

ORBIT TECHNOLOGIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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To:
Orbit Technologies Ltd.

We have reviewed the financial information of Orbit Technologies Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of September 30, 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three months period then ended in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel.

Based on our review, in our review report dated November 30, 2016, we stated that nothing came to our attention that caused us to believe that the abovementioned interim financial information was not prepared, in all material respects, in accordance with IAS 34.

The accompanying financial information, which is derived from the abovementioned financial information, is condensed financial information and does not include disclosures required by IAS 34. If the omitted disclosures were included in the accompanying financial information, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial information is not designed for those who are not informed about such matters.

Tel-Aviv, Israel
30 November , 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3,642	1,066	3,435
Short-term deposits	18	18	18
Accounts receivables	6,809	11,146	11,129
Income taxes receivable	-	-	261
Other accounts receivable	1,267	1,543	769
Inventories	10,080	9,815	10,405
Amounts due for construction contracts	4,943	9,981	7,196
	<u>26,759</u>	<u>33,569</u>	<u>33,213</u>
NON-CURRENT ASSETS:			
Long-term prepaid receivables	13	51	39
Fixed assets	3,357	3,082	3,280
Intangible assets	7,163	7,815	7,649
Income taxes receivable	100	-	-
Deferred taxes	618	795	768
	<u>11,251</u>	<u>11,743</u>	<u>11,736</u>
	<u><u>38,010</u></u>	<u><u>45,312</u></u>	<u><u>44,949</u></u>

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	-	185	18
Current maturities of Convertible Bonds	2,386	2,369	2,378
Trade payables	3,225	6,170	5,691
Income taxes payable	21	156	30
Other accounts payable	7,884	6,912	7,102
	<u>13,516</u>	<u>15,792</u>	<u>15,219</u>
NON-CURRENT LIABILITIES:			
Loans from banks	-	13	9
Liability for Government grants	516	841	827
Employee benefit liability	285	235	250
Convertible Bonds	7,159	9,476	9,512
Financials liabilities	30	-	-
Deferred taxes	45	-	60
Excess of losses over investment in jointly controlled entity	95	95	95
	<u>8,130</u>	<u>10,660</u>	<u>10,753</u>
EQUITY:			
Share capital	3,894	3,863	3,866
Paid-in capital	7,071	6,563	6,582
Retained earnings	5,329	7,995	8,120
Reserve for share-based payment	40	50	50
Proceeds from conversion option issuance of convertible Bonds (net of issue expenses)	645	855	895
Foreign currency translation adjustments	79	(103)	(105)
Reserve form hedges	(426)	(122)	(163)
Reserve for defined benefit plans	599	626	599
Treasury shares	(867)	(867)	(867)
<u>Total equity</u>	<u>16,364</u>	<u>18,860</u>	<u>18,977</u>
	<u>38,010</u>	<u>45,312</u>	<u>44,949</u>

The accompanying note is an integral part of the interim consolidated financial statements.

30 November, 2016			
Date of approval of the financial statements	Z. Stein Chairman of the Board	E. Livneh CEO	M. Dudek CFO

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales and contracts performed	23,634	35,869	6,572	11,435	45,114
Cost of sales and contracts performed	15,975	23,257	4,590	7,606	28,908
Gross profit	7,659	12,612	1,982	3,829	16,206
Research and development costs	4,300	4,567	1,391	1,440	6,004
Selling and marketing expenses	3,576	3,312	1,332	1,076	4,409
General and administrative expenses	2,574	2,591	820	885	3,579
Other income, net	800	--	-	--	6
Operating profit (loss)	(1,991)	2,142	(1,561)	428	2,220
Finance expenses	793	1,036	181	162	1,290
Finance Income	343	--	42	--	-
Group's share of losses of jointly controlled entity	-	(2)	-	(2)	(2)
Profit (loss) before taxes on income	(2,441)	1,104	(1,700)	264	928
Income tax expense (tax benefit)	350	(31)	183	(53)	(332)
Net profit (loss)	(2,791)	1,135	(1,883)	317	1,260
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic Profit (loss) per share	(0.299)	0.123	(0.201)	0.030	0.136
Diluted Profit (loss) per share	(0.299)	0.120	(0.201)	0.030	0.134

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
Profit (loss)	(2,791)	1,135	(1,883)	317	1,260
Other comprehensive income (loss) (net of tax effect):					
Amounts transferred to the income statement for cash flow hedges	92	356	(65)	(41)	303
Profit (loss) from cash flow hedges	92	(149)	93	(363)	(98)
Actuarial loss from defined benefit plans	-	158	-	158	131
Foreign currency translation adjustments of foreign operation	(263)	(28)	(70)	(41)	(69)
	(79)	337	(42)	(287)	267
Total comprehensive Profit (loss)	(2,870)	1,472	(1,925)	30	1,527

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
	Unaudited									
	U.S. dollars in thousands									
Balance at January 1, 2016 (audited)	3,866	6,582	8,120	895	(163)	50	(105)	599	(867)	18,977
loss	-	-	(2,791)	-	-	-	-	-	-	(2,791)
Other comprehensive income (loss)	-	-	-	-	(263)	-	184	-	-	(79)
Total comprehensive income (loss)	-	-	(2,791)	-	(263)	-	184	-	-	(2,870)
Exercise of warrants into shares	28	283	-	(63)	-	-	-	-	-	248
Forfeiture of Options	-	206	-	(196)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	9	-	-	-	-	-	9
Balance at September 30, 2016	<u>3,894</u>	<u>7,071</u>	<u>5,329</u>	<u>645</u>	<u>(426)</u>	<u>40</u>	<u>79</u>	<u>599</u>	<u>(867)</u>	<u>16,364</u>
	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
	U.S. dollars in thousands									
Balance at January 1, 2015	3,838	6,346	6,860	839	(94)	50	(310)	468	(867)	17,130
Net income	-	-	1,135	-	-	-	-	-	-	1,135
Other comprehensive income	-	-	-	-	(28)	-	207	158	-	337
Total comprehensive income	-	-	1,135	-	(28)	-	207	158	-	1,472
Exercise of warrants into shares	25	217	-	(66)	-	-	-	-	-	176
Cost of share based-payment	-	-	-	82	-	-	-	-	-	82
Balance at September 30, 2015 (unaudited)	<u>3,863</u>	<u>6,563</u>	<u>7,995</u>	<u>855</u>	<u>(122)</u>	<u>50</u>	<u>(103)</u>	<u>626</u>	<u>(867)</u>	<u>18,860</u>

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Equity attributable to equity holders of the Company

	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
Unaudited										
U.S. dollars in thousands										
Balance at July 1, 2016	3,878	6,690	7,212	852	(356)	40	51	599	(867)	18,099
loss	-	-	(1,883)	-	-	-	-	-	-	(1,883)
Other comprehensive income (loss)	-	-	-	-	(70)	-	28	-	-	(42)
Total comprehensive income	-	-	(1,883)	-	(70)	-	28	-	-	(1,925)
Exercise of warrants into shares	16	204	-	(63)	-	-	-	-	-	157
Forfeiture of Options	-	177	-	(177)	-	-	-	-	-	-
Cost of share based-payment	-	-	-	33	-	-	-	-	-	33
Balance at September 30, 2016	<u>3,894</u>	<u>7,071</u>	<u>5,329</u>	<u>645</u>	<u>(426)</u>	<u>40</u>	<u>79</u>	<u>599</u>	<u>(867)</u>	<u>16,364</u>

Equity attributable to equity holders of the Company

	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
U.S. dollars in thousands										
Balance at July 1, 2015 (unaudited)	3,862	6,558	7,678	824	(81)	50	301	468	(867)	18,793
Net income	-	-	317	-	-	-	-	-	-	317
Other comprehensive income	-	-	-	-	(41)	-	(404)	158	-	(287)
Total comprehensive income	-	-	317	-	(41)	-	(404)	158	-	30
Exercise of warrants into shares	1	5	-	-	-	-	-	-	-	6
Cost of share based-payment	-	-	-	31	-	-	-	-	-	31
Balance at September 30, 2015 (unaudited)	<u>3,863</u>	<u>6,563</u>	<u>7,995</u>	<u>855</u>	<u>(122)</u>	<u>50</u>	<u>(103)</u>	<u>626</u>	<u>(867)</u>	<u>18,860</u>

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
	Audited									
	U.S. dollars in thousands									
Balance at January 1, 2015	3,838	6,346	6,860	839	(94)	50	(310)	468	(867)	17,130
Net income	-	-	1,260	-	-	-	-	-	-	1,260
Other comprehensive income (loss)	-	-	-	-	(69)	-	205	131	-	267
Total comprehensive income	-	-	1,260	-	(69)	-	205	131	-	1,527
Exercise of warrants into shares	28	231	-	(68)	-	-	-	-	-	191
Forfeiture of Options	-	5	-	(5)	-	-	-	-	-	-
Cost of share based-payment	-	-	-	129	-	-	-	-	-	129
Balance at December 31, 2015	<u>3,866</u>	<u>6,582</u>	<u>8,120</u>	<u>895</u>	<u>(163)</u>	<u>50</u>	<u>(105)</u>	<u>599</u>	<u>(867)</u>	<u>18,977</u>

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Net income (loss)	(2,791)	1,135	(1,883)	317	1,260
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	985	1,032	332	345	1,374
Capital Gain from sale of fixed assets	-	-	-	-	(3)
Share of losses of jointly controlled entity	-	2	-	2	2
Cost of share-based payment	9	82	33	31	129
Income tax expense (tax benefit)	350	31	183	9	(332)
Interest expenses, net	368	787	(3)	374	1,092
Change in employee benefit liability, net	35	53	15	4	40
Adjustment to current accounts with foreign operation	(75)	(31)	(31)	(68)	(26)
	1,672	1,956	529	697	2,276
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	4,319	(1,507)	1,070	(805)	(1,503)
Decrease (increase) in amounts due for construction contracts	2,253	(4,178)	(150)	(293)	(1,393)
Decrease (increase) in other accounts receivable	(472)	(565)	(48)	(20)	221
Decrease in inventories	325	1,236	273	552	646
Increase (decrease) in trade payables	(2,561)	1,912	485	(1,838)	1,322
Decrease in other accounts payable	623	(1,165)	765	(194)	(742)
	4,487	(4,267)	2,395	(2,598)	(1,449)
Cash paid and received during the period for:					
Interest paid	(461)	(402)	(10)	(167)	(889)
Taxes paid	(64)	(124)	(40)	(38)	(59)
	(525)	(526)	(50)	(205)	(948)
Net cash provided by (used in) operating activities	2,843	(1,702)	991	(1,789)	1,139

The accompanying note is an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended		Three months ended		Year ended
	September 30,	September 30,	September 30,	September 30,	December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets	(443)	(540)	(145)	(172)	(806)
Net cash used in investing activities	(443)	(540)	(145)	(172)	(806)
<u>Cash flows from financing activities:</u>					
Short-term bank credit, net	-	-	(13)	-	-
Receipt of Government grants	28	-	-	-	-
Payments for Government grants	(62)	(39)	(5)	(39)	(82)
Payments of loans from banks	(27)	(243)	-	(6)	(414)
Payments of convertible bonds (net of issuance expenses)	(2,462)	-	-	-	-
Exercise of warrants into shares	248	176	157	6	191
Net cash provided by (used in) financing activities	(2,275)	(106)	139	(39)	(305)
Translation differences on balances of cash and cash equivalents	82	29	40	60	22
Increase (decrease) in cash and cash equivalents	207	(2,319)	1,025	(1,940)	50
Cash and cash equivalents at the beginning of the period	3,435	3,385	2,617	3,006	3,385
Cash and cash equivalents at the end of the period	3,642	1,066	3,642	1,066	3,435
<u>Significant non-cash transaction:</u>					
Purchase of fixed assets on suppliers credit	95	51	95	51	92

The accompanying note is an integral part of the interim consolidated financial statements.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of September 30, 2016 and for the nine and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2015 and for the year then ended and accompanying notes ("annual financial statements").
- b. Last year, the Group completed a business restructuring process and its business strategy currently focuses on long-term projects. The effect of the change is reflected in a decrease in short-term revenues and operating loss.

In keeping with the matter discussed in Note 18 to the annual financial statements regarding causes for immediate repayment of the debentures which include, among others, noncompliance with a net debt to EBITDA ratio for three consecutive quarters, as of September 30, 2016, the Company is not in compliance with the net debt to EBITDA ratio determined in the deed of trust of the debentures for the first time. The Group does not expect to be able to meet this ratio at the end of the first quarter of 2017 either, during which time the trustee of the debentures will be required to summon a meeting of the holders of debentures in order to decide whether to place the outstanding debentures for immediate repayment. The Company expects to be able to meet this ratio towards the end of 2017. The Company also expects to be able to achieve a positive EBITDA and earnings from the third quarter of 2017.

The carrying amount of the debentures as of September 30, 2016 total \$ 9,545 thousand.

As of the date of the approval of the financial statements, the Group's order backlog is \$ 38 million, as opposed to an order backlog of \$ 27 million in the corresponding period of last year. The order backlog includes a strategic order from one of the world's largest aircraft manufacturers.

The Company will operate in coordination with the trustee of the holder of the debentures as needed.

The Company's management and board of directors estimate that the Group will be able to repay its liabilities in the foreseeable future.

Moreover, as of the date of approval of the financial statements, the Company received an offer from underwriters for raising of debt in an amount approximately NIS 40 million which will be secured by full underwriting, subject to market terms and to the performance of standard economic, legal and accounting studies.
