

SAFE-T GROUP LTD

Quarterly Report for the Three Months Period Ended March 31, 2017

- **Directors report on the state of Company's affairs for the period ended March 31, 2017.**
- **Changes and material updates over the three-month period ended March 31, 2017 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, 2017.**
- **Management's declarations in accordance with Regulations 38C(d)(1) and (2) to the Securities Regulations (Periodic and Immediate Reports), 1970.**

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, 2017

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 subsidiaries (together with the Company: “the Group”) for the three-month period ended March 31, 2017 (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 2016 (hereafter – “the periodic report”).

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

1.1 General

Capital raising over the course of the report period

Over the course of the reported period and after balance sheet date and through the date of publication of this report, the Company has entered into agreements with private investors, whereby the investors shall invest up to approximately 22.65 million ILS in the Company against the allocation of shares and non-tradable options of the Company (for further details see chapter regarding updates to the Corporation’s state of affairs). A total of 14.4 million ILS out of the said amount has so far been invested in the Company. As of the date of this report, investment transactions with two investors (out of the said agreements) were not finalized (at an aggregate amount of 8.2 million ILS). The Company expects that those transactions shall be finalized in the near future¹.

The assumptions relating to the finalization of the investment transactions that are yet to be finalized constitute forward looking projections, assessments and estimates as defined in the Securities Law, 1968 (hereafter – “the Securities Law”), which are based on Company’s estimates, the fulfillment of which is uncertain and is not under the control of the Company. Those estimates may not be fulfilled in whole or in part, or may be fulfilled in a manner that is different than the manner expected by the Company due to various factors, including the activities

¹ The investment of one investor, with whom the Company entered into an investment agreement, where under the said investor has undertaken to invest in the Company a total of 3,630,000 ILS in consideration for the allocation of shares and non-tradable options of the Company, was finalized after the date of the financial statements, since the investor, who previously stipulated that he will only make the investment if the Company’s shares are listed for trading over the counter (OTC) in the USA, has decided to waive this demand; for details see the Company’s immediate report of May 22, 2017 (reference no. 2017-01-051570).

Also, the investment agreements with three investors, where under the said investors have undertaken to invest a total of 2,648,898 ILS in the Company against the allocation – to the investors - of shares and non-tradable options of the Company was finalized after the date of the financial statements; for details see the Company’s immediate report of May 7, 2017 (reference no. 2017-01-046167).

of the investors and/or other factors, which are not under the control of the Company.

Also, over the course of the reported period, subsequent to balance sheet date and through the date of this report, the Company raised a total of approximately 7.1 million ILS as part of exercises of Series 1 warrants of the Company; (as of the date of this report the Series 1 warrants of the Company have expired after approximately 99.85% of the warrants of this series were exercised).

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, 2017 (hereafter – “the financial statements”), the Company's auditors have drawn the readers' attention to note 1c to the financial statements whereby the comparative figures presented in these financial statements are based on the financial data of the accounting acquirer in order to reflect the accounting treatment applied to reverse acquisition (i.e., - the merger transaction). According to accounting principles, the accounting acquirer is Safe-T Data.

The auditors have also drawn attention, without qualifying their opinion, to note 1d to the financial statements, according to which 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 Company's explanations regarding the Company's financial position as of March 31, 2017, compared with its financial position as of December 31, 2016 and March 31, 2016.

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (see note 1c to the financial statements,), whereby Safe-T Data is the accounting acquirer rather than the Company, the comparative figures presented in these sections are the comparative figures of the accounting acquirer – Safe-T Data.

Item	As of March 31, 2017	As of March 31, 2016	As of December 31, 2016	Company's Explanation
	In thousands of dollars			
Current assets	1,606	437	1,900	The increase in current assets as of March 31, 2017 compared with current assets as of December 31, 2016 is mainly attributed to capital raising that was carried out by the Company as part of a private allocation and to exercise of Series 1 warrants of the Company, compared to lower amounts of capital, which were raised as part of a previous private allocation that was finalized in December 2016.

				<p>The increase in current assets as of March 31, 2017 compared with current assets as of March 31, 2016 is mainly attributed to the increase in cash and cash equivalents as a result of capital raising carried out by the Company as part of a private allocation and to exercise of Series 1 warrants of the Company.</p>
Non-current assets	1,554	1,784	1,621	<p>The decrease in non-current assets as of March 31, 2017 compared with non-current assets as of December 31, 2016 is mainly attributed to quarterly amortization of intangible assets and depreciation of property, plant and equipment.</p> <p>The decrease in non-current assets as of March 31, 2017 compared with non-current assets as of March 31, 2016 is mainly attributed to quarterly amortization of intangible assets and depreciation of property, plant and equipment.</p>
Current liabilities	1,921	1,648	954	<p>The increase in current liabilities as of March 31, 2017 compared with current liabilities as of December 31, 2016 stems mainly from an increase in proceeds on account of allocation of shares, which are recorded as a current liability until the finalization of the allocation of shares (for details regarding the allocations that have not yet been completed as of the date of the financial statements see footnote 1 to this report). Also, current liabilities have increased as a result of an increase in deferred revenue from clients and other payables as a consequence of the increase in Company's activity.</p> <p>The increase in current liabilities as of March 31, 2017 compared with current liabilities as of March 31, 2016 stems mainly from increase in proceeds on account of allocation of shares, which are recorded as a current liability until the finalization of the allocation of shares (for details regarding the allocations that have not yet been completed as of the date of the financial statements see footnote 1 to this report). Also, current liabilities have increased as a result of an increase in deferred revenue from clients and other payables as a consequence of the increase in Company's activity compared with a financial liability – as of March 31, 2016 - to the group of investors, who funded Safe-T Data's activities through the date of finalization of the merger transaction.</p>
Non-current liabilities	1,283	-	1,101	<p>The increase in non-current liabilities as of March 31, 2017 compared with non-current liabilities as of December 31, 2016 is mainly attributed to revaluation of liability in respect of Series 1 warrants and Series 2 warrants of the Company, which is partially offset by a decrease in the liability in respect of an anti-dilution mechanism provided to investors, who invested in the Company during the fourth quarter of 2016; this decrease is the result of lower probability of exercise of the said securities, since the Company raised capital at prices which are higher than the ones agreed under the said mechanism.</p> <p>The increase in the non-current liabilities as of March 31, 2017 compared with non-current liabilities as of March 31, 2016 stems from the fact that as of March 31, 2016 the Company did not have any non-current liabilities.</p>
Equity	271	573	1,172	<p>The decrease in equity as of March 31, 2017 compared with the equity as of December 31, 2016 is attributed to the loss balance accrued as of cutoff dates.</p> <p>The decrease in equity as of March 31, 2017 compared with equity as of March 31, 2016 is mainly attributed to</p>

				the loss balance accrued as of cutoff dates, which was offset against the increase in the balance of premium on shares as a result of capital raising rounds carried out by the Company in the period between the two cutoff dates.
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1.4 Results of operations

As a general rule, Safe-T Data's revenues in the first and third quarters are lower than its revenues in the second and fourth quarters (although in view of the current scope of Company's sales, larger orders from Company's clients may change this trend). In the first quarter of 2017, Company's revenue has increased and the Company earned in this quarter the largest quarterly revenue since its incorporation.

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see note 1c to the financial statements), whereby Safe-T Data is the accounting acquirer (rather than the Company), the comparative figures presented in these sections are the comparative figures of the accounting acquirer – Safe-T Data.

Item	3 months ended March 31		Year ended December 31	Company's Explanations
	2017	2016	2016	
	In thousands of dollars			
Revenues	195	104	843	The increase in revenues in the first quarter of 2017 compared with the first quarter of 2016 stems mainly from an increase in sale of Safe-T Data's products to clients and from renewal of annual contracts by clients.
Cost of sales	139	117	512	The increase in cost of sales in the first quarter of 2017 compared with first quarter of 2016 stems mainly from increase in payroll expenses that was offset by a decrease in distribution of expenses relating to share-based payment to employees in respect of options awarded in the past.
Gross income (loss)	56	(13)	331	
Research and development expenses, net	305	215	1,085	The increase in the first quarter of 2017 compared with first quarter of 2016 stems mainly from an increase in payroll expenses and an increase in expenses relating to subcontractors, which are contracted by the Company to carry out some of its development activities, net of a decrease in distribution of share-based payment to employees in respect of options awarded in the past.
Selling and marketing expenses	658	696	2,892	The decrease in selling and marketing expenses in the first quarter of 2017 compared with the first quarter of 2016 stems mainly from a decrease in distribution of expenses relating to share-based payment to employees in respect of options awarded in the past, which is partially offset by an increase in payroll expenses.

General and administrative expenses	475	717	2,123	The decrease in the first quarter of 2017 compared with the first quarter of 2016 stems mainly from decrease in distribution of expenses relating to share-based payment to employees in respect of options awarded in the past, which is partially offset by an increase in payroll expenses
Listing expenses	1,579	-	-	The listing expenses in 2016 stemmed from one-off recognition of expenses following the merger transaction.
Operating loss	1,382	1,641	7,348	
Finance income (expenses) net	(218)	103	(1,572)	The increase in net finance expenses in the first quarter of 2017 compared with the first quarter of 2016 stems mainly from finance expenses arising from revaluation of the liability in respect of warrants, compared with finance income in the first quarter of 2016, which is mainly attributed to cancellation of liability in connection with options to the group of investors, who funded Safe-T Data's activities prior to the finalization of the merger transaction.
Loss for the period	1,600	1,538	8,922	

During the fourth quarter of 2017, Safe-T Data received orders from clients to purchase Safe-T Data products at the total amount of approximately \$ 437 thousand, compared with orders of approximately \$ 164 thousand, which were received in the first quarter of 2016 and orders of approximately 1,148 thousand which were received in 2016. Orders received from clients as from January 1, 2017 through the date of publication of this report amount to approximately \$ 470 thousand.

1.5 Liquidity

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see 1e to the financial statements,), whereby Safe-T Data is the accounting acquirer rather than the Company, the comparative figures presented in these sections are the Comparative figures of the accounting acquirer – Safe-T Data.

Item	3 months ended March 31		December 31, 2016	Company's Explanations
	2017	2016		
	In thousands of dollars			
Net cash flows used in operating activities	658	266	3,317	Net cash flows used in operating activities increased in the first quarter of 2017 due to increase in the scope of activities of Safe-T Data that was reflected mainly in an increase in payroll and subcontractors' expenses in all Company's departments as well as lower levels of collection of clients' debts compared with a significant amount

				collected from two large clients in the first quarter of 2016.
Net cash flows used in investing activities	1	6	52	The decrease in cash used in investing activities in the first quarter of 2017 compared with previous reporting periods is attributed to the reduction in scope of purchases of property, plant and equipment items used in Company's activities.
Net cash flows provided by financing activities	971	513	4,593	The increase in net cash provided from financing activities in the first quarter of 2017 is attributed to the amounts the Company raised by way of private offering and to proceeds from exercise of Series 1 warrants of the Company, compared to lower proceeds in the first quarter of 2016 from a loan that was extended to Safe-T Data for the purpose of funding its activities prior to the merger transaction.
Total change in cash and cash equivalents	312	241	1,224	

1.6 **Funding sources**

The Group funds its activities from self-resources and by raising capital from third parties (including by issuance of options and warrants).

- 1.6.1 Raising capital from private investors - for details regarding capital raised by the Company from private investors over the course of the reported period and thereafter, see section 1.1.1 above and the chapter regarding updates to the corporation's state of affairs.
- 1.6.2 Exercise of Series 1 and Series 2 warrants of the Company – for details regarding capital raising through exercise of series 1 warrants of the Company over the course of the reported period, see section 1.1.1 above. Also, subsequent to balance sheet date, the Company raised a total of 52,650 ILS as a result of exercise of Series 2 warrants of the Company.
- 1.6.3 Allocation of options to employees – on March 29, 2017, the Board of Directors approved the allocation – without consideration - of 647,896 non-tradable options of the Company, which are exercisable into 647,896 ordinary Company shares, to employees and office holders of the Company and companies under its control – all under a share option plan of the Company and in accordance with an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). For further details, see the Company's immediate reports of April 27, 2017 and May 4 2017 (reference numbers.: 2017-01-035932 and 2017-01-037513, respectively). On March 23, 2017 and April 24, 2017, the Remuneration Committee and the Company's Board of Directors (respectively) approved the allocation – to Mr. Shahar Daniel (the Company's CEO) - of 100,000 non-tradable options of the Company, which are exercisable into 100,000 shares of the Company. The said allocation is subject to approval of the General Meeting of the Company's shareholders.

- 1.6.4 The Company has no bank credit other than Safe-T Data's credit card facility amounting to NIS 25 thousand.

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

- 1.7.1 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, 2017

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, 2017 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 2016

1. Section 3.2.5 – engagement in agreements for raising of capital through two private offerings

Further to the Company's engagement in investment agreements with private investors, where under the investors undertook to invest a total of up to approximately 12 million ILS in the Company against the allocation of shares and non-tradable options of the Company to the investors through two private offerings (as defined in the Securities Regulations (Private Offering of Securities in a Listed Company), 2000 (hereafter – "the Private Offering Regulations"), on April 7, 2017 the first private offering was completed (as defined in section 3.2.5 in the chapter on the state of the Company's affairs, which was included in the Company's periodic report for the year 2016 (hereafter - "chapter on the state of the Company's affairs"). As part of the offering, 26 investors invested a total of 8,153,004 ILS in the Company and the Company allocated to those investors packages comprising securities of the Company, which include a total of 1,358,834 ordinary Company shares and 1,358,834 non-tradable options of the Company, which are exercisable into 1,358,834 ordinary Company shares until November 30, 2018, against payment of an exercise price of 8.75 ILS per option.

2. Investments in Company's equity

On April 24, 2017 and April 30, 2017, the Company entered into investment agreements with three private investors, who are not related to any of the Company's office holders. Under the said agreements, the said investors have undertaken to invest in the Company a total amount of 2,648,898 ILS, against allocation to the investors - by way of material private offering (as defined in the Private Offering Regulations) – of a package of Company's securities, which includes a total of 441,483 ordinary Company shares and 441,483 non-tradable options of the Company, which are exercisable into 441,483 ordinary Company shares until November 30, 2018, against payment of exercise price of 8.75 ILS per option (each package includes one share and one option). For further details see immediate report of the Company of May 7, 2017 (reference no.: 2017-01-046167). On May 11, 2017, the Company received the Stock Exchange's approval to list the shares that will be allocated to the investors and the shares that will arise from the exercise of the options that will be allocated to the said investors. On May 22, 2017, two out of the said three investors completed their investment in the Company and they were awarded 138,983 ordinary Company shares and 138,983 non-tradable options of the Company, which are exercisable into 138,983 ordinary Company shares until November 30, 2018 against payment of an exercise price of 8.75 ILS per option (each package includes one share and one option). On May 28, 2017, the third investor completed his investment in the Company and was awarded 302,500 ordinary Company shares and 302,500 non-tradable options of the Company, which are exercisable into 302,500 ordinary Company shares until November 30, 2018, against payment of exercise price of 8.75 ILS per option (each package includes one share and one option).

In addition, on May 21, 2017 the Company entered into investment agreements with two private investors, who are not related to any of the Company's office holders. Under the said agreements, the said investors have undertaken to invest in the Company a total amount of approximately 8.2 million ILS, against allocation to the investors - by way of private offering of packages of the Company's securities, which include a total of 1,174,286 ordinary Company shares, which reflect a consideration of 7 ILS per share and 1,174,286

non-tradable options of the Company, which are exercisable into approximately 1,174,286 ordinary Company shares until November 30, 2018, against payment of an exercise price of 10 ILS per option (each package includes one share and one option).

The finalization of the investors' investment in the Company and the allocation of securities to the said investors is subject to the Tel Aviv Stock Exchange's approving the listing of the shares that will be allocated to the investors and the shares that will arise from the exercise of the options that will be allocated to the said investors and subject to any other approval required by law.

For further details, see the Company's immediate report of May 22, 2017 (reference no.: 2017-01-051570) and May 26, 2017 (reference no.: 2017-01-044476).

3. Section 19.2 – clients – the Indiana Office of Technology

On April 26, 2017, Dell Marketing L.P., which is an authorized supplier of the State of Indiana USA, placed a second order with Safe-T USA Inc. – a fully-owned subsidiary of Safe-T Data, which markets and sells Safe-T Data's products in North America; the order includes the provision of support and maintenance services to Safe-T Data's SDA and SDE products over a period of one year for the total amount of approximately 120 thousand ILS. For further details see the immediate report published by the Company on April 27, 2017 (reference no. 2017-01-035608).

4. Section 35 – collaboration agreements

On April 23, 2017, Safe-T Data signed a non-binding document of understanding with Foresight Autonomous Holdings Ltd. (hereafter – "Foresight"), a public Company, which is listed on the Tel Aviv Stock Exchange (hereafter – "the Stock Exchange") and which to the best of the Company's knowledge, is engaged in research and development of products designed to prevent road accidents, Rail Vision Ltd. (hereafter – "Rail Vision"), a private Israeli company (one of the shareholders of which is Foresight), which, to the best of the Company's knowledge, is engaged in the development of technology in the field of traffic safety and in the prevention of accidents in the trains sector and Shrem Zilberman Group Ltd., which, to the best of the Company's knowledge, is a company that promotes investments in technology companies, where under they will found a joint company that will engage in cyber security in vehicles and trains. For further details see immediate report of April 24, 2017 (reference no. 2017-01-034480).