

SAFE-T GROUP LTD

Quarterly Report for the Three Months Period Ended March 31, 2018

- **Directors report on the state of Company's affairs for the period ended March 31, 2018.**
- **Changes and material updates over the three-month period ended March 31, 2018 in connection with matters described in the chapter discussing the state of the Company's affairs as included in the Company's periodic report for the year 2016.**
- **Interim (unaudited) consolidated financial statements as of March 31, 2018.**

Safe-T Group Ltd. is a "small corporation" as defined in the Securities Regulations (Periodic and Immediate Reports), 1970 (hereafter - "the Regulations"). The Company's Board of Directors has decided to adopt all exemptions prescribed in the Regulations applicable to small corporations as listed in Regulation 5d(b) to the Regulations, except for the exemption from issuance of quarterly financial statements for the first and third quarters, which is set out in Regulation 5(D)(b)(5) to the Regulations.

Safe-T Group Ltd.

Directors Report on the State of the Company's Affairs

For the three-month period ended March 31, 2018

The Board of Directors of the Company is pleased to present the Directors' Report on the affairs of the Company and its fully-owned subsidiary Safe-T Data A.R Ltd. (hereafter – “Safe-T Data”) and its subsidiary Safe-T USA Inc. (together with the Company: “the Group”) for the three-month period ended March 31, 2018 (hereafter - “the first quarter” or “the reported period”). The review presented below is limited in scope and includes events and changes that have taken place in connection with the state of the Group’s affairs in the reported period, whose effect is material. This report was drawn up in accordance with the Regulations and assuming that the reader has the Company’s periodic report for the year 2017 (hereafter – “the periodic report”).

1. Board of Directors’ explanations to the affairs of the Company’s business and results of operations

1.1 General

For principal events in the reported period and in the period through the publication thereof, including with regard to the Company’s engagement, after the end of the reported period, in investment agreements with private investors at the total amount of approximately 10.6 million ILS, see Appendix A to this report.

1.2 Issues brought to the attention of the readers of the Company’s financial statements by the Company’s auditors

In their auditors’ report on the consolidated financial statements of the Company for the three-month period ended March 31, 2018 (hereafter – “the financial statements”), the Company’s auditors have drawn the readers’ attention – without qualifying their opinion - to note 1d to the financial statements in which it is explained the Company has accrued losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company’s activities is conditional upon its obtaining additional funding until it achieves profitability. This raises significant doubts as to the Company’s ability to continue as a “going concern”. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

1.3 Financial position

Set forth below are the Board of Directors’ explanations regarding the Company’s financial position as of March 31, 2018, compared with its financial position as of December 31, 2017 and March 31, 2017.

Item	As of March 31, 2018	As of March 31, 2017	As of December 31, 2017	Company's Explanation
	In thousands of dollars			
Current assets	2,757	*2,276	*4,414	The decrease in current assets as of March 31, 2018 compared with current assets as of December 31, 2017 is mainly attributed to decrease in the scope of cash and cash equivalents held by the Company. The increase in current assets as of March 31, 2018 compared with current assets as of March 31, 2017 is mainly attributed to increase in the trade receivables balance due to sale of Group's products in the Far East based on longer credit periods.
Non-current assets	1,534	1,554	1,513	The decrease in non-current assets as of March 31, 2018 compared with non-current assets as of March 31, 2017 is mainly attributed to amortization of intangible assets, which is partially offset by recognition of long term prepaid expenses. The increase in non-current assets as of March 31, 2018 compared with non-current assets as of December 31, 2017 is mainly attributed to the recognition of those prepaid expenses.
Current liabilities	2,056	*2,036	1,571	The increase in current liabilities as of March 31, 2018 compared with current liabilities as of December 31, 2017 stems mainly from an increase in liabilities in respect of contracts with clients as a result of increase in sales which are spread over the service period.
Non-current liabilities	418	*1,350	1,215	The decrease in non-current liabilities as of March 31, 2018 compared with non-current liabilities as of March 31, 2017 and December 31, 2017 is mainly attributed to impairment of non-tradable warrants that were issued to investors as part of a series of capital raisings during 2017, net of an increase in liability in respect of anti-dilution mechanisms due to decrease in value of Company's share.
Shareholders' equity	1,817	*444	3,141	The increase in shareholders' equity as of March 31, 2018 compared with shareholders' equity as of March 31, 2017 is attributed to capital raisings carried out in 2017, net of the loss accumulated since the corresponding date last year. The decrease in shareholders' equity as of March 31, 2018 compared with shareholders' equity as of December 31, 2017 is mainly attributed to Company's losses in the first quarter of 2018.

* Reclassified.

1.4 Results of operations

During the first quarter of 2018, the Group's revenues increased. In this quarter the Company earned the highest revenues earned in all first quarters of previous years, ever since Safe-T Data was established.

Item	3 months ended March 31		Year ended December 31	Company's Explanations
	2018	2017	2017	
	In thousands of dollars			
Revenues	458	*218	1,096	The increase in revenues in the first quarter of 2018 compared with the corresponding quarter last year stems mainly from an increase in the scope of maintenance and support contracts due to the increase in the Company's customer base as well as from first sales of Group's products in the Far East.
Cost of sales	223	139	583	The increase in cost of sales in the first quarter of 2018 compared with the first quarter of 2017 stems mainly from an increase in the number of employees and as a result of that – an increase in payroll expenses.
Gross profit	235	180	513	
Research and development expenses, net	487	305	1,608	The increase in R&D expenses in the first quarter of 2018 compared with the first quarter of 2017 stems mainly from an increase in payroll expenses, mainly as a result of the increase in the number of employees.
Selling and marketing expenses	1,593	658	4,051	The increase in selling and marketing expenses in the first quarter of 2018 compared with the first quarter of 2017 stems mainly from an increase in the number of employees and as result of that – an increase in payroll expenses - and from an increase in professional fees and marketing activities in Israel and abroad, aimed to increase revenues.
General and administrative expenses	484	475	2,150	In the first quarter of 2018, general and administrative expenses remained almost unchanged compared with the corresponding period last year – an increase in the payroll expenses due to increase in the number of employees was offset against a decrease in share-based payment.
Operating loss	(2,329)	(1,258)	(7,296)	
Finance income (expenses) net	725	(218)	1,984	The transition to finance income in the first quarter of 2018 from finance expenses in the corresponding period last year stems mainly from impairment of non-tradable warrants issued to investors in a series of capital raisings in 2017, net of finance expenses due to increase in liability in respect of anti-dilution mechanisms due to decrease in the value of the Company's share.
Taxes on income	-	-	1	
Loss for the period	(1,604)	(1,476)	(5,313)	

* Reclassified due to early application of IFRS 15.

During the first quarter of 2018, Safe-T Data received orders from clients to purchase Safe-T Data products at the total amount of approximately \$ 631 thousands (of which orders totaling approximately \$ 100 thousand are pending clients' approval of completion of work), which constitute an increase of approximately 47% compared to orders totaling approximately \$ 437 thousand that were received in the first quarter of 2017 (including conditional orders totaling approximately \$ 89 thousand which have not yet been realized). Throughout 2017, the Group received orders at the total amount of approximately \$ 1,902 thousand, (including conditional orders totaling approximately \$ 269 thousand, of which orders amounting to approximately \$164 thousand were realized as of the date of this report). Most of the orders received in the reported period and through the date of publication of this report shall be recognized as revenues in 2018 and the remaining revenues will be recognized as revenues in the years 2019-2022.

1.5 Liquidity

Item	3 months ended March 31		December 31, 2017	Company's Explanations
	2018	2017		
In thousands of dollars				
Net cash flows used in operating activities	1,857	658	5,406	Net cash flows used in operating activities increased in the first quarter of 2018 compared with the corresponding period last year due to increase in the scope of Company's activities that was reflected in a significant increase in payroll, development, selling and marketing expenses as well as due to longer credit periods given to clients in the Far East, compared with increased collection from clients in the corresponding quarter last year.
Net cash flows used in investing activities	24	1	153	The increase in net cash used in investing activities in the first quarter of 2018 compared with the corresponding period last year is attributed to increase in scope of purchases of computers compared with no acquisitions of such equipment in the first quarter of 2017.
Net cash flows used in (provided by) financing activities	8	(971)	(7,511)	The transition from net cash provided by financing activities in the first quarter of 2017 and in the year 2017 to cash used in financing activities in the first quarter of 2018 stems from the fact that unlike in the corresponding period last year, in the reported period the Company did not raise capital but made payments in respect of preparations for such capital raising.
Total change in cash and cash equivalents	(1,889)	312	1,952	

1.6 **Funding sources**

- 1.6.1 The Group funds its activities from self-resources and by raising capital from third parties (including by issuance of shares and warrants).
- 1.6.2 The Company has no bank credit. Safe-T Data and the second-tier company - Safe-T USA Inc. have credit card facilities amounting to immaterial amounts.

1.7 **Valuations used to determine the value of financial statements data**

Set forth below are data regarding a valuation that was used to determine the value of financial statements data, which is attached to this report in accordance with Regulation 49 to the Regulations:

A very material valuation

1.7.1 Valuation of the fair value of options to investors and anti-dilution mechanism:

Identification of the subject of the valuation	Valuation of the fair value of options to investors and anti-dilution mechanism.
Timing of the valuation	Date of valuation: March 31, 2018
The value of the subject of the valuation immediately preceding the date of the valuation, if the accepted accounting principles, including those regarding depreciation and amortization, did not require that its value be changed in accordance with the valuation:	N/A
The value of the subject of the valuation that was determined in accordance with the valuation.	As specified in the attached valuation.
Details of the appraiser	The valuation was carried out by Financial Immunities Trading Rooms Ltd. (hereafter – “Financial Immunities”). According to information provided to the Company by Financial Immunities, Financial Immunities is a company providing a comprehensive range of business and economic services. The Company was also informed that Financial Immunities was established in 2003 and specializes in economic consultancy, including business, finance, regulatory and non-regulatory matters (including dealing room transactions). Financial Immunities has vast experience in performance of valuations for accounting purposes in reporting corporations with scope of activities which is

	<p>similar and even larger than the reported valuation.</p> <p><u>The assessor</u></p> <p>The appraiser: Mr. Kefir Landau, CPA, Chief Analyst, has a BA in Economics, Management and Accounting awarded by The College of Management Academic Management and an MA in Legal Studies awarded by the Bar Ilan University. Mr. Landau has 4.5 years' worth of experience as a senior economist in Israel Aerospace Industries Ltd. He has app. 8 years' worth of experience in the field of valuation. He is a Certified Public Accountant in Israel.</p>
<p>Is there an indemnification agreement with the appraiser?</p>	<p>The Company has undertaken to compensate and indemnify Financial Immunities, should legal proceedings or any other proceedings shall be conducted against Financial Immunities and it will be required to pay any amount to a third-party due to the valuation. The Company has also undertaken to bear all reasonable costs expensed by Financial Immunities in respect of advisory services and legal representation, experts' opinions, presenting defenses as part of legal proceedings, negotiations, etc., in connection with any lawsuit, demand or other procedure relating to the valuation. Regardless of the above, in case where a peremptory rule is issued to the effect that Financial Immunities has acted with gross negligence and/or willful intent, the Company shall only compensate and indemnify Financial Immunities as above for any amount that will exceed three times the fees that the Company will pay to Financial Immunities.</p>
<p>The valuation model in accordance with which the appraiser worked</p>	<p>The binomial model was applied to value the anti-dilution mechanisms and the Black & Scholes model was applied to value the options to investors.</p>
<p>The assumptions according to which the appraiser carried out the valuation</p>	<p>Risk free interest of 0.00%</p> <p>Standard deviation: 63.49%-69.82%</p> <p>Term of life: 0.11-0.20 years.</p>

Company's engagement with the appraiser in connection with the valuation described above has been approved by the Company's CEO. The Company and the appraiser are independent of each other.

1.8 Events taking place subsequent to the date of statement of financial position

As to the events that have taken place subsequent to the date of the statement of financial position as described in the financial statements, see note 9 to the financial statements.

May 29, 2018

Mr. Amir Mizhar
Chairman of the Board of Directors

Mr. Shahar Daniel
CEO

Material changes and updates in the three months period ended March 31, 2018 regarding matters described in the chapter on the state of the Company's affairs, which was included in the Company's periodic report for the year 2017

1. Section 3.2.3 – raising of capital from investors by way of private offering

On May 1, 2018, May 6, 2018, May 8, 2018, May 23, 2018 and May 28, 2018, the Company's Board of Directors approved a capital raising by way of extraordinary private offering (as defined in the Securities Regulations (Private Offering of Securities in a Listed Company), 2000) at the total amount of 10.5 million ILS (which was later increased to approximately 10.6 million ILS (hereafter – “the Offering”). The investors that will take part in the offering will include Israeli institutional investors, a foreign institutional investor and private investors. The Company shall allocate securities to the investors that will take part in the Offering (hereafter – “the Investors”), as follows: the Israeli institutional investors and the foreign institutional investor will be allocated ordinary Company shares of no par value at a price of approximately 1.28 ILS per share (and the Israeli institutional investors will also be allocated approximately a quarter of a non-tradable warrant to purchase one ordinary Company share in respect of each allocated share); the remaining Investors will be allocated ordinary Company shares of no par value at a price of 1.5 ILS per share and one non-tradable warrant to purchase one ordinary Company share of no par value in respect of each allocated share (hereafter – “the Warrants”). The Warrants will be exercisable as from date of allocation thereof through November 30, 2019 against payment of exercise price of \$ 0.65 per share.

Furthermore, further to the capital raising, the Company shall allocate shares to investors who are eligible for share price adjustment in respect of their investment in capital raisings carried out by the Company in the year 2017 against payment of 0.30 ILS per share - a total consideration of approximately 125,000 ILS.

The Investors' investment in the Company and the allocation of shares as described above are subject to fulfillment of conditions precedent which are generally acceptable in transactions of this type, including the approval by the Tel Aviv Stock Exchange Ltd. for listing the allocated shares and the shares that will arise from exercise of the warrants as well as any other approval required by law.

For further details, see immediate report of the Company of May 7, 2018, reference number 2018-01-04082, immediate report regarding an extraordinary private offering of May 8, 2018, reference number 2018-01-045953 (hereafter – “the Offering Report”) and an immediate report amending the Offering Report, which the Company will publish on the date of publication of this report or close to that date, which are incorporated in this report by way of reference.

2. Section 21 – removal of stipulations imposed on orders at the scope of approximately one million ILS

On March 29, 2018, the Company announced, further to its reports of December 31, 2017¹ and of February 8, 2018² regarding orders that were placed with Safe-T Data by a leading Israeli defense company at the total amount of approximately 570 ILS thousand and by a large health care organization in the Philippines at the total amount of more than 400 thousand ILS, respectively, (hereafter jointly – “the Orders”), that all the stipulations imposed on the Orders have been removed. The order placed by the defense company was carried out by Safe-T Data and the consideration for this order is expected to be received through July 2018. The order placed by the health care organization from the Philippines – which is for a period of 3 years – was carried out and the consideration for this order will be paid over the term of the order. For further details, see the Company’s immediate report of March 29, 2018, reference number 2018-01-032464, which is incorporated in this report by way of reference.

It should be emphasized that Company’s assessments as set out above, with regard to the receipt of the consideration for the abovementioned orders and the dates of receipt thereof constitute forward looking information as defined in the securities law, 1968 and they are based on the information available to the Company as of the date of this report. Those assessments may not materialize, in whole or in part, or materialize differently than expected due, among other things, to developments and future events, the occurrence of which is not under the control of the Company, including non-realization of the Orders by the distributors and/or non-compliance with payment dates that were set and/or the end customers’ opting not to order the Company’s products.

3. Safe-T Data’s winning an award

On April 15, 2018, the Company announced that Safe-T Data won the Fortress Cyber Security award (hereafter – “the Program”) for the year 2018, under two categories: (1) Authentication & Identity; and (2) Compliance. The Program is partnered with cyber security experts from around the world, developers of technologies and representatives of governments and it seeks to promote advanced solutions for prevention of cyber-attacks, including by identifying the world’s leading companies and products that are developing solutions aimed to keep data and electronic assets safe, amid growing threat from hackers. As part of the Program, Safe-T Data was also listed among 35 other organizations as top innovators in the cybersecurity space. For further details, see the Company’s immediate report of April 15, 2018, reference number 2018-01-037732, which is incorporated in this report by way of reference.

¹ Report of December 31, 2017, reference number 2017-01-122274, which is incorporated in this report by way of reference.

² Report of February 8, 2018, reference number 2018-01-11118, which is incorporated in this report by way of reference.

SAFE-T GROUP LTD.
interim condensed
consolidated financial statements
(Unaudited)
MARCH 31, 2018

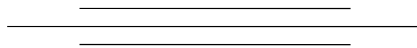
SAFE-T GROUP LTD.

**Interim condensed
consolidated financial statements
(Unaudited)**

MARCH 31, 2018

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SAFE-T GROUP LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2018	2017	2017
	(Unaudited)		(Audited)
	U.S. dollars in thousands		

CURRENT ASSETS:			
Cash and cash equivalents	1,609	1,692	3,514
Restricted deposit	97	47	93
Accounts receivable:			
Trade	852	*420	644
Other	199	117	**163
	2,757	2,276	**4,414
NON-CURRENT ASSETS:			
Property, plant and equipment, net	176	65	165
Restricted deposit	-	13	-
Deferred issuance expenses	132	-	**61
Goodwill	523	523	523
Intangible assets, net	703	953	764
	1,534	1,554	**1,513
TOTAL ASSETS	4,291	3,830	5,927
CURRENT LIABILITIES:			
Short-term loan from related party	-	63	-
Accounts payable and accruals:			
Trade	195	44	178
Other	1,013	801	877
Contract liability	777	*436	424
Proceeds on account of private allocation	-	613	-
Liability in respect of the Israeli Innovation Authority	71	79	92
	2,056	2,036	1,571
NON-CURRENT LIABILITIES:			
Derivatives financial instruments – warrants	3	1,168	237
Contract liability	234	*140	286
Liability in respect of anti-dilution feature	181	3	692
Liability in respect of the Israeli Innovation Authority	-	39	-
	418	1,350	1,215
COMMITMENTS			
EQUITY:			
Share premium	29,240	22,706	28,494
Other equity reserves	12,117	11,837	12,583
Accumulated deficit	(39,540)	(34,099)	(37,936)
TOTAL EQUITY	1,817	444	3,141
TOTAL EQUITY AND LIABILITIES	4,291	3,830	5,927

* Early adoption of IFRS 15

** Reclassified

Amir Mizhar
Chairman of the Board of
Directors

Shahar Daniel
CEO

Shai Avnit
CFO

Date of approval of financial statements by Company's Board of Directors: May 28, 2018.

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.
CONDESED STATEMENTS OF PROFIT OR LOSS

	Three-month period ended March 31		Year ended December 31
	2018	2017	2017
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
REVENUE	458	*319	1,096
COST OF REVENUE	223	139	583
GROSS PROFIT	235	180	513
OPERATING EXPENSE:			
Research and development expense	487	305	1,608
Selling and marketing expense	1,593	658	4,051
General and administrative expense	484	475	2,150
TOTAL OPERATING EXPENSE	2,564	1,438	7,809
OPERATING LOSS	(2,329)	(1,258)	(7,296)
FINANCE EXPENSE	(18)	(341)	(975)
FINANCE INCOME	743	123	2,959
FINANCE INCOME (EXPENSE), net	725	(218)	1,984
LOSS BEFORE TAXES ON INCOME	(1,604)	(1,476)	(5,312)
TAXES ON INCOME	-	-	1
NET LOSS FOR THE PERIOD	(1,604)	(1,476)	(5,313)
BASIC LOSS PER SHARE (IN DOLLARS)	(0.08)	(0.10)	(0.29)
DILUTED LOSS PER SHARE (IN DOLLARS)	(0.10)	(0.10)	(0.29)

* Early adoption of IFRS 15

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

CONDESED STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares	Cost of treasury shares	Share premium	Receivables on account of shares	Accumulated deficit	Other equity reserves	Total
	U.S. dollars in thousands						
BALANCE AT DECEMBER 31, 2017 (audited)	-	-	28,494	*	(37,936)	12,583	3,141
BALANCE AT JANUARY 1, 2018 (unaudited)							
CHANGES IN THE THREE MONTHS ENDED MARCH 31, 2018 (unaudited):							
Exercise of options			727			(643)	84
Share-based payment						196	196
Expiry of options			19			(19)	-
Loss for the period					(1,604)		(1,604)
BALANCE AT MARCH 31, 2018 (unaudited)	-	-	29,240	*	(39,540)	12,117	1,817
BALANCE AT DECEMBER 31, 2016 (audited)	-	-	22,220	*	(32,672)	11,624	1,172
ADJUSTMENTS DUE TO APPLICATION OF IFRS 15					49		49
			22,220	*	(32,623)	11,624	1,221
CHANGES IN THE THREE MONTHS ENDED MARCH 31, 2017 (unaudited):							
Exercise of warrants			469				469
Share-based payment						230	230
Expiry of options			17			(17)	-
Loss for the period					**(1,476)		**(1,476)
BALANCE AT MARCH 31, 2017 (unaudited)			22,706		(34,099)	11,837	444
BALANCE AT DECEMBER 31, 2016 (audited)	-	-	22,220	*	(32,672)	11,624	1,172
ADJUSTMENTS DUE TO APPLICATION OF IFRS 15					49		49
BALANCE AT JANUARY 1, 2017 (unaudited)	-	-	22,220	*	(32,623)	11,624	1,221
CHANGES IN THE YEAR 2017:							
Exercise of options			543			(463)	80
Exercise of warrants			2,286				2,286
Share-based payment						1,318	1,318
Proceeds from private placement of shares net of issuance costs of \$ 422 thousand			3,416			133	3,549
Expiry of options			29			(29)	-
Net loss for the year			-		(5,313)	-	(5,313)
BALANCE AT DECEMBER 31, 2017	-	-	28,494	*	(37,936)	12,583	3,141

* Represents an amount of less than \$1 thousand.

SAFE-T GROUP LTD.
CONDENSED STATEMENT OF CASH FLOWS

	Three-month period ended		Year ended
	March 31		December 31
	2018	2017	2017
	(Unaudited)		(Audited)
U.S dollars in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period	(1,604)	*(1,476)	(5,313)
Adjustments required to reflect the cash flows from operating activities:			
Exchange differences on cash and cash equivalents balances	16	(69)	(251)
Change in financial liabilities at fair value through profit or loss	(745)	296	(1,981)
Issuance expenses	-	-	242
Foreign currency transaction gain	(4)	-	-
Amortization of intangible assets	61	62	251
Depreciation	13	6	27
Capital gain	-	-	(5)
Share-based payment	196	230	1,318
	<u>(463)</u>	<u>525</u>	<u>(399)</u>
Changes in operating asset and liability items:			
Increase in trade receivables	(208)	*(276)	(138)
Increase in other receivables	(36)	(10)	**(56)
Increase in trade payables	17	-	134
Increase in other payables	136	160	236
Decrease in deferred revenue and contract liability	301	*419	191
	<u>210</u>	<u>293</u>	<u>**367</u>
Net cash used in operating activities	<u>(1,857)</u>	<u>(658)</u>	<u>** (5,345)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	-	-	15
Restricted deposits	-	-	(36)
Acquisition of property, plant and equipment	(24)	(1)	(132)
Net cash used in investing activities	<u>(24)</u>	<u>(1)</u>	<u>(153)</u>

* Early adoption of IFRS 15

** Reclassified

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

CONDENSED STATEMENT OF CASH FLOWS

	Three-month period ended March 31		Year ended December 31
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	U.S dollars in thousands		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment to Israeli Innovation Authority	(21)	-	(26)
Payment of loans	-	-	(63)
Proceeds from issuance of shares and warrants, net of issuance expenses paid in cash	-	613	5,582
Deferred issuance expenses	(71)	-	**(61)
Proceeds in respect of exercise of options and warrants	84	358	2,018
Net cash provided by (used in) financing activities	(8)	971	**7,450
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(1,889)	312	1,952
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,514	1,311	1,311
EFFECT OF EXCHANGE RATE DIFFERENCES IN RESPECT OF CASH AND CASH EQUIVALENTS	(16)	69	251
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,609	1,692	3,514
SUPPLEMENTARY DATA ON ACTIVITIES NOT INVOLVING CASH FLOWS:			
Conversion of warrants into shares	-	-	348
Issuance of warrants to advisors	-	-	(133)

** Reclassified

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

- a.** Safe-T-Data Group Ltd. (hereafter - the "Company") is a holding company, which is engaged, as of that date, through the subsidiary Safe-T Data (hereafter – "Safe-T") and its subsidiaries (RSAccess Ltd. and Safe-T USA Inc.) (hereafter – "RSAccess", "Safe-T Inc." and together with the Company – the "Group") in the development and marketing of solutions for secure and safe data transfer that allow organizations to benefit from improved productivity and effectivity, enhanced security and higher level of compliance with regulatory requirements relating to information security. As of September 30, 2017, RSAccess was merged into Safe-T its operation was liquidated.
- b.** A merger transaction between the Company and Safe-T was completed on June 15, 2016, such that the Company holds all the share capital and voting rights of Safe-T and Safe-T's shareholders gained control in the Company. The Company is essentially a holding company, which operates, as of that date, through Safe-T, a fully owned subsidiary of the Company and its subsidiaries.
- c.** The consolidated financial statements include the Company and Safe-T's financial statements. Although legally the Company is the entity, which acquired the shares, since Safe-T's shareholders gained control over the Company, Safe-T is the accounting acquirer and therefore the transaction was accounted for using the reverse acquisition method.
- d.** The Company has accrued losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. The Company monitors its cash flow projections on a current basis and takes active measures to obtain the funding it requires to continue its operations (see note 8a). These cash flow projections are subject to various risks and uncertainties concerning their fulfilment. The above factors and the risk inherent in the Company's operations raise significant doubts as to the Company's ability to continue as a "going concern". The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED FINANCIAL STATEMENTS:

- a.** The interim condensed consolidated financial information of the Company as of March 31, 2018 and for the three-month periods ended on that date (hereafter - "the interim financial information") was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34") and includes the additional disclosure required in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The interim financial information does not include all the information and disclosures required in annual financial statements. The interim financial information should be read in conjunction with the 2017 annual financial statements and the notes thereto, which are in accordance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – IFRS) and include the additional disclosure required in accordance with the Securities Regulations (Annual Financial Statements) – 2010.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - BASIS OF PREPARATION OF CONDENSED FINANCIAL STATEMENTS (continued):

b. Estimates

The preparation of interim financial statements requires the Company's management to exercise its judgment and to use significant accounting estimates and assumptions that affect the application of the Company's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may materially differ from those estimates.

In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the Company's accounting policy and the key sources of estimation uncertainty were similar to those applied in the Company's annual financial statements for the year ended December 31, 2017.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

a. The accounting policies and computation methods used in preparation of the interim financial information are consistent with those used in preparation of the 2017 annual financial statements of the Company, except for the following 3c.

b. Early adoption of IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15" or "the Standard")

1. General

The Company has decided to early adopt IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") from January 1, 2017 ("date of initial application"), whereas revenues recognized in 2016 were accounted for according to the provisions of IAS 18 "Revenue". The early adoption of IFRS 15 by the Company was done pursuant to the transitional provision that enables the recognition of the accumulated impact of adoption as an adjustment of the opening balance of retained earnings as of January 1, 2017 (also known as the modified retrospective approach).

The Standard replaces the guidelines that were in effect through January 1, 2017 regarding revenue recognition and presents a new single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model framework consists of five steps for analyzing transactions to determine the timing and amount of revenue recognition.

The accounting policy applied to the revenues presented in the condensed interim of profit and loss for the three-month period ended March 31, 2018 and the comparative figures for the corresponding period ended March 31, 2017, which were restated to conform with IFRS 15, is consistent with the accounting policy set out in the accounting policies note in the Company's annual financial statements for the year ended December 31, 2017.

2. Effect of adopting IFRS 15

The quantitative effects arising from the early application of IFRS 15 on the condensed statement of financial position as of March 31, 2017 and on the condensed statements

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

of profit and loss for the three months ended on that date, presented by way of comparison between the amounts recognized in this period applying the provisions of IFRS 15, and the amounts that would have been recognized applying the previous revenue recognition policy (according to IAS 18), as detailed below:

a. Income statement

	Three-months ended March 31, 2017 as reported	Three-months ended March 31, 2017 according to previous policy	Effect of adopting IFRS 15
	U.S dollars in thousands		
Revenue	319	195	124
Net income	(1,476)	(1,600)	124
Basic and diluted loss per share	(0.10)	(0.10)	-

b. Statement of financial position

	Balance at March 31, 2017 as reported	Balance at March 31, 2017 according to previous policy	Effect of adopting IFRS 15
	U.S dollars in thousands		
Trade receivable	420	44	376
Contract liability-short term	436	-	436
Contract liability-long term	140	-	140
Deferred revenue-short term	-	321	(321)
Deferred revenue-long term	-	52	(52)

3. Disaggregated revenue data

Set forth below is a breakdown of the Company's revenues by geographic regions:

	<u>Israel</u>	<u>USA</u>	<u>Other</u>	<u>Total</u>
	U.S. dollars in thousands			
Company's revenues:				
For the three-months ended March 31, 2018	<u>270</u>	<u>81</u>	<u>107</u>	<u>458</u>
For the three-months ended March 31, 2017	<u>221</u>	<u>96</u>	<u>2</u>	<u>319</u>
For 2017	<u>823</u>	<u>227</u>	<u>46</u>	<u>1,096</u>

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

	Three-months ended March 31,		Year ended December 31
	2018	2017	2017
	U.S dollars in thousands		
Revenue:			
Revenue from licenses	311	197	486
Revenue from provision of maintenance and support services	132	112	519
Revenue from provision of other services	15	10	91
Total revenue	458	319	1,096

c. IFRS 9 – “Financial Instruments” (hereinafter – “IFRS 9” or “the Standard”)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

The standard presents a new model for impairment of financial assets. The new model is based on expected credit losses and it replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The Company adopted IFRS 9 on January 1, 2018. The Company's financial assets continue to be measured, as in the past, at their amortized cost, while applying the impairment model for impairment mentioned above. The Company's non-derivative financial liabilities also continue to be measured at their amortized cost.

The initial application of IFRS 9 did not have a material effect on the Company's consolidated financial statements.

d. New standards and interpretations not yet adopted

1. IFRS 16 – “Leases” (hereinafter – “IFRS 16”)

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 "Leases"(hereinafter – "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The Company is assessing the expected impact of IFRS 16 on its consolidated financial statements.

2. In the Company's annual financial statements for 2017, information was presented regarding new IFRS standards and amendments to existing IFRS that are not yet in effect and which the Company did not choose to apply earlier.

The Company is examining the effect of these standards on the financial statements.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

As of March 31, 2018, the Company doesn't have financial liabilities, which are based on observable data (level 1) in respect of derivative financial instruments.

b. Fair value measurements based on unobservable data (level 3)

The Company evaluated the fair value of the options and anti-dilution mechanisms that were issued to the private investors and to advisors in connection with capital raising rounds that have taken place over the course of the 3-month period ended March 31, 2018 (see note 7). The said valuation is attached to this report by way of reference.

The following table presents Company's financial liabilities, which are measured at fair value for the three-month period ended March 31, 2018 (unaudited):

	Anti-dilution feature	Warrants	Total
	U.S dollars in thousands		
Balance as of January 1, 2018	692	61	753
Finance income, net	(511)	(58)	(569)
Balance as of March 31, 2018	181	3	184
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	(511)	(58)	(569)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

The following table presents Company's financial liabilities which are measured at fair value for the three-month period ended March 31, 2017 (unaudited):

	Anti-dilution feature
Balance as of January 1, 2017	94
Finance income, net	(91)
Balance as of March 31, 2017	<u>3</u>
Total unrealized gains (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	<u>91</u>

The following table presents Company's financial liabilities which are measured at fair value as of December 31, 2017 (audited):

	Anti-dilution feature	Warrants	Total
	U.S. dollar in thousands		
Balance as of January 1, 2017:	94	-	94
Inception	315	1,958	2,273
Finance expenses (income), net	283	(1,897)	(1,614)
Balance as of December 31, 2017	<u>692</u>	<u>61</u>	<u>753</u>
Total unrealized gains (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	<u>283</u>	<u>(1,897)</u>	<u>(1,614)</u>

c. Valuation processes used by the Company

Company's valuation policy and methodology are consistent with the ones disclosed in the 2017 consolidated financial statements.

d. Fair value of financial assets and financial liabilities measured at amortized cost

Assets and liabilities, which are not measured on a recurrent basis at fair value, are presented at their carrying amount, which approximates their fair value,

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES

- a. On June 20, 2016, the Company repaid all of Safe-T's loans amounting to \$ 2,178 thousand. This refund recorded as a loan to Safe-T. On July 25, 2016, the Company and Safe-T signed a credit facility agreement, for the purpose of withdrawing the above mentioned loan and further loans which are taken by Safe-T for its operating activities. The loans bear interest in accordance with the rate set in the Income Tax Regulations and they are repayable in one installment or several installments within three years from the date of receipt of each such loan.

In the year 2018, Safe-T has withdrawn further amounts totaling approximately \$1,057 thousand on account of the said credit facility, such that the total amount of the loans extended by the Company to Safe-T is approximately \$11,894 thousand as of March 31, 2018 (including exchange differences) (and the total amount of interest is \$ 328 thousand).

- b. As part of the ongoing running of its business, the Company receives management services from the controlling shareholder and the Chairman of the Board of Directors in consideration for a monthly payment of \$ 15 thousand. In the three-month periods ended March 31, 2018, total payroll costs amounted to approximately \$ 48 thousand. As of March 31, 2018, this balance reflected a \$ 16 thousand balance payable to the controlling shareholder.
- c. The Company employs related parties. In the three-month periods ended March 31, 2018, the total payroll costs, including share based compensation, amounted to approximately \$ 79 thousand. As of March 31, 2018, the balance payable to those related parties amounted to approximately \$56 thousand.

NOTE 6 – EQUITY

a. Composition of share capital:

	Number of shares			
	Authorized	Issued and paid	Authorized	Issued and paid
	March 31, 2018		December 31, 2017	
Ordinary shares of no par value	1,000,000,000	20,342,454	1,000,000,000	20,198,583

b. Approval of private allocation

On March 27, 2017, the Company's Board of Directors approved a private share allocation agreement. Under the agreement, the Company shall allocate 1,963,834 packages comprising 1 share and 1 warrant in consideration for 6.00 NIS per package, such that the total consideration to be received by the Company will amount to approximately 11.8 million NIS (approximately \$3.3 million). In April 2017, the Stock Exchange issued an approval for the finalization of the allocation.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – EQUITY (continued):

The warrants that were awarded to the investors are non-marketable. The exercise price of the warrants that will be awarded to the investors will be 8.75 NIS per share. The warrants will expire on November 30, 2018. The investment of one of the Company's investors – amounting to approximately 3.63 million NIS – was subject to listing the Company's shares for trading over the counter (OTC) in the USA. The investor has waived this demand and invested 3.63 million NIS (approximately \$ 1 million) in the Company. The Company allocated 605,000 shares to this investor against the said investment. Those shares are included in the number of packages approved by the Company's Board of Directors on March 27, 2017.

Furthermore, on April 24 and April 30, 2017, the Company's Board of Directors approved the extension of the private allocation by approximately 2,649 thousand NIS (approximately \$727 thousands) under the same terms, against the allocation of 441,483 shares. The prices of the shares and the terms of the options are similar to the terms of the private allocation from March 27, 2017.

In addition, on May 21, 2017, the Company's Board of Directors approved a further extension of the private allocation pursuant to an agreement where under two of the investors will make further investments in the Company. Under the agreement, the Company allocated 1,174,286 packages comprising 1 share and 1 warrant in consideration for 7.00 NIS per package, such that the additional consideration received by the Company totaled approximately 8.15 million NIS (approximately \$ 2.28 million). The exercise price of the warrants is 10.00 NIS per share and they shall expire on November 30, 2018.

On June 26, 2017, the Company obtained all approvals required for listing the Company's shares as ADS (American Depository Shares) that are tradable as part of the OTCQB Venture Market of the Over the Counter (OTC) market in the USA. In accordance with the approvals, the Company may commence trade as part of the ADR Level 1 program as from June 27, 2017 under the symbol SFTTY; each ADS represents 4 ordinary Company shares.

As part of the abovementioned allocations, the Company has undertaken that in case that it will decide to allocate additional securities over the course of up to 12 months from the dates of the allocations, at a price per share that is lower than the price per share that was set as part of the private allocation, it will compensate the investors by allocating additional shares in accordance with the difference between the price per share of the relevant allocation and the price per share in the future allocation, up to a minimal price that ranges between 4-6 NIS per share, according to the terms of the relevant allocation.

In connection with the private allocation referred to in this note 6b, the Company used the services of advisers, who mediated between the investors and the Company. In consideration for the services rendered by those advisers, the Company awarded them warrants, as follows:

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – EQUITY (continued):

Date of award	Number of warrants awarded	Exercise price (in NIS)	Exercise period (in years)
April 6, 2017	11,383	6	5
April 6, 2017	56,558	6	3
May 11, 2017	22,074	6	3
May 22, 2017	45,375	6	3
June 13, 2017	84,500	10	3

The Company accounted for the said awards in accordance with the provisions of IFRS 2. The value of the services that were rendered by the advisors was allocated on a pro rata basis between the premium and general and administrative expenses in accordance with the proportion of equity instruments and liability instruments included in the private allocations.

Through June 30, 2017, the Company received a total of 22,634 thousand NIS (\$ 6,244 thousand) as a result of the private allocation (including the two extensions).

c. Series 1 warrants

On January 30, 2017, the Company's general meeting decided to defer the exercise date of the Series 1 warrants from February 9, 2017 to April 30, 2017 and to reduce the exercise price of the warrants from 6.25 NIS to 5.50 NIS.

As of April 30, 2017, 8,750 warrants were exercised before the reduction of the exercise price, for a total consideration of approximately 55 thousand NIS (approximately \$14 thousand), and 1,281,529 warrants were exercised after the reduction of the exercise price, for a total consideration of approximately 7,048 thousand NIS (approximately \$1,930 thousand) (99.85% of all series 1 warrants were exercised in consideration for approximately 7,103 thousand NIS (approximately \$ 1,943 thousand). The remaining warrants expired on April 30, 2017.

d. Series 2 warrants

In November 2017, the Company's Board of Directors approved taking the required steps to postpone the expiry of Series 2 options from December 9, 2017 to February 9, 2018, and to reduce the exercise price of the options from 7.50 NIS per share to 6.50 NIS per share.

On February 9, 2018, Series 2 options expired. Out of a total of 2,884,950 options, 7,020 options (0.24%) were exercised for an exercise amount of \$14.6 thousand. The rest of the options expired.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – LOSS PER SHARE

a. Basic

Basic loss per share is calculated by dividing the loss attributable to Company's owners by the weighted average number of ordinary shares in issue.

	Three-month period ended March 31		Year ended December 31
	2018	2017	2017
	U.S. dollars in thousands		
Loss attributable to Company's owners	1,604	*1,476	5,313
The weighted average of the number of ordinary shares in issue (in thousands of shares)	20,323	15,262	18,433
Basic loss per share (dollar)	0.08	0.10	0.29

* Early adoption of IFRS 15

In the calculation of the loss per share, the Company used the weighted average number of Safe-T shares until the date of finalization of the merger transaction, multiplied by the exchange ratio determined for the transaction, as described in note 1c.

The number of shares used in the calculation as from the transaction date is the weighted average number of Company's shares.

b. Diluted

The diluted loss per share is computed by adjusting the weighted average number of ordinary shares in issue by including all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: non-marketable warrants and marketable warrants. The underlying assumption in computing the diluted loss per share is that all warrants shall be converted into ordinary shares and the net loss is adjusted to cancel the effect of finance income in respect of those instruments.

	Three-month period ended March 31		Year ended December 31
	2018	2017	2017
	U.S. dollars in thousands		
Loss attributable to Company's owners, used in computation of basic loss per share	1,604	*1,476	5,313
Adjustment in respect of the finance income relating to anti-dilution mechanism	511	-	-
	2,115	1,476	5,313
The weighted average of the number of ordinary shares in issue used in computation of basic loss per share (in thousands of shares)	20,323	15,262	18,433
Adjustment in respect of incremental shares assuming the conversion of the anti-dilution mechanism	1,084	-	-
	21,407	15,262	18,433
Diluted loss per share (dollar)	0.10	0.10	0.29

* Early application of IFRS 15

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - SUBSEQUENT EVENTS

a. Private placement

During May 2018, the Company approved a private allocation of 7,634,536 shares and 4,378,393 warrants in consideration of approximately 10.6 NIS million (approximately \$2.97 million). The warrants that were awarded to the investors are non-marketable and can be exercised to ordinary shares of the Company using a conversion ratio of 1:1 and for an exercise price of \$0.65 per share until November 30, 2019.

As part of the abovementioned allocation, the Company has undertaken that in case that it will decide to allocate additional securities over the course of up to 24 months from the allocation closing date, at a lower price per share, it will compensate the investors by allocating them additional shares according to relevant agreements.

Also, the Company may compensate a foreign investor with additional shares, subject to non-fulfillment of certain terms related to the conversion of the shares to ADS (American Depository Shares) within 6 months from the allocation closing date. In addition, the Company approved an allocation of 416,456 shares which were triggered by an anti-dilution clause related to previous share purchase agreements executed in 2017.

The total gross proceeds from the allocation are expected to sum up to approximately 10.7 million NIS.

As a result of the allocation, the Company will also grant to three brokers 414,042 non-marketable warrants in consideration of an exercise price of \$0.65 per share to be exercised until November 30, 2019, and also 12,893 non-marketable warrants in consideration of 10.0 NIS per share to be exercised until November 30, 2018.

The brokers will receive fees equal to approximately 5.6% in cash out of the gross proceeds received in the allocation (not including the gross proceeds resulted from the anti-dilution shares allocation).

The allocation closing date is subject to formal approval by Tel Aviv Stock Exchange, which is expected to be received until the beginning of June 2018.

As of the date of the financial statements approval, the Company received an amount of approximately 1,740 NIS thousand from the issuance (approximately 487 \$ thousand).