

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

U.S. DOLLARS IN THOUSANDS

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
Consolidated Statements of Cash Flows	8 - 9
Notes to Financial Statements	10

AUDITORS' REPORT

To the Shareholders of

ORBIT TECHNOLOGIES LTD.

We have audited the consolidated balance sheets of Orbit Technologies Ltd. ("the Company") as of December 31, 2018 and 2017 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the periods ended December 31, 2018, 2017 and 2016 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 12, 2019, expressed an unqualified opinion on those statements.

The accompanying consolidated information, which are derived from the abovementioned financial statements, do not include disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the accompanying financial statements, 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 statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
March 12, 2019

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	12,013	13,345
Sort-term deposits	18	18
Accounts receivable	10,581	10,752
Other accounts receivable	580	826
Inventories	7,493	7,847
Amounts due for construction contracts	4,415	4,771
	<u>35,100</u>	<u>37,559</u>
NON-CURRENT ASSETS:		
Long-term prepaid and a restricted cash in respect of right to use asset	192	12
Fixed assets	4,900	3,527
Intangible assets	5,769	5,222
Deferred taxes	579	570
	<u>11,440</u>	<u>9,331</u>
	<u><u>46,540</u></u>	<u><u>46,890</u></u>

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	-	500
Current maturities of Convertible Bonds	2,434	2,414
Trade payables	5,565	6,580
Income taxes payable	65	-
Other accounts payable	11,249	9,046
	<u>19,313</u>	<u>18,540</u>
NON-CURRENT LIABILITIES:		
Liability for Government grants	839	585
Employee benefit liability	463	596
Convertible Bonds	2,434	4,827
Lease payment liability	182	4
Deferred taxes	27	24
	<u>3,945</u>	<u>6,036</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	5,758	5,734
Paid-in capital	15,890	15,746
Warrants	1,904	1,904
Retained earnings	(428)	(1,169)
Reserve for share-based payment	997	876
Proceeds from conversion option	20	30
Foreign currency translation adjustments	(471)	(338)
Reserve for defined benefit plans	479	398
Treasury shares	(867)	(867)
	<u>23,282</u>	<u>22,314</u>
Total equity	<u>46,540</u>	<u>46,890</u>

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

March 12, 2019	Yitzchak Gat	B. Weinberger	M. Dudek
Date of approval of the financial statements	Chairman of the Board	CEO	CFO

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands (except per share data)		
Revenues from sales and construction performed	44,530	39,047	29,856
Cost of sales and construction performed	30,963	27,509	20,708
Gross profit	13,567	11,538	9,148
Research and development costs, net	4,221	4,867	5,730
Selling and marketing expenses	4,341	4,505	4,681
General and administrative expenses	3,991	3,457	3,305
Operating income (loss) before other expenses (income)	1,014	(1,291)	(4,568)
Other expenses (income)	-	1,590	(737)
Operating income (loss) after other expenses (income)	1,014	(2,881)	(3,831)
Finance income	516	-	516
Finance expenses	658	1,303	1,159
Profit (loss) before taxes on income	872	(4,184)	(4,474)
Tax expenses (tax benefit)	132	192	439
Net profit (loss)	741	(4,376)	(4,913)
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic profit (loss) per share	0.046	(0.401)	(0.526)
Diluted profit (loss) per share	0.042	(0.401)	(0.526)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
Net profit (loss)	741	(4,376)	(4,913)
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	-	(118)	57
Profit (loss) from cash flow hedges	-	110	56
Actuarial profit (loss) from defined benefit plans	81	(181)	(20)
Foreign currency translation adjustments of foreign operation	(133)	185	(360)
Total other comprehensive income (loss)	(52)	(4)	(267)
Total comprehensive income (loss)	689	(4,380)	(5,180)

The accompanying note is an integral part of the 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, 2016	3,866	6,582	-	8,120	895	(163)	50	(105)	599	(867)	18,977
Net 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	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	5,734	15,746	1,904	(1,169)	876	(338)	30	-	398	(867)	22,314
Net Income	-	-	-	741	-	-	-	-	-	-	741
Other comprehensive income (loss)	-	-	-	-	-	(133)	-	-	81	-	(52)
Total comprehensive loss (loss)	-	-	-	741	-	(133)	-	-	81	-	689
Exercise of options into shares	24	132	-	-	(19)	-	-	-	-	-	137
Forfeiture of options	-	12	-	-	(2)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	-	142	-	-	-	-	-	142
Balance at December 31, 2018	5,758	15,890	1,904	(428)	997	(471)	20	-	479	(867)	23,282

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2018	2017	2016
U.S. dollars in thousands			
<u>Cash flows from operating activities:</u>			
Net income (loss)	741	(4,376)	(4,913)
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization (including intangible write off)	2,505	2,429	1,319
Capital Gain from sale of fixed assets	-	(22)	-
Cost of share-based payment	142	260	51
Tax expense (benefit)	132	192	439
Interest expenses, net	351	797	674
Change in employee benefit assets, net	(38)	70	41
Adjustment to current accounts with foreign operation	(27)	(53)	(60)
	<u>3,065</u>	<u>3,673</u>	<u>2,464</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	171	(4,723)	5,005
Decrease in amounts due for construction contracts	357	835	1,590
Decrease (increase) in other accounts receivable	245	(203)	172
Decrease in inventories	354	1,759	843
Increase (decrease) in trade payables	(838)	3,458	(2,808)
Increase (decrease) in other accounts payable	984	2,125	(39)
	<u>1,273</u>	<u>3,251</u>	<u>4,763</u>
Cash paid and received during the year for:			
Interest paid	(475)	(901)	(781)
Interest received	131	-	-
Taxes paid	(45)	(110)	(64)
	<u>(389)</u>	<u>(1,011)</u>	<u>(845)</u>
Net cash provided by operating activities	<u>4,690</u>	<u>1,537</u>	<u>1,469</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(930)	(542)	(791)
Restricted cash in respect of right to use asset	(182)		
Capitalization of research and development costs	(1,026)		
Proceeds from sale of fixed assets	-	25	-
Net cash used in investing activities	<u>(2,138)</u>	<u>(517)</u>	<u>(791)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	(500)	(1,516)	2,016
Receipt of Government grants	230	-	28
Payments for Government grants	(14)	(17)	(62)
Issuance of Shares (net of issuance expenses)	-	12,302	-
Payments of convertible bonds	(2,462)	(2,462)	(2,462)
Payments of loans from banks	-	-	(27)
Payments of lease liability	(1,313)	-	-
Exercise of warrants into shares	137	27	257
Net cash provided by (used in) financing activities	<u>(3,922)</u>	<u>8,334</u>	<u>(250)</u>
Translation differences on balances of cash and cash equivalents	38	74	54
Increase in cash and cash equivalents	(1,332)	9,428	482
Cash and cash equivalents at the beginning of the year	<u>13,345</u>	<u>3,917</u>	<u>3,435</u>
Cash and cash equivalents at the end of the year	<u><u>12,013</u></u>	<u><u>13,345</u></u>	<u><u>3,917</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>76</u>	<u>168</u>	<u>73</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS AND GEOGRAPHICAL SEGMENTS

a. Operating segments:

The operating segments are identified on the basis of information that is regularly reviewed by the Company's CEO which has been identified as the strategic steering committee to make strategic decisions in the Company (chief operating decision maker, "CODM").

The CODM decided that there is one internally reportable operation segments-development, marketing and manufacturing of superior performance communication equipment solutions.

b. Secondary reporting on geographical segments:

The geographical segments are presented based on the location of customers:

	Year ended December 31,		
	2018	2017	2016
U.S. dollars in thousands			
Israel	13,193	13,277	7,693
Europe	5,328	7,266	7,236
America	17,800	15,122	8,699
East Asia	8,209	3,382	6,228
	<u>44,530</u>	<u>39,047</u>	<u>29,856</u>

c. Major customers:

Revenues from major customers each of whom amount to 10% or more of total revenues (in percentages):

	Year ended December 31,		
	2018	2017	2016
%			
Customer A	17	9	13
Customer B	12	24	12
Customer C	5	3	12