

**ORBIT TECHNOLOGIES LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2019**

**U.S. DOLLARS IN THOUSANDS**

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## **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, 2019 and 2018 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, 2019, 2018 and 2017 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 19, 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 19 , 2020

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

**CONSOLIDATED BALANCE SHEETS**


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	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>U.S. dollars in thousands</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	12,263	12,013
Sort-term deposits	5,148	18
Accounts receivable	12,187	10,581
Other accounts receivable	646	580
Inventories	7,340	7,493
Amounts due for construction contracts	3,560	4,415
	<u>41,144</u>	<u>35,100</u>
<b>NON-CURRENT ASSETS:</b>		
Long-term other assets	10	192
Fixed assets	8,895	4,900
Intangible assets	5,750	5,769
Deferred taxes	575	579
	<u>15,230</u>	<u>11,440</u>
	<u><u>56,374</u></u>	<u><u>46,540</u></u>

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

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>U.S. dollars in thousands</b>	
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of Convertible Bonds	2,456	2,434
Trade payables	5,672	5,565
Income taxes payable	72	65
Other accounts payable	11,187	10,872
	<u>19,387</u>	<u>18,936</u>
<b>NON-CURRENT LIABILITIES:</b>		
Liability for Government grants	873	839
Employee benefit liability	259	463
Convertible Bonds	-	2,434
Lease payment liability	4,585	182
Warranty liability	329	377
Deferred taxes	14	27
	<u>6,060</u>	<u>4,322</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:</b>		
Share capital	6,450	5,758
Paid-in capital	20,725	15,890
Warrants	1,761	1,904
Retained earnings	1,808	(428)
Reserve for share-based payment	763	997
Proceeds from conversion option	10	20
Foreign currency translation adjustments	(416)	(471)
Reserve for defined benefit plans	693	479
Treasury shares	(867)	(867)
	<u>30,927</u>	<u>23,282</u>
<u>Total equity</u>	<u>30,927</u>	<u>23,282</u>
	<u>56,374</u>	<u>46,540</u>

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

March 19, 2020			
Date of approval of the financial statements	Yitzchak Gat Chairman of the Board	Daniel Eshchar CEO	Meirav Dudek CEO Deputy & CFO

**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands (except per share data)</b>		
Revenues from sales and construction performed	51,762	44,530	39,047
Cost of sales and construction performed	35,953	30,963	27,509
Gross profit	15,809	13,567	11,538
Research and development costs, net	3,525	4,221	4,867
Selling and marketing expenses	4,739	4,341	4,505
General and administrative expenses	3,898	3,991	3,457
Operating income (loss) before other expenses (income)	3,647	1,014	(1,291)
Other expenses	516	-	1,590
Operating income (loss) after other expenses (income)	3,131	1,014	(2,881)
Finance income	164	516	-
Finance expenses	891	658	1,303
Profit (loss) before taxes on income	2,404	872	(4,184)
Tax expenses (tax benefit)	168	132	192
Net profit (loss)	2,236	741	(4,376)
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic profit (loss) per share	0.136	0.046	(0.401)
Diluted profit (loss) per share	0.123	0.042	(0.401)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**


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	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>		
Net profit (loss)	2,236	741	(4,376)
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	-	-	(118)
Profit (loss) from cash flow hedges	-	-	110
Actuarial profit (loss) from defined benefit plans	214	81	(181)
Foreign currency translation adjustments of foreign operation	55	(133)	185
Total other comprehensive income (loss)	269	(52)	(4)
Total comprehensive income (loss)	<u>2,505</u>	<u>689</u>	<u>(4,380)</u>

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, 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	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
Net Income	-	-	-	2,236	-	-	-	-	-	-	2,236
Other comprehensive income (loss)	-	-	-	-	-	55	-	-	214	-	269
Total comprehensive loss (loss)	-	-	-	2,236	-	55	-	-	214	-	2,505
Exercise of warrants into shares by controlling shareholder	687	4,576	(143)	-	-	-	-	-	-	-	5,120
Exercise of options into shares	5	57	-	-	(57)	-	-	-	-	-	5
Forfeiture of options	-	202	-	-	(192)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	-	15	-	-	-	-	-	15
Balance at December 31, 2019	6,450	20,725	1,761	1,808	763	(416)	10	-	693	(867)	30,927

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31,		
	2019	2018	2017
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	2,236	741	(4,376)
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)	2,704	2,505	2,429
Capital Gain from sale of fixed assets	338	-	(22)
Cost of share-based payment	15	142	260
Tax expense	168	132	192
Interest expenses, net	296	351	797
Change in employee benefit assets, net	10	(38)	70
Adjustment to current accounts with foreign operation	31	(27)	(53)
	<u>3,562</u>	<u>3,065</u>	<u>3,673</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(1,606)	171	(4,723)
Decrease in amounts due for construction contracts	855	357	835
Decrease (increase) in other accounts receivable	(67)	245	(203)
Decrease in inventories	154	354	1,759
Increase (decrease) in trade payables	66	(838)	3,458
Increase in other accounts payable	539	984	2,125
	<u>(59)</u>	<u>1,273</u>	<u>3,251</u>
Cash paid and received during the year for:			
Interest paid	(359)	(475)	(901)
Interest received	164	131	-
Taxes paid	(107)	(45)	(110)
	<u>(302)</u>	<u>(389)</u>	<u>(1,011)</u>
Net cash provided by operating activities	<u>5,437</u>	<u>4,690</u>	<u>1,537</u>

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>U.S. dollars in thousands</b>			
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(1,097)	(930)	(542)
Restricted cash in respect of right to use asset	182	(182)	-
Capitalization of research and development costs	(555)	(1,026)	-
Deposit in banking corporations	(5,130)	-	-
Proceeds from sale of fixed assets	4	-	25
Net cash used in investing activities	<u>(6,596)</u>	<u>(2,138)</u>	<u>(517)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	-	(500)	(1,516)
Receipt of Government grants	84	230	-
Payments for Government grants	(19)	(14)	(17)
Issuance of Shares (net of issuance expenses)	-	-	12,302
Payments of convertible bonds	(2,462)	(2,462)	(2,462)
Exercise of warrants into shares by controlling shareholder	5,120	-	-
Payments of lease liability	(1,292)	(1,313)	-
Exercise of warrants into shares	5	137	27
Net cash provided by (used in) financing activities	<u>1,436</u>	<u>(3,922)</u>	<u>8,334</u>
Translation differences on balances of cash and cash equivalents	<u>(27)</u>	<u>38</u>	<u>74</u>
Increase in cash and cash equivalents	250	(1,332)	9,428
Cash and cash equivalents at the beginning of the year	<u>12,013</u>	<u>13,345</u>	<u>3,917</u>
Cash and cash equivalents at the end of the year	<u><u>12,263</u></u>	<u><u>12,013</u></u>	<u><u>13,345</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>97</u>	<u>76</u>	<u>168</u>
Recognition of the right of use against a lease liability	<u><u>5,371</u></u>	<u><u>2,658</u></u>	<u><u>-</u></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,		
	2019	2018	2017
U.S. dollars in thousands			
Israel	18,250	13,193	13,277
Europe	7,024	5,328	7,266
America	18,936	17,800	15,122
East Asia	7,552	8,209	3,382
	<u>51,762</u>	<u>44,530</u>	<u>39,047</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,		
	2019	2018	2017
%			
Customer A	13	17	24
Customer B	16	12	9
Customer C	10	8	3