GenCell Ltd.

Interim Reports for the Six-Month Period Ended June 30, 2023

The Company is a "small corporation", as this term is defined in Regulation 5C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "Reports Regulations"). Accordingly, on March 27, 2023, the Company's board of directors resolved to adopt all of the expedients listed in Regulation 5D of the Reports Regulations, including regarding reporting in a semi-annual reporting framework.

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Definitions

For the sake of convenience, presented below are definitions of the main terms which are used in this interim report:

"USD" -	United States Dollars;
"Stock Exchange" -	The Tel Aviv Stock Exchange Ltd.;
"Periodic Report for 2022" -	The Company's periodic report for 2022, which was published on March 28, 2023 (reference number 2023-01-032871). The above constitutes inclusion by way of reference.
"Company" -	GenCell Ltd. (Private Company No. 514579987);
"Prospectus" -	A supplementary prospectus for an initial public offering, which also constitutes a shelf prospectus of the Company as of November 9, 2020, dated November 10, 2020, extended to November 9, 2023 (reference numbers 2020-01-120750 and 2022-01-132550, respectively);
"Companies Law" -	The Companies Law, 5759-1999;
"Securities Law" -	The Securities Law, 5728-1968;
"Ordinary Shares" -	Ordinary shares of the Company, registered by name, with a par value of NIS 0.01 each;
"NIS" -	New Israeli Shekels;
"2016 Options Plan" -	The Company's options plan, which was approved by the Company's board of directors on July 25, 2016, as amended and updated from time to time;
"2023 Equity Compensation Plan" -	The Company's equity compensation plan, which was approved by the Company's board of directors on March 27, 2023;
"CFE" -	The Federal Electrity Commission of Mexico;

“TDK“- TDK Corporation, a company incorporated in Japan;

“EV“ - EV Motors Ltd., an Israeli company;

”**G5**” **-** A hydrogen-based fuel cell which is intended for backing up critical systems for extended periods of time, providing 5KW; This system will be replaced by the upgraded system known as BOX;

“**BOX**” **-** A hydrogen-based fuel cell which is intended for backing up critical systems for extended periods of time, and intended for operation in outdoor conditions, providing 5KW; This upgraded system will replace the G5 system;

“**FOX” -** An ammonia-based fuel cell which is intended for continuous operation, providing 4.5 KW; This upgraded system will replace the G5 system;

“**EVOX**” - A system combining fuel cell-based energy production and an energy storage system intended to supply energy for electric vehicles;

“**GenCell OX™**” - A hydrogen-based fuel cell which is intended for backing up critical systems for extended periods of time, and intended for operation in outdoor conditions, providing 10KW;

Chapter A - Board of Directors' Report on the State of the Company's Affairs For the Six Month Period Ended June 30, 2023

The Company's board of directors is honored to present the board of directors' report on the state of the Company's affairs for the six month period ended June 30, 2023 (the "**Reporting Period**" and the "**Reporting Date**", respectively), in accordance with the Securities Regulations.

All of the data presented in this report refer to the condensed interim consolidated financial statements as of June 30, 2023, unless noted otherwise.

The board of directors' report includes a limited review of the issues covered herein. It is clarified that the description provided in the board of directors' report includes only information which the Company considers material information, and that the report was prepared based on the assumption that the reader has the Company's periodic report for 2022.

1. Board of Directors' Remarks Regarding the Corporation's Business Position, Operating Results, Equity and Cash Flows

1.1. Description of the Company and its business environment

The Company was incorporated and registered in Israel on February 21, 2011, in accordance with the provisions of the Companies Law, as a private company limited by shares, under its current name. On November 18, 2020, the Company completed an initial public offering of its shares by virtue of the prospectus, and accordingly, the Company became a public company, as this term is defined in the Companies Law, and also a reporting corporation, as this term is defined in the Securities Law.

The Company does not hold any other corporations, except for its holding of 100% of the issued and paid-up share capital of GenCell Inc., which was incorporated on October 30, 2017, in accordance with the laws of Delaware (USA) ("**GenCell Inc.**"). It is noted that until the reporting date, GenCell Inc. was inactive, and beginning in July 2023, GenCell Inc. commenced activity in the United States, in a scope which is immaterial to the Company as of the publication date of the report. For additional details regarding the activities of GenCell Inc. in the United States, see section 1.1(G) below.

The Company is a producing technology company which is engaged in the planning, development, production, marketing and provision of after sale services for alkaline fuel cell-based energy systems featuring the production of green energy without creating carbon dioxide emissions, using hydrogen or ammonia as fuel, in response to the growing need for green energy as an alternative to internal combustion engines based on oil substitutes, and to provide a solution for a weakness in the current power grid, which does not allow the availability of electricity anytime and anywhere. The Company's systems are designed to provide uninterrupted power supply solutions for critical points in the economy, and mobile electricity solutions for geographical regions which are not connected to the power grid. The technology which has been developed in the Company, and which is protected through patents and trade secrets, places the Company in a central and unique position in the energy market in general, and in the global fuel cell market in particular, especially in terms of the clear competitive advantages on all matters associated with the production of electricity in extreme weather conditions, and the production of electricity from ammonia. The Company has a clear patent registration strategy, in which the Company works to register patents for innovative developments which it believes can provide it with a significant advantage and create value for it. For additional details, see section 21 in Chapter A of the periodic report for 2022.

As of the reporting date, the Company had 158 employees, reflecting an increase of approximately 4% relative to the end of 2022, including 14 experts in the field of alkaline fuel cells, of whom 10 hold doctorate degrees in the fields of chemistry, electrochemistry, physics, and others.

As of the reporting date, the Company held approximately USD 43.5 million, which, in accordance with the Company's business plan and current "cash burning" rate, will allow the Company to finance its operating expenses (without restocking new inventory or fixed assets) for a period of approximately 20 - 24 months after the approval date of the financial statements as of June 30, 2023.

The Company's revenues during the reporting period amounted to a total of approximately USD 485 thousand, reflecting a decrease of approximately 32% relative to the Company's revenues in the corresponding period last year. For the board of directors' explanations regarding the decrease in the Company's revenues, see section 1.5 below.

During the reporting period, the Company continued executing the plan which it formulated for the purpose of reducing the costs of its products, by implementing changes to processes of development, product engineering, operation, manufacturing and purchasing. As of the publication date of the report, the Company has successfully reduced the cost of its products by around 20% in 2022, and it estimates that under this plan, by the end of 2023, it will be able reduce the cost of its products by up to around 36%, relative to those costs in 2022. For additional details regarding the cost reduction plan, see below.

<u>On the level of business activity</u> - Despite the aforementioned decrease in revenue, during the reporting period the Company continued promoting its business activities, as described below:

Following a stringent and extended process, the Company decided to focus its activity on three main markets: **electric utility companies, telecom, and electric vehicle charging**. In all three of these markets, the Company has identified a problem or need for it which provides a value offer, in the form of an appropriate product.

The Company continued investing significant efforts and resources in the development of infrastructure to support collaborations, including several installations in different countries vis-à-vis leading companies in the Company's areas of interest, for the purpose of (inter alia) creating a marketing infrastructure for the Company's systems to support engagements with other international companies, beyond the companies in which the Company's systems have already been installed. These processes involve maturation processes which usually mature after a period of several months. As of the publication date of the report, the Company has a pipeline of several potential business processes which are in advanced stages, and which, according to the Company's estimate, amount to a total of approximately USD 35 million, in the three main markets in which it is engaged. Accordingly, the Company estimates that 40% to 50% of these processes could mature in the second half of 2023.

In light of the foregoing, the Company is preparing on the level of inventory and the product supply plan, in order to ensure that if and insofar as these processes mature, it will be capable of fulfilling the timetables.

(A) **Electric Utility market** - In this market, the Company continued its efforts to expand its collaboration with existing customers, and to find new customers, inter alia, through GenCell

Inc., which works to deepen the penetration into energy companies in the United States, following the success of the CFE transaction.

The Company markets the REX system, which is intended for transformer rooms of energy companies, in which continuous voltage of 130 VDC and 48 VDC must be maintained at all times, in order to ensure the continued proper operation of the energy companies' distribution networks. The solution offered by the REX system is intended to make unnecessary the use of battery and diesel rooms.

Since then, over the last two years the Company has begun supplying its systems within the framework of the CFE transaction. For additional details regarding the CFE transaction, see section 13 in Chapter A of the periodic report for 2022. CFE has designated the Company's systems to serve as the main and only backup line for its transformer stations, thereby making unnecessary the use of battery and diesel rooms. Throughout the period, the Company upgraded the compatibility for all of CFE's command and control systems, through software developments.

On this matter, CFE invited the Company to submit an offer in a new tender which is scheduled for publication in September 2023, the results of which are expected to be announced in 2023, to supply systems and services at a scope of millions of dollars, which are intended for uses similar to those of the Company's systems which were installed in the previous CFE transaction. Based on the previous transactions, the tender is projected to be published in September 2023, and its results are supposed to be received in the remainder of 2023. As of the publication date of the report, the Company is unable to estimate its chances of winning the tender.

(B) **Telecom market** - The Company continues viewing the telecom market as a future growth engine for its products, from backup systems, to support for the telecom infrastructure of 5G networks. The inability of energy companies to install infrastructure as required for the distribution of 5G networks is delaying network distribution and delaying the connection of certain sites. Additionally, the commitments of global telecom players to reduce CO2 emissions presents a window of opportunity, in light of the value offered by the Company's products. The Company has installed its products for leading players in this market, including Vodafone Telekom, Deutsche Telekom, and others. The Company's products are intended to provide output voltage of 48 VDC, with a capacity of approximately 5Kw, for telecom sites in case of power outages, thereby ensuring their continuous operation.

During the reporting period, the Company concluded the full integration of telecom infrastructure for 2 leading telecom equipment suppliers: Ericsson of Sweden, and Huawei of China.

During the reporting period, the Company also completed a field trial of the BOX system, and the successful connection thereof to the systems of Deutsche Telekom, all in accordance with the collaboration agreement with Deutsche Telekom. The parties are continuing to evaluate the expansion of the collaboration between them. For additional details regarding the collaboration agreement with Deutsche Telekom, see section 29.7 in Chapter A of the periodic report for 2022.

After the end of the reporting period, the Company was notified by a leading telecom company in Europe that among several European companies specialized in the provision of fuel cells for the telecom market, it was chosen as the preferred provider, and the Company subsequently engaged in a term sheet regarding the provision of products and associated services in the amount of approximately USD 4-5 million. The Company believes that the adjustment of the Company's systems for operation in extreme weather conditions, along with the fact that it has completed the integration of its systems at the telecom providers Ericsson and Huawei, and also at sites of Deutsche Telekom, have significantly boosted its recognition as a preferred provider for the aforementioned telecom company.

The telecom company's final decision regarding the implementation of the term sheet is expected by the end of 2023. As of the publication date of the report, the Company is unable to estimate the chances of materialization of this transaction.

(C) **Electric vehicle charging market** - In this market, the accelerated adoption of electric vehicles is challenging power grids worldwide.
In Europe, by the end of the current decade, energy demand for electric vehicle charging is expected to multiply by a factor of 23[1].
Furthermore, a survey which was conducted by McKinsey in 2022 indicated that energy demand for electric vehicles in the American market is expected to grow from 11 TWh in 2021, to 230TWh in 2030. This demand is creating an enormous challenge for the American power grid, leading American legislators to allocate the tremendous sum of USD 375 billion to the distribution of charging infrastructure in public locations and along highways, including the prioritization of green technologies in general, and hydrogen in particular. To encourage the implementation of these systems, the rate of support can reach 50%-80% of the investment

1 https://www.ey.com/en_gl/energy-resources/as-emobility-accelerates-can-utilities-move-evs-into-the-fast-lane

in some states. The Company views the foregoing needs and activities as a rich opportunity for the Company and is therefore increasing its commercial efforts in this market.

In this market, the Company offers energy decentralization solutions which incorporate and supplement solar and wind technologies, by guaranteeing the continuity of electricity from renewable sources, and by supplying electricity in emergency situations resulting from the increased frequency of power outages due to the sharp increase in weather hazards (such as typhoons, storms, etc.) – the EVOX^{TM} system, and in the first half of 2023, most of the marketing and sale efforts of the EVOX^{TM} system were focused on the United States.

The EVOX^{TM} system is a hybrid and autonomous system which is capable of producing electricity independently of the power grid, without producing any emissions. EVOX^{TM} is a solution which guarantees energy availability for electric vehicle charging purposes throughout all hours of the day, without depending on the power grid or solar or wind energy, and which allows providing a response to the increasing demand for autonomous electric vehicle charging stations in locations where the electrical infrastructure is sufficient or nonexistent, and also allows increasing the capacity to charge a larger number of electric vehicles. For additional details regarding the EVOX^{TM} system, see section 10.3(E) in Chapter A of the periodic report.

The Company has focused its marketing and sale efforts on the American market through GenCell Inc. based on the Company's belief that this market presents significant growth potential, due to, inter alia, the weakness of the power grid, increasing use of electric vehicles at high rates, tax incentives and investments to encourage green energy infrastructure. For the purpose of leading this process, the Company recruited a local sales and support team with experience in this market. As part of the above, the Company is expanding its collaborations, inter alia, with energy companies, in order to substantiate its position in the American market, and increase its base of potential customers, and its ability to provide services to its customers. The most recent partners include several American companies with extensive distribution, including Instant On, Plemco, Western Pump and Energy One.

The Company believes that it will be able to increase its capability to grow its market share in this segment, which benefits from a clear need and federal support in the form of tax incentives.

The federal support is causing various North American countries to evaluate new technologies in the fields of green energy and renewable energy, which are able to offer them a complete and comprehensive solution for vehicle charging and renewable energy production. For example, Hawaii has set the target of becoming a state running 100% on renewable energy by the end of 2045, as part of the various initiatives in its efforts to adopt a green energy program for the state.

During the reporting period, the Company received a letter of intent from a Hawaiian university to purchase 2 EVOX systems, for a pilot program.

The Company believes that the university will study the systems and their capabilities, and if these installations are effective and successful, the Company will have the opportunity to benefit from potential business in Hawaii.

As of the publication date of the report, the Company is unable to estimate the chance of materialization of these letters of intent, or the potential business opportunities which could follow.

GenCell Inc. has also submitted, within the framework of a consortium with several other companies, an offer in a request for proposals which was published by a leading electric company in the United States, to purchase one EVOX system, which will be used by the electric company in a pilot program, and in order to evaluate the technology and its ability to serve as a solution for charging different vehicles in the fleets of New York Municipality, in numbers which could reach into the tens of thousands. The success of the pilot program, and the approval of the Company's offer, could create business potential for the Company.

As of the publication date of the report, the Company is unable to estimate the potential for success and the approval of the Company's offer, and accordingly, the business potential of this opportunity.

Production -

As part of the Company's preparation for future orders, and as part of its comprehensive approach to its future product manufacturing process, and also as part of its cost reduction program, the Company expanded its collaboration with a Chinese supplier, in which the Chinese supplier will provide all of the BOX systems which are not included in the Company's core technology (BOP). The Company believes that this process will contribute significantly towards reducing the production costs of its products, and will allow it to increase its production quantities, if and as required, in accordance with future sales.

During the reporting period, and as part of the process of reducing the cost of its products, the Company was able to reduce its product costs by 20%, and intends to continue reducing costs until the end of the year, such that, by the end of this year, the Company will have reduced the product costs by approximately 36% in 2023, relative to those costs in 2022.

The cost reduction plan involves three main features: (1) transitioning to electrode production using automatic production systems; (2) research and development efforts to reduce the costs of the system's parts; and (3) transitioning to an assembly line in a low cost country.

Technology, research and development -

During the reporting period, the Company continued investing significant efforts and resources in several areas of research and development, as follows:

(A) The Company continued promoting the intensified development of GenCell OX^{TM}, which will allow it to expand its array of offered systems in its operating markets to a capacity of 10KW and above, and also to enter new markets in which it is not currently engaged. This system is being developed in accordance with the Company's plans, and during the reporting period the development of a prototype was completed, including the development of a new fuel cell based on a new electrode with significantly higher energetic efficiency than the current electrode, and which will thereby allow the Company to offer a system with a better cost to kilowatt ratio. The GenCell OX™ system is operated in the Company's laboratories as part of the development plan. The Company expects to complete the development of the GenCell OX™ system in 2023, and to begin commercially marketing it in the first half of 2024. The Company believes that the addition of the GenCell OX™ system to the series of offered solutions will expand the series of solutions in markets where the Company is engaged.

(B) The Company intends to launch, in the second half of 2023, an initial version of the EVOX energy management software. This software features the ability to manage the various energy sources, in order to increase the efficiency of use and reduce operating costs.

(C) The Company is continuing the development and maturation of the ammonia-based FOX system. The Company intends to install the first systems at client sites in the first half of 2024. In this regard, after the reporting period the Company received an order from a European customer, for a product which will be installed already in early 2024.

(D) During the reporting period, the Company continued its efforts in the production of green ammonia directly from water, at very low pressure and temperature levels relative to the ammonia production processes which are currently known around the world. In this area, the Company engaged in a strategic collaboration agreement with TDK in 2021, in which they invested in the project, for the purpose of continuing its development. For additional details, see section 29.3 in Chapter A of the periodic report for 2022. During the reporting period, the Company reached the stage of green ammonia production in its laboratories, after concluding the development and creation of a low-scale alpha prototype, which is functional and operating at the Company's laboratories. The Company expects to focus its development efforts in the second half of 2023 in order to increase the amounts of ammonia produced in the system, in accordance with its work plan.

It is clarified that the information, estimates and forecasts presented above, including the progress on the development of the systems and their technologies, the success of the collaborations within the framework of the green ammonia project, the materialization of strategic collaborations, the execution of letters of intent, the success of pilot programs, the winning of CFE's new tender, the maturation of business processes, and the success of the product cost reduction plans, as specified above, constitute forward looking information, as defined in the Securities Law. These estimates, information and forecasts may not materialize, entirely or partially, or may materialize differently from the prediction, including the promotion of business processes, and the sale of additional products of the Company. These estimates, information and forecasts are based on the information which was available to the Company as of the publication date of the report, and are not under the Company's control.

1.2. **Effects on the Company's business position**

1.2.1. **The economic/political/security situation in Israel**

The Israeli government is currently promoting changes to the legal system. These changes are highly controversial, and according to media publications and the opinions of various experts, their effects, the disputes concerning them, and the parties' behavior in their regard, could negatively affect Israel's economy and security. Economic uncertainty, whether due to a major national security incident, political uncertainty, economic recession, or any other factor, could lead to a decline in investments in Israel by local and foreign investors. Additionally, a change for the worse in the Israeli economy, if any, could adversely affect the Company's ability to export its services and products to potential customers around the world, which could negatively affect the Company's business results. For additional details, see sections 8.1 and 34 in Chapter A of the periodic report for 2022.

1.2.2. **Russia-Ukraine war**

The Company receives development services from two Russian service providers, which are continuing to provide it with the services as of the publication date of the report, despite the various sanctions which have been imposed on Russia, Belarus and their citizens. However, at the end of the reporting period, the Company was unable to execute bank transfers to the accounts of those service providers, although the services they provide have not been discontinued. The war led to the temporary discontinuation of the development services on the catalyst for the FOX system by the Belarussian company, as well as the production services of the Company's ammonia cracking unit, which were given to the Company by a Ukrainian service provider. In light of the above, the continuation of work with the Belorussian provider is uncertain, and at the end of the reporting period, the Company found an alternative to this service, and accordingly, the Company believes that there will be no adverse effects on the results of this development. For additional details, see sections 8.3 and 34 in Chapter A of the periodic report for 2022.

1.2.3. **Impact of inflation and the interest rate increase on the Company's activity**

As announced by the Bank of Israel on July 10, 2023[1], the interest rate is at 4.75%, while inflation in Israel is decreasing, but covers a broad range of items, and has recently been at 4.6%. Looking at the first half of 2023, and particular the last quarter, it is clear that the inflation rate in Israel is decreasing, in terms of the prices of marketable and non-marketable products. Economic activity in Israel remains strong, although there are some indications of a certain decline in activity. The labor market remains tight, with full employment, although the rate of available jobs is continuing to decrease.

In accordance with the macro-economic forecast which was published by the Bank of Israel's research division in July 2023, based on a scenario in which the dispute regarding the legislative amendments concerning the legal system in Israel is resolved in a way which does not affect economic activity in the future, GDP is expected to grow by 3% in the years 2023 and 2024. The inflation rate in the next four quarters, until the second quarter of 2024,

[1] https://www.boi.org.il/publications/pressreleases/10-07-23/

is expected to be 3%, and is expected to be 2.4% in 2024. According to the forecast, in the second quarter of 2024 the interest rate is expected to be 4.75% or 5%[1].

The Company believes, as of the publication date of the report, that the inflation rate and the increase in interest rates, as described above, are not adversely affecting the Company's results or activity, including the Company's revenues, cost structure, profitability rate, financing costs and/or destabilization of its financial strength. However, the Company also believes that there could negative market effects on a global scale could occur, which may also affect the Company's potential customers, and thereby cause restraint or change in the intentions of some potential customers to buy the Company's systems. Additionally, insofar as the trend of increasing prices continues or intensifies, the risk of a decline in the Company's profitability could increase. On the other hand, since most of the Company's customers and potential customers are very well-established companies, such as energy companies, telecom companies, and gas and oil companies, at this stage the Company does not expect an increase in its level of business risk. Furthermore, due to the fact that as of the reporting date the Company has not taken out any debt, the aforementioned interest rate increase benefits the Company and generates greater financing income on its deposits. For additional details, see sections 8.5 and 34 in Chapter A of the periodic report for 2022.

1.2.4. **Coronavirus pandemic**

In early 2020, a novel coronavirus ("COVID-19") broke out and began spreading around the world, and was declared a pandemic by the World Health Organization (the "**Pandemic**" or the "**Coronavirus**"). The outbreak of the virus, and the uncertainty regarding its spread, as well as the various directives and measures imposed by governments in Israel and around the world in order to respond to the pandemic, resulted in a global economic crisis, including, inter alia, in Israel.

The Company believes, as of the publication date of the report, that the coronavirus pandemic, as described above, is not having a significantly adverse impact on the Company's results, operations, or revenues. The Company is continuing to monitor the coronavirus pandemic and its economic effects, and will act accordingly. Further to the disclosure in sections 8.2 and 34 in Chapter A of the periodic report for 2022, and in light of the fact that, as of the publication date of the report, the coronavirus pandemic is not having significant effects, and there are no current or expected limits and/or restrictions imposed by the various authorities, the Company believes that the coronavirus is a risk with a minimal impact on the Company as of the publication date of the report.

It is noted that the forecasts described in this section 1.2 above are dynamic and subject to changes which depend on the guidelines and actions of the State of Israel and other countries, and at this stage the Company is unable to estimate the full and final effect of these forecasts on the Company's activity.

[1] https://www.boi.org.il/publications/pressreleases/a10-07-23/

The Company's estimates regarding the possible implications of the state of the Israeli economy, the Russia-Ukraine war, the inflation rate and rising interest rates, and the coronavirus pandemic, on the Company's activity and results, constitute forward looking information, as defined in the Securities Law, which is based, inter alia, on the Company's estimates as of the publication date of this report, in respect of factors which are not under its control. The Company's estimates are based on the information which is currently available to the Company, on related publications and forecasts, which are uncertain to materialize, in whole or in part, and which could materialize in a significantly differently way due to factors which are not under the Company's control.

1.3. **Additional significant events during and after the reporting period**

1.3.1. On March 27, 2023, the Company's board of directors approved, after approval was received for this purpose from the compensation committee, the adoption of the 2023 equity compensation plan, by virtue of which the Company will be entitled to grant to employees and/or service providers of the Company, and/or to companies under its control, restricted share units (RSU's) and/or share options at a scope of 11,320,850 RSU's and/or share options (the "**2023 Equity Compensation Plan**").

1.3.2. On March 27, 2023 and April 19, 2023, the Company's board of directors approved, after approval was received from the Company's compensation committee on March 20, 2023, as follows:

(A) An update to the terms of tenure and employment of Mr. Asher Levy, the Chairman of the Board, such that his scope of employment will increase from 20% to 30%, including a grant of 100,000 unlisted options, by virtue of and in accordance with the Company's 2016 options plan;

(B) An update to the exercise price of 712,976 unlisted options which were granted by virtue of the 2016 options plan to Mr. Rami Reshef, the Company's CEO, with the exercise price of those options being USD 2.56, such that the exercise price will be updated to USD 0.57 (around NIS 2.1), by way of cancellation and re-allocation;

(C) Approval of an allocation of 1,353,605 RSU's to Mr. Rami Reshef, the Company's CEO, by virtue of the 2023 equity compensation plan;

The foregoing resolutions were subject to, inter alia, the receipt of approval from the stock exchange, the receipt of approval from the tax authorities, the submission of the 2023 equity compensation plan to the Tax Authority, and the approval of the Company's competent organs.

On May 9, 2023, the Company's board of directors resolved to cancel the convention of the general meeting of the Company's shareholders, the agenda of which also included, inter alia, the approval of the foregoing engagement. For additional details, see the

Company's immediate reports dated April 25, 2023, May 4, 2023, and May 9, 2023 (reference numbers 2023-01-045015, 2023-01-045021, 2023-01-047844, 2023-01-049671 and 2023-01-049692, respectively). The foregoing references constitute inclusion by way of reference, and Note 3G to the condensed interim consolidated financial statements as of June 30, 2023.

1.3.3. On March 27, 2023 and April 19, 2023, the Company's board of directors approved, after approval was received for this purpose from the Company's compensation committee, the following issues:

(A) The publication of an amended outline pursuant to section 15B(1)(A) of the Securities Law and the Securities Regulations (Outline Details of an Offer Securities to Employees), 5760-2000, for an offer of up to 4,619,550 (instead of 2,547,795) unlisted options, exercisable into up to 4,619,550 ordinary Company shares, in accordance with the Company's 2016 options plan, and for an offer of up to 10,320,850 unlisted RSU's, exercisable into up to 10,320,850 ordinary Company shares, to employees of the Company, including officers of the Company and/or companies under its control, in accordance with the Company's 2023 equity compensation plan;

(B) Approval of an update to the exercise price of up to 1,045,852 unlisted options which were granted in the past by virtue of the Company's 2016 options plan, to employees and service providers of the Company, except for officers and directors, with the exercise price of those options ranging from USD 2.39 to USD 4.75, such that the exercise price will be updated to a price of USD 0.57 (around NIS 2.1). It is noted that the foregoing update to the exercise price was implemented in practice only in respect of 881,243 unlisted options, following the conclusion of employment of some of those offerees;

(C) Approval of an update to the exercise price of 1,860,218 unlisted options which were granted by virtue of the Company's 2016 options plan, to 6 officers in the Company, with the exercise price of those options ranging from USD 2.39 to USD 3.9, such that the exercise price will be updated to a price of USD 0.57 (around NIS 2.1), by way of cancellation and re-allocation;

(D) Approval of an allocation of 193,000 unlisted options to an officer of the Company by virtue of the 2016 options plan, at an exercise price of USD 0.57 (approximately NIS 2.1) per share;

(E) Approval of an allocation of 4,916,905 RSU's, which will be allocated to 16 employees of the Company, including officers in the Company, in accordance with the Company's 2023 equity compensation plan. It is noted that 4,800,236 RSU's were allocated in practice;

For additional details, see the Company's immediate reports dated April 25, 2023 and July 10, 2023 (reference numbers 2023-01-044997, 2023-01-045000, 2023-01-078105 and 2023-01-078111, respectively). The above constitutes inclusion by way of reference.

1.3.4. On April 20, 2023, the Company announced that Sonol Israel Ltd. had become a stakeholder in the Company, due to an over-the-counter acquisition of 4,952,471 ordinary Company shares from Ben Zion (Benny) Landa, a director in the Company, who, in light of the sale which formed the subject of the transaction, ceased being a director in the Company, and since that date, the Company has been a company without a control core. For additional details, see the Company's immediate reports dated April 20, 2023 (reference numbers 2023-01-043266, 2023-01-043284 and 2023-01-043611). The above constitutes inclusion by way of reference.

1.3.5. For additional significant events during and after the reporting period, see Note 3 to the condensed interim consolidated financial statements as of June 30, 2023.

1.4. **<u>Financial position</u>**

Presented below are items of the statement of financial position in accordance with the audited/reviewed financial statements, and explanations of the main changes which have occurred therein (USD thousands):

Item	As of June 30		As of December 31, 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Current assets	55,692	81,595	69,932	The change was mostly due to the decrease in deposits in the amount of approximately USD 16.7 million, which were used in operating activities, and to the decrease in the provision for expected credit losses in respect of a long term loan of GenCell Mexico, in the amount of approximately USD 0.6 million. On the other hand, the balance of inventory increased by approximately USD 2.1 million, and advances to suppliers increased by approximately USD 0.8 million.

Item	As of June 30		As of December 31, 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Non-current assets	12,891	24,653	14,045	The decrease was mostly due to the provision for expected credit losses in respect of a long term loan of GenCell Mexico in the amount of approximately USD 0.7 million (out of a total provision in the amount of approximately USD 1.3 million). Long term pledged deposits also decreased by approximately USD 0.1 million, due to the release of a pledge in respect of a leased warehouse.
Total assets	68,583	106,248	83,977	-
Current liabilities	8,565	9,542	9,556	The decrease was mostly due to the decrease in the balance of trade payables in the amount of approximately USD 0.3 million, and to the decrease in the balance of payables in the amount of approximately USD 0.3 million due to debit/credit in respect of income tax.
Non-current liabilities	7,040	7,658	7,488	The change was due to the decrease in long term lease liabilities due to current rent payments, and due to the increase of the USD exchange rate.
Total equity	52,978	89,048	66,933	-

1.5. **<u>Operating results</u>**

Presented below are the Company's condensed statements of income (USD thousands):

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Sales	485	1,235	7,403	The decrease was due to:

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
				(A) The change in the mix of products sold during this half year, which mostly included BOX systems and the provision of services, as compared with the first half of 2022, in which several EVOX systems were sold; (B) The decrease due to the recognition of revenue from the CFE transaction, in the amount of approximately USD 0.4 million, relative to the first half of 2022; and (C) The decrease in the number of systems which were sold to various customers.
Cost of sales	3,917	3,421	10,054	The increase in cost of sales expenses was mostly due to the increase in the number of employees in the production, supply chain and customer support departments, in the amount of approximately USD 0.5 million.
Gross loss	3,432	2,186	2,651	-
Research and development expenses, net	6,305	4,317	7,856	The decrease was due to the fact that, during the reporting period, the Company did not capitalize development expenses in respect of intangible assets, relative to the corresponding half last year, in which development expenses were capitalized in the amount of approximately USD 3 million. On the other hand,

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
				payroll expenses in respect of R&D employees decreased by approximately USD 0.5 million, and share-based payment expenses decreased by approximately USD 0.5 million.
Selling and marketing expenses	2,199	2,881	5,320	The decrease was mostly due to share-based payment expenses in the amount of approximately USD 0.7 million, due to options which were granted to employees of the sales and marketing department in the first half of 2022.
General and administrative expenses	4,239	2,934	6,111	The increase was due to the provision for expected credit loss in the amount of approximately USD 1.3 million, which the Company created during the reporting period. There was also an increase of approximately USD 0.2 million in payroll expenses, and in the hedge in respect thereof, as well as an increase of approximately USD 0.1 million in respect of the provision for expected credit losses.
Operating loss	16,175	12,318	21,938	-
Impairment loss of intangible assets	-	-	11,472	The losses in 2022 were due to the amortization of the

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Impairment loss of fixed assets	663	-	3,389	Company's intangible assets, and part of the value of fixed assets which was included in the Company's books, which was performed due to an impairment test which the Company conducted in respect of its assets in the second half of 2022, in accordance with IAS 36, which the Company required due to the significant decrease in the share price, which represented a value for the Company that was less than the value of its equity in the financial statements as of December 31, 2022. Additionally, during the reporting period the Company recognized loss in respect of fixed assets, which was recognized due to an impairment test which the Company conducted in respect of its assets in accordance with IAS 36, in light of the additional decline in its share price as of June 30, 2023.
Finance income (expenses)	1,829	(376)	287	The increase in finance income was mostly due to interest income from deposits in the amount of approximately USD 1 million, relative to the corresponding half last year. Expenses in respect of exchange differences also decreased in the amount of approximately USD 0.7 million, due to the increase of the USD exchange rate.

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Other income	8	12	27	Income in respect of the sale of waste and metals.
Taxes on income	24	99	191	The decrease was due to the decrease in advance payments for excess expenses which the Company paid during the reporting period, due to the significant decrease in the Company's excess expenses relative to the corresponding period last year.
Other comprehensive income (loss)	275	(2,000)	(1,658)	The change in expenses in respect of cash flow hedging was mostly due to USD/NIS hedge transactions, due to the increase of the USD exchange rate during the reporting period.
Comprehensive loss for the period	14,750	14,781	38,334	-

1.6. **Liquidity and financing sources**

1.6.1. Analysis of the Company's cash flows

Item	For the six month period ended June 30		For the year ended December 31 2022 (Audited)	Board of directors' remarks
	2023 (Unaudited)	2022 (Unaudited)		
Cash flows from operating activities	(15,092)	(12,198)	(21,983)	The change in cash flows from operating activities was mostly due to: (A) The increase of approximately USD 2 million, due to the increase in the Company's production and operating expenses, and the acceleration of research and development activities and marketing and advertising efforts due to the expansion of the Company's activity; and (B) The increase of approximately USD 0.7 million due to stocking and purchase of inventory to increase production quantities, in order to meet the expected demand in 2023 - 2024.
Cash flows for investing activities	16,985	(10,278)	(12,396)	The change in cash flows used in investing activities was mostly due to the release of deposits in the amount of approximately USD 17.5 million, as compared with the corresponding period last year, in which approximately USD 7.4 million was invested in deposits. Additionally, during the reporting period there was no capitalization of development costs (investment in intangible assets), while in the corresponding period last year, a total of approximately USD 2.5 million was invested.
Cash flows from financing activities	(681)	33,897	33,279	The decrease was mostly due to a private issuance to institutional investors which took place in the first half of 2022, in the amount of approximately USD 34 million, after deducting issuance costs.

1.6.2. Details regarding financing sources

The Company finances its activity out of the proceeds from its initial public offering from November 2020 by virtue of the prospectus, the second offering from April 2021 in accordance with the shelf offering report published by virtue of the prospectus, as well as the private allocation to institutional investors from January 2022.

1.6.3. Liquidity

Due to the completion of the issuances and the receipt of the proceeds, the Company will be able to continue financing its operating activities, without restocking new inventory or fixed assets, for a period of approximately 20 - 24 months after the approval date of the financial statements.

2. Aspects of corporate governance

2.1. Donations policy and social responsibility

The Company has no donations policy, and each donation request is evaluated on its own merits. During the reporting period, the Company did not donate any amounts. It is also noted that the Company, its managers, and its employees, actively contribute to the development of community life and the environment. The Company participates in personal volunteering projects through its employees and managers.

In recent years there has been increasing awareness of the effects of environmental, social and governance risks on the business activities of companies. In light of the above, the Company is working on formulating a work plan to implement work and production processes which take into account ESG considerations and the assessment of ESG risks in the Company. During the reporting period, the Company published an ESG plan for the first time.

2.2. Buyback plan

As of the publication date of the report, the Company has no buyback plans which are in effect.

2.3. **<u>Exemption from the requirement to attach a report and an auditor's opinion regarding the effectiveness of internal control</u>**

In light of the fact that the Company is a "small corporation", as defined in Regulation 5C of the Reports Regulations, on March 27, 2023, the Company's board of directors resolved to adopt the expedient specified in Regulation 5D of the Reports Regulations regarding the exemption from the requirement to attach a report regarding the effectiveness of control (ISOX) (including the requirement to attach an auditor's opinion).

3. <u>Disclosure provisions regarding the corporation's financial reporting</u>

3.1. **<u>Non-inclusion of separate financial information in the financial statements</u>**

In light of Amendment No. 2 to the Reports Regulations, 5782-2022, the Company is not obligated to attach separate (stand-alone) financial statements pursuant to Regulation 38D of the Reports Regulations.

3.2. **<u>Use of critical accounting estimates</u>**

For additional details regarding the use of critical accounting estimates, see Note 4 in Chapter C of the periodic report for 2022.

3.3. **<u>Details regarding the exposure to and management of market risks</u>**

3.3.1. **<u>Individual responsible for the management of market risks in the corporation</u>**

The individual responsible for managing market risks in the Company is the Company's CFO, Mr. Yossi Salomon. For additional details, see Regulation 21 in Chapter D of the periodic report for 2022.

3.3.2. **<u>Description of market risks</u>**

For additional details, see Note 27 in Chapter C of the periodic report for 2022.

3.3.3. **<u>Company policy regarding the management of market risks, and oversight and implementation thereof</u>**

For additional details, see Note 2 in Chapter C of the periodic report for 2022.

3.3.4. **<u>Linkage bases and sensitivity tests</u>**

For additional details, see Note 27 in Chapter C of the periodic report for 2022.

3.3.5. **<u>Board of directors' remarks</u>**

As of June 30, 2023, the Company is exposed, in the amount of approximately USD 10.6 million, to changes in exchange rates. The exposure is mostly due to liabilities in respect of office rentals and trade payables. The Company's balances in cash and short term deposits in foreign currency amount to approximately USD 42.3 million.

The Company's board of directors and management would like to express their appreciation to the Company's employees and managers for their contributions and dedication to the promotion of the Company's activities.

Asher Levy, Chairman of the Board	**Rami Reshef, CEO**

Petach Tikva, August 30, 2023.

Gencell Ltd.

Condensed Consolidated Financial Statements
As of June 30, 2023

(Unaudited)

Table of Contents

A REVIEW REPORT OF THE INDEPENDENT AUDITORS' TO THE SHAREHOLDERS OF GENCELL LTD.

Introduction

We reviewed the accompanying financial information of Gencell Ltd. and its subsidiary (hereinafter: the "Group"), which includes the condensed consolidated statement of financial position as of June 30, 2023, and the related condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the six month period then ended. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting" and they are also responsible for the preparation of this interim financial information in accordance with Chapter D of Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, August 30, 2023.

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Gencell Ltd.

Condensed Consolidated Statements of Financial Position

	Note	As of June 30 2023	As of June 30 2022	As of December 31 2022
		USD in thousands (Unaudited)		USD in thousands (Audited)
Assets				
Current assets				
Cash and cash equivalents		11,848	24,026	10,574
Short term deposits		31,594	50,374	48,378
Trade receivables	3D	4,228	955	5,450
Other receivables		2,779	3,285	2,395
Inventory		5,243	2,955	3,135
Total current assets		55,692	81,595	69,932
Non-current assets				
Restricted deposit		1,675	1,796	1,788
Right-of-use assets, net		7,804	8,411	7,997
Long term loan which was given, net	3F	-	-	683
Fixed assets, net		3,401	6,310	3,577
Asset in respect of employee benefits		11	-	-
Other intangible assets, net		-	8,136	-
Total non-current assets		12,891	24,653	14,045
Total assets		68,583	106,248	83,977
Liabilities and equity				
Current liabilities				
Current maturities of lease liabilities		1,303	1,501	1,265
Trade payables		2,178	2,166	2,493
Derivative financial instruments		1,321	1,925	1,584
Other payables		3,763	3,950	4,214
Total current liabilities		8,565	9,542	9,556
Non-current liabilities				
Lease liabilities		6,234	6,946	6,777
Liabilities in respect of employee benefits		-	49	5
Liabilities in respect of grants		806	663	706
Total non-current liabilities		7,040	7,658	7,488
Equity				
Share capital and addtional paid in Capital		323,657	321,992	322,949
Other capital reserves		24,872	23,687	24,510
Accumulated deficit		(295,551)	(256,631)	(280,526)
Total equity		52,978	89,048	66,933
Total liabilities and equity		68,583	106,248	83,977

August 30, 2023			
Approval date of the financial statements	**Asher Levy** **Chairman of the Board**	**Rami Reshef** **CEO**	**Yossi Salomon** **CFO**

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Gencell Ltd.

Condensed Consolidated Statements of Comprehensive Loss

	For the six month period ended June 30		For the year ended December 31
	2023	2022	2022
	USD in thousands		USD in thousands
	(Unaudited)		(Audited)
Revenues	485	1,235	7,403
Cost of sales	3,917	3,421	10,054
Gross profit (loss)	3,432	2,186	2,651
Research and development expenses, net	6,305	4,317	7,856
Selling and marketing expenses	2,199	2,881	5,320
General and administrative expenses	4,239	2,934	6,111
Operating loss	16,175	12,318	21,938
Impairment loss of intangible assets	-	-	11,472
Impairment loss of fixed assets	663	-	3,389
Operating loss after impairment	16,838	-	36,799
Finance income	1,962	1,679	3,515
Finance expenses	133	2,055	3,228
Finance income (expenses), net	1,829	(376)	287
Total loss before other income	15,009	12,694	36,458
Other income, net	8	12	27
Total Loss before taxes on income	15,001	12,682	36,485
Taxes on income	24	99	191
Total loss for the period	15,025	12,781	36,676
Other comprehensive income (loss)	275	(2,000)	(1,658)
Total comprehensive loss for the period	14,750	14,781	38,334
Loss per ordinary share with a par value of NIS 0.1, basic and diluted	0.14	0.12	0.34
Weighted average of share capital used to compute basic and diluted loss per share	107,568,016	106,725,782	107,508,908

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Gencell Ltd.

Condensed Consolidated Statements of Changes in Equity

	Ordinary share capital	Additional Paid in Capital	Capital reserve in respect of cash flow hedge	Capital reserve in respect of share-based payment transactions	Capital reserve in respect of transactions with shareholders	Accumulated losses	Total
				USD in thousands			
For the six month period ended June 30, 2023 (unaudited)							
Balance as of January 1, 2023	313	322,636	(1,586)	24,649	1,447	(280,526)	66,933
Loss for the period	-	-	-	-	-	(15,025)	(15,025)
Other comprehensive income (loss)	-	-	275	-	-	-	275
Total comprehensive income (loss) for the period	-	-	275	-	-	(15,025)	(14,750)
Share-based payment	-	-	-	1,729	-	-	1,729
Forfeited options	-	-	-	(939)	-	-	(939)
Expired options		659	-	(659)	-	-	-
Exercised options	-	49	-	(44)	-	-	5
Total equity as of June 30, 2023	313	323,344	(1,311)	24,736	1,447	(295,551)	(52,978)
For the six month period ended June 30, 2022 (unaudited)							
Balance as of January 1, 2022	276	286,889	72	21,387	1,447	(243,850)	66,221
Loss for the period	-	-	-	-	-	(12,781)	(12,781)
Other comprehensive income (loss)	-	-	(2,000)	-	-	-	(2,000)
Total comprehensive income (loss) for the period	-	-	(2,000)	-	-	(12,781)	(14,781)
Share-based payment	-	-	-	3,066	-	-	3,066
Forfeited options	-	-	-	(46)	-	-	(46)
Exercised options	-	271	-	(239)	-	-	32
Share issuance (after deducting issuance costs of USD 1,269 thousand)	37	34,519	-	-	-	-	34,556
Total equity as of June 30, 2022	313	321,679	(1,928)	24,168	1,447	(256,631)	89,048

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Gencell Ltd.

Condensed Consolidated Statements of Changes in Equity

	Ordinary share capital	Additional Paid in Capital	Capital reserve in respect of cash flow hedge	Capital reserve in respect of share-based payment transactions	Capital reserve in respect of transactions with shareholders	Accumulated losses	Total
	USD in thousands						
For the year ended December 31, 2022							
Balance as of January 1, 2022	276	286,889	72	21,387	1,447	(243,850)	66,221
Loss for the period	-	-	-	-	-	(36,676)	(36,676)
Other comprehensive income	-	-	(1,658)	-	-	-	(1,658)
Total comprehensive loss for the period	-	-	(1,658)	-	-	(36,676)	(38,334)
Share-based payment	-	-	-	4,507	-	-	4,507
Forfeited options	-	-	-	(152)	-		(152)
Expired options	-	60	-	(60)	-	-	-
Exercised options	-	1,168	-	(1,033)	-	-	135
Share issuance (after deducting issuance costs of USD 1,269 thousand)	37	34,519	-	-	-	-	34,556
Total equity as of December 31, 2022	313	322,636	(1,586)	24,649	1,447	(280,526)	66,933

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Gencell Ltd.

Condensed Consolidated Statements of Cash Flows

	For the six month period ended June 30		For the year ended December 31
	2023	2022	2022
	USD in thousands		USD in thousands
	(Unaudited)		(Audited)
Cash flows from operating activities			
Loss for the period	(15,025)	(12,781)	(36,676)
Adjustments required to present cash flows for operating activities	(67)	583	14,693
Net cash for operating activities	(15,092)	(12,198)	(21,983)
Cash flows from investing activities			
Changes in restricted deposit	157	150	165
Change in short term deposit	17,500	(7,389)	(5,269)
Investment in intangible asset	-	(2,519)	(5,230)
Investment in fixed assets	(672)	(520)	(2,062)
Net cash for investing activities	16,985	(10,278)	(12,396)
Cash flows from financing activities			
Proceeds from exercised options	5	33	135
Consideration from share issuance, after deducting issuance costs	-	34,556	34,556
Payment of royalties in respect of received grants	-	(2)	(8)
Interest payment in respect of lease	(96)	(106)	(218)
Repayment of lease liabilities	(590)	(584)	(1,186)
Net cash from financing activities	(681)	33,897	33,279
Net increase (decrease) in cash and cash equivalents	1,212	11,421	(1,100)
Impact of exchange rate changes in respect of cash balances held in foreign currency	62	724	(207)
Cash and cash equivalents at beginning of period	10,574	11,881	11,881
Cash and cash equivalents at end of period	11,848	24,026	10,574
Material non-cash activities			
Non-cash purchase of fixed assets	31	675	131
Recognition of right-of-use asset against lease liability	244	1,052	1,118
Non-cash investing activities	-	490	1,116

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Gencell Ltd.

Condensed Consolidated Statements of Cash Flows

	For the six month period ended June 30		For the year ended December 31
	2023	2022	2022
	USD in thousands		USD in thousands
	(Unaudited)		(Audited)
Annex A - Adjustments required to present cash flows for operating activities			
Income and expenses not associated with cash flows:			
Depreciation and amortization	840	691	1,286
Tax expenses	24	99	191
Impairment loss of intangible asset	-	-	11,472
Impairment loss of fixed assets	663	-	3,389
Provision for credit losses	1,306	-	-
Exchange differences on cash balances	62	(724)	207
Interest income and linkage differentials	(1,109)	(1,348)	(1,372)
Expenses in respect of share-based payment	791	2,730	3,805
	2,577	1,448	18,978
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	1,222	1,392	(3,103)
Increase in other receivables	(949)	(3,025)	(826)
Increase (decrease) in the net provision for severance pay	(16)	34	(11)
Increase in inventory	(2,108)	(1,441)	(1,621)
Increase (decrease) in trade payables	(346)	(336)	536
Increase (decrease) in other payables	(423)	2,610	931
	(2,620)	(766)	(4,094)
Taxes paid	(24)	(99)	(191)
	(67)	583	14,693

The accompanying notes to the condensed consolidated financial statements are an integral part thereof.

Note 1 - General

A. Description of the Company:

Gencell Ltd. (hereinafter: the "Company" or the "Group") was incorporated and registered in Israel on February 21, 2011, in accordance with the provisions of the Companies Law, as a private company limited by shares, under its current name.

As of the approval date of the financial statements, the Company is a producing technology company which is engaged in the planning, development, production, marketing and provision of after sale services for alkaline fuel cell-based backup and power supply systems featuring the production of green energy without creating carbon dioxide emissions. The Company is developing the fuel cells in response to the growing need for energy based on oil substitutes. The Company's activity takes place in its offices in Petach Tikva. The Company holds a wholly owned subsidiary, Gencell Inc., which is incorporated in the United States, and which commenced activity in July 2023 (for additional details regarding the subsidiary, see Note 3K).

On November 18, 2020, the Company completed an initial public offering of its shares by virtue of the prospectus, in which the Company's shares were listed on the stock exchange, and accordingly, the Company became a public company, as this term is defined in the Companies Law, and also a reporting corporation, as this term is defined in the Securities Law.

B. State of the Company's Business Affairs

During the period ended June 30, 2023, comprehensive loss arose for the Company in the amount of approximately USD 14,750 thousand, as well as cash outflows from operating activities in the amount of approximately USD 15,092 thousand, and as of June 30, 2023, the Company has working capital in the amount of approximately USD 47,127 thousand. The Company is exposed to a number of risks, including uncertainty regarding demand, the distribution channels and the market penetration of the Company's products, the effects of technological changes, competition, and the development of new products. Company management expects that it will continue accumulating losses due to its future activities, which will result in cash outflows from operating activities, in connection with the development and marketing of its products, while increasing business development efforts. According to the assessment of Company management, as of the approval date of these financial statements, the Company has sufficient sources to ensure its continued activity as a going concern, and to service its liabilities in the foreseeable future.

Note 2 - Significant Accounting Policies

Preparation basis of the financial statements

The condensed interim consolidated financial statements (hereinafter: the "Interim Financial Statements") were prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" (hereinafter: "IAS 34").

In preparing these interim financial statements, the Group adopted an accounting policy, presentation rules and calculation methods which were identical to those that were applied in the preparation of its financial statements as of December 31, 2022, and for the year then ended (hereinafter: the "Annual Reports").

The condensed consolidated financial statements were prepared in accordance with the disclosure provisions prescribed in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Note 3 - Significant Transactions and Events During and After the Reporting Period

A. On January 15, 2023, Mr. Hadar Himmelman began serving as the Company's VP Business. For additional details, see Note 28 (8) to the financial statements for 2022.

B. In April 2023, Mr. Boaz Ezer began serving as the Company's VP Product Development. For additional details, see Note 28 (9) to the financial statements for 2022.

C. In April 2023, Mr. Amit Ashkenazi concluded his tenure as the Company's VP Sales.

D. Further to that stated in Note 15D to the financial statements for 2022, in the first half of 2023, the Company was contacted by a corporation which is in negotiations towards the acquisition of ownership interests in EV Motors Ltd. ("EVM" and the "Acquiring Corporation"), which undertook towards the Company to pay EVM's entire debt, whether independently or by EVM, by the end of 2023. In light of the foregoing, the Company collected from the acquiring corporation a total of NIS 5 million (approximately USD 1.4 million), and did not redeem the check which was received from EVM in the amount of USD 3.7 million, payable as of April 30, 2022. The Company also received from the acquiring corporation four deferred checks in the amount of approximately NIS 1 million (approximately USD 270 thousand each, and in total, NIS 4 million (approximately USD 1.1 million). On July 16, 2023, the Company collected from EVM an additional total of NIS 1 million (approximately USD 270 thousand). As of June 30, 2023, the balance of EVM's debt amounted to a total of approximately USD 4,113 thousand, after deducting a provision for expected credit losses in the amount of approximately USD 145 thousand.

E. On March 27, 2023, the Company's board of directors approved, after approval was received from the Company's compensation committee on March 20, 2023, to grant to several executives of the Company grants in respect of 2022, in accordance with the provisions of the Company's compensation policy, and to update their employment agreements for 2022. For additional details, see Note 27 to the financial statements for 2022.

F. Further to that stated in Note 15C to the financial statements for 2022, in March 2023, the Company collected from the local partner, within the framework of the CFE transaction, a total of approximately USD 50 thousand. After the balance sheet date, the Company collected from the customer an additional total of USD 50 thousand. As of the reporting date, the local partner has not yet paid the loan payments, and its balance stands at approximately USD 2.8 million. In light of the foregoing, and in light of the doubts regarding the collection of this amount, the Company recognized an additional provision for credit losses in an additional amount of approximately USD 1.3 million, such that the balance of the loan, after deducting the provision for credit losses, was written off in full, and the Company also decided not to recognize income in the amount of approximately NIS 350 thousand from the local partner in the first half of 2023.

G. On March 27, 2023, the Company's board of directors approved, after approval was received for this purpose from the compensation committee, the adoption of the 2023 equity compensation plan, by virtue of which the Company will be entitled to grant to employees and/or service providers of the Company, and/or to companies under its control, restricted share units (RSU's) and/or options at a scope of 11,320,850 RSU's and/or share options.
Additionally, on March 27, 2023 and April 19, 2023, the Company's board of directors approved, after approval was received for this purpose from the Company's compensation committee, the following issues:

(1) Repricing of 1,045,852 unlisted options which were granted in the past by virtue of the Company's 2016 options plan, employees and service providers of the Company, except for officers and directors, with the exercise price of those options ranging from USD 2.39 to USD 4.75, such that the exercise price will be updated to a price of USD 0.57 (around NIS 2.1). It is noted that the update to the exercise price was implemented in practice in respect of 881,243 unlisted options. Due to the repricing, the Company will recognize expenses in the amount of approximately USD 53 thousand in its financial statements, of which a total of approximately USD 34 thousand was recognized in these reports;

(2) Repricing of 1,860,218 unlisted options which were granted by virtue of the Company's 2016 options plan, to 6 officers in the Company, with the exercise price of those options ranging from USD 2.39 to USD 3.9, such that the exercise price will be updated to a price of USD 0.57 (around NIS 2.1), by way of cancellation and re-allocation. Due to the repricing, the Company will recognize expenses in the amount of approximately USD 109 thousand in its financial statements, of which a total of approximately USD 61 thousand was recognized in these reports;

Note 3 - Significant Transactions and Events During and After the Reporting Period (Cont.)

(3) Approval of an allocation of 193,000 unlisted options to an officer of the Company by virtue of the 2016 options plan, at an exercise price of USD 0.57 (approximately NIS 2.1) per share, vesting over a period of four years, each of which is exercisable into one ordinary Company share with a par value of NIS 0.01, in accordance with the Company's employee options plan. The benefit value in respect of these grants amounted to a total of approximately USD 81 thousand. The parameters which were used in applying the Black Scholes model to the allocation described in the above section were as follows: Company share price as of the grant date - USD 0.51, risk-free interest rate - 3.8%, expected volatility - 92.1%, projected period of the options - 10 years. Expected dividend rate: 0%.

(4) Approval of an allocation of 4,916,905 RSU's, which will be allocated to 16 employees of the Company, including officers in the Company, in accordance with the 2023 equity compensation plan; It is noted that 4,800,236 RSU's were allocated in practice. The benefit value in respect of these grants amounted to a total of approximately USD 2,736 thousand.

On June 5, 2023, the Israel Tax Authority issued a ruling regarding the repricing of the options.

H. At the end of the first half of 2023, the Company recognized impairment in the amount of approximately USD 663 thousand in respect of fixed assets. The impairment loss was recognized in the statement of income under the item for impairment of fixed assets. The above impairment was recognized due to the decline in the share price, which represented a value for the Company that was less than the value of its equity in the financial statements as of June 30, 2023. In light of the above, the Company performed a valuation of the fixed assets through an external valuer.

I. During the first half 18,008 options were exercised, with an exercise addition of USD 0.27.

J. The Company has a wholly owned subsidiary, Gencell Inc., which is registered in Delaware, USA, in 2017, and which was inactive until recently. In July 2023, the subsidiary commenced activity, and in August 2023, bank accounts were in the United States were opened, owned by the subsidiary, to which the Company transferred a total of approximately USD 5 thousand. The subsidiary was established for the purpose of operating and expanding all of the Company's business activities in North America and the surrounding area.

K. On April 20, 2023, the Company announced that Sonol Israel Ltd. had become an stakeholder in the Company, due to an over-the-counter acquisition of 4,952,471 ordinary Company shares from Ben Zion (Benny) Landa, a director in the Company, who, in light of the sale which formed the subject of the transaction, ceased being a director in the Company, and since that date, the Company has been

Executive Declarations

Declaration of the CEO in Accordance with Regulation 38(d)(1) of the Reports Regulations:

I, Rami Reshef, hereby declare that:

1. I have reviewed the periodic report of Gencell Ltd. (hereinafter: the "**Company**") for the first half of 2023 (hereinafter: the "**Reports**");
2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and are not missing any representation of any material fact, which is required in order to ensure that the representations included therein, in light of the circumstances in which those representations were included, are not misleading with reference to the period of the reports;
3. To the best of my knowledge, the financial statements and other financial information included in the reports adequately reflect, in all material respects, the Company's financial position, operating results and cash flows as of the dates and for the periods to which the reports refer;
4. I have disclosed to the Company's auditor, and to the Company's board of directors, audit committee and financial statements review committee, any fraud, whether material or immaterial, involving the CEO or anyone directly reporting to him, or involving any other employees who have significant responsibilities regarding financial reporting and internal control over financial reporting and disclosure;

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

Date: August 30, 2023

Rami Reshef, CEO

Declaration of the Most Senior Officer in the Finance Department in Accordance with Regulation 38c(d)(2) of the Reports Regulations:

I, Yossi Salomon, hereby declare that:

1. I have reviewed the financial statements and the other financial information which is included in the interim reports of Gencell Ltd. (hereinafter: the "**Company**") for the first half of 2023 (hereinafter: the "**Reports**" or the "**Interim Reports**");
2. To the best of my knowledge, the financial statements and the other financial information which is included in the interim reports do not include any incorrect representation of any material fact, and are not missing any representation of any material fact, which is required in order to ensure that the representations included therein, in light of the circumstances in which those representations were included, are not misleading with reference to the period of the reports;
3. To the best of my knowledge, the interim financial statements and other interim financial information included in the reports adequately reflect, in all material respects, the Company's financial position, operating results and cash flows as of the dates and for the periods to which the reports refer;
4. I have disclosed to the Company's auditor, and to the Company's board of directors, audit committee and financial statements review committee, any fraud, whether material or immaterial, involving the CEO or anyone directly reporting to him, or involving any other employees who have significant responsibilities regarding financial reporting and internal control over financial reporting and disclosure;

The foregoing does not derogate from my liability, or from the liability of any other person, in accordance with any applicable law.

Date: August 30, 2023

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Yossi Salomon, CFO