

ORBIT TECHNOLOGIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 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 June 30, 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 28, 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
August 28, 2017

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,636	2,617	3,917
Short-term deposits	18	18	18
Accounts receivable	7,218	7,879	6,124
Other accounts receivable	898	1,218	621
Inventories	9,461	10,354	9,606
Amounts due for construction contracts	4,262	4,793	5,606
	<u>26,493</u>	<u>26,879</u>	<u>25,892</u>
NON-CURRENT ASSETS:			
Long-term prepaid receivables	15	13	14
Fixed assets	3,399	3,422	3,467
Intangible assets	6,704	7,327	7,000
Income taxes receivable	-	276	-
Deferred taxes	646	618	637
	<u>10,764</u>	<u>11,656</u>	<u>11,118</u>
	<u><u>37,257</u></u>	<u><u>38,535</u></u>	<u><u>37,010</u></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>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	1,500	13	2,016
Current maturities of convertible bonds	2,393	2,377	2,396
Trade payables	5,431	2,772	2,954
Income taxes payable	52	45	33
Other accounts payable	8,450	7,052	7,327
	<u>17,826</u>	<u>12,259</u>	<u>14,726</u>
NON-CURRENT LIABILITIES:			
Liability for Government grants	464	587	522
Employee benefit liability	362	270	311
Convertible bonds	4,793	7,132	7,187
Financial liabilities	14	35	24
Deferred taxes	33	58	40
Excess of losses over investment in jointly controlled entity	-	95	95
	<u>5,666</u>	<u>8,177</u>	<u>8,179</u>
EQUITY:			
Share capital	4,226	3,878	3,896
Paid-in capital	9,014	6,690	7,100
Retained earnings	453	7,212	3,207
Reserve for share-based payment	30	40	665
Proceeds from conversion option (net of issue expenses)	744	852	40
Foreign currency translation adjustments	2	51	(523)
Reserve from hedges	(416)	(356)	8
Reserve for defined benefit plans	579	599	579
Treasury shares	(867)	(867)	(867)
<u>Total equity</u>	<u>13,765</u>	<u>18,099</u>	<u>14,105</u>
	<u>37,257</u>	<u>38,535</u>	<u>37,010</u>

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

28 August, 2017			
Date of approval of the financial statements	Z. Stein 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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales and contracts performed	16,351	17,062	9,128	7,028	29,856
Cost of sales and contracts performed	11,579	11,385	6,344	4,634	20,708
Gross profit	4,772	5,677	2,784	2,394	9,148
Research and development costs	2,647	2,909	1,294	1,386	5,730
Selling and marketing expenses	2,390	2,244	1,150	939	4,681
General and administrative expenses	1,685	1,754	868	890	3,305
Other income, net	36	800	-	150	737
Operating loss	(1,986)	(430)	(528)	(671)	(3,831)
Finance income	-	301	-	163	516
Finance expenses	756	612	373	310	1,159
loss before taxes on income	(2,742)	(741)	(901)	(818)	(4,474)
Income tax expense (tax benefit)	12	167	9	161	439
loss	<u>(2,754)</u>	<u>(908)</u>	<u>(910)</u>	<u>(979)</u>	<u>(4,913)</u>
loss per share attributable to equity holders of the Company (in U.S. dollars):					
Basic loss per share	<u>(0.274)</u>	<u>(0.098)</u>	<u>(0.086)</u>	<u>(0.105)</u>	<u>(0.53)</u>
Diluted loss per share	<u>(0.274)</u>	<u>(0.096)</u>	<u>(0.086)</u>	<u>(0.103)</u>	<u>(0.53)</u>

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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
loss	<u>(2,754)</u>	<u>(908)</u>	<u>(910)</u>	<u>(979)</u>	<u>(4,913)</u>
Other comprehensive income (loss) (net of tax effect):					
Amounts transferred to the statement of income for cash flow hedges	(117)	157	(36)	(46)	57
Gain (loss) from cash flow hedges	111	(1)	38	(31)	56
Foreign currency translation adjustments of foreign operation	<u>107</u>	<u>(193)</u>	<u>81</u>	<u>(135)</u>	<u>(360)</u>
Total other comprehensive income	<u>101</u>	<u>(37)</u>	<u>83</u>	<u>(212)</u>	<u>(267)</u>
Total comprehensive loss	<u><u>(2,653)</u></u>	<u><u>(945)</u></u>	<u><u>(827)</u></u>	<u><u>(1,191)</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	-	-	(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
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	-	-	(908)	-	-	-	-	-	-	(908)
Other comprehensive income (loss)	-	-	-	-	(193)	-	156	-	-	(37)
Total comprehensive income (loss)	-	-	(908)	-	(193)	-	156	-	-	(945)
Exercise of warrants into shares	12	79	-	-	-	-	-	-	-	91
Forfeiture of options	-	29	-	(19)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	(24)	-	-	-	-	-	(24)
Balance at June 30, 2016	3,878	6,690	7,212	852	(356)	40	51	599	(867)	18,099

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 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	4,226	9,014	453	744	(416)	30	2	579	(867)	13,765

	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, 2016	3,872	6,618	8,191	935	(221)	50	128	599	(867)	19,305
Loss	-	-	(979)	-	-	-	-	-	-	(979)
Other comprehensive income (loss)	-	-	-	-	(135)	-	(77)	-	-	(212)
Total comprehensive income	-	-	(979)	-	(135)	-	(77)	-	-	(1,191)
Exercise of warrants into shares	6	48	-	-	-	-	-	-	-	54
Forfeiture of Options	-	24	-	(14)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	(69)	-	-	-	-	-	(69)
Balance at June 30, 2016	3,878	6,690	7,212	852	(356)	40	51	599	(867)	18,099

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
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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
loss	(2,754)	(908)	(910)	(979)	(4,913)
Adjustments to reconcile loss to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	626	653	304	327	1,319
Cost of share-based payment	83	(24)	42	(69)	51
Income tax expense	12	167	9	161	439
Interest expenses, net	431	371	369	304	674
Change in employee benefit liability, net	50	20	26	4	41
Adjustment to current accounts with foreign operation	8	(44)	4	12	(60)
	1,210	1,143	754	739	2,464
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	(1,189)	3,249	745	3,317	5,005
Decrease in amounts due for construction contracts	1,821	2,403	462	2,981	1,590
Decrease (increase) in other accounts receivable	(277)	(424)	(10)	640	172
Decrease (increase) in inventories	145	52	(145)	(360)	843
Increase (decrease) in trade payables	2,421	(3,046)	1,377	(3,138)	(2,808)
Increase (decrease) in other accounts payable	662	(142)	(433)	(964)	(39)
	3,583	2,092	1,996	2,476	4,763
Cash paid and received during the period for:					
Interest paid	(353)	(451)	(331)	(415)	(781)
Taxes paid	(10)	(24)	(9)	(21)	(64)
	(363)	(475)	(340)	(436)	(845)
Net cash provided by operating activities	1,676	1,852	1,500	1,800	1,469

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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets	(200)	(298)	(144)	(195)	(791)
Net cash used in investing activities	(200)	(298)	(144)	(195)	(791)
<u>Cash flows from financing activities:</u>					
Short-term bank credit, net	(516)	13	500	13	2,016
Receipt of Government grants	-	28	-	28	28
Payments for Government grants	(10)	(57)	(10)	(57)	(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)	(2,462)	(2,462)
Payments of loans from banks	-	(27)	-	-	(27)
Exercise of warrants into shares	-	91	-	54	257
Net cash provided by (used in) financing activities	(757)	(2,414)	(1,972)	(2,424)	(250)
Translation differences on balances of cash and cash equivalents	-	42	4	(12)	54
Increase (decrease) in cash and cash equivalents	719	(818)	(612)	(831)	482
Cash and cash equivalents at the beginning of the period	3,917	3,435	5,248	3,448	3,435
Cash and cash equivalents at the end of the period	4,636	2,617	4,636	2,617	3,917
<u>Significant non-cash transaction:</u>					
Purchase of fixed assets on suppliers credit	56	127	56	127	73
Purchase of fixed assets on finance Lease	-	63	-	-	-

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, 2016 and for the year then ended and accompanying notes ("annual financial statements").

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