

ORBIT TECHNOLOGIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2017

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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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, 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three months periods 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 29 November, 2017, 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
29 November, 2017

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

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,014	3,642	3,917
Short-term deposits	18	18	18
Accounts receivable	8,129	6,809	6,124
Other accounts receivable	492	1,267	621
Inventories	8,822	10,080	9,606
Amounts due for construction contracts	5,185	4,943	5,606
	<u>26,660</u>	<u>26,759</u>	<u>25,892</u>
NON-CURRENT ASSETS:			
Long-term prepaid receivables	15	13	14
Fixed assets	3,371	3,357	3,467
Intangible assets	5,335	7,163	7,000
Income taxes receivable	-	100	-
Deferred taxes	650	618	637
	<u>9,371</u>	<u>11,251</u>	<u>11,118</u>
	<u><u>36,031</u></u>	<u><u>38,010</u></u>	<u><u>37,010</u></u>

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

CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	1,500	-	2,016
Current maturities of convertible bonds	2,402	2,386	2,396
Trade payables	5,875	3,225	2,954
Income taxes payable	65	21	33
Other accounts payable	7,854	7,884	7,327
	<u>17,696</u>	<u>13,516</u>	<u>14,726</u>
NON-CURRENT LIABILITIES:			
Liability for Government grants	601	516	522
Employee benefit liability	347	285	311
Convertible bonds	4,811	7,159	7,187
Financial liabilities	9	30	24
Deferred taxes	27	45	40
Excess of losses over investment in jointly controlled entity	-	95	95
	<u>5,795</u>	<u>8,130</u>	<u>8,179</u>
EQUITY:			
Share capital	4,226	3,894	3,896
Paid-in capital	9,040	7,071	7,100
Retained earnings	(864)	5,329	3,207
Reserve for share-based payment	729	645	665
Proceeds from conversion option (net of issue expenses)	30	40	40
Foreign currency translation adjustments	(350)	(426)	(523)
Reserve from hedges	-	79	8
Reserve for defined benefit plans	596	599	579
Treasury shares	(867)	(867)	(867)
Total equity	<u>12,540</u>	<u>16,364</u>	<u>14,105</u>
	<u>36,031</u>	<u>38,010</u>	<u>37,010</u>

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

29 November, 2017			
Date of approval of the financial statements	I. Gat 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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales and contracts performed	26,973	23,634	10,621	6,572	29,856
Cost of sales and contracts performed	19,018	15,975	7,439	4,590	20,708
Gross profit	7,955	7,659	3,182	1,982	9,148
Research and development costs	3,897	4,300	1,250	1,391	5,730
Selling and marketing expenses	3,437	3,576	1,047	1,332	4,681
General and administrative expenses	2,438	2,574	753	820	3,305
Other income (expense), net	(1,275)	800	(1,239)	-	737
Operating loss	(3,092)	(1,991)	(1,107)	(1,561)	(3,831)
Finance income	-	343	-	42	516
Finance expenses	932	793	175	181	1,159
Loss before taxes on income	(4,024)	(2,441)	(1,282)	(1,700)	(4,474)
Income tax expense (tax benefit)	47	350	35	183	439
loss	<u>(4,071)</u>	<u>(2,791)</u>	<u>(1,317)</u>	<u>(1,883)</u>	<u>(4,913)</u>
loss per share attributable to equity holders of the Company (in U.S. dollars):					
Basic loss per share	<u>(0.405)</u>	<u>(0.299)</u>	<u>(0.112)</u>	<u>(0.201)</u>	<u>(0.53)</u>
Diluted loss per share	<u>(0.405)</u>	<u>(0.299)</u>	<u>(0.112)</u>	<u>(0.201)</u>	<u>(0.53)</u>

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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
Loss	<u>(4,071)</u>	<u>(2,791)</u>	<u>(1,317)</u>	<u>(1,883)</u>	<u>(4,913)</u>
Other comprehensive income (loss) (net of tax effect):					
Actuarial profit (loss) from defined benefit plans	17	-	17	-	(20)
Amounts transferred to the statement of income for cash flow hedges	(118)	92	(1)	(65)	57
Gain (loss) from cash flow hedges	110	92	(1)	93	56
Foreign currency translation adjustments of foreign operation	<u>173</u>	<u>(263)</u>	<u>66</u>	<u>(70)</u>	<u>(360)</u>
Total other comprehensive income	<u>182</u>	<u>(79)</u>	<u>81</u>	<u>(42)</u>	<u>(267)</u>
Total comprehensive loss	<u><u>(3,889)</u></u>	<u><u>(2,870)</u></u>	<u><u>(1,236)</u></u>	<u><u>(1,925)</u></u>	<u><u>(5,180)</u></u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Paid-in capital	Retained earnings	Reserve for share-based payment	Foreign currency translation adjustments	Proceeds from conversion option	Reserve from hedges	Reserve for defined benefit plans	Treasury shares	Total equity
Unaudited										
U.S. dollars in thousands										
Balance at January 1, 2017 (audited)	3,896	7,100	3,207	665	(523)	40	8	579	(867)	14,105
Loss	-	-	(4,071)	-	-	-	-	-	-	(4,071)
Other comprehensive income (loss)	-	-	-	-	173	-	(8)	17	-	182
Total comprehensive loss			(4,071)		173		(8)	17		(3,889)
Issuance of share capital (net of issuance expenses)	330	1901	-	-	-	-	-	-	-	2,231
Exercise of warrants into shares	-	2	-	(2)	-	-	-	-	-	-
Forfeiture of options	-	37	-	(27)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	93	-	-	-	-	-	93
Balance at September 30, 2017	4,226	9,040	(864)	729	(350)	30	-	596	(867)	12,540
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	3,894	7,071	5,329	645	(426)	40	79	599	(867)	16,364

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Paid-in capital	Retained earnings	Reserve for share-based payment	Foreign currency translation adjustments	Proceeds from conversion option	Reserve from hedges	Reserve for defined benefit plans	Treasury shares	Total equity
Unaudited										
U.S. dollars in thousands										
Balance at July 1, 2017	4,226	9,014	453	744	(416)	30	2	579	(867)	13,765
Loss	-	-	(1,317)	-	-	-	-	-	-	(1,317)
Other comprehensive income	-	-	-	-	66	-	(2)	17	-	81
Total comprehensive loss	-	-	(1,317)	-	66	-	(2)	17	-	(1,236)
Forfeiture of Options	-	26	-	(26)	-	-	-	-	-	-
Cost of share based-payment	-	-	-	11	-	-	-	-	-	11
Balance at September 30, 2017	<u>4,226</u>	<u>9,040</u>	<u>(864)</u>	<u>729</u>	<u>(350)</u>	<u>30</u>	<u>-</u>	<u>596</u>	<u>(867)</u>	<u>12,540</u>
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>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Paid-in capital</u>	<u>Retained earnings</u>	<u>Reserve for share-based payment</u>	<u>Foreign currency translation adjustments</u>	<u>Proceeds from conversion option</u>	<u>Reserve from hedges</u>	<u>Reserve for defined benefit plans</u>	<u>Treasury shares</u>	<u>Total equity</u>
Audited										
U.S. dollars in thousands										
Balance at January 1, 2016	3,866	6,582	8,120	895	(163)	50	(105)	599	(867)	18,977
Loss	-	-	(4,913)	-	-	-	-	-	-	(4,913)
Other comprehensive income (loss)	-	-	-	-	(360)	-	113	(20)	-	(267)
Total comprehensive income	-	-	(4,913)	-	(360)	-	113	(20)	-	(5,180)
Exercise of warrants into shares	30	294	-	(67)	-	-	-	-	-	257
Forfeiture of options	-	224	-	(214)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	51	-	-	-	-	-	51
Balance at December 31, 2016	<u>3,896</u>	<u>7,100</u>	<u>3,207</u>	<u>665</u>	<u>(523)</u>	<u>40</u>	<u>8</u>	<u>579</u>	<u>(867)</u>	<u>14,105</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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
Cash flows from operating activities:					
loss	(4,071)	(2,791)	(1,317)	(1,883)	(4,913)
Adjustments to reconcile loss to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	2,150	985	1,524	332	1,319
Cost of share-based payment	93	9	10	33	51
Income tax expense	25	350	13	183	439
Interest expenses, net	333	368	(98)	(3)	674
Change in employee benefit liability, net	53	35	3	15	41
Adjustment to current accounts with foreign operation	33	(75)	25	(31)	(60)
	2,687	1,672	1,477	529	2,464
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	(2,100)	4,319	(911)	1,070	5,005
Decrease in amounts due for construction contracts	421	2,253	(1,400)	(150)	1,590
Decrease (increase) in other accounts receivable	129	(472)	406	(48)	172
Decrease (increase) in inventories	784	325	639	273	843
Increase (decrease) in trade payables	2,870	(2,561)	449	485	(2,808)
Increase (decrease) in other accounts payable	907	623	245	765	(39)
	3,011	4,487	(572)	2,395	4,763
Cash paid and received during the period for:					
Interest paid	(375)	(461)	(22)	(10)	(781)
Taxes paid	(20)	(64)	(10)	(40)	(64)
	(395)	(525)	(32)	(50)	(845)
Net cash provided by operating activities	1,232	2,843	(444)	991	1,469

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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets	(340)	(443)	(140)	(145)	(791)
Net cash used in investing activities	(340)	(443)	(140)	(145)	(791)
<u>Cash flows from financing activities:</u>					
Short-term bank credit, net	(516)	-	-	(13)	2,016
Receipt of Government grants	-	28	-	-	28
Payments for Government grants	(17)	(62)	(7)	(5)	(62)
Issuance of share capital (net of issuance expenses)	2,231	-	-	-	-
Payments of convertible bonds (net of issuance expenses)	(2,462)	(2,462)	-	-	(2,462)
Payments of loans from banks	-	(27)	-	-	(27)
Exercise of warrants into shares	-	248	-	157	257
Net cash provided by (used in) financing activities	(764)	(2,275)	(7)	139	(250)
Translation differences on balances of cash and cash equivalents	(31)	82	(31)	40	54
Increase (decrease) in cash and cash equivalents	97	207	(622)	1,025	482
Cash and cash equivalents at the beginning of the period	3,917	3,435	4,636	2,617	3,435
Cash and cash equivalents at the end of the period	4,014	3,642	4,014	3,642	3,917
<u>Significant non-cash transaction:</u>					
Purchase of fixed assets on suppliers credit	50	95	50	95	73

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

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2017 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, 2016 and for the year then ended and accompanying notes ("annual financial statements").

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