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**Gencell Ltd.**

**Interim Reports for the Period Ended**

**June 30, 2022**



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## **Board of Directors’ Report Regarding the State of the Company’s Affairs** **For the Six Month Period Ended June 30, 2022**

The Company’s board of directors is honored to present the board of directors’ report regarding the state of the Company’s affairs for the six month period ended June 30, 2022 (the “**Reporting Period**” and the “**Reporting Date**”, respectively), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

All of the data presented in this report refer to the interim financial statements, unless noted otherwise.

The board of directors’ report includes a limited review of the issues covered herein. It is hereby clarified that the description which is included in the board of directors’ report includes only information which the Company considers material information, and it was prepared based on the assumption that the reader is in possession of the periodic report for 2021, including the board of directors’ report for that year, as published on March 30, 2022 (reference number: 2022-01-032313). The above constitutes inclusion by way of reference (the “**Periodic Report for 2021**”) and the board of directors’ report as of March 31, 2022, as published on May 24, 2022 (reference number: 2022-01-063496). The above constitutes inclusion by way of reference (the “**Board of Directors’ Report as of March 31, 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 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, in response to the growing need for green energy as an alternative to internal combustion engines based on oil substitutes. 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 Company has

installed and sold its products to strategic customers, and is currently in the feasibility stage vis-à-vis customers who are evaluating the systems' performance as a precondition for making significant purchases. As of the reporting date, the Company employs 145 employees, an increase of approximately 18% relative to the end of 2021, including experts in the field of alkaline fuel cells.

During the reporting period the Company recorded significant progress in its activities, both on the business-strategic level and on the technological level in terms of the research and development of its products, as described below:

**On the business-strategic level -**

As described below, during the reporting period the Company continued developing the foundation for various collaborations, including several joint installations in Israel and around the world with other leading players in the Company's areas of interest, including telecom companies, electric and energy companies, and electric vehicle charging companies, in order to create a foundation for marketing the Company's products in accordance with possible commercial agreements between the Company and other international players. The Company expects that the current order backlog, together with the continued success of installations (POC) for customers and business collaborations, will help the Company meet its business targets for 2022.

- A. Further to the installation and supply of 74 REX systems to The Federal Electric Company of Mexico ("CFE"), during the reporting period the Company recognized revenue in the amount of approximately USD 472 thousand, and collected a total of approximately USD 2.8 million (including USD 1 million which was received after the balance sheet date). As of the reporting date, the loan which the Company provided to the local partner in Mexico has not yet been repaid, and it amounts to a total of approximately USD 2.7 million. The provision for expected credit loss in respect of this loan is in an amount of USD 1.5 million. The Company is also continuing negotiations with CFE management on continued purchasing, during the coming years, of the Company's systems for backing up critical facilities on CFE's power grid.
- B. On June 2, 2022, the Company completed the first stage as determined in the collaboration agreement with EV Motors Ltd. ("EV"), in which the Company supplied 4 of the Company's REX systems to EV, for a total consideration of USD 400 thousand. During the reporting period, and in accordance with the agreement with EV, it was agreed between the parties that EV would acquire, through a subsidiary which it controls, tens of additional fuel cell systems

adapted to the specific needs of the hybrid vehicle MN charging systems of EV's subsidiary, which will be installed in electric vehicle charging stations that EV will install in its facilities, or for its customers, including vehicle fleets, commercial centers, hi-tech companies, and more. The Company, together with EV, is preparing for installation at several sites in parallel throughout Israel, from the north to the south. The estimated consideration which the Company expects to receive in respect of the aforementioned sale of its systems amounts to USD 5 million. From the Company's perspective, the completion of the first stage of the collaboration agreement, along with the installation of the charging stations, as described above, constitute proof of the Company's ability to produce and supply clean, emission-free energy solutions at hybrid autonomous electric vehicle charging stations which are not connected to the national power grid. The Company is working on engaging with additional companies outside of Israel, with the Company's installations in Israel serving as proven examples of the system's functionality. For additional details, see the Company's immediate report dated June 2, 2022 (reference number 2022-01-069163). The above constitutes inclusion by way of reference.

- C. The Company has engaged with European telecommunication companies, in addition to Deutsche Telekom, and also with companies which operate in the energy services segment in Canada and in the United States, with respect to the gas transmission industry, to supply green energy backup solutions based on the Company's fuel cells. The Company has completed the installation of 3 preliminary installations in North America, at suppliers of energy services for the gas transmission industry, for evaluation and presentation to their customers. One of North America's leading gas transmission suppliers evaluated the Company's backup systems throughout a period of approximately 8 months, including under extreme conditions of -40 degrees Celsius. The backup system very successfully met all of the minimum conditions, throughout the entire test.
- D. In order to allow the Company to provide local services to companies providing energy services, to the gas transmission industry, the Company signed distribution and support agreements with RedHawk Energy and Westgen, two of the major distribution and engineering companies in the North American gas transmission market.
- E. During the reporting period, the Company engaged in important transactions involving the preliminary provision of the Company's systems to the Company's marketers and to end customers in the telecom and critical systems backup market, including Milani S.p.A, a

leading Italian corporation which is engaged in the planning and management of electrical engineering projects, for the Canadian ONEC group which provides unique engineering, construction, purchasing and maintenance services, in which the Company supplied and installed the BOX system.

In the telecom market, the Company successfully completed, through SimTel TEAM, an energy and telecom provider for companies in Central Europe, a field trial of the FOX system at a mobile telecom site in Romania, which is operated by Vodafone Telekom (“VD”), and in light of the reliable and satisfactory results of the field trial, which display the Company’s capability to provide VD with a solution that suit VD’s needs, VD intends on presenting the Company’s systems to its different divisions. . The Company is also engaged, in collaboration with Aicox Soluciones, a conglomerate of technology and telecom companies, in an agreement with a Spanish corporation which provides maintenance services for telecom towers, regarding the integration of the BOX system, as a first stage for significant potential orders. For additional details, see the Company’s immediate reports dated July 26, 2022 and August 29, 2022 (reference numbers: 2022-01-095116 and 2022-01-109456, accordingly). The above constitutes inclusion by way of reference.

- F. The Company increased its operational efforts to strengthen and increase the efficiency of its production line in order to allow it to fulfill the Company’s production forecast, and implemented an inventory policy which guarantees raw materials and items for continuous supply, in order to address the shortage of raw materials and logistical problems. During the reporting period the Company received two machines for the electrode manufacturing line which are in advanced stages of installation and configuration, and which will help the Company produce electrodes faster, and will support the production of the Company’s products - BOX and G10. The Company estimates that the machines will commence operation in the fourth quarter of 2022, and are expected to increase the electrode production capacity while significantly reducing workforce, by virtue of its automatic functionality, which is supported by advanced robotics, an– will also reduce the potential depreciation that is caused during the electrode production process.
- G. As of the publication date of the report, the Company has an order backlog for the purchase of its systems in an amount exceeding USD 7 million, and it estimates that it will successfully fulfill the majority of those orders already in the second half of 2022, and the Company estimates that it is expected to meet the projections for 2022 in the amount of 9 million dollars.

### **On the level of technology, research and development -**

During the reporting period, the Company continued investing significant efforts and resources in research and development, and made significant achievements which resulted in significant progress and breakthroughs in several areas. A. The Company continued promoting the intensified development of a fuel cell with a capacity of 10KW, which will allow it to expand its array of offered products in its operating markets to a capacity of 10KW and above, and also to enter new markets in which it is not currently engaged. The development of this product is taking place in accordance with the Company's plan, whilst during the term of this report, the development of the prototype has been completed, which includes the development of a new fuel cell based on a new electrode, with obtains substantially greater energy efficiency capabilities than the existing electrode, and will thereby allow the Company to present a product with a better cost per kilowatt ratio. The GenCell OX™ system 10KW fuel cell is currently being operated in the Company's laboratories as part of the development plan. The Company expects the launch and marketing of the GenCell OX™ product to begin in 2023.

B. Further to a strategic collaboration agreement which was signed with the Japanese company TDK, regarding TDK's participation in the Company's "green ammonia" project, on February 27, 2022, the Company notified TDK that it had achieved a significant technological breakthrough, will be added the production of green ammonia directly from water under very low pressure and temperature relative to the ammonia production processes which are currently available around the world. Accordingly, TDK notified the Company, after evaluating the aforementioned breakthrough, of its intention to exercise its rights to continue investing in the project, in accordance with the terms of the agreement, for the purpose of continuing the development of the project within the framework of the next milestone. This innovative technology will allow the Company to offer its customers a comprehensive solution which includes producing the fuel (green ammonia), and using it at the electricity production point. This technology will be added to the Company's value offer, which is based on the provision of fuel cells for various uses, thereby facilitating an autarkic green economy. The Company intends to use this technology in a manner which will allow the production of green ammonia (the fuel) for the Company's customers at the electricity production point, resulting in savings of the entire logistics activity involved in bringing and storing ammonia in the sites where the Company's fuel cells are located. The development of green ammonia production also constitutes, from the Company's perspective, the first step indicating its intention to enter the

clean fuel production segment as well, which the Company believes will be a unique and very significant business opportunity in the coming years. The Company believes that the increasing use of hydrogen as the fuel of the future will drive initiatives to find ways to transport and store it, with green ammonia being one way of efficiently storing energy in hydrogen form. The Company also believes that the possibility to produce green ammonia at the points of use will open up the possibility of offering this technology to the main segments of the ammonia market, including agriculture, industry, and others. The Company believes that its capabilities in terms of the development of catalysts to operate in hydrogen environments will boost its position in this continuously evolving market. For additional details regarding the strategic collaboration, see section 29.5 in Chapter A of the periodic report for 2021.

C. During the reporting period, and further to the engagement in the strategic agreement with the Icelandic telecommunication company Neyðarlínan (the “**Icelandic Telecom Company**”), which operates an emergency communication service center in Iceland through hundreds of telecom sites, the parties evaluated the possibility of operating the FOX system at a live telecom site in which the FOX system is responsible for supplying continuous energy 24/7, in varying weather conditions, during the first half of 2022 (the “**Additional Installation**”), the parties are continuing to evaluate the system, which is operating continuously at a live telecom site. It was further agreed that subject to the success of the trial involving the Additional Installation, the Icelandic Telecom Company will purchase and operate the Company’s systems in its stations. For additional details, see section 29.9 in Chapter A of the periodic report.

D. As part of the strategic collaboration agreement with Deutsche Telekom (the “**Collaboration Agreement**”), it was determined that Deutsche Telekom will evaluate the G5 system in accordance with a predetermined outline, to be carried out in two stages, whereby in the first stage a trial was conducted under a load simulating a cellular facility at the Company’s site for around one week, which was completed in on November 10, 2021. In light of the success of the first stage, as described above, and in accordance with the provisions of the collaboration agreement, the Company was recognized as an official supplier of Deutsche Telekom, and the G5 and BOX systems became products approved for purchase for all member companies of DT Group around the world. Following Deutsche Telekom’s purchase of the first systems, the parties began implementing the second stage, in which the parties are conducting a field trial in four active cellular sites of Deutsche Telekom, whereby during this period the evaluation of the system will continue under various work scenarios, which will be

defined by the parties through integration of the system into the various transmission systems that are used by Deutsche Telekom.

Additionally, in accordance with the collaboration agreement, in 2021 Deutsche Telekom began a field trial in Israel of the FOX system, which swerves as the main energy source, and which operates based on ammonia used as fuel. The trial is being conducted in accordance with metrics which were determined between the parties. As of the publication date of this report, the Company has completed the stage A trial, in which the system successfully fulfilled the minimum conditions of 1,000 hours of continuous operation, while fulfilling the energy profile that was established by Deutsche Telekom. The system is currently in the final phases of stage B of the trial, which is intended to evaluate the system's operation under an extreme performance profile, as defined by Deutsche Telekom (this trial will be concluded before the end of the third quarter). In accordance with the provisions of the collaboration agreement, subject to the field trial's success, the Company will be recognized as an official supplier of Deutsche Telekom, and the FOX system will become an approved product for purchase for all member companies of DT Group around the world. From the Company's perspective, the completion of Deutsche Telekom's tests on the Company's systems in accordance with the collaboration agreement constitutes a significant indication of the success of the technology which the Company developed, and of its products, and will contribute to the Company's ability to sell its products to member companies of DT Group around the world. The Company also believes that this success will contribute to allowing the Company to supply hydrogen-based energy backup solutions and ammonia-based continuous energy solutions to the global telecom market, which is estimated at tens of billions of USD, in accordance with the Company's goals and business strategy. For additional details regarding the collaboration agreement with Deutsche, see section 29.10 in Chapter A of the periodic report.

**It is clarified that the information and forecasts presented above, including the collaborations within the framework of the green ammonia project, if they materialize, the materialization of strategic collaborations with TDK, the Icelandic Telecom Company, Deutsche Telekom, EV, and others, regarding the sale of additional products of the Company, the receipt of potential additional orders, and the assistance and promotion thereof in the Company's commercial processes, the Company's production capability, the ability to deliver its systems by the dates it has estimated, and the amount of forecasted revenues for 2022, constitute forward looking information, as this term is defined in the Securities Law, and these forecasts may not materialize, in whole or in part, or may**

**materialize differently from the forecast. The Company's estimates and forecasts are based on the information which is currently available to the Company with respect to its activities, and are not under the Company's control.**

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

### **1.2.1 Impact of the coronavirus pandemic**

Further to that stated in section 1.2 of the board of directors' report as of March 31, 2022, during the reporting period there was a decrease, and later an increase, in the infection rate and in the rate of spread of the coronavirus, while as of the publication date of the report, a strain of the coronavirus known as BA5 began spreading around the world and in Israel, which led to a new increase in infections. There is still significant uncertainty in connection with additional "waves" of infection, the imposition and/or lifting of restrictions, completing the process of vaccinating the entire population, improving the effectiveness of vaccines against new mutations and/or strains of the coronavirus, and the development of effective drugs against the coronavirus, and in connection with the manner and duration of the recovery from the crisis, and the frequent changes occurring therein.

The Company believes that the range of exit scenarios from this crisis is broad, and mostly depends on several factors which are not under the Company's control, including, inter alia, the scope of restrictions on business activity, and the level of support given by various governments in economies around the world.

The Company believes that the continuation and intensification of the spread and/or the means to reduce such exposure could have significant negative effects on the Company's business affairs, activities and financial results. The possible implications, and the Company's risk factors due to a deterioration in economic conditions, including a recession, economic downturn, and economic uncertainty, may be reflected in the availability and dates of provision of raw materials, and sharp changes in the prices thereof, a workforce shortage, and accordingly, in reduced capability to produce and send the Company's products to its customers.

### **1.2.2 Russia-Ukraine war**

Further to that stated in section 1.3.1 of the board of directors' report as of March 31, 2022, on February 24, 2022, Russia invaded the territorial area of Ukraine, and initiated a war

which is still ongoing as of the publication date of the report. In response to the invasion, Western countries imposed various financial and economic sanctions on Russia and its citizens. The war has caused, and is still causing, adverse effects on economic activity around the world, with the most significant adverse effects, along with the sanctions which were imposed, as stated above, affecting the availability and prices of various goods and raw materials.

The Company receives development services from two service providers which are continuing to provide it with the services, and despite the sanctions which were imposed, as stated above, the Company has succeeded, as of the publication date of the report, in making bank transfers to the service providers' accounts in Russia. The Company also engaged with a Belorussian company which provides services together with the Ukrainian service providers, for the receipt of services involving the development of the catalyst for the FOX system. The effects of the war led to a temporary discontinuation of the services, and as of the publication date of the report, the activity of the Ukrainian service providers is being transferred to a new site in Turkey, from which the Company expects to receive the first systems which were ordered from those service providers. There is currently a great deal of uncertainty in connection with the continuation of the war, and it is impossible to predict when it will conclude. The continuation of the war may result in delays in the development efforts of the aforementioned service providers, and as of the publication date of the report, the Company expects to begin the production of the ammonia development systems in Taiwan, and to build an active trial site there, instead of the sites in Belarus and Ukraine.

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

During the reporting period, the inflation rate passed the upper limit of the Bank of Israel's target. The price increase reflected, inter alia, the increase in global demand, the ongoing disruptions in supply chains, and the war in Ukraine. All of the above resulted in an increase in energy and commodities prices around the world, and in acceleration of the inflation rate in Israel and in many other countries. The spiraling inflation rate resulted in interest rate increases by some of the world's major central banks. As part of the central banks' response to the sharp price increases, some central banks (USA, UK, Israel, and others) began changing their tone regarding the outline of interest rate increases.

As part of interest decisions which were received in the first half of 2022 and until proximate to the publication date of the report, the Bank of Israel decided to increase the interest rate by a total rate of 1.9%, from 0.1%, its level since early 2020, to 2%, in an attempt to respond to the increasing inflation in recent months, and to contain both consumption and the price increases.

Despite the macro-economic forecast which was published by the Bank of Israel's Research Division in July 2022, according to which the interest rate is expected to reach 2.75% by 2023, and the inflation rate is forecasted to be 4.5%<sup>1</sup>, as of the publication date of the report, inflation in Israel is above the target's upper bound, and has been 5.2%<sup>2</sup> during the last twelve months.

the Company believes, as of the publication date of the report, that the inflation rate and the increase in interest rates, as stated above, are not having a significantly adverse impact on the Company's results or activity, including on 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.

**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.**

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<sup>1</sup> <https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/18-07-22.aspx>  
<sup>2</sup> <https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/22-08-2022.aspx>

The Company’s estimates regarding the possible implications of the continued spread of the coronavirus, the continuation of the Russia-Ukraine war, and regarding the possible implications of the inflation rate and rising interest rates 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 the report, with respect to 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 August 29, 2022, the Company’s board of directors approved an allocation of 791,936 unlisted options to 22 employees of the Company, each of which is exercisable into one ordinary share of the Company, by virtue of the outline of issuance to employees in accordance with section 15B(1)(A) of the Securities Law, 5728-1968, and the Securities Regulations (Outline Details of Offer of Securities to Employees), 5760-2000, published by the Company on March 30, 2022<sup>1</sup> and as updated on June 2<sup>nd</sup> 2022<sup>2</sup>, and in accordance with the Company’s employee and officer stock option plan<sup>3</sup> terms, which was approved by the Company’s Board of Directors on July 25, 2016, and amended from time to time accordingly.

### 1.4 Financial position

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

Item	As of June 30		Board of directors’ remarks
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<sup>1</sup> Reference number 2022-01-032781

<sup>2</sup> Reference Number 2022-01-069310

<sup>3</sup> It is noted that the aforementioned allocation is subject to the receipt of approval from the stock exchange for the listing of the shares which will result from the exercise of the aforementioned options, which has not yet been received as of the publication date of the report.

	2022	2021	As of December 31, 2021	
<b>Current assets</b>	81,595	71,915	60,497	The change was mostly due to the balance of cash and short term deposits, which increased due to the proceeds from a private issuance to institutional investors in January 2022 in the amount of approximately USD 34.5 million, after deducting issuance costs. On the other hand, there was a decrease of approximately USD 12 million used for operating activities, and approximately USD 3 million used for investing activities in the purchase of fixed assets and investment in the Company's development projects.
<b>Non-current assets</b>	24,653	16,600	20,151	The increase was mostly due to the capitalization of development costs during the reporting period in the amount of approximately USD 2.5 million, and due to the creation of a right-of-use asset in the amount of approximately USD 1 million due to the increase of the Company's office areas, and investment in fixed assets in the amount of approximately USD 0.5 million.
<b>Total assets</b>	106,248	88,515	80,648	-
<b>Current liabilities</b>	9,542	4,685	6,346	The increase was due to the increase in the liability due to a hedge asset in the amount of USD 1.9 million, as a result of the increase of the USD exchange rate and the increase in the balance of trade payables in the amount of approximately USD 0.4 million, which was mostly due to the purchase of a fixed asset (production machine), and the creation of a lease liability in the amount of approximately USD 1 million with respect to the expansion of the Company's office areas.

<b>Non-current liabilities</b>	7,658	7,840	8,081	The decrease was mostly due to the change in classification of a lease liability, as a result of the higher USD exchange rate.
<b>Total equity</b>	89,048	75,990	66,221	The increase was mostly due to the proceeds from a private issuance to institutional investors in January 2022, in a net total of approximately USD 34.5 million, against the decrease in the amount of USD 1.9 million in the hedging reserve due to exchange rate changes, and the increase of USD 2.8 million with respect to the capital reserve for share-based payment, and loss in the amount of approximately USD 12 million in the period.

### 1.5 Operating results

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

Item	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31, 2021	Board of directors' remarks
	2022	2021	2022	2021		
<b>Sales</b>	1,235	2,801	419	2,766	5,542	The difference in revenue between the periods was mostly due to the recognition of revenue in the amount of USD 2.7 million due to the CFE transaction in H1 2021, as compared with H1 2022, in which revenue was recognized from the CFE transaction with respect to services only, in the amount of

						approximately USD 0.4 million only.
<b>Cost of sales</b>	3,421	3,810	1,785	2,548	8,507	The decrease in the cost of sales was due to the decrease in sales and the resulting impact on this item in the amount of approximately USD 1.9 million, against an increase of USD 1.5 million in payroll expenses, mostly due to the increase in the number of employees (around 14 employees) and production areas.
<b>Gross loss</b>	2,186	1,009	1,366	(218)	2,965	-
<b>Research and development expenses, net</b>	4,317	2,521	1,924	1,085	5,704	The increase was mostly due to the increase in payroll costs in the amount of approximately USD 1 million, and the accelerated rate of progress on several projects in the research stage, in the amount of approximately USD 800 thousand.

<b>Selling and marketing expenses</b>	2,881	2,267	1482	1,052	4,780	The increase was mostly due to increase in payroll expenses, mostly due to the recruitment of new employees, in a total amount of approximately USD 444 thousand, as part of the expansion of the Company's marketing and sales team, and due to marketing expenses, which increased by approximately USD 100 thousand.
<b>General and administrative expenses</b>	2,934	2,397	1,338	1,215	6,973	The increase was mostly due to the recruitment of new employees in the amount of approximately USD 416 thousand, and the increase in overhead expenses due to the expansion of office areas in the amount of approximately USD 110 thousand.
<b>Operating loss</b>	12,318	8,194	6,110	3,352	20,422	The increase in loss was mostly due to the increase in research

						and development expenses of approximately USD 1.8 million, the increase of approximately USD 1 million in gross loss. There was also an increase in marketing, selling, general and administrative expenses in a total additional amount of approximately USD 1.2 million, in accordance with the Company's work plans for 2022.
<b>Finance income (expenses), net</b>	(376)	(444)	632	326	603	The decrease in finance expenses was mostly due to the increase of the USD exchange rate during the first half of 2022, and the increase in finance income, which was mostly due to interest income on deposits and loans.
<b>Other income</b>	12	-	12	-	-	Revenue with respect to the sale of waste and metals.

<b>Taxes on income</b>	99	6	71	3	65	The increase was due to the increase in advance payments for excess expenses which the Company paid in 2022, due to increase in excess expenses in 2022.
<b>Other comprehensive income (loss)</b>	(2,000)	55	(2,317)	66	72	As a result of NIS / USD hedge transactions, the increase in the USD exchange rate led to the recording of finance expenses in the capital reserve. This non-cash flow loss will be offset in the future against payroll expenses which are paid in NIS, but recorded in USD.
<b>Loss for the period</b>	14,781	8,589	7,854	2,745	21,018	-

## 1.6 Liquidity and financing sources

### Analysis of the Company's cash flows

Item	For the six month period ended June 30		For the three month period ended June 30		For the year ended	Board of directors' remarks
	2022	2021	2022	2021		

					December r 31, 2021	
<b>Cash flows from operating activities</b>	(12,198)	(6,645)	(5,573)	(3,039)	(12,010)	The change in cash flows from operating activities was mostly due to: (A) The due to an increase in company's employees number in 2022; (B) The increase in research and development expenses and marketing and advertising efforts due to the expansion of the Company's activity volume; (C) Purchases of equipment and inventory to increase production capability, in order to meet the expected demand in 2022.
<b>Cash flows for investing activities</b>	(10,278)	(23,694)	12	(22,536)	(23,174)	The decrease in cash flows for investing activities was due to the fact that, during the reporting period, deposits were invested in the amount of USD 7 million, as compared with the investment in deposits in the amount of USD

						19.5 million in the corresponding period last year, and due to the increase in development costs and the investment in fixed assets.
<b>Cash flows from financing activities</b>	33,897	13,492	(342)	13,525	13,206	The increase was mostly due to the proceeds from a private issuance to institutional investors in January 2022, in the amount of approximately USD 34 million, after deducting issuance costs.

#### 1.6.1 Details regarding financing sources

The Company finances its activity out of the proceeds from its initial public offering and the additional public issuance of its shares in accordance with a shelf offering report from April 2021, which was published by virtue of the prospectus from April 2021, as well as the proceeds from the private issuance to institutional investors in January 2022, by way of a material private allocation in accordance with the Securities Regulations (Private Offer of Securities in Listed Company), 5760-2000. For additional details, see section 5 in Chapter A of the periodic report for 2021. For additional details regarding the use of the proceeds from the IPO and the additional issuance, see Regulation 10C in Chapter D of the periodic report.

#### 1.6.2 Liquidity

Due to the completion of the issuances and the receipt of the proceeds, the Company will be able to continue its operating activities for a period of approximately 30 - 36 months after the approval date of the financial statements.

## **2. Aspects of corporate governance<sup>1</sup>**

### **2.1 Donations policy and social responsibility**

Further to the description in section 2.1 of the board of directors' report in the periodic report for 2021, the Company is continuing to work on formulating a work plan to implement work and production process which take into account ESG considerations and the assessment of ESG risks in the Company.

### **2.2 Internal enforcement plan**

On May 23, 2022, the Company's board of directors adopted an internal enforcement plan in respect of securities for the Company, in accordance with the criteria for effective enforcement programs which were published by the Israel Securities Authority on August 15, 2011 (the "**Internal Enforcement Plan**"). The plan establishes policies which are intended, inter alia, to regulate major issues such as the manner of publication of immediate reports, identification, approval and reporting of transactions with controlling shareholders and officers, the prohibition against the use of inside information, fraud and manipulation, information management and safekeeping, and the establishment of rules of activity and conduct along with work process which are intended to create controls, methods of handling and learning of lessons with respect to central processes for issues which are addressed in the internal enforcement plan. The enforcement plan was adopted based on an internal survey on enforcement and compliance with securities and corporate laws, which was approved by the Company's board of directors on November 23, 2021. The Company's board of directors appointed the Company's CFO, Mr. Yossi Salomon, as the Company's Internal Enforcement Supervisor.

## **3. Disclosure provisions regarding the corporation's financial reporting**

### **3.1 Non-inclusion of separate financial information in the condensed financial statements**

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<sup>1</sup> It is noted that, in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses for Outside Directors), 5782-2022 (the "**Transitional Provision**"), on May 23, 2022, the Company's Board of Directors established criteria for the classification of participation by directors in some meetings of the board of directors and board committees, which have taken place and will take place via teleconference during the period of the restrictions (as defined in the transitional provision), as participation in ordinary meetings, and accordingly, it classified the participation of the relevant directors in some of those meetings as participation signifying entitlement to compensation for participation in ordinary meetings, in an amount which is insignificant for the Company. It is clarified that the payment with respect to the aforementioned classification has not yet been paid, but is included in the compensation which were recognized in the financial statements.

In light of the amendment to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, the Company is not required to attach a separate (standalone) financial report to the quarterly reports, so long as it has not issued liability certificates to the public. As of the publication date of the report, the Company has not issued any liability certificates to the public.

### **3.2 Use of critical accounting estimates**

There were no changes in the use of critical accounting estimates. For additional details, see Note 3 in Chapter C of the periodic report for 2021.

### **3.3 Details regarding the exposure to and management of market risks**

#### **3.3.1 Individual responsible for the management of market risks in the corporation**

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.

#### **3.3.2 Description of market risks**

For additional details, see Note 27 in Chapter C of the periodic report for 2021.

#### **3.3.3 Company policy regarding the management of market risks, and oversight and implementation thereof**

For additional details, see Note 2 in Chapter C of the periodic report for 2021.

### **3.3.4 Linkage bases and sensitivity tests**

For additional details, see Note 27 in Chapter C of the periodic report for 2021.

### **3.3.5 Events after the date of the statement of financial position pertaining to market risks**

For additional details, see section 1.2.3 above.

### **3.3.6 Board of directors' remarks**

As of June 30, 2022, the Company has exposure in the amount of approximately USD 8 million to exchange rate changes. The exposure was mostly due to liabilities with respect to the rental of offices and trade payables (adjustments required according to IFRS 16), and the balance of payroll expenses for employees as presented in the Company's balance sheets as of the end of, which are paid in NIS. The Company's balances of cash in foreign currency amounted to approximately USD 19.4 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.**

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**Asher Levy, Chairman of the Board**

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**Rami Reshef, CEO**

Petach Tikva, August 29, 2022.

**Gencell Ltd.**  
**Condensed Consolidated Financial Statements**  
**As of June 30, 2022**  
**(Unaudited)**

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## REVIEW REPORT OF THE INDEPENDENT AUDITORS' TO THE SHAREHOLDERS OF Gencell Ltd.

### Introduction

We have reviewed the accompanying financial information of Gencell LTD. and its subsidiary (the "Company") which includes the condensed consolidated financial position as of June 30, 2022, and the related condensed consolidated statements of operations, statements of changes in equity and cash flows for six and three months period then ended at June 30, 2022 and 2021. 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". 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 by the Entity's Auditor". A review of interim financial information consists of inquiries, mostly with the individuals who are responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is significantly limited in scope compared to an audit which is conducted in accordance with generally accepted auditing standards in Israel, and therefore does not allow us to reach assurance that we have become aware of all material issues which may have been identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, we have not become aware of anything which would have caused us to believe that the aforementioned financial information has not been prepared, in all material respects, in accordance with International Accounting Standard (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

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A Firm in the Deloitte Global Network

Tel Aviv, August 29, 2022

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**Gencell Ltd.**  
**Condensed Consolidated Statements of Financial Position**

	<u>As of June 30,</u>		<u>As of</u> <u>December</u> <u>31,</u>
	<u>2022</u>	<u>2021</u>	<u>2021</u>
	<u>USD in thousands</u>		<u>USD in</u> <u>thousands</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>Assets</b>			
<b><u>Current assets</u></b>			
Cash and cash equivalents	24,026	16,262	11,881
Short term deposits	50,374	49,449	42,611
Trade accounts receivables	955	2,724	2,347
Other accounts receivables	3,285	1,852	2,144
Inventory	2,955	1,628	1,514
<b>Total current assets</b>	<b>81,595</b>	<b>71,915</b>	<b>60,497</b>
<b><u>Non-current assets</u></b>			
Restricted deposit	1,796	2,059	1,927
Right-of-use assets, net	8,411	8,029*	7,687
Property and equipment, net	6,310	3,828*	5,411
Other intangible assets, net	8,136	2,684	5,126
<b>Total non-current assets</b>	<b>24,653</b>	<b>16,600</b>	<b>20,151</b>
<b>Total assets</b>	<b>106,248</b>	<b>88,515</b>	<b>80,648</b>
<b>Liabilities and equity</b>			
<b><u>Current liabilities</u></b>			
Current maturities of lease liabilities	1,501	1,254	1,273
Trade accounts payables	2,166	832	1,826
Derivatives	1,925	-	-
Other accounts payables	3,950	2,599	3,247
<b>Total current liabilities</b>	<b>9,542</b>	<b>4,685</b>	<b>6,346</b>
<b><u>Non-current liabilities</u></b>			
Lease liabilities	6,946	7,258*	7,444
Liability for severance pay, net	49	-	16
Liabilities in respect of Government Grants	663	582	621
<b>Total non-current liabilities</b>	<b>7,658</b>	<b>7,840</b>	<b>8,081</b>
<b><u>Equity</u></b>			
Share capital and additional paid-in capital	321,992	285,249	287,165
Other reserves	23,687	22,145	22,906
Accumulated deficit	(256,631)	(231,404)	(243,850)
<b>Total equity</b>	<b>89,048</b>	<b>75,990</b>	<b>66,221</b>

**Gencell Ltd.**  
**Notes to the Consolidated Financial Statements**

**Total liabilities and equity**

106,248	88,515	80,648
---------	--------	--------

(\*) Immaterial adjustment

**August 29, 2022**  
**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**

	<b>For the six months ended June 30</b>		<b>For the three months ended June 30</b>		<b>For the year ended December 31</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2021</b>
	<b>USD in thousands</b>		<b>USD in thousands</b>		<b>USD in thousands</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>		<b>(Audited)</b>
Revenue	1,235	2,801	419	2,766	5,542
Cost of sales	3,421	3,810	1,785	2,548	8,507
<b>Gross profit (loss)</b>	2,186	1,009	1,366	(218)	2,965
Research and development expenses, net	4,317	2,521	1,924	1,085	5,704
Sales and marketing expenses	2,881	2,267	1,482	1,052	4,780
General and administrative expenses	2,934	2,397*	1,338	1,215*	6,973
<b>Operating loss</b>	12,318	8,194	6,110	3,134	20,422
Financial income	1,679	93	1,594	328	482
Financial expenses	2,055	537*	962	2	1,085
Financial income (expenses), net	(376)	(444)	632	326	(603)
<b>Total loss before other income</b>	12,694	8,638	5,478	2,808	21,025
Other income, net	12	-	12	-	-
<b>Loss before income tax expenses</b>	12,682	8,638	5,466	2,808	21,025
Income tax expenses	99	6	71	3	65
<b>Total loss for the period</b>	12,781	8,644	5,537	2,811	21,090

**Gencell Ltd.**  
**Notes to the Consolidated Financial Statements**

**Amounts which will be classified in the future under profit or loss, net of tax:**

Unrealized gain (loss) on cash flow hedge, net	(2,000)	55	(2,317)	66	72
<b>Total comprehensive loss for the period</b>	<u>14,781</u>	<u>8,589</u>	<u>7,854</u>	<u>2,745</u>	<u>21,018</u>
<b>Net loss per share: Basic and diluted</b>	<u>0.12</u>	<u>0.09</u>	<u>0.05</u>	<u>0.03</u>	<u>0.22</u>
<b>weighted average shares used in computation of net loss per share: Basic and diluted</b>	<u>106,725,782</u>	<u>93,382,437</u>	<u>107,952,601</u>	<u>94,981,036</u>	<u>94,578,864</u>

\*Immaterial adjustment

**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	Reserve for cash flow hedge	Reserve for share-based payment transactions	Reserve for transactions with shareholders	Accumulated deficit	Total
	USD in thousands						
<b><u>For the six months ended on June 30, 2022</u></b>							
<b><u>(unaudited)</u></b>							
<b>Balance as of January 1, 2022</b>	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
Forfeiture of options	-	-	-	(46)	-	-	(46)
Exercise of options	-	271	-	(239)	-	-	32
Issuance of shares (net of issuance costs of USD 1,269 thousand)	37	34,519	-	-	-	-	34,556
<b>Total equity as of June 30, 2022</b>	<b>313</b>	<b>321,679</b>	<b>(1,928)</b>	<b>24,168</b>	<b>1,447</b>	<b>(256,631)</b>	<b>89,048</b>
<b><u>For the six months ended on June 30, 2021</u></b>							
<b><u>(unaudited)</u></b>							
<b>Balance as of January 1, 2021</b>	263	269,381	-	19,020	1,447	(222,760)	67,351
Loss for the period	-	-	-	-	-	(8,644)	(8,644)
Other comprehensive income	-	-	55	-	-	-	55
Total comprehensive income (loss) for the period	-	-	55	-	-	(8,644)	(8,589)
Share-based payment	-	-	-	3,342	-	-	3,342
Forfeiture of options	-	-	-	(61)	-	-	(61)
Expiration of options	-	66	-	(66)	-	-	-
Exercise of options	1	1,799	-	(1,592)	-	-	208
Issuance of shares (net of issuance costs of USD 593 thousand)	11	13,728	-	-	-	-	13,739
<b>Total equity as of June 30, 2021</b>	<b>275</b>	<b>284,974</b>	<b>55</b>	<b>20,643</b>	<b>1,447</b>	<b>(231,404)</b>	<b>75,990</b>

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

**Gencell Ltd.**  
**Condensed Consolidated Statements of Changes in Equity**

	<u>Ordinary share capital</u>	<u>Premium</u>	<u>Capital reserve in respect of cash flow hedge</u>	<u>Capital reserve in respect of share-based payment transactions</u>	<u>Capital reserve in respect of transactions with shareholders</u>	<u>Accumulated losses</u>	<u>Total</u>
	USD in thousands						
<b><u>For the three months ended on June 30, 2022 (unaudited)</u></b>							
<b>Balance as of April 1, 2022</b>	313	321,540	389	23,355	1,447	(251,094)	95,950
Loss for the period	-	-	-	-	-	(5,537)	(5,537)
Other comprehensive income (loss)	-	-	(2,317)	-	-	-	(2,317)
Total comprehensive income (loss) for the period	-	-	(2,317)	-	-	(5,537)	(7,854)
Share based compensation expenses	-	-	-	963	-	-	963
Forfeiture of options	-	-	-	(28)	-	-	(28)
Exercise of options	-	139	-	(122)	-	-	17
<b>Total equity as of June 30, 2022</b>	<b>313</b>	<b>321,679</b>	<b>(1,928)</b>	<b>24,168</b>	<b>1,447</b>	<b>(256,631)</b>	<b>89,048</b>
<b><u>For the three months ended on June 30, 2021 (unaudited)</u></b>							
<b>Balance as of January 1, 2021</b>	263	269,463	(11)	21,066	1,447	(228,593)	63,635
Loss for the period	-	-	-	-	-	(2,811)	(2,811)
Other comprehensive income	-	-	66	-	-	-	66
Total comprehensive income (loss) for the period	-	-	66	-	-	(2,811)	(2,745)
Share based compensation expenses	-	-	-	1,172	-	-	1,172
Expiration of options	-	66	-	(3)	-	-	63
Forfeiture of options	-	-	-	-	-	-	-
Exercise of options	1	1,717	-	(1,592)	-	-	126
Issuance of shares (net from issuance costs of USD 593 thousand)	11	13,728	-	-	-	-	13,739
<b>Total equity as of June 30, 2021</b>	<b>275</b>	<b>284,974</b>	<b>55</b>	<b>20,643</b>	<b>1,447</b>	<b>(231,404)</b>	<b>75,990</b>

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

**Gencell Ltd.**  
**Condensed Consolidated Statements of Changes in Equity**

	<u>Ordinary share capital</u>	<u>Premium</u>	<u>Capital reserve in respect of cash flow hedge</u>	<u>Capital reserve in respect of share-based payment transactions</u>	<u>Capital reserve in respect of transactions with shareholders</u>	<u>Accumulated losses</u>	<u>Total</u>
	USD in thousands						
<b><u>For the year ended December 31, 2021</u></b>							
<b>Balance as of January 1, 2021</b>	263	269,381	-	19,020	1,447	(222,760)	67,351
Loss for the period	-	-	-	-	-	(21,090)	(21,090)
Other comprehensive income	-	-	72	-	-	-	72
Total comprehensive loss for the period	-	-	72	-	-	(21,090)	(21,018)
Share-based payment forfeiture of options	-	-	-	5,814	-	-	5,814
Expiration of options	-	66	-	(66)	-	-	-
Exercise of options	2	3,714	-	(3,223)	-	-	493
Share issuance (net of issuance costs of USD 593 thousand)	11	13,728	-	-	-	-	13,739
<b>Total equity as of December 31, 2021</b>	<u>276</u>	<u>286,889</u>	<u>72</u>	<u>21,387</u>	<u>1,447</u>	<u>(243,850)</u>	<u>66,221</u>

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



**Gencell Ltd.**  
**Condensed Consolidated Statements of Cash Flows**

	<b>For the six months ended June 30</b>		<b>For the three months ended June 30</b>		<b>For the year ended December 31</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2021</b>
	<b>USD in thousands (Unaudited)</b>		<b>USD in thousands (Unaudited)</b>		<b>USD in thousands (Audited)</b>
<b><u>Cash flows from operating activities</u></b>					
Loss for the period	(12,781)	(8,644)	(5,537)	(2,811)	(21,090)
Adjustments to reconcile net loss to net cash used in operating activities (Annex A)	583	1,999	(36)	(228)	*9,080
<b>Net cash used in operating activities</b>	<b>(12,198)</b>	<b>(6,645)</b>	<b>(5,573)</b>	<b>(3,039)</b>	<b>(12,010)</b>
<b><u>Cash flows from investing activities</u></b>					
Decrease (increase) in restricted deposit	150	(1,665)	66	(1,676)	(1,533)
loan provided to third parties	-	-	-	-	(2,615)
Decrease (increase) in short term deposit	(7,389)	(19,500)	1,561	(19,500)	(12,662)
capitalization of software development costs	(2,519)	(1,855)	(1,370)	(981)	*(3,910)
Purchase of property and equipment	(520)	(674)	(245)	(379)	(2,454)
<b>Net cash (used in) from investing activities</b>	<b>(10,278)</b>	<b>(23,694)</b>	<b>12</b>	<b>(22,536)</b>	<b>(23,174)</b>
<b><u>Cash flows from financing activities</u></b>					
exercise of employees' share-based payments	33	205	17	205	491
Issuance of shares, net	34,556	13,739	-	13,657	13,739
Payment of royalties in respect of Government Grants	(2)	(4)	(1)	(4)	(11)
Interest paid on lease liability	(106)	(179)	(50)	(133)	(171)
Principal paid on lease liability	(584)	(269)	(308)	(200)	(842)
<b>Net cash from financing activities</b>	<b>33,897</b>	<b>13,492</b>	<b>(342)</b>	<b>13,525</b>	<b>13,206</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>11,421</b>	<b>(16,847)</b>	<b>(5,903)</b>	<b>(12,050)</b>	<b>(21,978)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>724</b>	<b>18</b>	<b>(65)</b>	<b>523</b>	<b>768</b>

<b>Cash and cash equivalents at the beginning of the period</b>	<u>11,881</u>	<u>33,091</u>	<u>29,994</u>	<u>27,789</u>	<u>33,091</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>24,026</u>	<u>16,262</u>	<u>24,026</u>	<u>16,262</u>	<u>11,881</u>
<b><u>Non-cash transactions</u></b>					
Non-cash purchase of property and equipment	<u>675</u>	<u>305</u>	<u>675</u>	<u>305</u>	<u>357</u>
right-of-use asset recognized with a corresponding lease liability	<u>1,052</u>	<u>2,856</u>	<u>-</u>	<u>545</u>	<u>4,087</u>
Non-cash amounts capitalized to intangible asset	<u>490</u>	<u>829</u>	<u>182</u>	<u>429</u>	<u>1,216</u>
*Immaterial adjustment					

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

**Gencell Ltd.**  
**Condensed Consolidated Statements of Cash Flows**

<b>For the six month ended June 30</b>		<b>For the three month ended June 30</b>		<b>For the year ended December 31</b>
<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2021</b>
<b>USD in thousands</b>		<b>USD in thousands</b>		<b>USD in thousands</b>
<b>(Unaudited)</b>		<b>(Unaudited)</b>		<b>(Audited)</b>

**Annex A - Adjustments to reconcile net loss to net cash used in operating activities**

**Items not involving cash flows:**

Depreciation and amortization	691	273	343	164	952
income taxes	99	6	71	(5)	65
Exchange differences on cash balances	(724)	(18)	65	(523)	(768)
Interest and exchange rates expense	(1,348)	231	(1,257)	522	991
Share-based compensation expense	2,730	2,667	857	806	4,820
	<u>1,448</u>	<u>3,159</u>	<u>79</u>	<u>964</u>	<u>6,060</u>

**Changes in operating assets and liabilities:**

Decrease (increase) in trade account receivables	1,392	(2,682)	620	(2,725)	(2,303)
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Decrease (increase) in other receivables	(3,025)	(528)	(2,248)	(652)	1,633
Increase in the net provision for severance pay	34	-	6	-	16
Decrease (increase) in inventory	(1,441)	1,889	(874)	1,952	2,002
Increase (decrease) in trade account payables	(336)	114	761	(54)	1,055
Increase in other payables	<u>2,610</u>	<u>53</u>	<u>1,691</u>	<u>282</u>	<u>682</u>
	<u>(766)</u>	<u>(1,154)</u>	<u>(44)</u>	<u>(1,197)</u>	<u>3,085</u>
Taxes paid	<u>(99)</u>	<u>(6)</u>	<u>(71)</u>	<u>5</u>	<u>(65)</u>
	<u>583</u>	<u>1,999</u>	<u>(36)</u>	<u>(228)</u>	<u>9,080</u>

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

**This is an English translation of a Hebrew immediate report that was published on August 30, 2023, 2022 (reference no.:-----) (hereafter: the “Hebrew Version”). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.**

## **Note 1 - General**

### **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 develops, produces and markets alkaline fuel cell-based backup and power supply systems. The Company develops the fuel cells in response to the growing need for non-oil-based energy. The Company’s activity takes place in its offices in Petach Tikva. The Company holds a wholly owned subsidiary, Gencell Inc., which is inactive as of the reporting date.

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 a reporting corporation, as this term is defined in the Securities Law.

## **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, 2021, 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.

### **Immaterial adjustment of comparative figures**

As of June 30, 2022, the Company adjusted the comparative figures in respect of the lease agreements. The change in right-of-use assets, property and equipment and lease liabilities therefore amounted to a total of approximately USD 1,194 thousand, USD 41 thousand, and USD 986 thousand, respectively, and resulted in a decrease of expenses in the amount of approximately USD 249 thousand.

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

- H. Further to that stated in Note 14E to the Company's financial statements for the year ended on December 31 2021, regarding the Company's engagement with EV Motors Ltd., the Company supplied 4 systems during the first quarter of 2022. Total revenue recognized in the Company's books in 2022 in respect of this order amounted to USD 400 thousand. As of the publication date of the report, this amount has been collected in full.

During the reporting period, and in accordance with the agreement with EV, it was agreed between the parties that EV would acquire, through a subsidiary under its control, tens of additional fuel cell systems adapted to the specific needs of the hybrid vehicle MN charging systems of EV's subsidiary, which will be implemented and incorporated into several hybrid autonomous charging stations, some of which will also be disconnected from the national power grid in Israel. The estimated consideration which the Company expects to receive in respect of the aforementioned sale of its systems amounts to USD 5 million, which will be recognized over a period of approximately two years. As of the publication date of the report, a total of approximately USD 451 thousand has been collected as an advance on account of the new order.

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

- I. On January 17, 2022, the Company's board of directors approved a private allocation of 11,966,979 ordinary Company shares with a par value of NIS 0.01 each (the "Ordinary Shares"), to third parties which are unaffiliated with the Company and/or its controlling shareholder (the "Offerees" and the "Private Allocation", as applicable), against the payment of NIS 9.4 per ordinary Company share, such that the total gross consideration which was received from the Offerees amounted to a total of NIS 112,490 thousand (approximately USD 36,228 thousand), or a net total of approximately NIS 107,884 thousand (approximately USD 34,556 thousand). To the best of the Company's knowledge, in the Private Allocation, Ordinary Shares were allocated, inter alia, to Migdal Insurance and Financial Holdings Ltd., an interested party in the Company, and to member entities of Harel Insurance Investments and Financial Services Group Ltd., which became an interested party as a result of the Private Allocation. It is noted that the Company undertook towards each of the offeree investors that during 2022, it will not allocate Company shares at a share price lower than NIS 11 per share, unless it performs an allocation to a strategic investor and/or as part of a strategic process.
- J. On February 1, 2022, the Company engaged in an additional amendment to the sublease agreement in respect of its offices and plant in Petach Tikva, as from May 2011, under which the leased area will be increased by a total area of approximately 524 m<sup>2</sup>, at a cost of approximately NIS 65 (approximately USD 21) per square meter, which it will use to increase the area of the offices and to increase its research and development activity during the period ending May 8, 2024. The Company will pay, in respect of the leased property, monthly rent and management fees in the amount of approximately USD 10,640 (approximately NIS 34,060), plus VAT and linkage differentials. The Company has two extension options, each for a period of three years. As of the lease commencement date, the Company considers it highly likely that it will exercise the extension options in respect of the building.
- K. Further to that stated in Note 30A to the Company's financial statements for the year ended on December 31 2021, regarding Russia's invasion of Ukraine, as of the publication date of the report the Company is cooperating fully with the Ukrainian and Belorussian service providers on promoting the development of the catalyzer in the Fox system, and it does not expect any significant problems or delays in the project's progress.
- L. Further to that stated in Note 14B to the Company's financial statements for the year ended on December 31 2021, regarding the Company's engagement with TDK Ltd. in a framework agreement (the "Agreement"), in respect of TDK's participation in the Company's "green ammonia" project, TDK paid to the Company an additional total of approximately USD 483 thousand in the first quarter of 2022.
- M. On March 29, 2022, the Company's board of directors approved an allocation of 566,432 unlisted options, at an exercise price of USD 2.39 per share, which

will best over a period of four years, to employees of the Company, each of which will be exercisable into one ordinary share of the Company with a par value of NIS 0.01, in accordance with the Company's options plan for employees and officers. The benefit value in respect of these grants amounted to a total of approximately USD 1,120 thousand. The parameters which were used in the application of the Black Scholes model to the aforementioned allocation were as follows: Company share price as of the grant date - USD 2.25, risk-free interest rate - 1.69%, expected volatility - 96.47%. The projected period of the options is 10 years. Expected dividend rate: 0%.

- N. On March 29, 2022, the Company's board of directors approved, after approval was received from the Company's compensation committee on March 22, 2022, to grant to several executives of the Company grants in respect of 2021, 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 2021.
- O. Further to that stated in Note 14D to the financial statements for 2021, regarding the Company's winning of a tender which was conducted by the federal electric corporation in Mexico, CFE, on December 19, 2020, the Company recognized, in the first half of 2022, revenue from the project in the amount of approximately USD 472 thousand. Additionally, from January 1, 2022 until the approval date of the financial statements, the Company collected a total of approximately USD 2.8 million as part of the project.

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

- A. On August 29, 2022, the Company's board of directors approved an allocation of 791,936 unlisted options, at an exercise price of USD 1.02 per share, vesting over a period of four years, to employees of the Company, each of which is exercisable into one ordinary Company share with a par value of NIS 0.01, in accordance with the Company's options plan for employees and officers. The benefit value in respect of these grants amounted to a total of approximately USD 660 thousand. The parameters which were used in the application of the Black Scholes model to the aforementioned allocation were as follows: Company share price as of the grant date - USD 0.96, risk-free interest rate – 2.42%, expected volatility - 93.1%. The projected period of the options is 10 years. Projected dividend rate - 0%.



## **Quarterly Report Regarding the Effectiveness of Internal Control over Financial Reporting and Disclosure in Accordance with Regulation 38c(a) of the Reports Regulations**

Company management, under the supervision of the Company's board of directors, is responsible for establishing and applying adequate internal control over financial reporting and disclosure in the Company.

For this purpose, the members of management are:

1. Rami Reshef, CEO;
2. Yossi Salomon, CFO;

Internal control over financial reporting and disclosure includes controls and policies which are currently applied in the Company, which were planned by the CEO and the most senior officer in the finance department, or under their supervision, or by those who effectively perform those duties, under the supervision of the Company's board of directors, which are intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to verify that the information which the Company is required to disclose in the reports which it publishes in accordance with the provisions of the law has been collected, processed, summarized and reported in accordance with the deadline and format prescribed in law.

Internal control includes, inter alia, controls and policies which are intended to ensure that information which the Company is required to disclose, as stated above, is accumulated and submitted to Company management, including to the CEO and to the most senior corporate officer in the finance department, or to the person who effectively performs the aforementioned duties, in order to allow timely decision making with respect to the disclosure requirement.

Due to inherent restrictions, internal control over financial reporting and disclosure is not intended to provide absolute assurance that any incorrect presentation or omission of information in the reports will be prevented or discovered.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure which was attached to the quarterly report for the interim period ended in March 31, 2022 (hereinafter: the "**Last Interim Report Regarding Internal Control**"), the internal control in the corporation was found to be effective;

Until the reporting date, the board of directors and management were not made aware of any event or matter which could have changed the assessment regarding the effectiveness of internal control, as presented in the last interim quarterly report regarding internal control.



As of the reporting date, based on the provisions of the last quarterly report regarding internal control, and based on the information which was brought to the attention of management and board of directors, as stated above, internal control is effective.

## Executive Certification

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

I, Rami Reshef, hereby certify that:

1. I have evaluated the quarterly report of Gencell Ltd. (hereinafter: the “**Company**”) for the second quarter of 2022 (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, based on my most current assessment regarding internal control over financial reporting and disclosure:

**A. All significant deficiencies and material weaknesses in the establishment or application of internal control over financial reporting and disclosure which could reasonably be expected to adversely affect the Company’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of financial reporting and on the preparation of financial statements in accordance with the provisions of the law; and -**

**B. 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 internal control over financial reporting and disclosure;**

5. I, independently or together with others in the Company:

**A. Have established controls and policies, or have verified the establishment and application, under my supervision, of controls and policies which are intended to ensure that material information with reference to the Company is brought to my attention by others in the corporation, particularly during the period of preparing the reports; and -**

**B. Have established controls and policies, or have verified the establishment and application, under my supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;**

**C. I have not been made aware of any event or matter which occurred during the period between the date of last quarterly report and the date of this report, which could change the conclusion reached by the board of directors and management regarding the effectiveness of internal control over financial reporting and disclosure, and their impact on internal control, as stated above;**



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

**Date: August 29, 2022**

**Rami Reshef, CEO**

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## Executive Certification

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

I, Yossi Salomon, hereby certify that:

1. I have evaluated the interim financial statements and other financial information which is included in the interim reports of Gencell Ltd. (hereinafter: the “**Company**”) for the second quarter of 2022 (hereinafter: the “**Reports**” or the “**Interim Reports**”);

2. To the best of my knowledge, the interim 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 financial information included in the interim 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, based on my most current assessment regarding internal control over financial reporting and disclosure:

**A. All significant deficiencies and material weaknesses in the establishment or application of internal control over financial reporting and disclosure, insofar as it pertains to the interim financial statements or to the other financial information which is included in the interim reports, which could reasonably be expected to adversely affect the Company’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of financial reporting and on the preparation of financial statements in accordance with the provisions of the law; and -**

**B. 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 internal control over financial reporting and disclosure.**

5. I, independently or together with others in the Company:

**A. Have established controls and policies, or have verified the establishment and application, under my supervision, of controls and policies which are intended to ensure that material information with reference to the Company is brought to my attention by others in the corporation, particularly during the period of preparing the reports; and -**

**B. Have established controls and policies, or have verified the establishment and application, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;**

**C. I have not been made aware of any event or matter which occurred during the period between the date of the last quarterly report and the date of**

**this report, which pertains to interim financial statements and to any other financial information which is included in the interim reports, which could change, in my assessment, the conclusion of the board of directors and regarding the effectiveness of internal control over financial reporting and disclosure in the corporation.**

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

**Date: August 29, 2022**

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**Yossi Salomon, CFO**