INX LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

U.S. DOLLARS IN THOUSANDS

INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

INX LIMITED

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of INX Limited (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of comprehensive loss, changes in equity and cash flows for each of the three years in the period ended December 31, 2021 (collectively referred to as the "financial statements"), and the related notes. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards, as issued by the International Accounting Standard Board.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company's auditor since its incorporation in 2017.

Tel-Aviv, Israel
May 2, 2022

CONSOLIDATED BALANCE SHEETS

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

	Note	December 31, 2021	December 31, 2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		24,581	7,581
Cash and cash equivalents held in Reserve fund	4	21,987	-
Related parties	8	15	33
Trade receivable		834	-
Customer funds		4,270	-
Prepaid expenses and other receivables		2,368	439
Total current assets		54,055	8,053
NON-CURRENT ASSETS:			
Property, plant and equipment, net	10	160	32
Cryptocurrencies		1,000	-
Long-term investments held in Reserve fund	4	14,036	-
Other financial assets		400	-
Intangible assets, net	5	4,394	-
Goodwill	5	2,455	-
Loan to Employees	8d	1,015	-
Rights-of-use-assets, net	11a	987	-
Total non-current assets		24,447	32
Total assets		78,502	8,085
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		2,564	423
Accrued bonuses		606	905
Funds due to customers		4,270	-
Lease liability	11b	319	-
INX Token liability	6	282,642	24,106
INX Token warrant liability	7	9,814	4,249
Contingent consideration liability	3	400	-
Convertible loans		-	148
Total current liabilities		300,615	29,831
NON-CURRENT LIABILITIES:			
Lease liability	11b	821	-
Total non-current liabilities		821	-
EQUITY:	12		
Ordinary shares of GBP 0.001 par value Authorized: 100,000,000 shares at December 31, 2021 and 2020; Issued and Outstanding: 15,955,875 and 13,639,451 at December 31, 2021 and 2020, respectively		21	18
Share premium		24,177	10,866
Receivable on account of shares		-	(9)
Contribution to equity by controlling shareholder		582	-
Foreign currency translation reserve		188	-
Conversion option of convertible loans		-	46
Accumulated deficit		(247,902)	(32,667)
Total deficit		(222,934)	(21,746)
Total deficit and liabilities		78,502	8,085

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
U.S. dollars in thousands (except share and per share data)

	Note	Year ended December 31, 2021	2020	2019
Revenues (primarily from brokerage fees)	15	2,544	-	-
Research and development		4,402	1,581	468
Sales and marketing		6,993	2,153	108
General and administrative		44,627	8,056	2,416
Loss from operations		53,478	11,790	2,992
Fair value adjustment of INX Token liability	6	161,173	12,518	762
Finance expense (income) ,net		427	23	(65)
Loss before taxes on income		215,078	24,331	3,689
Taxes on income		157	-	-
Net Loss		215,235	24,331	3,689
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements from functional currency to presentation currency		188	-	-
Total comprehensive loss		188	-	-
Loss per share, basic and diluted		14.30	2.00	0.32
Weighted average number of shares outstanding, basic and diluted		15,048,576	12,152,006	11,395,273

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Ordinary shares		Share premium	Receivable on account of shares	Conversion option of convertible loans	Contribution to equity by controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total equity
	Shares	Amount							
Balance as of January 1, 2019	10,987,747	14	4,717	(76)	46	-		(4,647)	54
Loss and total comprehensive loss	-	-	-	-	-	-	-	(3,689)	(3,689)
Issuance of Ordinary shares	425,183	1	441	-	-	-	-	-	442
Consideration for warrants exercised in 2018	-	-	39	-	-	-	-	-	39
Share-based payment	-	-	202	-	-	-	-	-	202
Issuance of SAFE	-	-	1,406	-	-	-	-	-	1,406
Balance as of December 31, 2019	11,412,930	15	6,805	(76)	46	-		(8,336)	(1,546)
Loss and total comprehensive loss	-	-	-	-	-	-		(24,331)	(24,331)
Issuance of SAFE and warrants	-	-	879	-	-	-		-	879
Issuance of Ordinary shares and warrants	885,576	1	2,328	-	-	-		-	2,329
Consideration for shares issued in 2017	-	-	-	75	-	-		-	75
Conversion of SAFE	1,194,639	2	(2)	-	-	-		-	-
Exercise of warrants	146,306	-*)	286	(8)	-	-		-	278
Share-based payment	-	-	570	-	-	-		-	570
Balance as of December 31, 2020	13,639,451	18	10,866	(9)	46	-		(32,667)	(21,746)
Net Loss	-	-	-	-	-	-		(215,235)	(215,235)
Total other comprehensive loss	-	-	-	-	-	-	188	-	188
Contribution to equity by a controlling shareholder (Note 3a)	-	-	-	-	-	582		-	582
Collection of receivable	-	-	-	9	-	-		-	9
Conversion of SAFE	379,593	1	-	-	-	-		-	1
Conversion of convertible loan	956,333	1	193	-	(46)	-		-	148
Share-based payment	-	-	10,899	-	-	-		-	10,899
Exercise of SAFE option	980,498	1	2,219	-	-	-		-	2,220
Balance as of December 31, 2021	15,955,875	21	24,177	-	-	582	188	(247,902)	(222,934)

*) Less than $1

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2021	**2020**	**2019**
Net cash flows from operating activities:			
Loss for the period	(215,235)	(24,331)	(3,689)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based payment	10,899	570	202
Valuation losses of long-term investments	97	-	-
Depreciation of equipment and right-of-use-assets	137	3	-
Amortization of intangibles	130	-	-
INX Token-based compensation	19,801	4,142	101
Fair value adjustment of INX Token liability	161,173	12,518	762
Accrued finance expense	-	3	39
Impairment of Cryptocurrencies	80	-	-
Interest on lease liabilities	43	-	
Decrease in account receivables	215	-	-
(Decrease) Increase in prepaid expenses and related parties	(278)	(145)	65
Increase from revaluation of OFN's contingent liability	(96)	-	-
Increase in accounts and other payables	1,511	280	199
Increase (decrease) in accrued bonuses	(299)	905	-
Taxes Paid	(133)	-	-
Net cash used in operating activities	(21,955)	(6,055)	(2,321)
Net cash flows from investing activities:			
Proceeds received from sale of cryptocurrencies	48,243	-	-
Other financial assets	(400)	-	-
Increase in Cryptocurrencies	(485)	-	-
Grant of loan to employees	(475)	-	-
Increase in Reserve Fund	(21,987)	-	-
Purchase of equipment	(132)	(35)	-
Purchase of long-term investments held in Reserve fund	(14,133)	-	
Net cash used in business combinations (see A below)	(5,232)	-	-
Increase in funds held by a related party, net	-	(19)	-
Net cash provided by (used in) investing activities	5,399	(54)	--
Net cash flows from financing activities:			
Proceeds from issuance of Ordinary shares	-	2,329	442
Proceeds from exercise of INX warrant token	1,052	-	
Proceeds from Issuance of INX tokens, net	31,852	10,403	
Proceeds from issuance of SAFE and warrants	-	879	1,402
Proceeds from exercise of SAFE option	720	-	-
Proceeds from warrants issued in 2018	-	-	39
Repayment of finance lease liabilities	(68)	-	-
Net cash provided by financing activities	33,556	13,611	1,887
Change in cash and cash equivalents	17,000	7,502	(570)
Cash and cash equivalents at beginning of year	7,581	79	649
Cash and cash equivalents at end of year	24,581	7,581	79
Significant non-cash transactions:			
Collection of receivable on account of shares from related party	9	75	-
Contribution to equity by controlling shareholder	582	-	-
Conversion of convertible loan	148	-	-
INX Token Offering proceeds received in cryptocurrencies	49,488	-	-
Proceeds from Exercise of SAFE warrant by related party	-	278	-
Receivable in respect of exercise of share option	1,500	-	-
Right-of-use asset recognized with corresponding lease liability	654	-	-

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)
U.S. dollars in thousands

Business combinations:

(A) Net cash used in business combination:

Accounts receivable	$	1,049
Property and equipment, net		37
Rights-of-use-assets		416
Intangible Assets		4,405
Goodwill		2,387
Accounts payable		(748)
Token warrant liability		(735)
Lease liability		(501)
Contingent consideration liability		(496)
Contribution to equity by controlling shareholder		(582)
Net cash transferred	$	5,232

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

NOTE 1: GENERAL

a. Business description

INX Limited (the "Company" or "INX") is engaged in the operation and ongoing development with the purpose of providing an integrated, regulated solution for trading blockchain assets, that includes a cryptocurrency trading platform, a security token trading platform and other services and products related to the trading of blockchain assets.

INX permits the trading of various blockchain assets, including cryptocurrencies and security tokens. The Company has developed the trading platforms that facilitates peer-to-peer professional trading services. The trading platforms are designed to help customers automate and coordinate front-office trading functions, middle-office risk management and reporting functions, and back-office accounting functions. The Company charges a fee at the transaction level. The transaction fee is calculated based on volume and as such varies as a result of the value of the transaction. The transaction fee is collected from the customers at the time the transaction is executed.

As part of the Company's blockchain ecosystem, the Company created the INX Token (the "INX Token"), and on August 20, 2020, the SEC acknowledged effectiveness of the F-1 Registration Statement that was filed by INX with the SEC and declared effectiveness of the INX Token Offering ("the Offering"). The Company offered up to 130 million INX Tokens at a price of $0.90 per INX Token.

The INX Token was offered to the public from August 20, 2020, and closed on April 22, 2021, when the Offering was completed. See Note 6.

In the years ended December 31, 2021, and 2020, the Company issued 93,409,410 and 10,256,128 INX Tokens, respectively, in the INX Token Offering for a total consideration of $84,068 and $9,234, respectively. In addition, in the years ended December 31, 2021, and 2020, the Company issued 8,904,667 and 1,481,481 in INX Token financing agreement, in which the consideration for the INX Tokens amounted to for total consideration of $6,451 and 1,171, respectively. (see Note 6).

On July 2021, INX listed the INX Token for trading on the INX Securities Trading Platform.

The Company has not allocated for issuance and has no current intention to issue 35 million of the 200 million INX Tokens that have been created. In addition, the Company will reserve an additional 20% of INX Tokens received as payment of transaction fees, as long as the total amount of INX Tokens reserved does not exceed 35 million plus 50% of the number of INX Tokens sold by the Company to the public pursuant to our initial public offering and subsequent offerings of INX Tokens (excluding re-issuances of reacquired INX Tokens), up to a maximum of 100 million INX Tokens. The Company does not intend to issue these reserved INX Tokens for general fundraising purposes; However, these INX Tokens may be issued to fund acquisitions, address regulatory requirements or fund the operations of the Company if the Board of Directors determines that the Company has net cash balances sufficient to fund less than six months of the Company's operations. The Company intend to restrict issuances of the reserved INX Tokens to these or similar extraordinary situations to limit the dilution to INX Token holders.

The INX Token may be used in the future, subject to the Company's discretion, to pay INX Securities trading platform transaction fees at a minimum discount of 10% as compared to the use of other currencies.

NOTE 1: GENERAL (Cont.)

Following an amendment to the INX Token rights which was approved by the Board of Directors of the Company on May 17, 2019 (the "Token Rights Amendment"), the Holders of INX Tokens (other than the Company) will be entitled to receive a pro rata distribution of 40% of the Company's net cash flow from operating activities, excluding any cash proceeds from an initial sale by the Company of an INX Token (the "Adjusted Operating Cash Flow"). The distribution will be based on the Company's cumulative Adjusted Operating Cash Flow, net of cash flows which have already formed a basis for a prior distribution, calculated as of December 31 of each year. The distribution will be paid to parties (other than the Company) holding INX Tokens as of March 31 of the following year. Distributions will be paid on April 30, commencing with the first distribution to be paid, if at all. As of December 31, 2021 the cumulative adjusted operating cash flow activity is negative, and therefore no distribution is payable on April 30, 2022.

b. Organizational information:

The Company was incorporated in Gibraltar on November 27, 2017. Its registered office is located at 57/63 Line Wall Road.

The Company's founding shareholders are Triple-V (1999) Ltd. ("Triple-V"), and A-Labs Finance and Advisory Ltd. ("A-Labs"), which as of December 31, 2021, own 22.41% and 7.9%, respectively, of the Company's outstanding Ordinary shares.

The Company operates through seven wholly owned subsidiaries, four of which were recently acquired by the Company, and three of which were incorporated by the Company:

- INX Digital, Inc. ("INXD"), a Delaware corporation, is registered as a money transmitter to operate a trading platform for cryptocurrencies.

- INX Securities, LLC (Previously named: Openfinance Securities, LLC) ("INXS"), a Pennsylvania limited liability company. INXS is recognized in the US as a registered Broker Dealer and is an SEC-registered Alternative Trading System ("ATS"). INXS was purchased by the Company as part of the OFN Asset Purchase Agreement (See Note 3).

- I.L.S. Brokers Ltd. ("ILSB"), a company incorporated under the laws of the State of Israel, was purchased by the Company as part of the ILSB Acquisition (See Note 3). ILSB is a multinational brokerage house, established in 2001, that facilitates financial transactions between banks and offers a full range of brokerage services to several leading banks worldwide. ILSB's main field of operation is foreign exchange and interest rate derivatives services. ILSB's activities are regulated by the Israeli Capital Market Authority, Insurance and Savings and registered with the U.S. National Futures Association ("NFA") (authorized by the U.S. Commodity Futures Trading Commission ("CFTC")). ILSB holds the following license: Provider of Financial Services in Israel and an introducing broker (IB) license from NFA (CFTC) in the US.

NOTE 1: GENERAL (Cont.)

- Midgard Technologies Ltd. ("Midgard") is a company incorporated under the laws of the State of Israel. Midgard has served as the research and development arm of INX since November 1, 2020, and was acquired on April 1, 2021.

- INX EU Ltd. ("INX EU"), a company incorporated under the laws of Cyprus. INX EU plans to apply to the Cyprus Securities and Exchange Commission for a Crypto-Asset Services Provider license.

- INX Transfer Agent LLC (previously named TokenSoft LLC) ("Transfer Agent") - a Delaware limited liability company. Transfer Agent is a transfer agent registered with the SEC, acquired by the Company pursuant to a purchase agreement dated December 28, 2021 for nominal consideration.

- INX Solutions Limited, incorporated by the Company in Gibraltar as a private company limited by shares. INX Solutions Limited was a dormant company until end of March 2022. INX Solutions Limited is intend to run the company risk management and provides liquidity to the platforms operated by Company, commencing during the second quarter of 2022.

The following INX subsidiaries are currently dormant, in order to focus on specific lines of business:

- INX Digital Assets UK Limited (Previously named: ILSB UK Limited) ("INX UK"), a company incorporated under the laws of England and Wales. INX UK plans to apply to the Financial Conduct Authority ("FCA") for an introducing broker license and to be registered as a financial services company. INX acquired all the issued and outstanding shares of INX UK on July 13, 2021, from Mr. James Crossley, a Board member of the Company, in consideration for an inconsequential amount of cash.

- INX Services, Inc., a Delaware corporation.

INXD launched a cryptocurrency trading platform on April 29, 2021, which was developed by INX and is operated by INXD. Some types of cryptocurrencies are supported for trading on the INX Digital platform such as: Bitcoin, Ethereum, Zcash, Litecoin, USD Coin, GYEN and Zytara dollar.

INXD is qualified to operate as a money transmitter in 38 US states plus Washington D.C. and Puerto Rico. INX intends to obtain money transmitter licenses or otherwise become qualified to operate in most US states and territories by 2022.

c. COVID – 19

In early 2020, an outbreak of the novel strain of a coronavirus, which causes a disease named COVID-19, spread worldwide. As a result of the coronavirus pandemic, governments and industries have instituted drastic actions to contain the coronavirus or treat its impact. Such actions, including bans on international and domestic travel, quarantines, and prohibitions on accessing work sites, have caused significant disruptions to global and local economies, and have led to dramatic volatility in the capital markets.

The extent to which the coronavirus pandemic impacts the Company's operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Factors that may result in material delays and complications with respect to the Company's business, financial condition and results of operation include the duration and severity of the outbreak, and the actions that may be required to contain the coronavirus or treat its impact.

In particular, the continued spread of the coronavirus globally could adversely impact the Company's operations, including the development of the Company's platforms within the expected timeframes, the health and safety of the employees, the ability to complete recruitment for open employment positions, and the ability to raise capital. In addition, the coronavirus pandemic could affect the operations of key governmental agencies, such as the SEC and CFTC, which may delay the development and regulatory approval necessary to operate the Company's platforms.

NOTE 1: GENERAL (Cont.)

d. Assessment of going concern:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Since inception of activities in September 2017, the Company has incurred a loss from operations and as of December 31, 2021, the Company has an accumulated deficit of $247,902. The Company has not yet generated cash from operations and has relied on its ability to fund its operations primarily through proceeds from SAFE, and proceeds from the Token offering.

On January 10, 2022, the Valdy Transaction (see Note 18) was completed, pursuant to which Valdy acquired all of the issued and outstanding securities of the Company from the INX Security holders by way of a securities exchange. In addition, the Company received net proceeds from the Concurrent Financing in the amount of approximately $29,400.

Based on the Company's existing cash funds, the proceeds from the Concurrent Financing as described above and management's projections of the operating results for the next twelve months, management concluded that the Company has sufficient funds to continue its operations and meet its obligations for a period of at least twelve months from the date the financial statements were authorized for issuance.

e. Technology risk

INX's business model is dependent on continued investment in and development of the blockchain industry and related technologies.

The blockchain technology is a nascent and rapidly changing technology and there remains relatively small use of blockchain networks and blockchain assets in the retail and commercial marketplace. The slowing or stopping of the development or acceptance of blockchain networks may adversely affect the Company.

The open-source structure of blockchain software means that blockchain networks may be susceptible to malicious cyber-attacks or may contain exploitable flaws, which may result in security breaches and the loss or theft of blockchain assets.

Each blockchain network, including the Ethereum network, is dependent upon its users and contributors. Actions taken, or not taken, by the users or contributors of a blockchain network could damage its reputation and the reputation of blockchain networks generally.

The regulatory regimes governing blockchain technologies, blockchain assets and the purchase and sale of blockchain assets are uncertain, and new regulations or policies may materially adversely affect the development of blockchain networks and the use of blockchain assets.

Failure to keep up with rapid changes in industry-leading technology, products and services, and the risks above should they materialize could negatively impact the Company's results of operations and its financial position.

f. The financial statements of the Company as of and for the year ended December 31, 2021 were authorized for issuance in accordance with a resolution of the board of directors on April 27, 2022.

g. Cyber Security Attack risk

INX networks operate based on some form of open-source software. An open source project is not represented, maintained or monitored by an official organization or authority. Because of the nature of open-source software projects, it may be easier for third parties not affiliated with the issuer to introduce weaknesses or bugs into the core infrastructure elements of the blockchain network. This could result in the corruption of the open-source code which may result in the loss or theft of blockchain assets.

Blockchain networks may be the target of malicious attacks seeking to identify and exploit weaknesses in the software. Such events may result in a loss of trust in the security and operation of blockchain networks and a decline in user activity which could have a negative impact on the Company.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB").

The consolidated financial statements have been prepared on a cost basis, except for long-term investments, contingent consideration liability and INX Token and INX Token warrant liabilities, which are presented at fair value through profit or loss.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of the Company and companies that are controlled by the Company (subsidiaries). 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. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

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

c. Functional and presentation currencies:

1. Functional currency and presentation currency:

The consolidated financial statements are presented in U.S. dollars.

The Group determines the functional currency of each Group entity:

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is carried to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

e. Reserve Fund

In connection with the INX Token Offering, the Company committed to reserve 75% of the gross proceeds less payments to underwriters from its initial public offering in excess of $25,000 to be available to cover customer and Company losses, if any, that result from cybersecurity breaches or theft, errors in execution of the trading platform or its technology, and counterparty defaults, including instances where counterparties lack sufficient collateral to cover losses. The Company refers to this amount as the "Reserve fund". As of December 31, 2021, the Company has segregated $36,023 as the Reserve fund. The Reserve fund is comprised of cash and cash equivalents amounting to $21,987 held in financial institutions and long-term investments amounting to $14,036 held by a brokerage firms.

f. Financial instruments:

1. Financial assets are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

   The Company classifies and measures debt instruments in the financial statements based on the following criteria:

   - The Company's business model for managing financial assets; and

   - The contractual cash flow terms of the financial asset.

   a. Debt Instruments

   Debt instruments are measured at fair value through profit or loss when:

   A financial asset which is a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value and gains or losses from fair value adjustments are recognized in profit or loss.

2. Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are measured subsequent to initial recognition at amortized cost.

   Impairment of financial assets:

   The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss.

   The Company has short-term financial assets such as trade receivables in respect of which the Company applies the simplified approach in IFRS 9 and measures the loss allowance in an amount equal to the lifetime expected credit losses.

   The Company grants its customers interest-free credit for periods of 30-90 days. As of December 31, 2021, there were no material past-due accounts. Accordingly, the allowance for doubtful accounts is immaterial.

3. Financial liabilities:

   Financial liabilities are initially recognized at fair value. After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

   a) Financial liabilities at amortized cost:

      After initial recognition, loans and other liabilities are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Financial liabilities at fair value through profit or loss – these include financial liabilities held for trading (including the INX Token warrant liability), contingent consideration liability recognized in a business combination, and financial liabilities designated upon initial recognition as at fair value through profit or loss. Changes in the fair value of liabilities held for trading and contingent consideration are recognized in profit or loss in finance expenses. Based on the terms of the INX Token, as described in Note 1a, the INX Token is a hybrid financial instrument. The host instrument is a financial liability due to the right of the INX Token holder to effectively redeem the INX Token in consideration as payment for services. The INX Token is considered a puttable instrument which is a financial liability in accordance with IAS 32, Financial Instruments: Presentation. The Company's obligation to make a pro rata distribution annually to the INX Token holders from the Company's Adjusted Operating Cash Flow is an embedded derivative. The Company views the Company's operating cash flows as a financial variable, and therefore, the embedded derivative requires bifurcation pursuant to IFRS 9. The Company elected in accordance with IFRS 9 to designate the entire financial liability (including the embedded derivative) at fair value through profit and loss. Accordingly, the INX Token warrant liability is remeasured to fair value at the end of each reporting period.

The change in the fair value of the INX Token liability that is attributable to changes in credit risk, excluding those changes in credit risk attributable to the embedded derivative, is presented in other comprehensive income. The remaining amount of the change in the fair value of the INX Token liability is presented in profit or loss.

When the INX Token is used to pay for services provided by the Company, the respective portion of the INX Token liability is derecognized and revenue is recognized. The fair value of INX Tokens issued in consideration for services to be provided to the Company is recognized as compensation expense as the services are provided.

4. Compound financial instruments:

Convertible debt which contains both an equity component and a liability component are separated into two components. This separation is performed by first determining the liability component based on the fair value of an equivalent non-convertible liability. The value of the conversion component is determined to be the residual amount. Directly attributable transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.

5. Simple Agreement for Future Equity ("SAFE")

The Company has entered into equity funding agreements (SAFEs) pursuant to which funds received by the Company from investors will automatically be converted into the same class of share capital of the Company that will be issued in a future qualifying financing, as defined in the SAFEs. The conversion price for SAFEs issued until June 2020 will be equal to the lower of, (i) 25% discount on the base (undiscounted) price per share of the qualifying financing, and (ii) a fixed price, as set forth in the SAFEs. For SAFEs issued in June 2020, the conversion price will be equal to the lower of, (i) 25% discount on the base (undiscounted) price per share of the qualifying financing, and (ii) a fixed Company valuation divided by the number of Company shares outstanding on a fully-diluted basis (as defined in the SAFEs). If there is no qualifying financing within a specified time period, the funds received will automatically be converted into Ordinary shares of the Company at the fixed price or, for the SAFEs issued in June 2020, based on the fixed Company valuation.

The Company is not obligated to complete a qualifying financing or to approve the issuance of shares or dilutive securities within the term specified in the SAFE that would result in the issuance of a variable number of the Company's equity instruments. Accordingly, as the SAFEs are a non-derivative for which the conversion price into the Company's equity instruments is fixed at the end of its term, the consideration received from investors pursuant to the SAFEs is classified as equity. As of December 31, 2021, all Company's SAFE's converted into Ordinary share.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement.

The Company classifies the bases used to measure certain assets and liabilities at their fair value. Assets and liabilities carried or measured at fair value have been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The levels are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices);
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

For details of the fair value of the Contingent consideration liability – see Note 3. For details of the fair value of long-term investment – see Note 4. For details of the fair value of the INX Token liability – See Note 6. For the fair values of INX Token warrant liability, see Note 7. The fair values of current financial assets and financial liabilities, other than the INX Token and INX Token warrant liability, approximate their carrying amounts due to the short-term maturity of these instruments

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Crypto currencies:

Crypto currencies are measured on initial recognition at cost.

Crypto currencies with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

An impairment loss is recognized if the carrying amount exceeds its fair value less cost of sale.

Fair value is measured using quoted prices on active exchanges.

The Company holds the following cryptocurrencies as of December 31, 2021: BTC, ETH, LTC, USDC, USDT. The Company recorded impairment of Cryptocurrencies in the year ended December 31, 2021 in the amount of $80.

i. Revenue recognition:

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

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

Revenues from brokerage services are recorded according to the date the service was provided, or the operation was carried out.

Revenues from trading income represents Customer fees, which includes revenue from transactions fees and trading fees of customers in the Company's Trading Platforms.

j. Intangible assets

Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

The useful life of intangible assets is as follows:

	Licenses	Customer relationships	Trade name	Technology
Useful life	Indefinite	Definite 9.58 years	Definite 10.58 years	Definite 8.67 years
Amortization method	Not amortized	Straight-line	Straight-line	Straight-line

l. Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets. Direct acquisition costs are recorded in Statement of comprehensive operations as incurred. Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. 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 recognized 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 recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

1. Goodwill in respect of subsidiaries:

   The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

   Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

2. Intangible assets with an indefinite useful life that have not yet been systematically amortized:

The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Customer funds and funds due to customers:

Customer funds represent cash and cryptocurrencies that are held for the exclusive benefit of customers. The Company restricts the use of the assets underlying the customer funds to meet regulatory requirements and classifies the assets as current based on their purpose and availability to fulfill its direct obligation under funds due to customers.

m. Leases:

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term.

In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term (3 years and 9 years).

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Share based payment transactions:

Certain of the Company's employees and other service providers are entitled to remuneration in the form of equity settled share-based payment transactions. The cost of the transactions is measured at the fair value of the equity instruments granted at grant date, using an appropriate valuation model, further details of which are provided in Note 13. The cost of the transactions is recognized in profit or loss together with a corresponding increase in equity or for share based grants during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees/service provider become entitled to the award (the "vesting period"). The cumulative expense recognized at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of instruments that will ultimately vest.

o. Research and development expenses:

Research expenses are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if the

Company can demonstrate all of the following: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's 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 Company's ability to measure reliably the expenditure attributable to the intangible asset during its development. Through December 31, 2021, the Company has not met all the aforementioned criteria and therefore all development costs have been recognized in profit or loss.

p. Income taxes:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the reporting date. Deferred tax is provided using a liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized for deductible temporary differences and the carryforward of any unused tax losses. Deferred tax assets are recognized to the extent that it is probable taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable.

q. Property, Plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses.

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

	%
Communication & equipment	15
Office furniture and equipment	7-10
Computers and software	33
Leasehold improvements	see below

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

The useful life and depreciation method of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Net loss per share:

Basic loss per share is computed by dividing the net loss attributable to equity holders of the Company by the weighted average number of Ordinary shares outstanding during the period. Diluted loss per share is computed by dividing the net loss, as above, after adjustment for interest on the convertible loans by the weighted average number of Ordinary shares outstanding, as above, plus the weighted average number of Ordinary shares that would be issued on conversion of the convertible loans.

For the years ended December 31, 2021 and 2020, the effect of the inclusion of the weighted average number of shares that would have been issued upon the conversion of the Company's employees stock options, convertible loans, and warrants were anti-dilutive.

s. Estimates and assumptions:

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

The key assumptions made in the consolidated financial statements concerning uncertainties at the reporting date that may result in a material adjustment to the carrying amount of the contingent consideration, INX Token liability and INX Token warrant liability within the next financial year are discussed in Note 3, Note 6 and Note 7.

t. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. New standards prior to adoption:

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

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment") regarding the criteria for determining the classification of liabilities as current or non-current.

The Amendment includes the following clarifications:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The Amendment is effective for annual periods beginning on or after January 1, 2023 and must be applied retrospectively. Early application is permitted. The Company is evaluating the possible impact of the Amendment on its current loan agreements.

2. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted. The Company is evaluating the effects of the Amendment on its financial statements.

3. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

NOTE 3: BUSINESS COMBINATIONS

a. I.L.S Brokers Ltd.

On June 9, 2021, INX entered into a share purchase agreement with the shareholders of I.L.S. Brokers Ltd., a Company incorporated under the laws of the State of Israel ("ILSB") for the purchase of all of the issued outstanding shares of ILSB (the "ILSB Acquisition"). The consideration paid by INX as part of the ILSB Acquisition to the shareholders was $4,327.

Mr. Datika was a shareholder of ILSB and sold his shares to INX as part of the ILSB Acquisition. Immediately prior to the ILSB Acquisition, Mr. Datika held, directly and indirectly, approximately 20% of the outstanding share capital of ILSB. Mr. Datika waived his right to receive full consideration under the ILSB Acquisition and received only an amount equal to the tax payments due by him and by his affiliated entity in connection with the ILSB Acquisition. As a result of such waiver, the consideration paid by INX as part of the ILSB Acquisition was reduced from $4,909 to $4,327. Mr. Datika is one of the founding shareholders of INX (through wholly owned company Triple-V) and INX's CEO. The waiver of the partial consideration by Mr. Datika in the amount of $582 was recorded as a contribution to equity.

ILSB is a multinational brokerage house, established in 2001, that facilitates financial transactions between banks and offers a full range of brokerage services to several leading banks worldwide.

The following are the estimated fair values of the identifiable assets and liabilities assumed of ILSB as of the date of the acquisition:

	June 9, 2021
Cash and cash equivalents	$ 810
Accounts receivable	1,031
Property and equipment	37
Right-of-use-assets	416
Intangible assets	2,491
Total Assets	4,785
Accounts payable and accrued expenses	(745)
Lease liability	(501)
Total liabilities	(1,246)
Net identifiable assets	3,539
Goodwill arising on acquisition	1,370
Total cost of acquisition	$ 4,909

Cost of Acquisition:

	USD in thousands
Cash paid	4,327
Equity contribution by shareholder	582
Total cost of acquisition	4,909

Cash outflow on Acquisition:

	USD in thousands
Cash paid	4,327
Cash and cash equivalents acquired	810
Net cash outflow	3,517

Intangible assets include Customer Relationships, Trade Name and License. See Note 5.

The Company estimated the fair values allocated to the assets and liabilities of ILSB (Valuation work) with the assistance of an external independent expert. The final valuation work should be completed within 12 months from the acquisition date.

From the acquisition date, ILSB has contributed net income of $254 to the consolidated net loss, and $2,278 to the consolidated revenue.

If the business combination had taken place at the beginning of the year, the effect on consolidated net loss would have been immaterial and the consolidated revenue would have been $4,164.

Acquisition costs that are directly attributable to the transaction were immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3: BUSINESS COMBINATIONS (Cont.)

b. INX Securities LLC (Previously named: Openfinance Securities LLC)

On January 12, 2021, INX entered into an asset purchase agreement (the "OFN Asset Purchase Agreement") with Openfinance Holdings, Inc. and certain subsidiaries of Openfinance Holdings, Inc. (collectively, "OFN"). The consideration paid by INX as part of the OFN Acquisition to the shareholders was $3,253. Pursuant to the OFN Asset Purchase Agreement, on May 9, 2021, INX acquired various assets of OFN, including the entire share capital of Openfinance Securities, LLC ("OFN Securities"), a Pennsylvania limited liability Company, that is a registered in the United States as a broker-dealer, is a member of FINRA and operates and is recognized as an Alternative Trading System ("ATS") by the SEC. Following the closing of the acquisition, INX now includes Openfinance broker-dealer/ATS - including its digital security listings and client base – among its wholly-owned subsidiaries.

Following the completion of the Asset Purchase Agreement on May 9, 2021, INX is currently operating the OFN Platform as INX Securities, LLC, its wholly owned subsidiary.

The following are the estimated fair values of the identifiable assets and liabilities assumed of OFN as of the date of the acquisition:

		May 9, 2021
Cash and cash equivalents	$	307
Other current assets		18
Intangible assets		1,914
Total Assets		2,239
Accounts payable		(3)
Total Liabilities		(3)
Net identifiable assets		2,236
Goodwill arising on acquisition		1,017
Total cost of acquisition	$	3,253

Cost of Acquisition:

	USD in thousands
Cash paid	2,022
Token warrant liability	735
Contingent consideration liability	496
Total cost of acquisition	3,253

Cash outflow on Acquisition:

	USD in thousands
Cash paid	2,022
Cash and cash equivalents acquired	307
Net cash outflow	1,715

Intangible assets comprise License, Core Technology and Customer Relationships – see Note 5.

Contingent consideration:

As part of the purchase agreement with the previous owner of Open Finance securities, LLC., it was agreed that the previous owner would be entitled to an additional contingent consideration ("the contingent consideration"). The Group will pay the contingent consideration to the previous owner as follows:

a. 6 months from closing and contingent upon the continued operation of the platform by the Company or its affiliates- $400.

b. 12 months from closing and contingent upon the continued operation of the platform by the Company or its affiliates- additional $400.

As of the acquisition date, the fair value of the contingent consideration was estimated at $496 for both installments.

The fair value was determined using the discounted rate of 26%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 3: BUSINESS COMBINATIONS (Cont.)

As of December 31, 2021, the Company paid the first installment of $400, the Company recognized $222 through profit and Loss.

The fair value of the second installment of the contingent consideration was estimated to $400 as of December 31,2021, the Company recognized an additional amount of $82 expenses through Profit and Loss.

Token warrant liability:

As part of the consideration for the acquisition, the Company granted the shareholders of OFN, 885,000 INX Token warrants which are exercisable at a price of $0.07 per warrant. The fair value of these warrants in the amount of $735 was determined using the Black-Scholes option pricing method. These warrants were exercised in 2021.

The movement in the liability in respect of the contingent consideration (measured at level 3 of the fair value hierarchy) is as follows:

	2021
	USD in thousands
Balance as of January 1,	-
Liability arising from business combination	496
Payment	(400)
Changes in unsettled fair value recognized in profit or loss	304
Balance as of December 31,	400

The Company estimated the fair values allocated to the assets and liabilities of OFN (Valuation work) with the assistance of an external independent expert.

OFN has contributed a net loss of $133 to the consolidated net loss, and $193 to the consolidated revenue.

If the business combination had taken place at the beginning of the year, the effect on consolidated net loss and on consolidated revenue would have been, immaterial.

Acquisition costs that are directly attributable to the transaction were immaterial.

NOTE 4: - RESERVE FUNDS

		December 31,	
		2021	2020
		USD in thousands	
a.	Financial assets at fair value through profit or loss:		
	Corporate bonds and loans (principally) – long-term marketable investments (*)	14,036	-
b.	Cash and cash equivalents	21,987	-
		36,023	-

(*) Level 1 in the fair value hierarchy

As of December 31, 2021, the Company has segregated $36,023 that restricted as Reserve fund.

On July 13, 2021 the Company's BOD approved the Investment Policy of the Reserve Funds (See Note 2e.). Per the approved Policy, Reserve Funds shall be invested as follows: minimum 25% in Cash and Bank deposit, up to 20% in US Bonds, up to 20% shall be invested in Exchange Traded Funds and up to 50%in corporate bonds and other instruments with least an investment grade rating. The minimum investment grade is BBB.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 5: - GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

2021:

	Trade Name	Customer Relationship	Licenses	Technology	Goodwill	Total
Cost:						
Balance as of January 1, 2021	-	-	-	-	-	-
Additions from business combination	$ 445	$ 1,830	$ 1,699	$ 430	$ 2,387	$ 6,791
Adjustments arising from translating financial statements from functional currency to presentation currency	$ 22	$ 75	$ 23		$ 68	$ 188
Balance as of December 31, 2021	$ 467	$ 1,905	$ 1,722	$ 430	$ 2,455	$ 6,979
Accumulated amortization and impairment:						
Balance as of January 1, 2021	-	-	-	-	-	-
Amortization recognized in the year	$ 23	$ 75	-	$ 32	-	$ 130
Balance as of December 31, 2021	$ 23	$ 75	-	$ 32	-	$ 130
Amortized cost at December 31, 2021	$ 444	$ 1,830	$ 1,722	$ 398	$ 2,455	$ 6,849

b. Acquisitions during the year:

Licenses have no fixed term and do not require renewal. Consequently, Licenses have an indefinite useful life.

c. Amortization expenses:

Amortization expenses of intangible assets amounted to $130 and recorded in profit or loss at the General and administrative expenses.

d. Impairment of goodwill and other intangible assets:

As of December 31, 2021, the Company determined, based on internal value in use calculations, that there was no impairment of intangible assets with a definite useful life (Trade Name, Customer Relationships and Technology).

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

NOTE 5: - GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

As of December 31, 2021, the carrying amount of Goodwill and Licenses were allocated as follows (each representing a cash-generating unit):

	ILSB	OFN	Total
Goodwill	$ 1,438	$ 1,017	$ 2,455
Licenses	$ 522	$ 1,200	$ 1,722

The recoverable amount of ILSB was determined based on the value in use which is calculated at the expected estimated future cash flows from this cash-generating unit, as determined according to the budget for the next five years and approved by the Company's management. The after-tax discount rate of the cash flows is 16.5%. The projected cash flows for the period exceeding five years is estimated using a fixed growth rate of 3% , representing the long-term average growth rate as customary in the cash generating unit.

The recoverable amount of OFN was determined based on the value in use which is calculated at the expected estimated future cash flows from this cash-generating unit, as determined according to the budget for the next five years and approved by the Company's management. The pre-tax discount rate of the cash flows is 26%. The projected cash flows for the period exceeding five years is estimated using a fixed growth rate of 3% , representing the long-term average growth rate as customary in the cash generating unit.

The value in use for all cash-generating units is liable to change if any change occurs in the following key assumptions:

- Discount rate.
- Growth rate for the period exceeding the five budget years.

Discount rate - the discount rate reflects management's assumptions regarding each unit's specific risk. In determining the appropriate discount rate for each unit, the Company relied on the ten-year return on Government bonds

Sensitivity analysis of changes in assumptions: With respect to the assumptions used in determining the value in use as described above, management believes that there are no potential changes in the key assumptions detailed above which might lead to a significant increase in the carrying amounts of ILSB and OFN over their recoverable amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 6: - INX TOKEN LIABILITY

The number of INX Tokens that the Company has distributed as of December 31, 2021, or has an obligation to distribute as of December 31, 2020 is as follows:

	December 31,	
	2021	**2020**
Founding shareholders:		
Triple-V	9,435,939	9,435,939
A-Labs	4,550,000	4,550,000
	13,985,939	13,985,939
Private Placement	10,386,148	1,481,481
Investors - see Note 12	1,837,999	1,068,000
Issued in the Offering	93,409,410	10,256,128
Holders of convertible loans	2,690,623	2,690,623
Employees and service providers	9,944,263	1,215,000
Total	132,254,382	30,697,171
INX Token liability	$ 282,642	$ 24,106

On August 20,2020 the Company's Form F-1 in connection with the Offering was declared as effective by the SEC.

On April 22, 2021, the INX Token Public Offering was completed. During the INX Token Offering, from August 2020 to April 2021, INX raised gross proceeds of $84,068 and sold 93,409,410 INX Tokens (excluding the 1,932,660 INX Tokens that were issued to certain Canadian investors - see below). Additionally, INX raised until December 31,2021 $7,622, and sold 10,386,148 INX Tokens through private placements, which were subject to a 6–12-month lockup.

INX paid $5,782 as issuance costs related to the Offering. In addition, INX has granted options to purchase 6,115,903 INX Token at an exercise price of $0.09 valued at $4,954.

In June 2021, it came to the attention of INX that during the INX Token Offering as it related to Canada, INX did not take certain steps that may be required under applicable Canadian securities laws. As a result, during July 2021 INX cancelled 1,948,483 INX Tokens that were sold to Canadian purchasers and refunded the $1,754 to such purchasers, representing the full purchase price of the INX Tokens.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: - INX TOKEN LIABILITY (Cont.)

The fair values of INX Tokens free of, or subject to lock-up agreements and the discount rates applied as of December 31, 2021, are as follows:

	Discount rate	Number of INX tokens	Total fair value
Not subject to lock-up	0%	99,576,830	219,069,026
Subject to lock-up through April 2022	7.96%	13,148,864	26,774,948
Subject to lock-up through April 2023	20.74%	19,528,688	36,797,907
Total		132,254,382	282,641,881

On July 28, 2021, the INX Token commenced trading on the INX Securities Trading Platform. The fair value per INX Token as of December 31, 2021, for INX Tokens which are not subject to lock-up agreement was $2.2, based on the closing market price of the INX Token as of December 31, 2021. The level in the fair value hierarchy is level 1.

The fair value per INX token as of December 31, 2020, for tokens which are not subject to lock-up agreement was $0.90, based on the INX Token Offering price, at which INX tokens were issued to the public. The level in the fair value hierarchy is level 1.

For INX tokens which are subject to lock-up agreement, the Company used the Finnerty model to determine the discount rates applying for such INX tokens during their lock-up agreements. The significant inputs and assumptions are risk free interest, in 2021, and 2020, volatility of 63.18% - 86.90%, 62.46%-81.48%, accordingly, and the period under the lock up. The level in the fair value hierarchy applied for such tokens is level 2.

In the years ended December 31, 2021, and 2020, the re-measurement to fair value of the INX Token liability in respect of INX Tokens resulted in an expense (unrealized loss) of $161,173 and $12,518, respectively, which was recorded in profit or loss.

The changes in the fair value of the INX Token liability attributable to changes in credit risk, excluding those changes in credit risk attributable to the embedded derivative, are immaterial for all reported periods and therefore no amounts have been included in other comprehensive income in respect of credit risk.

On December 14, 2021, our Board of Directors authorized our management to repurchase INX Tokens (the “Repurchased Tokens”) from their holders as the management deems required or desirable for the benefit of the Company, provided that the aggregate purchase amount of Repurchased Tokens until December 31,2022 will not exceed US$ 5 million. Such repurchase shall be subject to the provisions of any applicable law and regulation and to the advice of our legal advisors.

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

NOTE 7: - INX TOKEN WARRANT LIABILITY

a. Composition

	Year ended December 31,	
	2021	2020
Obligation to issue INX Tokens to early investors	$ -	$ 318
Warrants granted to employees and service providers	9,814	3,931
	$ 9,814	$ 4,249

b. As part of equity financing agreements that took place in 2018, the Company has obligated to issue to the investors a number of INX tokens that will be determined pursuant to the results of the Offering. The Company have accounted for these obligations as derivative liabilities.

As of December 31, 2021, the Company issued to the investors an additional 769,999 INX Tokens. As of December 31, 2021, and 2020, the fair value of the related derivative liability, which was determined based on management's assessment of the number of INX Tokens to be provided, amounted to $0 and$318, respectively.

c. Warrants granted to employees and service providers:

As of December 31, 2021, the Company has granted to directors, employees and service providers, the warrant to purchase INX Tokens upon completion of the terms set in each warrant.

The following table lists the inputs to the Black-Scholes pricing model used for the fair value measurement of INX Tokens warrants:

Expected volatility of the token prices (%)	63% - 99%
Risk-free interest rate (%)	0.19% - 1.52%
Expected life of warrant (years*)	0.25 - 4
Exercise price	$0.01 - $2.11

*) INX Token warrant granted with no expiration date were valued as the INX Token fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 7: - INX TOKEN WARRANT LIABILITY (Cont.)

The liability for INX Token warrants to employees and service providers is presented at fair value based on the above inputs. The level in the fair value hierarchy is level 3. Token based compensation expenses in the years ended December 31, 2021, and 2020 amounted to $19,801 and $3,933, respectively.

d. Movement during the year:

The following table presents the changes in the number of INX Tokens warrants and their weighted average exercise prices:

	2021		2020	
	Number of tokens	Weighted average exercise price	Number of tokens	Weighted average exercise price
INX Tokens warrants outstanding at beginning of year	5,906,083	0.066	5,086,250	$ 0.016
INX Token warrants granted during the year	8,685,071	0.292	1,084,833	$ 0.286
Forfeited during the year	(512,933)	0.270		
Exercised during the year (INX Token issued)	(8,437,360)	0.129	(265,000)	0.01
INX Token warrants outstanding at the end of year	5,640,861	0.52	5,906,083	$ 0.067
INX Token warrants exercisable at end of year (*)	3,947,861	0.13	398,762	$ 0.080

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 8: - RELATED PARTIES

a. Balances:

	December 31,	
	2021	2020
Assets:		
Receivable - funds held by related party	$ 15	$ 33
Loan to employees	1,015	-
Prepaid expenses	-	207
Total	1,030	240
Liabilities:		
Account payables	56	16
Accrued bonuses	459	450
Payroll liability	74	-
INX Token liability	36,102	11,429
INX Token warrant liability	2,723	2,177
Convertible loans	-	52
Total	$ 39,414	$ 14,124

b. Transactions (*):

	Year ended December 31,		
	2021	2020	2019
Sales and marketing	$ 7,362	$ 549	$ 3
General and administrative	1,236	1,280	99
Fair value adjustment of INX Token and derivative liabilities	8,693	3,852	262
Total	$ 17,291	$ 5,681	$ 364

*) Excluding benefit to key management personnel (See c below).

c. Benefits to key management personnel:

	Year ended December 31,		
	2021	2020	2019
Short-term benefits	$ 2,244	$ 1,412	$ 752
Share-based compensation	10,056	340	202
Token-based compensation	2,315	903	9
Fair value adjustment of INX Token and derivative liabilities	15,980	-	-
Total	$ 30,595	$ 2,655	$ 963

d. Loans to Employees:

On December 31, 2021, the Company entered into loan agreements with two officers of the Company in the amounts of $611 and $404, respectively. The loans are non-recourse and were provided in order to enable the officers to exercise INX Token warrants granted to them in connection with their services to the Company and to pay the officers income tax liability in respect of the warrants.

Subsequent to the end of the reporting period, a portion of each of the loans was repaid, and the Company determined to forgive the remaining balances of the Loans in order to comply with applicable laws and regulations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 9: - CONVERTIBLE LOANS

The Company entered into convertible loan agreements dated November 27, 2017 ("Convertible Loans") with three individuals, of which one is an officer of the Company (the "Lenders"), for an aggregate amount of $144. The loans are convertible at any time and at each Lender's sole discretion, into an aggregate total of 956,333 Ordinary shares of the Company or repaid at the earlier of (i) the lapse of five years; (ii) an initial public offering of the Company's shares or (iii) upon a Deemed Liquidation Event as defined in the Company's Articles of Association. The loans bear 2% interest compounded annually. In addition, the Lenders were granted the right to purchase a total of 2,690,623 INX Tokens.

Until 2018, the Company received $144, in consideration for the convertible loans and INX Tokens, of which $5 were attributed to the fair value of the INX Tokens. The fair value of the loans received until 2018, amounted to $93, resulting in an effective interest rate of 60% and the balance of $46, was attributed to the conversion option, which was recorded in equity.

In the years ended December 31, 2021 and 2020, interest and amortization of discount on the convertible loans amounted to $0 and $3, respectively.

On February 25, 2021, holders of Convertible loans exercised their right under their loan agreements and converted the outstanding amounts provided by them to the Company under such loan agreements into an aggregate of 956,333 Ordinary Shares of the Company.

NOTE 10: - PROPERTY, PLANT AND EQUIPMENT

	Computers and software	Office equipment & furniture	Leasehold improvements	Communication & equipment	Total
Cost:					
Balance at January 1, 2021	35	-	-	-	35
Business combination	17	11	-	9	37
Additions	73	48	6	5	132
Balance at December 31, 2021	125	59	6	14	204
Accumulated depreciation:					
Balance at January 1, 2021	3	-	-	-	3
Depreciation for the year	30	10	1	*)	41
Balance at December 31, 2021	33	10	1	*)	44
Depreciated cost at December 31, 2021	92	49	5	14	160
Depreciated cost at December 31, 2020	32	-	-	-	32

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

NOTE 11: - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

The Company has entered into leases of buildings, which are used for the Company's operations. Leases of buildings have lease terms of between 3 and 5 years.

	Land and buildings
Cost:	
Balance as of January 1, 2021	-
Additions during the year:	
New leases	654
Adjustments arising from translating financial statements from functional currency to presentation currency	13
Business combination	416
Balance as of December 31, 2021	1,083
Accumulated depreciation:	
Balance as of January 1, 2021	-
Additions during the year:	
Depreciation and amortization	96
Balance as of December 31, 2021	96
Depreciated cost at December 31, 2021	987

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

NOTE 11: - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Cont.)

b. Disclosures in respect of lease liability:

	Land and buildings
Cost:	
Balance as of January 1, 2021	-
Additions during the year:	
New leases	654
Business combination	501
Lease payments	(68)
Interest expense	26
Adjustments arising from translating financial statements from functional currency to presentation currency	27
Balance as of December 31, 2021	1,140

Current Lease liabilities as of December 31, 2021, amount to $319.

NOTE 12: - EQUITY

Composition of share capital:

	December 31,			
	2021		2020	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of GBP 0.001 par value each	100,000,000	15,955,875	100,000,000	13,639,451

NOTE 12 – EQUITY (Cont.)

a) In January 2019, the Company signed separate share purchase agreements with several investors, including A-Labs and one of the Company's service providers which is a related party. Pursuant to these agreements, the Company issued to the investors 425,183 Ordinary shares in consideration for $444, reflecting a price of $1.044 per share. The Ordinary shares issued include 47,893 shares and 33,391 shares that were issued to A-Labs and one of the Company's service providers, respectively.

b) In April 2019, the Board of Directors of the Company approved a capital raise in the form of Simple Agreements for Future Equity ("SAFE"). Pursuant to the SAFE, upon consummation of an investment round in shares of capital stock of the Company in the amount of not less than $ 2,000 (in addition to the funds raised under the SAFEs) (the "Qualifying Financing"), the funds raised under the SAFEs will automatically be converted into the same class of shares of capital stock as those issued in the Qualifying Financing at a price per share equal to the lower of: (i) a 25% discount on the base (undiscounted) price per share of the Qualifying Financing; and (ii) $1.367 per share(the "Default Price"). If a Qualified Financing is not consummated within 12 months as of the Effective Date (as such term is defined in the SAFEs), the funds raised under the SAFEs will automatically be converted at a price per share equal to the Default Price pursuant to the terms set forth in the SAFEs.

Following the approval of the Board of Directors, during April 2019, the Company entered into SAFEs with certain investors pursuant to which an amount of $428 was raised by the Company, including $150 and $100 from Triple V and A-Labs respectively.

A Qualified Financing was not consummated before April 25, 2020, and thus the funds raised under the SAFE were automatically converted into 312,849 Ordinary Shares at a price per share equal to the Default Price.

c) On August 13, 2019, the Board of Directors of the Company approved an additional capital raise of up to $1,000 in the form of SAFE, which the Board of Directors of the Company then increased to $1,500 on October 28, 2019 (the "Second SAFE"). The Second SAFE will also be automatically converted into the same class of shares of capital stock as those issued in the Qualifying Financing at a price per share equal to the lower of: (i) 25% discount on the base (undiscounted) price per share of the Qualifying Financing, and (ii) $1.367 per share. If a Qualified Financing is not consummated within 12 months commencing as of the Effective Date (as such term is defined in the Second SAFE), the funds will automatically be converted at a price per share of $1.367. In addition to the shares issued to the investors upon conversion of the Second SAFE, the Second SAFE investors shall be entitled to an option to purchase an equal number of additional shares issued to them upon conversion of their investment under the Second SAFE, from the same class of such converted shares, for an exercise price of $1.953 per share. This option shall be valid for a period of 36 months. In connection with the Second SAFE, the Company raised an amount of $978, including $250 from Triple V.

In the absence of a qualified financing during the 12 months' period following the effective date of such Second SAFE in 2020, the Company converted the investment provided to it under the Second SAFE into an aggregate of 716,136 Ordinary Shares of the Company.

d) Upon the closing of such Qualified Financing on September 13, 2020, the Company converted the investment provided to it under the Fourth SAFE into 165,654 Ordinary Shares of the Company. Such conversion reflected a price of $1.811 per share. Pursuant to the terms of the Fourth SAFE, upon the Fourth SAFE conversion, the investor under the Fourth SAFE received an option to purchase an additional identical number of Ordinary Shares of the Company at a price of $2.743 per share.

e) Pursuant to the terms of the Second SAFE, upon the Second SAFE conversion, the investors under the Second SAFEs received an option to purchase an additional identical number of Ordinary Shares of the Company at a price of $1.953 per share.

f) On September 13, 2020, Triple-V exercised the option that was granted to it under the Second SAFE dated August 30, 2019 between Triple-V and the Company, and the option that was granted to Mr. Shy Datika under the Second SAFE dated August 30, 2019 between Mr. Datika and the Company that was assigned to Triple by Mr. Datika, were exercised to an aggregate of 146,306 Ordinary Shares at a price of $1.953 per share.

NOTE 12: – EQUITY (Cont.)

f) During 2021, several investors exercised the option that were granted to them under the second safe dated August 30,2019, into an aggregate amount of 268,179 Ordinary Shares at a price of 1.953$ per share. 254,524 are outstanding and can be exercised until August 30, 2022.

g) On February 21, 2020, the Board of Directors of the Company approved an additional capital raise of up to $1,500 in the form of SAFE (the "Third SAFE"). The Third SAFE will be automatically converted into the same class of shares of capital stock as those issued in a Qualifying Financing at a price per share equal to the lower of, (i) 25% discount on the base (undiscounted) price per share of the Qualifying Financing, and (ii) $1.526 per share. If a Qualified Financing is not consummated within 12 months commencing as of the Effective Date (as such term is defined in the Third SAFE), the funds will automatically be converted at a price per share of $1.526. In addition to the shares issued to the investors upon conversion of the Third SAFE, the Third SAFE investors shall be entitled to an option to purchase additional identical number of shares, from the same class of the shares issued to them upon conversion of their investment under the Third SAFE, for an exercise price of $1.696 per share. This option shall be valid for a period of 36 months commencing as of the Effective Date of the agreement. An aggregate amount of $579 has been received by the Company pursuant to the Third SAFE in 2020, including $100 and $30 from Triple V and A-Labs, respectively. In March 2021, in the absence of qualified financing during the 12 months following the effective date of such Third SAFE, the Company converted the investment provided to it under the Third SAFE dated March 2020 into an aggregate of 379,593 Ordinary Shares of the Company at a price per share of $1.526.

h) During 2021, several investors exercised the options that was granted to them under the Third SAFE dated August 30, 2019, to an aggregate of 115,661 Ordinary Shares at a price of $1.696 per share. 311,060 options are outstanding and can be exercised until March 31,2023.

i) On September 13, 2020, the Company entered into a subscription agreement with a new investor pursuant to which the investor invested in the Company $1,500 in consideration for 621,375 Ordinary Shares. The new investor is also entitled to receive, for no additional consideration a warrant to purchase 596,659 Ordinary Shares of the Company, at a price of $2.514 per share, until the warrant's first-year anniversary. On December 31, 2021 the new investor exercised the options that was granted to them, to an aggregate of 596,659 Ordinary Shares at a price of $2.514 per share. An amount of $1,500 received on January 4,2022.

k) On September 30, 2020, the Company entered into an investment agreement with Awake Limited (the "Awake Agreement" and "Awake", respectively). Pursuant to the Awake Agreement, awake invested in the Company $2,000 in consideration for 264,201 Ordinary Shares of the Company and 1,481,481 INX Tokens. The INX Tokens under the Awake Agreement are subject to Lock-Up Agreement for a period of 12 months. The Awake Agreement's consideration was attributed to Ordinary shares and to INX Token liability, according to their fair value as of the date of the transaction, which amounted to $829 and $1,171, respectively.

NOTE 13: - SHARE-BASED PAYMENT

a. Shares reserved for Employees Stock Option Plan:

On December 29, 2017, the Company's Board approved a resolution to reserve 417,000 Ordinary shares of the Company for the purpose of an Employees Stock Option Plan ("ESOP") and future grants to employees and consultants as the Board may approve from time to time.

The Company's board of directors adopted the INX Limited Share Ownership and Award Plan (2021) (the "Share Ownership and Award Plan" or the "Plan") on February 22, 2021, and Company's shareholders approved the Plan on March 18, 2021.

The Plan provides for the grant of options to purchase Ordinary Shares and restricted shares to such employees, directors and consultants engaged by the Company or any of its affiliates. The Plan further provides for the grant of options and restricted shares to service providers who are not Gibraltar citizens and includes U.S. and Israeli appendices that further specify the terms and conditions of grants of options and restricted shares to such foreign grantees. Subject to certain capitalization adjustments, the aggregate number of Ordinary Shares that may be issued pursuant to share awards under the Plan may not exceed 1,288,882 Ordinary Shares.

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

NOTE 13: – SHARE-BASED PAYMENT (Cont.)

b. Share options and warrants granted to employees and service providers:

1. Upon the adoption of a Share Ownership and Option Plan (the “Plan”) by the Company, certain employees received 586,261 options exercisable into Ordinary shares of the Company at a price per share equal to the fair value per share at the date of the commitment of the Company to grant the options. The options vest over periods of three to four years. The options are exercisable for a period of 10 years from the date of grant. On February 21, 2021, following to the adoption of the Plan, the Company granted to these employees 586,261 options at an exercise price of $0.319-$1.367 per share.

2. In addition, pursuant to agreements with two certain officers of the Company, such officers are entitled to options (or to issuance of restricted shares) for 67,158 Ordinary Shares and 539,280 Ordinary Shares (or a smaller number of options if exercised on a cashless basis) subject to further approval of the Board and (in the event of issuance of restricted shares) to a customary reverse vesting agreement. The options are exercisable for a period 10 years from the date of grant.

3. On March 25, 2021, the Company granted to two U.S. employees, effective as of April 1, 2021, options to purchase to purchase 403,710 Ordinary Shares of the Company at an exercise price of $11.13 per share, vesting period over 3 years.

c. As of December 31, 2021, 382,878 options were exercisable. The Company has recorded expenses of $10,899 and $570 for the year ended December 31, 2021, and 2020, respectively.

d. The table below summarizes the assumptions that were used to estimate the fair value of the above options granted to employees using the Black- Scholes option pricing model:

	Year ended December 31,	
	2021	2020
Expected term (years)	10	10
Expected volatility	94%-94.67%	99.26%
Estimated exercise price	0.392-11.126	3.133
Risk-free interest rate	1.37%-1.71%	0.65%
Dividend yield	0	0

NOTE 14: - COMMITMENTS AND CONTINGENCIES

1. Engagement agreement with A-Labs Finance and Advisory Ltd. ("A-Labs"):

Under an engagement agreement dated September 26, 2017, as amended in December 2017 and January 31, 2018 (the "A-Labs Agreement"), A-Labs, a shareholder of the Company, shall provide services to the Company which include, among others, development, planning, management, execution, branding and marketing outside of the US with relation to the Offering of the INX Tokens on behalf of the Company. In consideration for these services, A-Labs received a non-refundable, cash payment of $500 and will receive a contingent cash payment of $500 payable upon the completion of an offering in which the Company has raised from US Persons not less than $10,000. Subject to the completion of an offering under which the Company has raised from non-U.S. persons not less than $10,000, A-Labs also will receive an additional contingent cash payment for the marketing and sale of INX Tokens to non-US Persons only. Such consideration shall be equal to: 10% of the first $30,000 (up to $3,000) in ICO Proceeds (as defined in the A-Labs Engagement Agreement); 5% of the next $70,000 (up to $3,500) in ICO Proceeds; 6% of the next $100,000 (up to $6,000) in ICO Proceeds; and 7.5% of ICO Proceeds in excess of $200,000.

A-Labs also received a grant of 4,550,000 INX Tokens at a fair value of $6. In addition, pursuant to an agreement signed contemporaneously with the A-Labs Agreement, the Company issued 1,120,000 Ordinary shares to A-Labs. The fair value of the Ordinary shares issued amounting to $136 ($175 less the payment of $39 required for those shares), is deemed additional consideration for the services to be provided by A-Labs.

The fair value of the INX Tokens and of the Ordinary shares was derived from the total consideration paid by the Company's founding shareholder for INX Tokens and Ordinary shares issued to him upon the establishment of the Company. Key assumptions include an underlying comparison of the shareholder's and INX Token holder's participation rights in the Adjusted Operating Cash Flow.

In the years ended December 31, 2021, and 2020, the Company recognized compensation expense in connection with the A-Labs Agreement of $207 and $508, respectively. The compensation expense recognized was based on the extent of the services performed until the respective dates.

As of December 31, 2021, and December 31, 2020, the balance of prepaid expenses amounted to $0 and $258, respectively. The prepaid expenses balance as of December 31, 2020, includes additional advance payments of $143 paid to A-Labs during 2020.

As of July 28, 2021, the Company and A-Labs settled the outstanding payment A-Labs was entitled to per the A-Labs Agreement. In addition to previous payments per A-Labs Agreement, the company paid A-Labs on July 29, 2021 an additional cash payment of $1,001 and a granted A-Labs with an option to purchase 1,527,084 Tokens with a lock-up period of 24 months.

As of December 31, 2021 the Company and A-Labs finalized the consideration according to the agreement described above.

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NOTE 14: - COMMITMENTS AND CONTINGENCIES (Cont.)

2. Appointment of Directors:

   Each of the Company Director will receive a monthly fee of $4 for the term of the engagement. Each Director will be entitled to receives an option to purchase 3,500 INX Tokens at an exercise price equal to the fair market value of the INX Token at the date of the grant, each month. As of December 31, 2021, a total grant of 119,000 to purchase INX Tokens. In addition, each Director will receive one-time payments of $1 in consideration for participation in any meeting of any committee of the Board.

3. Agreement with Mr. Paz Diamant:

   Pursuant to the Services Agreement with Mr. Paz Diamant dated July 6, 2020 which was replaced by an employment agreement between Midgard and Mr. Diamant, upon the adoption of a Share Ownership and Option Plan by the Company, Mr. Diamant was entitled to receive an option to purchase 67,158 Ordinary Shares of the Company, at a price per share equal to its fair value at the grant date. The option shares should have vest over a period of five years, subject to the continuous engagement of Mr. Diamant with the Company. On March 15, 2022, such option was replaced by the grant of 607,698 restricted shares of Valdy (net number, exercised on a cashless basis) subject to reverse vesting.

4. Agreement with Mr. Itai Avneri:

   Effective January 4, 2021, Mr. Avneri and the Company entered into a Services Agreement (the “Avneri Services Agreement”), pursuant to which Mr. Avneri shall serve as Company’s Chief Operating Officer. The Avneri Services Agreement further envisions that Mr. Avneri will enter into an employment agreement with the Company.

   Pursuant to the Services Agreement with Mr. Itai Avneri dated January 4, 2021 which was replaced by an employment agreement between Midgard and Mr. Avneri, Mr. Avneri was granted with an option to purchase 180, 000 INX Tokens at a price of $0.09 per Token and will be entitled to an option to purchase additional 180,000 INX Tokens upon the execution of an employment agreement with the Company. In addition, upon and subject to the adoption of a Share Ownership and Award Plan by the Company, Mr. Avneri was entitled to receive an option to purchase 539,280 Ordinary Shares of the Company, at a price per share equal to the fair value at the shares subject to vesting over a period of four years from the grant date, subject to the continuous engagement of Mr. Avneri with the Company. On March 15, 2022, such option was replaced by the grant of 4,428,434 restricted shares of Valdy (net number, exercised on a cashless basis) subject to reverse vesting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 15: - OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the products and services of the business units and has operating segments as follows:

1. The brokerage segment - facilitates financial transactions between banks and offers a full range of brokerage services to banks worldwide.

2. The digital assets segment - development and operation of an integrated, regulated solution for trading blockchain assets that includes a cryptocurrency trading platform, a security token trading platform and other services and products related to the trading of blockchain assets.

b. Reporting operating segments:

	Brokerage segment	Digital assets segment	Total
		USD in thousands	
Year ended December 31, 2021:			
External customers	2,278	266	2,544
Inter-segment revenues	-	-	-
Total revenues	2,278	266	2,544
Segment income (loss)	254	(54,316)	(54,062)
Unallocated corporate expenses			
Other expenses			(161,173)
Finance income (expense), net			
Loss before taxes on income			(215.235)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 15: - OPERATING SEGMENTS (Cont.)

c. Additional information:

	Brokerage segment	Digital assets segment	Total
		USD in thousands	
Year ended December 31, 2021:			
Depreciation and amortization	48	219	267

	Brokerage segment	Digital assets segment	Total
		USD in thousands	
As of December 31, 2021:			
Segment assets	2,544	75,958	78,502
Segment liabilities	940	300,496	301,436

d. Additional information about revenues:

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

	Year ended December 31, 2021
	USD in thousands
Brokerage segment:	
Customer A	$ 265
Customer B	252
Customer C	245
Customer D	$ 242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 15: - OPERATING SEGMENTS (Cont.)

e. Geographic information:

Revenues reported in the financial statements are attributed to the Company's country of domicile (Israel) and foreign countries based on the location of the customers, as follows:

	Year ended December 31, 2021
	USD in thousands
Israel	$ 911
Foreign countries	1,367
	$ 2,278

NOTE 15: - EMPLOYEE BENEFIT EXPENSES

Short term employee benefits included in consolidated statements of comprehensive loss are as follows:

	Year ended December 31,		
	2021	2020	2019
Research and development			
Short term benefit	$ 1,286	$ 738	$ 360
Share based compensation	1,105	255	-
Token based compensation	815	336	3
Sales and Marketing			
Short term benefit	677	267	2
Share based compensation	2,809	171	106
Token based compensation	759	423	-
General and administration			
Short term benefit	5,072	1,600	756
Share based compensation	6,985	144	96
Token based compensation	18,545	3,174	6

NOTE 16: - TAXES ON INCOME

Tax rates applicable to the Group:

The Israeli corporate income tax rate was 23% in 2021, 2020 and 2019.

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

A company incorporated in the U.S. - weighted tax rate of about 21% (Federal tax, State tax and City tax of the city where the company operates).

Companies subject to the U.S. federal tax reform (Tax Cuts and Jobs Act of 2017) – 9.99%.
Companies incorporated in England - tax rate of 19%.
A company incorporated in Gibraltar - tax rate of 12.5%) 10% before August 1, 2021).

c. Tax assessments:

The Company not received final tax assessments since it's incorporation. The subsidiary, ILSB, received final tax assessments through the 2016 tax year. The subsidiary, Midgard, has not received final tax assessments since her incorporation.

d. Carryforward losses for tax purposes and other temporary differences:

Carryforward operating tax losses of the Group total approximately $53,000 as of December 31, 2021. Deferred tax assets relating to these losses and to other deductible temporary differences were not recognized because their utilization in the foreseeable future is not probable.

e. Theoretical tax:

The difference between the tax benefit, assuming that all the losses in profit or loss were taxed at the statutory tax rate and the tax expense recorded in profit or loss is due to the operating losses for which deferred tax benefit has not been recognized.

NOTE 17 : - FINANCIAL ASSETS

1. Financial risk management objectives and policies:

   The Company's principal financial liabilities, other than derivatives, are comprised of loans and borrowings, payables and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include loans provided, receivables, cash and short-term deposits that derive directly from its operations. The Company also holds available-for-sale investments and enters into derivative transactions.

   The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company established a financial risk committee that advises to the senior management on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board reviews and approves the policies for each of the risks summarized below.

2. Market risk:

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

3. Foreign currency risk:

   Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates.

   The Company's exposure to foreign currency risk relates primarily to the Company's continuing operation (when revenue or expense is recognized in a different currency from the Company's presentation currency).

4. Credit risk:

   Credit risk is the risk that a counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Group. The Group 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, foreign currency transactions and other financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share, token, per share and per token data)

NOTE 17 : - FINANCIAL ASSETS (Con.):

5. Trade receivables:

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 and any shipments to major customers are generally covered by letters of credit or credit insurance. As of December 31, 2021, the company had 21 customers that owed the Group more than $834 each representing about 4.7% of all the receivables outstanding.

6. Financial instruments and deposits:

Credit risk from balances with banks and financial institutions is managed by the Group's management in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within limits assigned to each counterparty. Counterparty limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Group's finance committee. The limits are set to minimize the concentration of credit risk and therefore mitigate loss through potential counterparty's failure to make payments.

NOTE 18: - VALDY TRANSACTION

On March 31, 2021 the Company, the Company's securityholders, PI Financial Corp. and Eight Capital (the "Co-Lead Agents") and Valdy Investments Ltd. (TSXV: VLDY.P) ("Valdy"), a Capital Pool Company incorporated under the laws of British Columbia, Canada, and whose common shares were listed for trading on the TSX Venture Exchange (the "Exchange") entered into a definitive securities exchange agreement, as amended on July 23,2021 and amended and restated on November 3, 2021 (the "Securities Exchange Agreement"). Since incorporation Valdy has not operated a business nor had any material assets other than cash. On November 16, 2021, the shares of Valdy were delisted from the exchange. Valdy has submitted their request to be listed on the NEO Exchange in Canada.

Pursuant to the terms of the Security Exchange Agreement, on January 10, 2022, Valdy acquired all the issued and outstanding securities of the Company from the Company Securityholders by way of a securities exchange, as follows:

(a) Valdy acquired an aggregate of 15,955,875 the Company (excluding the INX Shares issued pursuant to the Concurrent Financing (the "INX Financing Shares")) from the holders thereof, and issued to such holders consideration of an aggregate of 167,331,410 post-Consolidation Valdy Shares, being the product of the number of INX Shares acquired by the ratio of 10.4871348 Valdy Shares for each INX Share (the "Exchange Ratio");

(b) Valdy acquired an aggregate of 31,680,000 INX Financing Shares from the holders thereof and issued to such holders consideration of an aggregate of 31,680,000 post-Consolidation Valdy Shares;

(c) the holders of INX Options surrendered for cancellation each INX Option held by them, and for each INX Option so surrendered, Valdy issued to such holder options to acquire post-Consolidation Valdy Shares (the "Valdy Consideration Options") having terms equivalent to the surrendered INX Option with respect to exercise price, vesting conditions, and expiry date, but adjusted such that: (i) the number of post- Consolidation Valdy Shares issuable pursuant to the Valdy Consideration Option shall be the product of the number of INX Shares issuable pursuant to the INX Option and the Exchange Ratio; and (ii) the exercise price for each post-Consolidation Valdy Share issuable upon conversion of the Valdy Consideration Option shall be equal to the exercise price of the INX Option divided by the Exchange Ratio;

NOTE 18: - VALDY TRANSACTION (Cont.)

(d) the holders of common share purchase warrants which entitle the holder thereof to acquire one INX Share (the "INX Legacy Warrants") surrendered for cancellation each INX Legacy Warrant held by them, and for each INX Legacy Warrant so surrendered, Valdy issued to such holder warrants to purchase post-Consolidation Valdy Shares (the "Valdy Consideration Warrants") having terms equivalent to the surrendered INX Legacy Warrant with respect to exercise price, the number of post-Consolidation Valdy Shares issuable pursuant thereto, and expiry date, but adjusted such that: (i) the number of post-Consolidation Valdy Shares issuable pursuant to the Valdy Consideration Warrant shall be the product of the number of INX Shares issuable pursuant to the INX Legacy Warrant and the Exchange Ratio; and (ii) the exercise price for each post-Consolidation Valdy Share issuable upon conversion of the Valdy Consideration Warrant shall be equal to the exercise price of the INX Legacy Warrant divided by the Exchange Ratio; and

(e) each warrant to purchase INX Shares issued pursuant to the Concurrent Financing ("INX Financing Warrant"), in accordance with its terms, became exercisable to purchase an equivalent number of post-Consolidation Valdy Shares at the same exercise price as the INX Shares to which such warrant was previously exercisable for, and such INX Financing Warrant otherwise continued to be governed in accordance with its terms.

On January 10, 2022, Valdy completed the Consolidation, following which, an aggregate of 5,124,740 Valdy Post-Consolidation Shares were issued and outstanding.

On January 10, 2022, the Transaction was completed, pursuant to which Valdy acquired all of the issued and outstanding securities of INX from the INX Securityholders by way of a securities exchange, in accordance with the terms and conditions of the Securities Exchange Agreement dated November 3, 2021, whereby its name was changed from "Valdy Investments Ltd." to "The INX Digital Company, Inc.".

On January 10, 2022, the INX Escrow Release Conditions were satisfied, and the Subscription Receipt Agent released the INX Escrowed Funds (less the balance of the INX Agents' Commission and the reasonable costs and expenses of the Agents by INX) in amount of approximately $29,400 to the company, and each INX Subscription Receipt automatically converted into one INX Unit.

On January 22, 2022 "INXD" shares started to trade on the NEO Exchange.

NOTE 19: - SUBSEQUENT EVENT

1. On March 31, 2022, The INX Digital Company ("Parent Company) Board of directors approved the executive employment agreement with Ms. Renata Szkoda ("Ms. Szkoda") as the Chief Financial Officer of the Company and its affiliates, instead of Mr. Gadi Levin ("Mr. Levin") effective as of May, 2022. Mr. Levin will continue service the company until the completion the of overlapping all responsibilities to Ms. Szkoda".

2. On March 31, 2022, our Board of Directors and the Board of Directors of our Parent (acting as our general meeting) approved certain changes to our Plan (including to the Plans' US and Israeli Appendices) in connection with grant of INX Tokens, restricted INX Tokens and options to purchase INX Tokens (collectively, "Token Awards") pursuant to the provisions of the Plan. The Plan provides for the grant of Token Awards to employees, directors and consultant who are Gibraltar citizens and others who are not Gibraltar citizens and includes U.S. and Israeli appendices that further specify the terms and conditions of grants of Token Awards to such non-Gibraltar grantees.