
- Headcount increased to 114, mainly in connection with account management functions, to support enterprise client activity
- Transition from a tech-centric focus to a broader sales and marketing culture to provide enterprise-grade service to our customers

Current Trading

- Strong enterprise pipeline to support continued growth
- Industry recognition for Albert – recent Forrester and Gartner reports include Albert as one of the top AI transformational solutions in the advertising industry
- Continued strict cash control and focus on key areas of investment

Strategic Report

Overview of The Year

2018 was an important year of progress for Albert Technologies. During 2018 we began working with a significant number of new enterprise clients, each of which have meaningful growth potential. The performance data from early client campaigns has clearly demonstrated to our customers how Artificial Intelligence can drive significant improvement in results while also providing previously undiscovered insights, compared to manual execution.

In addition to progress with enterprise brands, we made significant steps forward on the agency front. Recent engagement with some of the top global agencies has successfully demonstrated how autonomous, cross channel marketing AI can create more efficient and productive operations and deliver increased returns on digital marketing spend for customers.

Enterprise clients carry huge potential for scalable growth, albeit the sales process, onboarding and expansion of these accounts takes longer than for our previous roster of midsize and small businesses. This does make forecasting near term outcomes more difficult at this point in the Company's growth cycle but there is no doubt that our technology is highly regarded, as detailed below. Initial "proof of concept" activity with enterprise clients has already contributed to a 50% increase in our average monthly revenue per customer at year end, compared to last year. At the year end, monthly recurring revenues were US$0.45 million.

In line with our stated strategy, during 2018 we increased our investment in Sales and Marketing, mainly in Account Management infrastructure and this contributed in part to the operating loss in 2018 that increased to $12.7m (2017: loss $11.8m).

Market Review

During 2018 our market continued to evolve, resulting in increased interest and demand for AI technologies in the marketing space. According to the Salesforce '2019 State of Marketing Report', only 28% of marketers are completely satisfied with their ability to engage customers across channels at scale. Marketers' ability to engage dynamically across channels – or evolve from channel to channel based on customer actions – is nascent. When marketers deploy AI to get this right, the opportunity is enormous, as highlighted in a September 2018 report from the McKinsey Global Institute which estimates that AI has the potential to create $200bn-$300bn annual incremental value in marketing and budget allocation and customer acquisition/lead generation.

The two major analyst firms covering our sector, Gartner Inc., and Forrester Research, took notice of Albert in 2018. In October 2018, Albert was the only company of its size listed in Gartner Inc.'s 2018 "Magic Quadrant for Ad Tech" research report. In a Notable Mention*, Gartner wrote, "Brands comfortable with a disruptive, AI-based autonomous system that leap-frogs conventional approaches to ad management should consider Albert for their next campaign."

Forrester Research made multiple mentions of Albert. First in an August 2018 report titled, "Leverage AI To Improve Marketing Efficiency" and then in a January 2019 report titled "How AI Is Transforming Advertising And What You Should Do About It." Last month, Forrester invited Albert to participate in an upcoming report, Now Tech: Omnichannel Media Management, Q2 2019, which will place Albert alongside many established players.

* (Gartner, Inc., Magic Quadrant for Ad Tech, 2018, Andrew Frank, Lizzy Foo Kune, James Meyers, Eric Schmitt, October 11, 2018.)

Strategic Report *continued*

Chair's Statement

This has been an important year of progress for the Company; a year in which we began working with a significant number of new enterprise clients, each of which have meaningful growth potential.

During the second half of the year we strengthened our market-facing presence by building out our customer support and success functions. We have created dedicated account management and professional services teams to enable smooth onboarding processes and enterprise-grade services.

In addition, we launched a new brand identity, emphasizing Albert's unparalleled impact on the complex digital landscape by processing, analysing and acting on audience and tactic data at scale, across omni-channels (paid search, social and programmatic).

Albert has continued to earn significant industry recognition, with two major analyst firms covering our sector, Gartner Inc., and Forrester Research, taking notice of Albert in their research reports published in 2018.

We believe we have the right talent and resource to meet our key strategic goal of growing our enterprise footprint in the coming year. I'd like to thank everyone in the company for their efforts throughout the year. Our achievements would not have been possible without such dedicated, motivated people.

Lisa Gordon
Independent Non-Executive Chair

Operational Review

General

2018 represents a period of significant progress for the Company. Revenues for 2018 amounted to $4.6m, representing an almost threefold increase over the prior period. Our current customer base carries significant growth potential with 12 diversified enterprise organisations currently contributing to our revenues, some of which are among the largest advertisers in the world.

Notable client wins during the year include:

- February 2018 – we announced initial activity with one of the top 5 global advertising agencies for a pilot project, which began in April 2018 and still rolls out;
- March 2018 – we announced a pilot project with one of the world's biggest insurance companies. The activity with this insurance company grew materially throughout the year and is now spread over 6 territories in Asia-Pacific and expected to expand into additional territories in the coming months;
- March 2018 – we announced an initial pilot project with one of Europe's leading telecommunications companies. The activity with this telecommunications company has continued consistently since then;
- April 2018 – we announced a pilot project in Latin America with a Fortune 50 consumer goods corporation. In the past few months the activity with this consumer goods corporation expanded from a single territory to additional territories in Latin America and to additional brands;
- July 2018 – we announced an agreement with one of the largest US retailing chains. Pilot activity with this large US retailing company started during the second half of 2018 and we are now in discussions for expansion of the activity;
- July 2018 – we announced an agreement with one of the largest telecommunications companies in Australia (signed through our Australian partnership). Activity with this customer started in August 2018 and is overachieving past performance results of this customer since then;
- November 2018 – we started initial activity with one of the largest American multinational food and beverage corporations. Following very promising early performance results, activity with this customer is expected to expand in the second half of 2019;
- December 2018 – we started initial activity with a multinational telecommunications company, which is one of the largest telephone operating companies in the world, for one of its brands; and
- January 2019 – we started an initial project with an additional top 5 advertising agency network in the world, for one of its customers, in order to evaluate our technology. Following successful results, we are now in discussions for expansion of this activity into additional brands.

During the year, we added expertise to drive the important transition from a tech-centric culture to a sales and marketing mindset. As part of our efforts to penetrate the Enterprise market and better understand the Agency model, we appointed Rob Norman as a Non-Executive Director at the 2018 AGM. Rob has worked for companies within the WPP media agency network for over three decades, most recently as Global Chief Digital Officer of GroupM, and brings significant knowledge, expertise and industry relationships to the Board.

During the year, we also made two key appointments to the US team. Mark Kirschner, formerly The Trade Desk, eBay Enterprise and Rakuten, has been appointed CMO and brings over 25 years of experience in marketing technology, e-commerce and product management with technology and media companies. In addition, we widened our Enterprise suite by adding Jasmine Presson, SVP, Strategic Client Services, formerly Managing Partner, Strategic Group Account Lead at MediaCom.

Our total number of employees at year end was 114 employees (Dec 2017: 100), of which 68 are in R&D, 17 in Sales, Business Development and Marketing, 19 Account Management and Professional Services and 10 in G&A.

Strategic Report *continued*

Executing our strategy

During 2018 our Enterprise customer base grew significantly from 3 in the beginning of 2018 to 12 Global Fortune 2000 companies by the year end. Our "land and expand" strategy continued to bear fruit, and on top of onboarding new customers, we've succeeded to increase our activity with our Enterprise customers throughout the year. In addition, we continued to strengthen our relationships with global advertising agencies, which translated into initial projects with a few of these agencies.

In line with our stated strategy, and as also referred to above, during 2018 we increased our investment in Sales and Marketing, mainly in Account Management infrastructure, in order to be able to better support the needs of our enterprise clients and facilitate expansion.

Summary and outlook

The past year marked an important period in our Company's evolution as we started to gain an increasing number of enterprise clients, enabling us to demonstrate the huge benefit and unique value proposition of our technology. At this stage in our market's maturity it is difficult to pinpoint exact predictions of the rate of revenue growth by the end of the current year, but the growth trend is clear. Following successful projects, there is increasing take-up of our solutions by brands (as evidenced by the increased spend per customer) and this is coupled with growing interest from agencies. Our pipeline is encouraging and we therefore expect continued growth in 2019. The Board is focused on delivering shareholder value and is confident about the Company's continued prospects.

Financial Review

General

During 2018 the Company continued to make significant progress in growing its revenues. In line with our stated strategy, we have continued to invest in our infrastructure throughout the year, mainly in the account management functions to enable our current and future growth. In May 2018 the Company raised $16.8m (net) from new and existing shareholders.

Revenues

Revenues for 2018 amounted to $4.6m, an increase of 2.7x compared to revenues of $1.7m in 2017. Monthly recurring revenues increased 1.5x and reached $0.45m in December 2018, compared to $0.3m in December 2017.

The increase in revenues was achieved due to a shift in our customer base, while focusing on large-scale enterprise clients. Average monthly revenue per customer increased 1.5x during the period December 2017 to December 2018.

Gross Profit

Gross margin remained 84%, as in the previous year, resulting in gross profit of $3.9m in 2018, compared to $1.4m in 2017.

Operating loss

Operating loss for 2018 totalled $12.7m, compared to $11.8m in 2017.

Excluding share-based compensation expenses of $0.4m and depreciation expenses of $0.1m, adjusted operating loss totalled $12.2m, compared to $11.4m loss in 2017 (excluding share-based compensation expenses of $0.3m and depreciation expenses of $0.1m).

The increase in our operating loss is attributed mainly to the increase in our R&D and S&M expenses, mainly due to increase in our average head-count throughout 2018 compared to the previous year.

Adjusted* financial review

	2018 $'000	2017 $'000	Diff $'000
Revenues	4,609	1,733	2,876
Cost of revenues*	(724)	(284)	(440)
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% of revenues	*84%*	*84%*	
Research and Development expenses*	(7,290)	(5,560)	(1,730)
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Cash flows

Cash, cash equivalents and short-term bank deposits at 31 December 2018 were $15.4m (31 December 2017: $11.1m). The change in our cash position is attributed mainly to $16.8m, net, fundraise completed in June 2018, offset by funds used for our operating activities. We continue to maintain close cash control.

Governance

Board of Directors

Lisa Gordon

Independent Non-Executive Chair

Lisa Gordon brings over 23 years of industry experience to Albert. 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 Albert in June 2015 and Independent Non-Executive Chair in September 2018. Lisa is also a Non-Executive Director of Alpha FX plc, the listed currency risk management business and Magic Light Pictures, the leading children TV and Film producer.

Or Shani

Chief Executive Officer

Or Shani founded Albert Technologies Ltd. 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.

Yoram Freund

Chief Financial Officer

Yoram Freund joined Albert in April 2017 and carries significant financial leadership experience within the technology industry. He served as VP Finance at Radware Ltd., a large NASDAQ listed company, for 6 years and had been with Radware Ltd for 17 years. Among his expertise: M&A, Global Operations, SEC Regulations. Prior to this Yoram worked at KPMG. Yoram is a qualified accountant.

Robert Norman

Independent Non-Executive Director

Robert Norman carries significant media agency experience having retired as Global Chief Digital Officer of GroupM in December 2017, after 31 years with companies within the WPP media agency network. Rob started his career with CIA, part of the Tempus Group, until its acquisition by WPP in 2001. Following the sale of Tempus to WPP, Rob became UK Chairman of Media Edge: CIA, which later became known as MEC, in 2002. He became Chief Executive of Group M Interaction in New York in 2005, Chief Executive of Group M North America in 2011 and Global Chief Digital Officer in 2012. Rob was appointed as Independent Non-Executive Director of Albert in September 2018.

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 a Founding Partner at Q3P, an investment group focusing in industrial investments, and serves as board member at Amir Marketing & Investments, an Israel-based public company, as well as a board member at MaxQ AI, an Israeli based venture backed medical AI Company. Previously, Barak was with Viola Private Equity, a technology growth capital and buyout fund, managing the fund"s 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. Barak was appointed as Independent Non-Executive Director of Albert in June 2015.

Meir Moshe

Independent Non-Executive Director and External Director

Meir Moshe carries significant experience as senior executive and financial expert, with proven record in the High-Tech industry. Meir served as Chief Financial Officer of Radware Ltd., a NASDAQ traded company, for17 years, among which he led the IPO and the Secondary Offering of the company and built the infrastructure for a world-wide company while managing cross company global activities. Prior to this Meir served as the CFO of Formula Group and a Director of Formula Ltd., and led several IPO's and Secondary Offerings of the Group companies. Prior to this Meir served as CFO of Koor Communications. Meir started his career in Ernest & Young and is a qualified accountant. Meir holds BA in Accounting and Economics from Tel Aviv University. Meir was appointed as Independent Non-Executive Director of Albert in September 2018.

Directors' Report

The Directors present their report and consolidated financial statements of the Company for the year ended 31 December 2018.

Results and review of the business

The Directors' Report should be read in conjunction with the full 2018 annual audited consolidated report and financial statements.

Dividends

The Board determined that it would be prudent not to pay a dividend for 2018. 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 and outstanding options of the Company as of 31 December 2018 were as follows:

Director	Number of ordinary shares	Outstanding options
Lisa Gordon, Independent Non-Executive Chair	238,304	(1)99,865
Or Shani, Chief Executive Officer and Director	29,177,431	-
Yoram Freund, Chief Financial Officer and Director	-	(2)820,000
Robert Norman, Independent Non-Executive Director	-	(3)30,000
Barak Salomon, Independent Non-Executive Director and External Director	-	-
Meir Moshe, Independent Non-Executive Director and External Director	-	-

(1) Consist of 43,615 options at an exercise price of NIS 0.01 which were granted in June 2015, are fully vested, and expire in June 2025, and 56,250 options at an exercise price of GBP 0.2 which were granted in October 2018, will be fully vested in September 2021, and expire in September 2028.

(2) Consist of 617,253 options at an exercise price of USD 0.32 which were granted in May 2017, will be fully vested in April 2020, and expire in April 2027, and 202,747 options at an exercise price of GBP 0.26 which were granted in October 2018, will be fully vested in August 2022, and expire in August 2028.

(3) Consist of 30,000 options at an exercise price of GBP 0.2 which were granted in October 2018, will be fully vested in April 2021, and expire in April 2028.

Number of Ordinary Shares

On 31 December 2018 the Company had 99,734,917 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 2018, 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)	29.25%
Schroder Investment Management Limited	12.36%
Hargreave Hale Limited	11.81%
Richard Griffiths	10.22%
Rathbone Investment Management Limited	3.95%
Tomer Naveh	3.74%
Or Russo	3.64%
Inflection Point Investments LLP	3.63%

(1) Held through the Or Shani Irrevocable Trust.

Corporate Governance

The Company is committed to maintaining the highest standards of corporate governance throughout its operations and ensuring that all of its practices are conducted transparently, ethically and efficiently. Therefore, and in compliance with the AIM Rules for Companies, the Company has chosen to formalise its governance policies by complying with the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") to the extent that the Directors consider it appropriate, and having regard to the Company's size, board structure, stage of development and resources. The QCA Code identifies ten principles to be followed in order for companies to deliver growth in long term shareholder value, encompassing and efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust.

The sections below set out the ways in which Albert applies the ten principles of the QCA Code in support of Albert's medium to long-term success.

1. **Establish a strategy and business model which promote long-term value for shareholders**

   We are focused on promoting the Company's success while assuring the overall long-term growth prospects of the Company and building shareholder value. Our main business strategies are:

   - "Land and expand" – continued expansion of business with existing customers, through geographic expansion, brands expansion and channels expansion;

   - Strategic partnerships – partnering with strategic partners and advertising agencies to promote our offering;

   - Distribution partnerships – partnering with distributors & resellers to distribute our product.

   The strategy and business operations of the Company are set out in the Strategic Report section in this Annual Report.

   The Company's strategy and business model, are developed by the Chief Executive Officer and his senior management team, and interrogated and approved by the Board. The management team, led by the Chief Executive Officer, is responsible for implementing the strategy and managing the business at an operational level on a day-to-day basis.

2. **Seek to understand and meet shareholder needs and expectations**

   Albert is committed to providing up to date corporate information to existing and potential shareholders. The Company seeks to maintain a regular dialogue with both existing and potential new shareholders through meetings around the publication of the interim and preliminary results, in order to communicate the Company's strategy and progress and to understand the needs and expectations of shareholders.

   Beyond the Annual General Meeting, the Chief Executive Officer, Chief Financial Officer and, where appropriate, other members of the senior management team meet regularly with investors and analysts to provide them with updates on the Company's business and to obtain feedback regarding the market's expectations of the Company.

   The Company's investor relations activities encompass dialogue with both institutional and private investors. The Company also endeavours to maintain a dialogue and keep shareholders informed through its public announcements and Company website. Albert's website provides not only information specifically relevant to investors (such as the Company's annual report and accounts and investor presentations) but also regarding the nature of the business itself with considerable detail regarding the services it provides and the manner in which it carries on its business.

Governance *continued*

Directors' Report *(continued)*

Corporate Governance *(continued)*

Notice of the AGM is in excess of 21 clear days and the business of the meeting is conducted with separate resolutions, voted on initially by a show of hands and with the result of the voting being clearly indicated. The results of the AGM are subsequently published on the Company's corporate website and are announced through a regulatory information service. The Annual General Meeting of the Company, normally attended by the Chair and part of the Directors, provides the Board the opportunity to report to shareholders on current and proposed operations and developments, and also enables shareholders to express their views of the Group's business activities. Shareholders are encouraged to attend and are invited to ask questions during the meeting and to meet with the Directors after the formal proceedings have ended.

Our Independent Non-Executive Chair is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

The Company discloses contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**

The Company is aware of its corporate social responsibilities and the need to maintain effective working relationships across a range of stakeholder groups. These include the Company's employees, partners, suppliers, regulatory authorities and customers. The Company's operations and working methodologies take account of the need to balance the needs of all of these stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of the Company for the benefit of its members as a whole.

Our employees are at the heart of our business and we consistently strive to ensure they have the opportunity to develop in a job they enjoy. We perform periodic reviews with our employees to ensure these targets are met.

The Board closely monitors employee retention issues to address where possible any concerns raised and ensure the alignment of interests between the Company and that of our employees.

Suppliers and business partners – we maintain close relationships and communication with our business partners and major suppliers to ensure healthy workflows and relationships to support our daily activity and long-term targets. Such close relationships are also important for us in order to be aligned with our business partners' product modification and enhancements.

Customers and communities – we maintain dedicated Customer Success and Professional Services teams to support and enhance our customer relations and to address customer needs on a day-to-day basis. We initiate periodic discussions with our customers, as well as visits to our major customers in order to discuss current and future relationship.

4. **Embed effective risk management, considering both opportunities and threats, throughout the organization**

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to mitigate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the Company's significant risks and this is periodically reviewed by the Board.

The internal control procedures are delegated to Executive Directors and senior management in the Company, operating within a clearly defined departmental structure. The Company also employs an Internal Auditor, who submits an annual audit plan to the Board for approval. The internal auditor performs audits throughout the year on topics chosen by the Board and presents his findings to the Board.

On a monthly basis, management accounts, including a comprehensive cash flow forecast, are reviewed by the Board in order to provide effective monitoring of financial performance. At the same time the Board considers other significant strategic, organizational and compliance issues to ensure that the Company's assets are safeguarded and financial information and accounting records can be relied upon.

The Company maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Company. The insured values and type of cover are comprehensively reviewed on a periodic basis.

5. Maintain the Board as a well-functioning, balanced team led by the Chair

Albert's Board currently comprises 4 Non-executive Directors and 2 Executive Directors.

All of the Directors are subject to election by shareholders at the first Annual General Meeting after their appointment to the Board and will continue to seek re-election at least once every three years.

Directors' biographies are set out on the Company's website.

The Board is responsible to the shareholders for the proper management of the Company and meets on a regular basis (in person and by telephone) to review the Company's operations and performance, as well as to set the overall direction and strategy of the Company. All key operational and investment decisions are subject to Board approval.

The Board considers itself to be sufficiently independent. The QCA Code suggests that a board should have at least two independent Non-executive Directors. All of the Non-executive Directors, including the Chair, who currently sit on the Board of the Company are regarded as independent under the QCA Code's guidance for determining such independence.

Non-executive Directors receive their fees in the form of a basic cash fee and in addition may receive an equity-based fee in the form of share options under the Company's Share Option Scheme. To avoid any incentive effect that may influence the Non-executive Directors' independence, these share options vest over three years on a straight-line basis and are not subject to performance conditions. The option grants concerned are not deemed to be significant, either for any individual Non-executive Director or in aggregate.

The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business. No one individual has unfettered powers to make decisions.

The Chair's main responsibility is the leadership and management of the Board and its governance. She holds regular and separate discussions with the Chief Executive and the Non-Executive Directors to discuss matters for the Board. The Chief Executive is responsible for the leadership and day-to-day management of the Company. This includes formulating and recommending the Company's strategy for Board approval and executing the approved strategy.

The Board meets regularly (in person or by telephone conference), at least 12 times a year and more frequently if necessary. In addition to this the Board attends annual or semi-annual strategy meetings.

The Company has established an Audit Committee, Remuneration Committee and Nominations Committee, each with formally delegated duties and written terms of reference. Details and membership of all committees can be found in the Investor section of the Company website (www.albert.ai)

6. Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities

The Board considers that all of the Non-executive Directors are of sufficient competence and calibre to add strength and objectivity to its activities, and bring considerable experience in business, operational and financial aspects of the Company.

Directors' Report *(continued)*

Corporate Governance *(continued)*

The Directors' biographies are set out in the Company's website.

The Chair, in conjunction with the Chief Executive and Chief Financial Officer, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Company, its operational environment and to the Directors' responsibilities as members of the Board. During the course of the year, Directors received updates from external advisers on a number of corporate governance matters.

The directors of the Company are appointed by the shareholders of the Company. The Company's articles of association (the "Articles") require the directors (other than External Directors) to retire and if wishing to serve again, to offer themselves for re-election by the shareholders at each Annual General Meeting. In accordance with the Israeli Companies Law, 5759-1999 and the rules and regulations promulgated thereunder (the "Companies Law") the Company is required to appoint at least two External Directors, who meet certain independence criteria prescribed by the Companies Law and are also subject to certain duties and responsibilities prescribed by the Companies Law. Subject to the provisions of the Companies Law, each External Director serves as a director for a minimum period of three years. New nominees for the position of directors, including External Directors, are identified and recommended for election by the Company's nomination committee following a thorough selection process.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

At the current stage of the Company's development, assessment of the Board's performance and that of its committees will be undertaken by the Board as a whole, led by the Company's Chair. Although the Company has no formal procedure currently in place for measuring the effectiveness of the Board, the Board will be formulating a process under which the Chair of the Board, taking into account the opinions and insights of its auditors, Nominated Adviser, legal and other advisers, will assess the individual contributions of each of the members of the team to ensure that:

- Their contribution is relevant and effective
- That they are committed
- Where relevant, they have maintained their independence

Over the next 12 months we intend to review the performance of the Board as a unit to ensure that the members of the Board collectively function in an efficient and productive manner.

The effectiveness of the Board and its committees will be kept under review in accordance with corporate governance best practice and at a minimum on an annual basis.

8. Promote a corporate culture that is based on ethical values and behaviours

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Company's operations. These values are enshrined in the written policies and working practices adopted by all employees in the Company. An open culture is encouraged within the Company, with regular communications to staff regarding progress and staff feedback regularly sought. The Executives regularly monitor the Company's cultural environment and seek to address any concerns than may arise, escalating these to Board level as necessary.

The Company is committed to providing a safe environment for its staff and all other parties for which the Company has a legal or moral responsibility in this area.

We recognize that it's our people that make us different, and we strive to recruit, retain, engage and develop the best. We continue to encourage an honest and supportive culture.

Our comprehensive set of policies and procedures cover all of our operations. They are constantly updated and communicated to all of our employees through monthly Company meetings we hold or under specific circumstances.

9. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

The Board has overall responsibility for promoting the success of the Company. The Executive Directors have day-to-day responsibility for the operational management of the Company's activities. The Non-executive Directors are responsible for bringing independent and objective judgment to Board decisions.

There is a clear separation of the roles of Chief Executive Officer and Non-executive Chair. The Chair is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the Non-executive Directors are properly briefed on matters. The Chair has overall responsibility for corporate governance matters in the Company and chairs the Nominations Committee. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Company. The Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

The Board has established an Audit Committee, Remuneration Committee and Nominations Committee with formally delegated duties and responsibilities. Lisa Gordon is the Chair of our Board and chairs the Nomination Committee, Meir Moshe chairs the Audit Committee, and Barak Salomon chairs the Remuneration Committee.

The Audit Committee normally meets twice a year and at other times if necessary and has responsibility for, amongst other things, planning and reviewing the annual report and accounts and interim statements involving, where appropriate, the external auditors. The Committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal control is maintained. The ultimate responsibility for reviewing and approving the annual financial statements and interim financial statements remains with the Board.

The Remuneration Committee, which meets as required, but at least once a year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the Executive Directors. It also supervises the Company's share incentive schemes and sets performance conditions for share options granted under the schemes.

The Company also adopted a Remuneration Policy, which sets guidelines and framework for all remuneration aspects with regards to the Company's employees, Executives and Directors. Such policy was approved by the Board and by the Company's shareholders.

The Nominations Committee, which meets as required, but at least once a year, has responsibility for reviewing the size and composition of the Board, the appointment of replacement or additional Directors, the monitoring of compliance with applicable laws, regulations and corporate governance guidance and making appropriate recommendations to the Board.

During the year, the Chair of each committee provides the Board with a summary of key issues considered at the committee meetings. Board committees are authorized to engage the services of external advisers as they deem necessary in pursuit of their duties at the Company's expense.

10. **Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

Communications with shareholders is through the Annual Report and Accounts, full-year and half-year announcements, periodic market announcements (as appropriate), the AGM, one-to-one meetings and investor road shows.

The Company places a high priority on regular communications with its various stakeholder groups and aims to ensure that all communications concerning the Company's activities are clear, fair and accurate. The Company's website is regularly updated.

Directors' Report *(continued)*

Corporate Governance *(continued)*

The Company's financial reports can be found in the Company Documents section in the Company's website.

Notices of General Meetings of the Company and its results of voting can be found in the Company Documents section or the Regulatory News section in the Company's website.

Remuneration Committee

The remuneration committee is comprised of Barak Salomon, Meir Moshe and Rob Norman 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.

During 2018 the Company adopted a remuneration policy (in accordance with the Israeli Companies Law), addressing guidelines for remuneration of the Company's officers, based on the recommendations made by the Company's remuneration committee. The policy was approved by the Company's Shareholders in September 2018.

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 expire 10 years from the vesting commencing date. The options granted prior to 2018 generally vest over three years (1/3 at each year), whereas those granted during 2018 and after generally vest over four years (1/2 at the anniversary of the second year, 1/4 at the anniversary of the third year, and 1/4 at the anniversary of the fourth year).

As of 31 December 2018, 7,819,040 options are outstanding and 3,653,924 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 2018 is set out in the table below (in $US thousands).

	Salary cost/ Director fees	Equity-based compensation(5)	Other	Total
Lisa Gordon	80	(6)7		87
Or Shani	(1)522			522
Yoram Freund	(1)176	(7)24		200
Robert Norman(2)	31	(8)4	(2)16	51
Barak Salomon	34			34
Meir Moshe(3)	15			15
Ofir Gomeh(4)	19			19
John Allwood(4)	54			54

(1) Employer cost - including employer taxes and social contributions.

(2) Robert joined Albert as an Advisory Board member in April 2018 and became a Director in September 2018. Robert is entitled for consultancy fees in the amount of USD 4,000 per month, starting September 2018, on top of his Director fees.

(3) Meir joined Albert's Board in September 2018.

(4) Left the Board in September 2018.

(5) Represent grant date fair value in accordance with accounting guidance for stock-based compensation.

(6) In October 2018 Lisa was granted with options to purchase up to 56,250 Ordinary Shares at an exercise price equal to GBP 0.20. The options vest over three years, one-third upon each anniversary from 6 September 2018, and will be fully vested on 6 September 2021.

(7) In October 2018 Yoram was granted with options to purchase up to 202,747 Ordinary Shares at an exercise price equal to GBP 0.26. The options vest over four years, 50 percent on 1 August 2020, 25 percent on 1 August 2021 and 25 percent on 1 August 2022, and will be fully vested on 1 August 2022.

(8) In October 2018 Robert was granted with options to purchase up to 30,000 Ordinary Shares at an exercise price equal to GBP 0.20. The options vest over three years, one-third upon each anniversary from 1 April 2018, and will be fully vested on 1 April 2021.

Audit Committee

The audit committee is comprised of Meir Moshe, Barak Salomon and Rob Norman and is chaired by Meir Moshe (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 to 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. The Company employs a full-time CFO, who is a certified accountant and is a veteran of KPMG, and a full-time Financial Controller, who is a certified accountant and is a veteran of Ernst & Young. The Company also engaged an 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, which is 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 on a monthly basis 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 11 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 Company's 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's financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). In preparing these financial statements, the Directors are required to:

- Present fairly the Company's 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 IFRS (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 IFRS (as adopted by the EU), subject to any material departures disclosed and explained in the financial statements.

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 in the Directors section at the beginning of this Director's Report.

- 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. All employees have signed the Company's Code of Conduct. Training programmes are held for all levels of staff. These are aimed at increasing skills and contribution.

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

Yoram Freund
CFO

20 Lincoln Street
Tel Aviv 6713412
Israel

Independent Auditors' Report

To the Board of Directors and Shareholders of Albert Technologies Ltd.

We have audited the accompanying consolidated financial statements of Albert Technologies Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as of 31 December 2018 and 2017, and the related consolidated statements of operations and other comprehensive loss, changes in equity and cash flows for 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 conformity 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 consolidated 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. 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 auditors` 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 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as adopted by the European Union.

Tel Aviv, Israel
26 March 2019

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

Financial Statements

Consolidated Statements of Financial Position

U.S. dollars in thousands

		31 December	
	Note	2018 $'000	2017 $'000
CURRENT ASSETS:			
Cash and cash equivalents		15,410	3,955
Short-term bank deposits		-	7,105
Restricted cash		155	101
Trade receivables, net and contract assets	3	1,804	2,175
Other accounts receivable and prepaid expenses		582	747
Total current assets		**17,951**	**14,083**
NON-CURRENT ASSETS:			
Property and equipment, net	4	261	254
Total non-current assets		**261**	**254**
Total assets		**18,212**	**14,337**
LIABILITIES AND EQUITY:			
CURRENT LIABILITIES:			
Trade payables		483	1,618
Other accounts payable and accrued expenses	5	2,231	2,013
Total current liabilities		**2,714**	**3,631**
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net		115	118
EQUITY:	8		
Share capital			
- Ordinary shares		265	162
- Share premium		56,634	39,559
- Capital reserve		(193)	(193)
- Accumulated deficit		(41,323)	(28,940)
Total equity		**15,383**	**10,588**
Total liabilities and equity		**18,212**	**14,337**

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

Financial Statements *continued*

Consolidated Statements of Operations and Other Comprehensive Loss

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

	Note	Year ended 31 December 2018 $'000	2017 $'000
Continuing operations:			
Revenues	10	4,609	1,733
Cost of revenues	12a	(731)	(295)
Gross profit		**3,878**	**1,438**
Operating expenses:			
Research and development	12b	(7,671)	(5,823)
Selling and marketing	12c	(6,674)	(5,464)
General and administrative	12d	(2,275)	(1,973)
Total operating expenses		**(16,620)**	**(13,260)**
Operating loss		(12,742)	(11,822)
Financial income		191	217
Financial expenses		(87)	(17)
Loss before taxes on income		(12,638)	(11,622)
Taxes on income	6d	(91)	(184)
Net loss from continuing operations		(12,729)	(11,806)
Discontinued operations:			
Net profit (loss) after tax from discontinued operations	9	346	(1,214)
Net loss and total comprehensive loss		(12,383)	(13,020)
Net loss per share attributable to the Company's shareholders (in $)	14		
Basic and diluted loss per ordinary share		**(0.15)**	**(0.21)**
Basic and diluted loss per ordinary share for continuing operations		**(0.15)**	**(0.19)**

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

Consolidated Statements of Changes In Equity

U.S. dollars in thousands

	Share capital	Share premium	Capital reserve	Accumulated deficit	Total equity
Balance as of 1 January 2017	160	39,146	(193)	(15,920)	23,193
Exercise of options	2	–	–	–	2
Cost of share-based payment, net	–	413	–	–	413
Total comprehensive loss	–	–	–	(13,020)	(13,020)
Balance as of 31 December 2017	162	39,559	(193)	(28,940)	10,588
Exercise of options	2	56	–	–	58
Cost of share-based payment, net	–	302	–	–	302
Issuance of shares, net of issuance expenses	101	16,717	–	–	16,818
Total comprehensive loss	–	–	–	(12,383)	(12,383)
Balance as of 31 December 2018	**265**	**56,634**	**(193)**	**(41,323)**	**15,383**

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

Financial Statements *continued*

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended 31 December	
	2018 $'000	2017 $'000
Cash flows from operating activities:		
Net loss	(12,383)	(13,020)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share-based payment	302	413
Tax expense	91	184
Depreciation	106	107
Finance income	(135)	(172)
Exchange rate differences in respect of cash and cash equivalents	43	17
	407	549
Changes in asset and liability items:		
Decrease in trade receivables and contract assets	371	1,064
Decrease (increase) in other accounts receivable and prepaid expenses	274	(386)
Decrease in trade payables	(1,135)	(688)
Increase in other accounts payable and accrued expenses	105	1,211
Accrued interest on short-term bank deposits	(54)	(105)
Increase (decrease) in employee benefit liabilities, net	(3)	6
	(442)	1,102
Cash paid during the year for:		
Interest received	136	172
Income tax paid	(109)	(363)
	27	(191)
Net cash used in operating activities	(12,391)	(11,560)

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

Consolidated Statements of Cash Flows *continued*

U.S. dollars in thousands

	Year ended 31 December	
	2018 $'000	2017 $'000
Cash flows from investing activities:		
Purchase of property and equipment	(91)	(133)
Withdrawal of (investment in) short-term bank deposits	7,159	(7,000)
Withdrawal of (investment in) restricted cash	(55)	86
Net cash provided by (used in) investing activities	7,013	(7,047)
Cash flows from financing activities:		
Exercise of options	58	2
Proceeds from issuance of shares, net	16,818	-
Net cash provided by financing activities	16,876	2
Exchange rate differences in respect of cash and cash equivalents	(43)	(17)
Increase (decrease) in cash and cash equivalents	11,455	(18,622)
Cash and cash equivalents at the beginning of the year	3,955	22,577
Cash and cash equivalents at the end of the year	**15,410**	**3,955**

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

Financial Statements *continued*

Notes to Consolidated Financial Statements

1. GENERAL

a. **Company description:**
Albert Technologies 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 offers Artificial Intelligence-based software ("Albert") to brands and advertising agencies using a SaaS model. The Company develops and deploys algorithmic solutions to provide marketers with a self-driving solution for cross-channel campaign execution, testing, optimization, analysis, and insights.

The Company's shares are admitted for trading on AIM, commencing June 2015, under the symbol "ALB".

In May 2018 the Company completed an additional placing of 36,756,757 Ordinary shares at a price of £0.37 per share ($0.49), with new and existing institutional shareholders for total consideration of £12,645 ($16,818), net of issuance expenses of $1,099.

b. In March 2014, the Company established a wholly-owned subsidiary in the United States, Albert Technologies Inc., which is engaged in the distribution of the Company's products and services in the United States, as well as provides the Company with advisory and management services.

In August 2016, the Company established a wholly-owned subsidiary in Israel, AA Digital Media (All Aspect) Ltd. which commenced operating in November 2016. All Aspect was engaged in trading media in various strategies with an array of participants in the online advertising value chain ("In-direct activity" or "In-direct business"). On 5 December 2017, the Company publicly announced the decision of its Board of Directors to cease the In-direct business by the end of 2017.

The In-direct activity is presented in the statements of operations and other comprehensive loss as "discontinued operations", including comparative data. For further information please refer to Note 9.

In May 2017, the Company established a wholly-owned subsidiary in Brasil, Albert Technologies Brasil Ltda, which is engaged in the distribution of the Company's products and services in Brasil. (Albert Technologies Inc., AA Digital Media and Albert Technologies Brasil Ltda, collectively, "the Subsidiaries").

c. The consolidated financial statements were approved for issuance by the Board of Directors on 25 March 2019.

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.

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 intracompany balances and transactions and gains or losses resulting from intracompany transactions are eliminated in full in the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 its Subsidiaries` 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 based on the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency based on the exchange rate at each reporting date. Exchange rate differences are recorded in profit or loss.

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

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 service providers.

g. **Short-term bank deposit:**
Bank deposits with maturities of more than three months but less than one year are included in short-term deposits.

h. **Allowance for doubtful accounts:**
Commencing from January 1, 2018, the Company evaluates the allowance for doubtful accounts in respect of trade receivables at the end of each reporting period. The Company applies a simplified approach and measures the allowance in an amount equal to the lifetime expected credit loss.

i. **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.

Financial Statements *continued*

Notes to Consolidated Financial Statements *continued*

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the property and equipment (generally 3-14 years).

j. **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 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.

k. **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.

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

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, 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.

l. **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.

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

m. **Provisions:**

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.

n. **Revenues:**

The Company derives its revenues from campaign management SaaS ("Software as a Service") platform and until the end of 2017 the Company also derived part of its revenues from sales through bids for advertising spaces on advertising exchanges ("In-direct"). The In-direct activity is presented as discontinued operations.

IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard 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".

Under IFRS 15, revenue is recognised to reflect the transfer of promised goods and services to customers for amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods and services.

The new Standard introduces a five-step model that applies 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 distinct performance obligations in the contract.

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

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

Step 5: Recognise revenue when a performance obligation is satisfied, either at a point in time or over time.

The new Standard has been applied for the first time in these financial statements. The Company elected to adopt the provisions of the new Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

Per the Company's management analysis, the new Standard had no effect on uncompleted contracts as of 1 January 2018 and therefore no cumulative adjustment was necessary to be made to the opening balance of retained earnings as of that date.

The effect of adopting IFRS 15 moving forward is, as follows:

1. ***Sale of services:***

   The Company's contracts with customers for the sale of its services generally include one performance obligation. The Company has concluded that revenue from sale of services should be recognised over the course of the period in which the services are provided to the customer. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Notes to Consolidated Financial Statements *continued*

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

2. ***Variable consideration:***
   Certain of the Company's contracts define thresholds upon the basis of which the customers are being charged. Prior to the adoption of IFRS 15, the Company recognised revenue from its SaaS platform measured at the fair value of the consideration received or receivable, net of discounts. If revenue could not be reliably measured, the Company deferred revenue recognition until the uncertainty was resolved. Under IFRS 15, those thresholds give rise to variable consideration, as the consideration received from the customer may change based on the threshold applied. The Company applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The Company uses the expected value method to estimate the consideration that will be received because this method best predicts the amount of variable consideration to which the Company will be entitled.

3. ***Incremental costs of obtaining a contract:***
   In order to obtain certain contracts with customers, the Company incurs incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Before the initial application of the new Standard, the Company recognised these costs in selling and marketing expenses when incurred.

   Upon application of the provisions of the new Standard, costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Company expects to recover should be recognised as an asset and amortised over the service period as defined in the specific contract.

   Although the Company pays commissions per its customer contracts, in 2018 it had no contracts for which the period of amortisation exceeds one year. The Company elected to apply the practical expedient in the new Standard according to which such commissions are recognised as an expense.

4. ***Principal-agent considerations:***
   When another party is involved in providing goods or services to a customer, the Company determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Company is a principal and records revenue on a gross basis if it controls the promised goods or services before transferring them to the customer. However, if the Company's role is only to arrange for another entity to provide the goods or services, then the Company is an agent and will record revenue at the net amount that it retains for its agency services.

   With respect to its SaaS revenues, the Company evaluated that it acts as an agent and therefore reports its revenues on a net basis.

   The adoption of IFRS 15 had no effect on the Company revenue recognition with respect to the above.

Contract liabilities

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

The Company has elected to apply the practical expedient in IFRS 15 and does not provide disclosure of the remaining unsatisfied performance obligations which are part of contracts that have a term of up to one year.

Contract assets

If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

o. **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 development of the intangible asset so that it will be available for use or sale; the Company's intention to complete the development of 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 period.

p. **Taxes on income:**

Taxes on income in the consolidated statements of operations are comprised from current and deferred taxes. Taxes in respect of current or deferred taxes are carried to the consolidated statements of operations except to the extent that the taxes arise from items which are recognised directly in equity or in other comprehensive income.

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.

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.

q. **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 average 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 included in the computation of diluted earnings (loss) per share only 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.

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.

r. **New standards, interpretations and amendments adopted:**

IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("the new Standard"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new Standard mainly focuses on the classification and measurement of financial assets and it applies to all assets within the scope of IAS 39.

The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers" - see Note 2n.

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

IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"). According to IFRS 16, 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.

Notes to Consolidated Financial Statements *continued*

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

The effects of the adoption of IFRS 16 are as follows:

- According to the IFRS 16, lessees are required to recognise all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognise a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognise interest expense and depreciation expense 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 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 record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease.
- IFRS 16 includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

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.

Per the exceptions mentioned above, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis if the lease term is less than a year ("short term lease") and containing no purchase options. This election is made by class of underlying asset.

The IFRS 16 treatment of short-term lease exemption was widened to include those of which it is not 'reasonably certain' that the term will be more than twelve months, when the likelihood of taking up options for extensions and the severity of termination clauses are considered.

The Company's current lease agreements do not exceed one year and are not 'reasonably certain' to be renewed for more than twelve months subsequent to the end of the reporting period.

Due to the abovementioned, the Company believes the adoption of IFRS 16 will have an immaterial effect on the financial statements.

IFRIC 23, "Uncertainty over Income Tax Treatments": In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on 1 January 2019. Upon initial adoption, the Company will apply the Interpretation using the full retrospective method, without restating comparative data, by recording the cumulative effect as of the date of initial adoption in the opening balance of retained earnings.

The Company does not expect the Interpretation to have any material effect on the financial statements.

3. TRADE RECEIVABLES, NET AND CONTRACT ASSETS

	31 December	
	2018 $'000	2017 $'000
Open accounts	1,245	2,103
Checks receivable	14	97
	1,259	**2,200**
Allowance for doubtful accounts	(9)	(25)
Trade receivables, net	1,250	2,175
Contract assets	554	–
Total	**1,804**	**2,175**

Trade receivables are non-interest bearing and are in generally in terms of 30 to 90 days.

4. PROPERTY AND EQUIPMENT, NET

	31 December	
	2018 $'000	2017 $'000
Cost:		
Office furniture and equipment	98	82
Computers and software	304	214
Leasehold improvements	221	214
	623	**510**
Accumulated depreciation:		
Office furniture and equipment	25	17
Computers and software	158	102
Leasehold improvements	179	137
	362	**256**
Depreciated cost	**261**	**254**

Notes to Consolidated Financial Statements *continued*

5. OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December	
	2018 $'000	2017 $'000
Accrued expenses	1,051	1,008
Tax payable	324	160
Other governmental authorities	266	277
Employees and payroll accruals	492	505
Other	98	63
	2,231	**2,013**

6. TAXES ON INCOME

a. **Tax rates applicable:**

Tax rates in Israel on income other than Preferred Income:

The Israeli corporate income tax rate was 23% in 2018 and 24% in 2017.

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 were no deferred tax balances as of 1 January 2018, 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. – in 2018 and 2017, weighted average tax at the rate of about 25% and 40% (Federal tax, State tax and City tax of the city where the company operates), respectively.

On 22 December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective 1 January 2018.

Tax rate in Brazil:

Based on Brazilian laws, for Corporate Income Tax purposes, there are two methods: "Assumed Profit" or "Actual Profit". The Company has chosen the Assumed Profit method for both 2017 and 2018. Under the Assumed Profit method, taxable income is computed by using 34% corporate tax on 32% of the gross revenue.

Additional taxes in this method are ISS, PIS and COFINS, which rates are 2%, 0.65% and 3%, respectively calculated based on the gross revenue.

b. **Final tax assessments:**

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

c. Carryforward operating tax losses for tax purposes of the Israeli parent company amounted to approximately $29,000 as of 31 December 2018.

Carryforward operating tax losses for tax purposes of the Israeli subsidiary amounted to approximately $1,098, as of 31 December 2018.

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.

6. TAXES ON INCOME *continued*

d. The taxes on income in the consolidated statements of operations include only current taxes.

e. **Theoretical tax:**

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Loss before taxes on income	(12,638)	(11,622)
Statutory tax rate	23%	24%
Tax computed at the statutory tax rate	(2,907)	(2,789)
Increase (decrease) in taxes on income resulting from the following factors:		
Effect of non-deductible expenses	123	97
Effect of temporary differences and losses for which deferred taxes have not been recognised	2,882	2,877
Tax adjustment in respect of different tax rates of foreign subsidiaries	20	(12)
Other	(27)	11
Taxes on income	**91**	**184**

7. COMMITMENTS AND CONTINGENCIES

Lease commitments:
The Company leases office facilities under operating leases, which expire in 2019. Future minimum commitments under non-cancellable operating lease agreements as of 31 December 2018 are as follows:

2019	$350

Rental expenses for the years ended 31 December 2018 and 2017 amounted to $ 479 and $ 488 respectively.

Legal contingencies:
From time to time, the Company is party to various legal proceedings incidental to its business.

On 6 September 2016, a statement of claim was filed with the Magistrate Court of Tel-Aviv, Israel (the "Court") against the Company, the Company's CEO and founder, Mr. Or Shani, and the Company's then CFO, Mr. Ron Stern (the "Defendants") by Mr. Tal Saar (the "Plaintiff"), a former service provider of the Company. The statement claimed, among other things, that the Defendants are liable for certain fees due to such service provider (the "Claim"). The plaintiff claimed he was entitled to a payment of NIS 600 thousand (approximately $ 160, based on the exchange rate as of 31 December 2018).

During March 2019, the Company signed a settlement agreement with the Plaintiff for an immaterial amount (which was accrued as of 31 December 2018), and the legal proceeding ended.

Notes to Consolidated Financial Statements *continued*

8. EQUITY

a. Composition of share capital*)

	31 December 2018		31 December 2017	
	Authorised	Issued and outstanding	Authorised	Issued and outstanding
Ordinary Shares of NIS 0.01 par value	150,000,000	99,734,917	100,000,000	62,390,708

(*) See Note 1a. for information regarding the placement of 36,756,757 Ordinary shares in May 2018.

b. 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 Ordinary shares of the Company to employees, officers, directors, consultants and advisors of the Company.

During 2018 and 2017, the Company granted 3,141,466 and 1,778,757 options to its employees and non-employees subject to service vesting conditions, respectively.

Options issued to employees:
Options granted under the Plan expire 10 years from the vesting commencing date. The options granted prior to 2018 generally vest over three years (1/3 at each year), whereas those granted during 2018 generally vest over four years (1/2 at the anniversary of the second year and 1/4 each year later).

In June 2016, the Company granted 1,302,085 options to its employees that in addition to a service condition, require the employees to meet certain non-market performance goals. As of 31 December 2018, the performance goals for 493,590 options were achieved, and the related compensation costs, subject to service vesting conditions, were recorded in the financial statements. The performance goals for 308,495 options were not achieved yet and are not expected to be achieved, and therefore no compensation costs were recognized. The remaining 500,000 options were forfeited.

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

	Year ended 31 December			
	2018		2017	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at beginning of year	4,965,837	0.370	5,395,912	0.489
Granted	2,951,476	0.317	1,620,253	0.318
Exercised	(361,847)	0.158	(665,437)	0.003
Forfeited	(366,290)	0.259	(1,384,891)	0.949
Outstanding at end of year	7,189,176	0.385	4,965,837	0.370
Exercisable at end of year	3,214,050	0.479	1,634,385	0.539

8. EQUITY *continued*

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 - in 2018 and 2017 the Company's Ordinary shares had not 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 as well as the historical volatility of the Company for the period for which trading activity is available.
- 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 -the risk-free interest rate is based on the exercise price currency, based on the US daily treasury yield curve rate with an equivalent term to the expected life of the option.

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:

	2018	2017
Dividend yield (%)	-	-
Expected volatility of the share prices (%)	50	50
Risk-free interest rate (%)	3.07-3.09	1.99-2.33
Expected life of share options (years)	6-6.375	6
Share price ($)	0.26	0.34-0.44
Exercise price ($)	0.26-0.34	0.22-0.42

The options outstanding under the Company's Plans as of December 31, 2018 and 2017 have been separated into ranges of exercise price as follows:

	31 December	
Ranges of exercise price	2018	2017
$0-0.26	3,418,979	3,222,117
$0.27-0.42	3,233,397	1,206,920
$0.43-1.73	536,800	536,800
	7,189,176	4,965,837

The weighted average fair values of options granted for the years ended 31 December 2018 and 2017, were $ 0.12 and $ 0.28, respectively.

The weighted average remaining contractual life of the outstanding options as of 31 December 2018 and 2017, were 8.21 and 8.41 years, respectively.

For the options exercised during 2018 and 2017, the weighted average market price of the Company's shares at the time of exercise was $0.21 and $0.38, respectively.

Financial Statements *continued*

Notes to Consolidated Financial Statements *continued*

8. EQUITY *continued*

Options issued to non-employees:
The Company's outstanding options to non-employees as of 31 December 2018 and 2017 were as follows:

	Year ended 31 December			
	2018		2017	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at beginning of year	665,479	0.003	506,975	0.003
Granted	189,990	0.183	158,504	0.003
Exercised	(225,605)	0.003	–	–
Forfeited	–	–	–	–
Outstanding at end of year	629,864	0.133	665,479	0.003
Exercisable at end of year	439,874	0.003	480,557	0.003

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:

	2018	2017
Dividend yield (%)	–	–
Expected volatility of the share prices (%)	50	50
Risk-free interest rate (%)	3.07-3.09	2.01
Expected life of share options (years)	6-6.375	6
Share price ($)	0.26	0.44
Exercise price ($)	0.26-0.34	0

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	
	2018 $'000	2017 $'000
Cost of sales	7	10
Research and development	303	197
Selling and marketing	51	99
General and administrative	73	55
Discontinued operations	(132)	52
	302	413

9. DISCONTINUED OPERATIONS

At 31 December 2017, In-direct business was classified as discontinued operations. The results of the In-direct business for the years 2018 and 2017 are presented below:

	Year ended 31 December	
	2018 $'000	2017 $'000
Revenues	303	6,682
Operating expenses (excluding share-based payment)	(78)	(7,825)
Share-based payment income (expenses)	132	(52)
Operating income (loss)	357	(1,195)
Financial expenses	(11)	(19)
Net profit (loss) from discontinued operations	**346**	**(1,214)**
Basic and diluted gain (loss) per ordinary share for discontinued operations (*)	**0.004**	**(0.02)**

(*) See Note 14 for the weighted average number of Ordinary shares used in the computation.

10. REVENUES FROM CONTRACTS WITH CUSTOMERS

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

b. Revenues from continuing operations, based on the location of customers, are as follows:

	Year ended 31 December	
	2018 $'000	2017 $'000
USA	1,830	909
Rest of America	342	376
Australia	1,738	172
Rest of Asia-Pacific	248	42
Europe, Middle-East and Africa	451	234
	4,609	1,733

The customer location is based on its legal address per the agreement.

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

In the year ended 31 December 2018, the Company's largest customer (a reseller) represented 35% of the Company's revenues. No other single customer represented more than 10% of the Company's revenues.

In the year ended 31 December 2017, the Company's two largest customers represented 20% and 12% of the Company's revenues. No other single customer represented more than 10% of the Company's revenues.

Financial Statements *continued*

Notes to Consolidated Financial Statements *continued*

11. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies:

The Company is exposed to market risk and credit risk, as following:

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 is comprised from three types of risks: interest rate risk, currency risk and other price risk. As of 31 December 2018 and 2017, 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 contract assets) 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 subject to the Company's policies, procedures and controls 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 different countries. The Company 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.

12. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS FROM CONTINUING OPERATIONS

		Year ended 31 December	
		2018	2017
		$'000	$'000
a.	**Cost of revenues:**		
	Salaries and benefits	527	261
	Cost of share-based payment	7	10
	Cloud services	99	24
	Other	98	–
		731	**295**
b.	**Research and development expenses:**		
	Salaries and benefits	5,936	4,771
	Cost of share-based payment	303	197
	Subcontractors	470	327
	Softwares	261	206
	Overheads	645	322
	Other	56	–
		7,671	**5,823**
c.	**Selling and marketing expenses:**		
	Salaries and benefits	4,477	3,467
	Cost of share-based payment	51	99
	Advertising and promotion	1,204	1,191
	Travel	394	273
	Overheads	520	367
	Other	28	67
		6,674	**5,464**

Notes to Consolidated Financial Statements *continued*

12. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS FROM CONTINUING OPERATIONS *continued*

		Year ended 31 December	
		2018 $'000	2017 $'000
d.	**General and administrative expenses:**		
	Salaries and benefits	802	616
	Cost of share-based payment	73	55
	Public company costs	474	342
	Legal	338	303
	Professional services	257	226
	Overheads	284	302
	Other	47	129
		2,275	**1,973**

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December	
	2018 $'000	2017 $'000
Salaries and benefits	1,788	1,741
Bonus	58	278
Post-employment benefits	31	29
Share-based compensation	99	98
	1,976	**2,146**

14. NET LOSS PER SHARE

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

	Year ended 31 December	
	2018	2017
Denominator for basic net loss per share	82,056,400	61,985,174
Effect of dilutive securities:		
Options	–	–
Weighted average number of ordinary shares used in the computation of diluted net loss per share	**82,056,400**	**61,985,174**

In 2018 and 2017, all outstanding options have been excluded from the calculation of the diluted net loss per share, as they are anti-dilutive (decrease net loss per share).

Company Information

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

Company

Albert Technologies Ltd
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ISIN: IL0011354904
SEDOL: BX7RHQ9

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