

ORBIT TECHNOLOGIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

	<u>Page</u>
Auditors' Letter	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7 - 9
Consolidated Statements of Cash Flows	10 - 11
Note to Consolidated financial Statements	12

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 June 30, 2018 and 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six 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 August 23, 2018, 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
August 23, 2018

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

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u>		<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2017</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	11,322	4,636	13,345
Short-term deposits	18	18	18
Accounts receivable	8,464	7,218	10,752
Other accounts receivable	970	898	826
Inventories	9,010	9,461	7,847
Amounts due for construction contracts	6,319	4,262	4,771
	<u>36,103</u>	<u>26,493</u>	<u>37,559</u>
NON-CURRENT ASSETS:			
Long-term prepaid receivables	10	15	12
Fixed assets	5,530	3,399	3,527
Intangible assets	5,333	6,704	5,222
Deferred taxes	571	646	570
	<u>11,444</u>	<u>10,764</u>	<u>9,331</u>
	<u>47,547</u>	<u>37,257</u>	<u>46,890</u>

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

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u>		<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2017</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	-	1,500	500
Current maturities of convertible bonds	2,414	2,393	2,414
Trade payables	7,317	5,431	6,580
Income taxes payable	24	52	-
Other accounts payable	10,975	8,450	9,046
	<u>20,730</u>	<u>17,826</u>	<u>18,540</u>
NON-CURRENT LIABILITIES:			
Liability for Government grants	641	464	585
Employee benefit liability	584	362	596
Convertible bonds	2,414	4,793	4,827
Lease payments liability	779	14	4
Deferred taxes	32	33	24
	<u>4,450</u>	<u>5,666</u>	<u>6,036</u>
EQUITY:			
Share capital	5,746	4,226	5,734
Paid-in capital	15,826	9,014	15,746
Warrants	1,904	-	1,904
Retained earnings (loss)	(1,132)	453	(1,169)
Reserve for share-based payment	877	744	876
Proceeds from conversion option	20	30	30
Foreign currency translation adjustments	(405)	(416)	(338)
Reserve from hedges	-	2	-
Reserve for defined benefit plans	398	579	398
Treasury shares	(867)	(867)	(867)
<u>Total equity</u>	<u>22,367</u>	<u>13,765</u>	<u>22,314</u>
	<u>47,547</u>	<u>37,257</u>	<u>46,890</u>

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

August 23, 2018			
Date of approval of the financial statements	Y. Gat Chairman of the Board	E. Livneh CEO	M. Dudek CFO

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales and contracts performed	20,267	16,351	10,161	9,128	39,047
Cost of sales and contracts performed	14,339	11,579	6,870	6,344	27,509
Gross profit	5,928	4,772	3,291	2,784	11,538
Research and development costs, net	2,008	2,647	907	1,294	4,867
Selling and marketing expenses	2,124	2,390	974	1,150	4,505
General and administrative expenses	1,676	1,685	783	868	3,457
Operating profit (loss) before other expenses	120	(1,950)	627	(528)	(1,291)
Other expenses	-	36	-	-	1,590
Operating profit (loss) after other expenses	120	(1,986)	627	(528)	(2,881)
Finance income	332	-	340	-	-
Finance expenses	380	756	185	373	1,303
Profit (loss) before taxes on income	72	(2,742)	782	(901)	(4,184)
Income tax expense	35	12	27	9	192
Net profit (loss)	37	(2,754)	755	(910)	(4,376)
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):					
Basic and diluted profit (loss) per share	0.002	(0.274)	0.047	(0.086)	(0.401)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	U.S. dollars in thousands				
Net profit (loss)	37	(2,754)	755	(910)	(4,376)
Other comprehensive income (loss) (net of tax effect):					
Amounts transferred to the statement of income for cash flow hedges	-	(117)	-	(36)	(118)
Profit (loss) from cash flow hedges	-	111	-	38	110
Actuarial loss from defined benefit plans	-	-	-	-	(181)
Foreign currency translation adjustments of foreign operation	(67)	107	(157)	81	185
Total other comprehensive income	(67)	101	(157)	83	(4)
Total comprehensive loss	(30)	(2,653)	598	(827)	(4,380)

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	Paid-in capital	Warrants	Retained earnings	Reserve for share-based payment	Foreign currency translation adjustments	Proceeds from conversion option	Reserve for defined benefit plans	Treasury shares	Total equity
	Unaudited									
	U.S. dollars in thousands									
Balance at January 1, 2018 (audited)	5,734	15,746	1,904	(1,169)	876	(338)	30	398	(867)	22,314
Net profit	-	-	-	37	-	-	-	-	-	37
Other comprehensive income (loss)	-	-	-	-	-	(67)	-	-	-	(67)
Total comprehensive loss (loss)	-	-	-	37	-	(67)	-	-	-	(30)
Exercise of warrants into shares	12	68	-	-	(11)	-	-	-	-	69
Forfeiture of Options	-	12	-	-	(2)	-	(10)	-	-	-
Cost of share based-payment	-	-	-	-	14	-	-	-	-	14
Balance at June 30, 2018	5,746	15,826	1,904	(1,132)	877	(405)	20	398	(867)	22,367

	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	-	-	(2,754)	-	-	-	-	-	-	(2,754)
Other comprehensive income (loss)	-	-	-	-	107	-	(6)	-	-	101
Total comprehensive loss	-	-	(2,754)	-	107	-	(6)	-	-	(2,653)
Issuance of share capital (net of issuance expenses)	330	1,901	-	-	-	-	-	-	-	2,231
Exercise of warrants into shares	-	2	-	(2)	-	-	-	-	-	-
Forfeiture of options	-	11	-	(1)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	83	-	-	-	-	-	83
Balance at June 30, 2017	4,226	9,014	453	744	(416)	30	2	579	(867)	13,765

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	Paid-in capital	Warrants	Retained earnings	Reserve for share-based payment	Foreign currency translation adjustments	Proceeds from conversion option	Reserve for defined benefit plans	Treasury shares	Total equity
	Unaudited									
U.S. dollars in thousands										
Balance at April 1, 2018	5,743	15,798	1,904	(1,887)	870	(248)	30	398	(867)	21,741
Net profit	-	-	-	755	-	-	-	-	-	755
Other comprehensive income (loss)	-	-	-	-	-	(157)	-	-	-	(157)
Total comprehensive loss (loss)	-	-	-	755	-	(157)	-	-	-	598
Exercise of warrants into shares	3	16	-	-	(1)	-	-	-	-	18
Forfeiture of Options	-	12	-	-	(2)	-	(10)	-	-	-
Cost of share based-payment	-	-	-	-	10	-	-	-	-	10
Balance at June 30, 2018	<u>5,746</u>	<u>15,826</u>	<u>1,904</u>	<u>(1,132)</u>	<u>877</u>	<u>(405)</u>	<u>20</u>	<u>398</u>	<u>(867)</u>	<u>22,367</u>

	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 April 1, 2017	4,226	9,003	1,363	704	(497)	40	-	579	(867)	14,551
Loss	-	-	(910)	-	-	-	-	-	-	(910)
Other comprehensive income	-	-	-	-	81	-	2	-	-	83
Total comprehensive loss	-	-	(910)	-	81	-	2	-	-	(827)
Forfeiture of Options	-	11	-	(1)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	41	-	-	-	-	-	41
Balance at June 30, 2017	<u>4,226</u>	<u>9,014</u>	<u>453</u>	<u>744</u>	<u>(416)</u>	<u>30</u>	<u>2</u>	<u>579</u>	<u>(867)</u>	<u>13,765</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	Paid-in capital	Warrants	Retained earnings	Reserve for share-based payment	Foreign currency translation adjustments	Proceeds from conversion option	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
	U.S. dollars in thousands										
Balance at January 1, 2017	3,896	7,100	-	3,207	665	(523)	40	8	579	(867)	14,105
Net loss	-	-	-	(4,376)	-	-	-	-	-	-	(4,376)
Other comprehensive income (loss)	-	-	-	-	-	185	-	(8)	(181)	-	(4)
Total comprehensive loss (loss)	-	-	-	(4,376)	-	185	-	(8)	(181)	-	(4,380)
Issuance of Shares (net of issuance expenses)	1,833	8,565	1,904	-	-	-	-	-	-	-	12,302
Exercise of warrants into shares	5	30	-	-	(8)	-	-	-	-	-	27
Forfeiture of Options	-	51	-	-	(41)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	-	260	-	-	-	-	-	260
Balance at December 31, 2017	<u>5,734</u>	<u>15,746</u>	<u>1,904</u>	<u>(1,169)</u>	<u>876</u>	<u>(338)</u>	<u>30</u>	<u>-</u>	<u>398</u>	<u>(867)</u>	<u>22,314</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Net profit (loss)	37	(2,754)	755	(910)	(4,376)
Adjustments to reconcile loss to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	1,240	626	617	304	2,429
Capital Gain from sale of fixed assets	-	-	-	-	(22)
Cost of share-based payment	14	83	10	42	260
Income tax expense	35	12	28	9	192
Interest expenses, net	302	431	254	369	797
Change in employee benefit liability, net	12	50	8	26	70
Adjustment to current accounts with foreign operation	(15)	8	22	4	(53)
	1,588	1,210	939	754	3,673
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	2,288	(1,189)	(1,685)	745	(4,723)
Decrease in amounts due for construction contracts	(1,548)	1,821	(73)	462	835
Decrease (increase) in other accounts receivable	(144)	(277)	78	(10)	(203)
Decrease (increase) in inventories	(1,163)	145	(1,229)	(145)	1,759
Increase in trade payables	862	2,421	557	1,377	3,458
Increase (decrease) in other accounts payable	524	662	(1,338)	(433)	2,125
	819	3,583	(3,690)	1,996	3,251
Cash paid and received during the period for:					
Interest paid	(290)	(353)	(252)	(331)	(901)
Taxes paid	(12)	(10)	(8)	(9)	(110)
	(302)	(363)	(260)	(340)	(1,011)
Net cash provided by (used in) operating activities	2,142	1,676	(2,256)	1,500	1,537

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets	(491)	(200)	(127)	(144)	(542)
Capitalization of research and development costs	(342)	-	(202)	-	-
Proceeds from sale of fixed assets	-	-	-	-	25
Net cash used in investing activities	(833)	(200)	(329)	(144)	(517)
<u>Cash flows from financing activities:</u>					
Short-term bank credit, net	(500)	(516)	-	500	(1,516)
Receipt of Government grants	211	-	211	-	-
Payments for Government grants	(10)	(10)	-	(10)	(17)
Issuance of share capital (net of issuance expenses)	-	2,231	-	-	12,302
Payments of convertible bonds	(2,462)	(2,462)	(2,462)	(2,462)	(2,462)
Payments of lease liability	(668)	-	(332)	-	-
Exercise of warrants into shares	69	-	18	-	27
Net cash provided by (used in) financing activities	(3,360)	(757)	(2,565)	(1,972)	8,334
Translation differences on balances of cash and cash equivalents	28	-	(12)	4	74
Increase (decrease) in cash and cash equivalents	(2,023)	719	(5,162)	(612)	9,428
Cash and cash equivalents at the beginning of the period	13,345	3,917	16,484	5,248	3,917
Cash and cash equivalents at the end of the period	11,322	4,636	11,322	4,636	13,345
<u>Significant non-cash transaction:</u>					
Purchase of fixed assets on suppliers credit	129	56	129	56	168

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 June 30, 2017 and for the six 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, 2017 and for the year then ended and accompanying notes ("annual financial statements").
