



Highcon

Haikon Systems Ltd



Report for the period ended June 30, 2023



The company is a "small corporation" as defined by this term in the securities regulations (periodic and immediate reports), 1970 (the "**report regulations**") and the company's board of directors has adopted and applied to the company all the relevant reliefs in this regard, which include: (a) Cancellation The obligation to publish a report on the internal control and the auditor's report on the company's internal control; (b) raising the threshold of materiality in connection with the addition of valuations to 20%; (c) raising the threshold of the addition of material consolidated company reports to the interim reports to 40 %; and (d)

Reporting according to a semi-annual reporting format.

Table of Contents

Part I - Board of Directors' report on the state of the company's affairs for the six-month period that ended on June 30, 2023

Part B - The company's interim financial statements as of June 30, 2023



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

Board of Directors' report on the state of the company's affairs for the six-month period that ended on June 30, 2023

The Board of Directors of Haikon Systems Ltd. ("**the Company**" or "**Haikon**") is honored to submit the board of directors' report on the state of the company's affairs and the company's financial results for a period of six months that ended on June 30, 2023 ("**the period of the report**"), in accordance with the securities regulations (reports) Periodic and immediate (1970-

The report reviews the main changes in the company's activities, which occurred in the first half of 2023 and up to the date of publication of this report. This report is prepared on the assumption that the reader has the information contained in the company's periodic report for the year ended December 31, 2022, which the company published on March 31, 2023, reference no.: 2023-01-036492 ("**the periodic report for 2022**") - chapter describing the company's business and its activities, the financial statements for December 31, 2022 and the board of directors' report on the state of the company's affairs for the year that ended on December 31, 2022, which were attached to the periodic report for 2022.

The activity currency and presentation currency of the company and its subsidiary is the US dollar ("**the dollar**").

First part - the board's explanations of the company's business situation

1. A concise description of the company and its business environment

The company is a research and development company engaged in one field of activity - research and development, production, marketing, sales and worldwide service of advanced and ground-breaking digital systems for the production of folding packaging and display stands from sheets of rigid cardboard and corrugated cardboard. In addition, the company provides various services for the use of these systems and sells consumable products for its systems (mainly a metal container with the polymer developed by the company and the fold lines written with 3D printing technology), which are used in the packaging production process.

The company focuses on developing the innovation of its systems, and owns 17 patent families, including 62 patents and in addition 18 applications for patent registration worldwide.

The company manufactures and markets, including through its subsidiary in the USA and through representatives and distributors, mainly in Europe, several models of the most advanced systems of their kind in the world, which significantly shorten the production time of cardboard packaging and display stands compared to conventional solutions, while providing great flexibility in the production of a variety of packaging and display stands Lions hard cardboard and corrugated cardboard for their customers.

The company's products are digital systems for the production and stamping of folding and cutting lines for cardboard packaging at high speed. The basis of the solution is a system that accepts cardboard sheets (whether printed or not), and digital box design data from graphic design software over a network



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

the Internet, and in a few minutes and at a fast pace produces sheets of cardboard boxes cut and with folding lines and improvements according to the design. This technology provides an improved response to a growing percentage of the types of work that exist in the rigid cardboard and corrugated cardboard packaging market, and the technology continues to develop and provide a response to an increasing amount of types of work.

The company's systems are sold mainly to one of the world's leading packaging manufacturers who produce packaging and display stands, mainly to medium and large companies, including multinational companies that sell various consumer products in diverse fields such as food, cosmetics, beverages, electronic devices, confection, etc. The company also sells systems for digital production of packaging for companies that respond to the market

Web To Pack - (e-commerce) online trading

The production of packaging and display stands is a growing industry that is also affected by the change in consumption culture the desire which includes the growing transition to online purchases, an increase in the gross product in the various countries, to switch to packaging made from materials that are considered positive in terms of sustainability over plastic and others, as well as the need to constantly shorten times in light of an increase in the scope of supply and the tastes of consumers. Also, market Online sales are characterized by short delivery times and short production series, characteristics that generate demand for digital systems, which the company sells, that allow switching between "different jobs" at great speed, compared to a process that takes hours with the analog machines, and allow for the production of digital patterns on demand) while in the analog machines the process of making the wooden molds takes days.

2. The effects of inflation and interest

In the first half of 2023, the increase in inflation moderated in Israel and worldwide. The price index in Israel rose in the first half of 2023 by about 2.2% - compared to about 3.2% in the corresponding period last year and by about 4.2% - in the last 12 months. The price index in the USA rose in the first half of 2023 by about 1.7% compared to about 6.3% in the corresponding period last year and by about 3.2%

In the last 12 months.

Also, in this half, the Bank of Israel continued its policy of raising the bank interest rate in the economy in order to continue to curb inflation in the Israeli economy. The Bank of Israel interest rate increased from a rate of 3.25% at the end of 2022 to a rate of 4.75% near the time of publication of the report. In the USA, the interest rate increased from a rate of 4.25%-4.5% to a rate of 5.25%-5.5% near the date of publication of the report. During the period of the report, there was no direct material effect of inflation on the company's results. In addition, as of the date of this report, according to the company's examination, the economic interest rate increases in Israel do not materially affect the company's financing expenses. It should be noted that a continued increase in inflation rates or economic interest rates in the territories where the company operates may affect the ability of the company's customers to take financing for the purchase of capital equipment and, accordingly, bring these customers to carry out adjustments and cuts in their budgets



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

investment.

With the aforementioned increase in interest, a process of price increases began worldwide, including in the company's markets in Europe and the USA. Inflation rates and the increase in interest rates led to a decrease in the purchase of products, and therefore to a decrease in demand for packaging, both rigid and corrugated cardboard. Most of the companies contacted by the company report an increase in energy prices as well as a decrease in demand for packaging. This fact did not have an overwhelming effect on the level of sales of these companies because the decrease in demand was partially offset by price increases. These processes affect the sales processes and in most cases cause existing processes to be extended, sometimes significantly.

It should be noted that what is said in this section regarding the aforementioned company's assessments regarding the consequences of the latest macroeconomic developments constitute forward-looking information, as defined in the Securities Law, 1968-1968 ("Securities Law"), which are based, among other things, on the information found in the hands of the company as of this date, they are delivered under exceptional conditions of uncertainty, and there is no certainty that the aforementioned will be realized and the actual results may differ substantially from the estimates detailed above.

3. The effect of the conflict between Russia and Ukraine

The conflict between Russia and Ukraine that began in February 2022 and continues to the date of this report, led, among other things, to the disruption of economic activity in Ukraine and the imposition of significant economic sanctions against Russia. The aforementioned conflict caused indirect consequences such as an increase in electricity prices in the territories where the company operates, damage to the global supply chain and an increase in the prices of raw materials and goods. These increases in electricity prices have an effect on an increase in production costs for the company's customers and thus may lead to an extension of the return on investment in the company's systems. For the continuation of the fighting There may be an impact on the economic situation in Israel and in the world, however the company is unable to estimate their continuation and scope in the future. The company's management continues to regularly monitor the development of events.

It should be noted that what is stated in this section regarding the aforementioned company's assessments regarding the consequences of the continuation of hostilities between Russia and Ukraine constitute forward-looking information, as defined in the Securities Law, which are based, among other things, on the information available to the company as of this date, provided under exceptional conditions of Uncertainties, and there is no certainty that the aforementioned

will materialize and the actual results may differ substantially from the estimates detailed above.

4. Fluctuations in exchange rates

Most of the company's costs and obligations are denominated in NIS ("the shekel").

Changes in the exchange rates of the dollar, mainly against the shekel, at the end of each reporting period affect the accounting financing expenses of the company.

The accounting financing expenses, net of the company during the period of the report amounted to a total of about 296 thousand



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

dollar compared to approximately 1,367 thousand dollars in the corresponding period last year.

During the period of the report, the company generated financing income from exchange rate differences in respect of cash and cash equivalents in the amount of about 348 thousand dollars compared to financing expenses from exchange rate differences in the amount of about 1,247 thousand dollars in the corresponding period last year.

Below is the change in the exchange rate of the shekel against the dollar and the euro, the two main currencies that affect the company's business results:

Euro (NIS to 1 euro)	dollar (NIS to 1 dollar)	The date of the financial statements
4.019	3.700	June 30, 2023
3.636	3.500	June 30, 2022
3.753	3.519	December 31, 2022
3.520	3.110	December 31, 2021
%	%	The rates of change for the period of:
7.1	5.1	Six months ended June 30 2023
3.3	12.5	Six months ended June 30 2022
6.6	13.1	Year ending December 31, 2022

The developments in the global markets and in particular the USA, South America and the Eurozone, which include changes in the prices of raw materials and volatility in exchange rates, affect and will continue to affect the company's business results, its liquidity, the value of its equity, the value of its assets and their ability to realize them, its business situation, its ability to raise financing for long-term activity the scope and allocation of resources.

During the period of the report, the company recorded revenues in the total amount of approximately \$3.35 million compared to approximately \$9.26 million in the corresponding period last year, a decrease of approximately 64%. A sale resulting from the weakness of the markets. The company sees a significant improvement as reflected in the quality of the list of potential customers as formed during the second half



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

of 2023. It is worth noting that the company's sales of services and consumables consumed by them increased by approximately 34% compared to the same period in 2022. This increase is due to a significant increase in the volume of work produced using the company's machines by its customers, which translates into a significant increase in the volume of consumable products consumed by them.

The company focuses its marketing and sales efforts on large, international customers with hundreds of factories around the world. This focus affects the extension of the sales process on the one hand, but on the other hand, guarantees for the medium and long term a greater visibility of the expected growth volumes in the revenue line, both from the sale of systems and from the sale of services and consumables. As of the date of publication of the report, the total backlog of orders for the company's systems, for delivery in the second half of 2023, stands at approximately \$ 3.64 million.

It should be noted that the backlog of orders described above is forward-looking information, as defined in the Securities Law. The company's forecast is based, among other things, on the company's assessments that are substantially dependent on third parties, such as estimated growth in the market according to market research conducted, customer needs and market developments. The company does not have any certainty regarding its ability to realize the forecast and achieve the aforementioned goals, which by nature the company has no control over or the assumptions underlying this forecast. Therefore, the aforementioned forecast may not be realized or may be realized in a different way (even substantially) as a result of various factors.

5. Report on the results of operations and adjusted EBITDA (in thousands of dollars)

This financial information, which is not prepared according to the IFRS standards, is provided in addition to the financial information prepared according to the IFRS and does not replace it. The company presents this information because it believes that this information, which is not edited on According to the IFRS standards , it allows a better understanding of the company's activity results over time and is therefore used by the company's management to evaluate the company's performance. The company chose to give this information to the readers of the report in order to enable them to make a better comparison of the activity results between the reported periods in the same way as the company's management does.

Below are data on the operating loss and adjusted EBITDA of the company, not based on the reporting standards

International financial statements (IFRS) (in thousands of dollars):

for a period of six Months ending on June 30, 2022	for a period of six Months ending on June 30, 2023	section
9,264	3,352	sales revenue
7,714	4,257	Cost of revenues
1,550	(905)	Gross profit (loss).



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

for a period of six Months ending on June 30, 2022	for a period of six Months ending on June 30, 2023	section
6,432	5,913	Research and development expenses
2,474	2,184	Sales and marketing expenses
1,830	1,569	Administrative and general expenses
9,186	10,571	Operating loss (adjusted EBITDA)
10,815	Operating loss (IFRS) 11,300	

EBITDA - operating loss excluding depreciation, amortization, one-time expenses, and share-based payment.

Below is a table explaining the differences between the operating loss based on IFRS and the operating loss

(adjusted EBITDA) (in thousands of dollars):

for a period of six months that ended on June 30, 2022	for a period of six months that ended on June 30, 2023	section
10,815	Operating loss (IFRS) 11,300	
		Less amounts included according to the International Financial Reporting Standards (IFRS):
(382)	(371)	Depreciation and amortization of a right-of-use asset
583	467	Rental and leasing expenses
(1,455)	(394)	Share-based payment
(375)	(431)	Depreciation and amortization of fixed assets
9,186	10,571	Operating loss (adjusted EBITDA)

Below are the main data from the company's financial reports on the company's financial situation as of June 30, 2023, December 31, 2022, and June 30, 2022, as applicable, as well as the results of operations for the six-month periods that ended on June 30,

2023 and June 30, 2022 (in thousands) dollar(:



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

6. Financial situation (thousands of dollars)

The board's explanations	for the 30th day in June 2022	for the 31st day In December 2022	for the 30th day in June 2023	section
The decrease in cash is due to a slowdown in sales and development investments in fixed assets to build a prototype for the company's wide format system.	9,885	17,977	5,796	cash and equity cash
The decrease is due to the repayment of deposits to cash and value cash.	14,091	-	-	short term deposits
The decrease is mainly due to a slowdown in the company's sales and a collection that was completed during the reporting period.	2011	4,763	1,322	Customers, net
The increase is mainly due to a slowdown in sales.	10,670	14,582	16,918	Inventory
The decrease is mainly due to a decrease in receivable balances from institutions	1,830	1,211	1,098	Debtors and balances Required
The increase is mainly due to the purchase of equipment to build a prototype for the company's wide format system.	5,108	6,615	7,225	Fixed assets, net
The decrease is mainly due to the reduction of operating activities to match the pace of sales.	3,976	4,337	3,942	Obligations to suppliers and service providers
The increase is mainly due to taking a loan from a banking corporation in the amount of 5 million dollars during the month of December 2022 and financing orders from customers during the reporting period.	2,670	6,903	7,189	Loans from a banking corporation



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

7. The results of the operations (thousands of dollars)

The board's explanations	for a period of six months that ended On Jun 30th 2022	for a period of six months that ended On Jun 30th 2023	section
<p>The company's revenues from services and consumables during the reporting period increased by approximately 34% compared to the corresponding period last year.</p> <p>The decrease in sales was due to a decrease in the sale of equipment as a result of the lengthening of the sales process and a slowdown in the markets.</p>	9,264	3,352	Revenue from sales
<p>The gross loss during the reporting period is mainly due to fixed operating costs in relation to the amount of systems produced and as a result of the above.</p>	1,624	(764)	Gross profit (loss).
<p>The decrease in the reporting period is mainly due to focusing my efforts Developing a system prototype in a wide format while reducing several other programs. Also, during the second quarter of 2023, the company implemented an efficiency plan that included, among other things, reducing personnel and salary costs.</p>	6,961	6,258	Research and development expenses, net
<p>The decrease is due to a decrease in sales commissions as a result of a slowdown in sales during the reporting period. Also, during the second quarter of 2023, the company implemented an efficiency plan that included, among other things, reducing personnel and salary costs.</p>	2,668	2,264	Marketing and sales expenses
<p>The decrease is due to a reduction in salary costs and a decrease in share-based payment compared to the corresponding period last year.</p>	2,810	2,014	Administrative and general expenses
<p>During the second quarter of 2023, the company implemented an efficiency plan that included, among other things, reducing personnel and salary costs.</p>	12,439	10,536	Total operating expenses



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

The board's explanations	for a period of six months that ended On Jun 30th 2022	for a period of six months that ended On Jun 30th 2023	section
The losses result from a combination of a decrease in sales of systems during the period on the one hand and on the other hand from a significant increase in development expenses for the promotion of the future product for the corrugated cardboard market, for which the company has already received conditional advances from customers for the supply of systems starting at the end of 2025 in significant volumes (for more details, see section 11 of the periodic report for 2022).	10,815	11,300	operating loss
The weakening of the shekel relative to the dollar causes the erosion of shekel liabilities and as a result financing income from gate differences.	1,290	219	Financing expenses, net and other
See above.	12,105	11,519	net loss
The decrease is due to an increase in loss as described above.	0.145	0.127	Basic and diluted loss per share - in dollars

8. Liquidity (thousands of dollars)

The board's explanations	for a period of six months that ended on June 30, 2022	for a period of six months that ended on June 30, 2023	section
The negative cash flow is due to a combination of A decrease in sales of systems in the period on the one hand and on the other hand a significant increase in development expenses for the promotion of the future product for the corrugated cardboard market. In this regard, the company has already received conditional advances from customers for the supply of systems starting at the end of 2025 in significant volumes (for more details, see section 11 of the periodic report for 2022). Compared to the corresponding period last year, there is an improvement due to from a cashier	(12,910)	(11,407)	The cash flow used for current activities



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

The board's explanations	for a period of Six months ending June 30, 2022	for a period of Six months ending June 30, 2023	section
from customers and a reduction in operating expenses.			
The decrease is mainly due to the deposit to bank deposits made in the corresponding period last year. Most of the investment activity during the reporting period resulted from investment in fixed assets of the parent construction typhus.	(12,825)	(1,253)	The cash flow used for investment activity
In the corresponding period last year, the bulk of the cash from financing activities resulted from a private placement in the amount of approximately 17.7 million dollars, minus the placement	16,520	131	the resulting cash flow from financing activities
expenses. The decrease is mainly due to the weakening of the shekel in relation to the dollar.	(1,247)	348	Rate differences in respect of cash balances and cash equivalents
See details above.	(10,462)	(12,181)	Decrease in cash and cash equivalents in the year

9. Sources of funding

As of the date of the report, the company finances its activities from its own sources (the company's revenues), capital raising and credit from a banking institution.

In addition, in December 2022, the company entered into a conversion loan agreement with Corporation Air Sealed ("Sealed Air"), under which the company undertook to assign to Sealed Air a conversion commitment certificate and the company's non-marketable options, in exchange for a loan that Sealed Air will provide to the company in the amount of 8 million dollars for a period of 5 years, when the loan (principal and interest) will be convertible into ordinary shares of the company.

For more details about the convertible loan agreement and the allocation of the convertible bond certificate and the company's non-marketable options, see an immediate report published by the company on December 19, 2022 (reference number: 2022-01-152476), which is included in this report by way of reference.

On July 16, 2023, the company announced the results of the offering, according to the company's shelf offer report dated July 12, 2023 ("the shelf offer report") published according to the company's shelf prospectus dated November 25, 2020, which was extended until November 24, 2023 as part of The shelf proposal report, issued by the company



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

A total of 13,174,096 ordinary shares of the company worth 0.1 NIS each ("**ordinary shares of the company**") and 13,174,096 warrants of the company exercisable for ordinary shares of the company worth 0.1 NIS each until October 1, 2023 for The offering amounted to approximately 1,606 thousand dollars. The bulk of the proceeds of the offering came from the company's existing investors, which include JVP, Ventures Landa and .LR

During the month of August, 2023, an amendment to a credit agreement was signed with a banking corporation (amendment to the credit agreement dated May 25, 2022). as of February 15, 2024 at the same interest rate as the existing long-term credit line. It should be noted that as of the date of publication of the report, the company has withdrawn a total of 1,500 thousand dollars as mentioned.

For more details about the credit line, see Note 10 D to the financial statements for December 31, 2022, which were attached to the periodic report for 2022. In addition, the options granted to the banking corporation were repriced, and the exercise premium was updated to 0.444 NIS per share.



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

Part two - aspects of corporate governance

10. Contributions

The company has not set rules for providing regulated donations, but the company's board of directors and management work from time to time to promote social goals and help the community, and encourage the company's employees to take part in the various activities.

11. Directors with accounting and financial expertise

On November 12, 2020, the company's board of directors determined that the minimum number of directors with accounting and financial expertise on the company's board of directors will not be less than one director, considering the scope of the company, the nature of its activities, its complexity and size. The number of directors with expertise accounting and financial was determined also taking into account the high level of accounting, business and financial skill that exists in connection with senior positions in the company, and in light of the current professional external consulting system

The company helps.

During the period of the report and until the date of publication of this report, the board of directors did not change its decision regarding the required minimum number of directors with accounting and financial expertise and the number of directors with accounting and financial expertise did not decrease from the minimum number.

As of the date of publication of this report, the directors with accounting and financial expertise are: H.E. Alon Bar Shani, Ilan Ron, Yoav Mordechai Tzarua, Adina Shor and Yosef Tana.

12 independent directors

The company's articles of association do not include a provision regarding the proportion of independent directors in the company, The company has three directors, as the term is defined in the Companies Law, 1999 - as of the date of this report, there are independent (including two outside directors) out of seven board members.

13. Changes in the company's board of directors

On February 13, 2023 Yoav Mordechai Tzaruya and Ilan Ron were appointed as members of the company's board of directors.

Appointments coincided with the end of their term as members of the board of directors of Fiona Mira Darmon and Giora

pavilion.



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

Part Three - Disclosure instructions in connection with the company's financial reporting

14. Material events in the company's activity during the report period and after

A. On August 29, 2023, the compensation committee and the company's board of directors, in their separate meetings, approved a repricing of the exercise price of all the options held by all the company's employees directly employed by the Israeli company, including officers and including the company's CEO. The new exercise price will amount to a total of NIS 0.3656 per option. It should be noted that the implementation of the repricing is conditional on receiving a taxation decision from the tax authority, according to which the implementation of the repricing will not constitute a tax event and a tax sequence will apply regarding the options, so that the rights of the option holders are not harmed. For more details about the repricing, see an immediate report published by the company on August 29, 2023 (reference number: 2023-01-100206), which is included in this report on

The referral.

B. On August 29, 2023, the compensation committee and the company's board of directors, in their separate meetings, approved the allocation of options to the company's employees, to the company's service providers, to the office holder in the company and to the CEO of the company, everything is as detailed in the immediate reports published by the company on the 29th August 2023 (reference numbers: 2023-01-100209, 2023-01-100212 and - 2023-01-

100215), which are included in this report by way of reference.

For details regarding additional events during and after the reporting period, see note 5 to the interim financial statements as of June 30, 2023

15. Compliance with financial standards

According to a credit agreement with a banking institution, including an amendment to the credit agreement as signed during the month of August 2023, see section 9 above, the company is bound by the following financial standards:

A. At any time, the total funds deposited in the company's bank account will not decrease, from the highest of: (1) 33% the credit balance actually used; (2) A total of 1,500 thousand US dollars until December 31

2023

B. The company will keep in its bank account, at all times, at least 80% of its cash balances, consolidated.

As of June 30, 2023, the company meets all of its aforementioned financial obligations. for detail

Regarding the company's cash balance as of June 30, 2023, see the consolidated financial statements of

The company as of June 30, 2023 (Part B of this quarterly report); as of August 29, 2023, the total funds deposited in the company's bank account are 5,031 thousand dollars.

16. List of liabilities according to maturity dates

For data regarding the state of the company's liabilities, see an immediate report published at the same time as this report.



Haikon Systems Ltd. - Board of Directors report for the first half of 2023

<u>signature</u>	<u>role</u>	<u>the names of the signatories</u>
_____	Chairman of the Board	Alon Bar Shani
_____	CEO	Shlomo Nimrodi

Date: August 29, 2023

Haikon Systems Ltd

Interim financial statements as of June 30, 2023

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Table of Contents

Page

2	Review of interim consolidated financial statements
3	Consolidated reports on the financial position
4	Consolidated reports on the total loss
5	Consolidated reports on the changes in equity
6-7	Consolidated statements of cash flows
8-11	Notes to the consolidated interim financial statements

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Review report of the auditing accountant to the shareholders of Haikon Systems Ltd

introduction

We have reviewed the attached financial information of Haycon Systems Ltd. and its subsidiary (hereinafter - the company), which includes the consolidated condensed statement of financial position as of June 30, 2023 and the consolidated condensed statements of total loss, changes in equity and cash flows for the six-month period that ended on that date. The board of directors and management are responsible for editing and presenting financial information for this interim period in accordance with International Accounting Standard 34 IAS - "Financial reporting for interim periods", and they are also responsible for editing financial information for this interim period according to Chapter D of the Securities Regulations (periodic and immediate reports), the "For 1970 - our responsibility is to express a conclusion on financial information for this interim period based on our review.

Scope of the review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Israel Institute of Certified Public Accountants - "Review of financial information for interim periods conducted by the auditor of the entity". A review of financial information for interim periods consists of inquiries, mainly with people responsible for financial and accounting matters, and the application of analytical and other review procedures. A review is considerably more limited in scope than an audit conducted in accordance with accepted auditing standards in Israel and therefore does not allow us to obtain assurance that we will know all the significant matters that could have been identified

in review. Accordingly, we do not experience an audit opinion.

conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 IAS.

In addition to what was stated in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the aforementioned financial information does not comply, in all material respects, with the disclosure instructions according to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 2015. 1970-

Emphasis paragraph matter (attention)

Without qualifying our above conclusion, we draw attention to what is stated in note 1B to the financial statements.

There were losses in the amount of 11,519 thousand dollars and a negative flow from current operations in the amount of 11,407 thousand dollars in the six-month period that ended on June 30, 2023. These factors, together with other factors listed in the above explanation, raise significant doubts regarding the continued existence of the company as a "business Hai". The management's plans in connection with these matters are detailed in the above explanation. The above financial information did not include all the adjustments regarding the values of the assets and liabilities and their classification that may be needed if the company cannot continue to operate as a "going concern".

Kost Forer collects Cassirer
Certified Public Accountants

Tel Aviv,
August 29, 2023

for the day		for June 30, 2022		
on the 31st of December		2023		
2022				
controlled	Uncontrolled	thousands of dollars		
17,977	9,885	5,796		Current assets
	14,091			Cash and cash equivalents (note 4) short-term deposit
4,763	2,011	1,322		customers, net
1,211	1,830	1,098		<small>Accounts Receivable and Accounts Receivable</small>
14,582	10,670	16,918		<small>Balances Inventory</small>
<u>38,533</u>	<u>38,487</u>	<u>25,134</u>		
874	315	873		Non-current assets
6,615	5,108	7,225		Pledged deposit
6,071	6,454	5,700		Fixed assets, net
106	80	130		Right-of-use assets, net Long-term deposit
<u>13,666</u>	<u>11,957</u>	<u>13,928</u>		
<u>52,199</u>	<u>50,444</u>	<u>39,062</u>		
4,337	3,976	3,942		current liabilities
1,541	1,594	1,354		Suppliers and service providers
4,484		2,964		work and obligations for eligible wages and entitlement balances
1,808		3,348		Short-term loans and current liabilities of a long-term loan
524		819		Liabilities for government grants
153		153		Deferred grant Current liabilities for
754	3,715	278 153 785 713		lease liabilities
<u>13,601</u>	<u>12,272</u>	<u>13,293</u>		
4,731	458	3,554		Non-current liabilities
2,966	2,760	2,683		Loan from a banking corporation
211	288	134		Liabilities in respect of government grants
4,824	5,099	4,319		Long-term deferred grant
46	-	46		Liabilities in respect of lease Warrants
7,844	-	7,844		Liabilities Loan conversion to shares
1,717	1,090	2,055		Other non-current liabilities
<u>22,339</u>	<u>9,695</u>	<u>20,635</u>		
2,679	2,679	2,679		Capital Capital
244,145	244,089	244,881		Common shares
2,117	2,114	2,117		Premium on shares Receipts on
9,696	9,153	9,354		account of options Fund for share-based payment transactions
(242,378)	(229,558)	(253,897)		Accumulated deficit
<u>16,259</u>	<u>28,477</u>	<u>5,134</u>		Total capital
<u>52,199</u>	<u>50,444</u>	<u>39,062</u>		

)*(reclassified.

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

August 29, 2023

Michal Levi Shapint
Chief Financial Officer

Shlomo Nimrodi
CEO

Alon Bar Shani,
Chairman of the Board of Directors

Date of approval of the financial statements

for the year ended on on the 31st of December	For the 6 months that ended on June 30		
	2022	2022	
controlled	Unaudited		
thousands of dollars (excluding basic and diluted loss per share data)			
16,910	9,264	3,352	Revenue from sales
<u>14,568</u>	<u>7,640</u>	<u>4,116</u>	Cost of revenues
2,342	1,624	(764)	Gross profit (loss).
14,903	6,961	6,258	Research and development expenses, net
5,302	2,668	2,264	Marketing and sales expenses
<u>5,472</u>	<u>2,810</u>	<u>2,014</u>	Administrative and general expenses
23,335	10,815	11,300	operating loss
(153)	(77)	(77)	other incomes
(145)	(195)	(761)	Financing income
<u>1,888</u>	<u>1,562</u>	<u>1,057</u>	Financial expenses
<u>24,925</u>	<u>12,105</u>	<u>11,519</u>	loss and total loss
<u>0.312</u>	<u>0.145</u>	<u>0.127</u>	Basic and diluted loss per share - in dollars

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

Total	balance loss	Receipts on account Warrants	Foundation for established payment transactions stock	premium on stock	Ordinary share capital	
Uncontrolled						
<small>thousands of dollars</small>						
16,259	(242,378)	2,117	9,696	244,145		Balance as of January 1, 2023 2,679
(11,519)	(11,519)	-	-	-	-	Loss including
-	-	-	(736)	736	-	options that have
394	-	-	394	-	-	expired stock-based payment cost -
5,134	(253,897)	2,117	9,354	244,881	2,679	Balance as of June 30, 2023
Uncontrolled						
<small>thousands of dollars</small>						
21,331	(217,453)	-	8,499	228,277	2,008	Balance as of January 1, 2022
(12,105)	(12,105)	-	-	-	-	Loss includes
119	-	-	(152)	268	3	exercise of employee options
-	-	-	(649)	649	-	Expired options
1,455	-	-	1,455	-	-	Share-based payment cost - Issuance
17,677	-	2,114	-	14,895	668	of ordinary shares and warrants)*
28,477	(229,558)	2,114	9,153	244,089	2,679	Balance as of June 30, 2022
controlled						
<small>thousands of dollars</small>						
21,331	(217,453)	-	8,499	228,277	2,008	Balance as of January 1, 2022
(24,925)	(24,925)	-	-	-	-	Loss includes
119	-	-	(152)	268	3	exercise of options for
-	-	-	(705)	705	-	employees, options
17,680	-	2,117	-	14,895	668	that have expired, issuance of
2,054	-	-	2,054	-	-	ordinary
16,259	(242,378)	2,117	9,696	244,145	2,679	shares and warrants* (cost of share-based paymen

)* (See Note 14 B and D to the annual financial statements.

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

for the year ended on on the 31st of December	For the 6 months that ended on June 30		loss	
	2022	2022		2023
controlled	Uncontrolled			
	thousands of dollars			
	(24,925)	(12,105)	(11,519)	
				<u>Cash flows for current activities</u>
				Adjustments needed to present cash flows for current activities:
				<u>Adjustments to profit and loss items:</u>
2,054	1,455	394		Share-based payment cost Evaluation
729	-	-		of a commitment to the Innovation Authority
297	858	(348)		Expenses (revenues) Financing, net
920	378	608		
765	382	371		depreciation Depreciation of right-of-use assets
4,765	3,073	1,025		
				Changes in assets and liabilities:
(3,452)	(732)	3,466		Decrease (increase) in customers, net
334	(320)	64		Decrease (increase) in debtors and liability balances
(8,653)	(4,741)	(2,336)		Increase in
912	568	(367)		inventory Increase (decrease) in obligations to suppliers and service providers
2,788	1,353	(1,192)		Increase (decrease) in entitlements and entitlement
211	156	(168)		balances Increase (decrease) in employees and obligations for wages
(7,860)	(3,716)	(533)		
				Cash paid and received during the period:
(282)	(166)	(489)		Interest paid
24	4	109		Interest received
(28,278)	(12,910)	(11,407)		Net cash used for current activities
				<u>Cash flows for investing activities</u>
(3,878)	(1,829)	(1,218)		Purchase of fixed
3,215	(10,876)	-		assets Increase (decrease) in short-
(726)	(120)	(35)		term deposits Increase in pledged and long-term deposits, net
(1,389)	(12,825)	(1,253)		Net cash used for investing activities

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

for the year ended on	For the 6 months that ended		
	on the 31st of December	on June 30	
2022	2022	2023	
controlled	Uncontrolled		
thousands of dollars			
			<u>Cash flows from activity (to activity) financing</u>
17,680	17,677	-	Issuance of share capital and warrants
8,000	-	-	Receipt of loan converted into shares
(950)	(415)	692	Receipt (repayment) of short-term loans from a banking corporation, net
5,000	-	-	Receipt of long-term loans from a banking corporation
(448)	(212)	(174)	Repayment of long-term loans from a banking corporation
119	119	-	Exercise of options and warrants for shares
(517)	(238)	-	Repayment of obligations for grants from the Innovation Authority
(857)	(411)	(387)	Repayment of lease obligations
<u>28,027</u>	<u>16,520</u>	<u>131</u>	Net cash derived from financing activities
<u>(730)</u>	<u>(1,247)</u>	<u>348</u>	<u>Rate differences in respect of cash balances and cash equivalents</u>
(2,370)	(10,462)	(12,181)	<u>Decrease in cash and cash equivalents</u>
<u>20,347</u>	<u>20,347</u>	<u>17,977</u>	<u>Cash balance and cash equivalent at the beginning of the period</u>
<u>17,977</u>	<u>9,885</u>	<u>5,796</u>	<u>Cash balance and cash equivalent at the end of the period</u>
			<u>Material non-cash activities</u>
<u>52</u>	<u>52</u>	<u>-</u>	Recognition of right-of-use assets against lease liabilities
<u>225</u>	<u>225</u>	<u>-</u>	Transfer of inventory to fixed purchase

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

Explanation: 1 - General

These financial statements were prepared in a condensed format for June 30, 2023 and for a period of six months that ended on that date (hereinafter - interim financial statements). These statements should be reviewed in connection with the company's annual financial statements for December 31, 2022 and for the year that ended on that date and the notes that accompanied them (hereinafter - The annual financial reports).

A.

B. The company's financial situation

1) The company incurred losses in the amount of 11,519 thousand dollars and a negative flow from current operations in the amount of 11,407 thousand dollars in the six-month period that ended on June 30, 2023. The losses result from a combination of a decrease in sales of systems in the period on the one hand, and on the other hand from a significant increase in development expenses to promote the future product for the corrugated cardboard market. The company has already received conditional advances from customers for the supply of systems starting at the end of 2025. The continued development of the platform, which is required in order to meet the supply of the systems, requires continued investment of significant amounts.

During the second quarter of 2023, the company began implementing actions to reduce its operating expenses. These actions include, among other things, the reduction of personnel and labor costs, the directors' agreement to reduce and postpone compensation, as well as the postponement of certain development activities and equipping, all of this with the aim of avoiding substantial damage to the company's obligations to its customers.

2) As part of the company's annual report for the year 2022, the company reported that as part of its growth strategy, it is actively working to expand its circle of strategic partners, and is also examining other alternatives to obtain additional sources of funding. As of the date of approval of the financial statements, the company is conducting advanced negotiations with several parties. At the same time, however, as of the date of approval of the financial statements, a binding memorandum of principles has not yet been signed with any of these parties, and the company estimates that the period for completing any of the aforementioned alternatives, if completed, is expected to be three to six months.

3) On July 23, 2023, the company raised a total of approximately 1,606 thousand dollars as part of a shelf proposal report (see note 5a).

4) During the month of August, 2023, an amendment to the credit agreement was signed with a banking corporation (amendment to the agreement). The credit is from May 25, 2022 (see note 5B).

The company is required to obtain funding sources as mentioned in section 2 above, in order to realize its plans. Factors. These, together with other factors listed above, raise significant doubts about the continued existence of the company as a "going concern". The management's plans regarding these matters are detailed in the above note. The above financial information did not include all the adjustments regarding the values of the assets and liabilities and their classification that may be needed if the company cannot continue to operate as a "going concern".

Explanation: 2 - The principles of the accounting policy

From the editing format of the consolidated interim financial statements

Financial reporting The consolidated interim financial statements are prepared in accordance with the International Accounting Standard (IAS (34), and in accordance with the disclosure instructions according to Chapter D of the Securities Regulations (periodic and for interim periods immediate reports), 1970-

The accounting policy applied in preparing the consolidated interim financial statements is consistent with the one applied in preparing the consolidated annual financial statements.

Explanation: 3 - Financial instruments

Fair value A.

The balance in the financial statements of debtors and debtors and creditors and right balances corresponds to or is close to their fair value.

Classification of financial instruments according to fair value B.

rating All financial assets and liabilities are measured at fair value level 3.

Explanation: 4 - Cash and cash equivalents

on the 31st of December	June 30	June 30
2022	2022	2023
(controlled)	(uncontrolled)	(uncontrolled)
thousands of dollars	thousands of dollars	thousands of dollars
5,291	9,585	1,700
12,686	300	4,096
17,977	9,885	5,796

Cash for immediate withdrawal

Cash equivalent - short-term deposits (a)

Deposits in banking corporations - the company deposited cash in dollars for periods of up to 3 months that carry an interest rate range of 5.2%-4% and are used by it to manage the current flows. A.

B. In accordance with the financial standards and as of the date of the financial statements, the company is obligated to maintain a balance of deposits in the amount of 3,000 thousand dollars. During the month of August 2023 and as part of an amendment to an existing credit agreement (see Note 5b), the balance of the required deposit was updated in the amount of 1,500 thousand dollars until December 31, 2023.

Explanation: 5 - Material events after the reporting period

A. On July 16, 2023, the company announced the results of an offering carried out according to the company's shelf offer report dated July 12, 2023, published according to the company's shelf prospectus dated November 25, 2020, which was extended until November 24, 2023. In total, the company issued 13,174,096 shares ordinary shares of the company worth 0.1 NIS each and 13,174,096 warrants exercisable for ordinary shares of the company worth 0.1 NIS each until October 1, 2023. The proceeds of the issue amounted to approximately 1,606 thousand dollars. The bulk of the IPO proceeds were provided by the company's existing investors, which include LR and Landa Ventures, JVP

B. During the month of August, 2023, an amendment to the credit agreement was signed with a banking corporation (amendment to the credit agreement dated May 25, 2022). As part of the amendment, and subject to the completion of the offering described in section A above, the minimum deposit balance required was updated to a total of 1,500 thousand dollars until December 31, 2023. In addition, the company will be entitled to withdraw an amount of approximately 1,500 thousand dollars which will be repaid 6 months after the date of its withdrawal, until February 15, 2024 at the same interest rate as the existing long-term credit line. For more details about the credit line, see Note 10 D to the annual financial statements. In addition, the warrants granted to the banking corporation were repriced, and the exercise premium was updated to 0.444 NIS per share.

third. On August 29, 2023, the company's board of directors approved the repricing of all the options for employees directly employed by the Israeli company. The new exercise price according to the average of the 30 trading days preceding the board's approval is NIS 0.3656. In addition, the company's board of directors approved, The granting of 2,792,000 additional options to employees, service providers and officers, exercisable for 2,792,000 ordinary shares of NIS 0.1 each.

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