

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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, 2017 and 2016 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, 2017, 2016 and 2015 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 19, 2018, 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, 2018

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	13,345	3,917
Sort-term deposits	18	18
Accounts receivable	10,752	6,124
Other accounts receivable	826	621
Inventories	7,847	9,606
Amounts due for construction contracts	4,771	5,606
	<u>37,559</u>	<u>25,892</u>
NON-CURRENT ASSETS:		
Long-term prepaid receivables	12	14
Fixed assets	3,527	3,467
Intangible assets	5,222	7,000
Deferred taxes	570	637
	<u>9,331</u>	<u>11,118</u>
	<u><u>46,890</u></u>	<u><u>37,010</u></u>

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	500	2,016
Current maturities of Convertible Bonds	2,414	2,396
Trade payables	6,580	2,954
Income taxes payable	-	33
Other accounts payable	9,046	7,327
	<u>18,540</u>	<u>14,726</u>
NON-CURRENT LIABILITIES:		
Employee benefit liability	596	311
Liability for Government grants	585	522
Convertible Bonds	4,827	7,187
Financials liabilities	4	24
Deferred taxes	24	40
Excess of losses over investment in jointly controlled entity	-	95
	<u>6,036</u>	<u>8,179</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	5,734	3,896
Paid-in capital	15,746	7,100
Warrants	1,904	
Retained earnings	(1,169)	3,207
Reserve for share-based payment	876	665
Proceeds from conversion option	30	40
Foreign currency translation adjustments	(338)	(523)
Reserve for hedges	-	8
Reserve for defined benefit plans	398	579
Treasury shares	(867)	(867)
<u>Total equity</u>	<u>22,314</u>	<u>14,105</u>
	<u>46,890</u>	<u>37,010</u>

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

March 19, 2018			
Date of approval of the financial statements	Yitzchak Gat Chairman of the Board	E. Livneh CEO	M. Dudek CFO

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands (except per share data)		
Revenues from sales and construction performed	39,047	29,856	45,114
Cost of sales and construction performed	27,509	20,708	28,908
Gross profit	11,538	9,148	16,206
Research and development costs, net	4,867	5,730	6,004
Selling and marketing expenses	4,505	4,681	4,409
General and administrative expenses	3,457	3,305	3,579
Operating income (loss) before other expenses (income)	(1,291)	(4,568)	2,214
Other expenses (income)	1,590	(737)	(6)
Operating income (loss) after other expenses (income)	(2,881)	(3,831)	2,220
Finance income	-	516	-
Finance expenses	1,303	1,159	1,290
Group's share of losses of jointly controlled entity	-	-	(2)
Profit (loss) before taxes on income	(4,184)	(4,474)	928
Tax expenses (tax benefit)	192	439	(332)
Net profit (loss)	<u>(4,376)</u>	<u>(4,913)</u>	<u>1,260</u>
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic profit (loss) per share	<u>(0.401)</u>	<u>(0.526)</u>	<u>0.136</u>
Diluted profit (loss) per share	<u>(0.401)</u>	<u>(0.526)</u>	<u>0.134</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Net profit (loss)	<u>(4,376)</u>	<u>(4,913)</u>	<u>1,260</u>
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	(118)	57	303
Profit (loss) from cash flow hedges	110	56	(98)
Actuarial profit (loss) from defined benefit plans	(181)	(20)	131
Foreign currency translation adjustments of foreign operation	<u>185</u>	<u>(360)</u>	<u>(69)</u>
Total other comprehensive income (loss)	<u>(4)</u>	<u>(267)</u>	<u>267</u>
Total comprehensive income (loss)	<u><u>(4,380)</u></u>	<u><u>(5,180)</u></u>	<u><u>1,527</u></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, 2015	3,838	6,346	-	6,860	839	(94)	50	(310)	468	(867)	17,130
Net income	-	-	-	1,260	-	-	-	-	-	-	1,260
Other comprehensive income (loss)	-	-	-	-	-	(69)	-	205	131	-	267
Total comprehensive income	-	-	-	1,260	-	(69)	-	205	131	-	1,527
Exercise of warrants into shares	28	231	-	-	(68)	-	-	-	-	-	191
Forfeiture of Options	-	5	-	-	(5)	-	-	-	-	-	-
Cost of share based-payment	-	-	-	-	129	-	-	-	-	-	129
Balance at December 31, 2015	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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
<u>U.S. dollars in thousands</u>			
<u>Cash flows from operating activities:</u>			
Net income (loss)	(4,376)	(4,913)	1,260
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)	2,429	1,319	1,374
Capital Gain from sale of fixed assets	(22)	-	(3)
Share of losses of jointly controlled entity	-	-	2
Cost of share-based payment	260	51	129
Tax expense (benefit)	192	439	(332)
Interest expenses, net	797	674	1,092
Change in employee benefit assets, net	70	41	40
Adjustment to current accounts with foreign operation	(53)	(60)	(26)
	<u>3,673</u>	<u>2,464</u>	<u>2,276</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(4,723)	5,005	(1,503)
Decrease (increase) in amounts due for construction contracts	835	1,590	(1,393)
Decrease (increase) in other accounts receivable	(203)	172	221
Decrease in inventories	1,759	843	646
Increase (decrease) in trade payables	3,458	(2,808)	1,322
Increase (decrease) in other accounts payable	2,125	(39)	(742)
	<u>3,251</u>	<u>4,763</u>	<u>(1,449)</u>
Cash paid and received during the year for:			
Interest paid	(901)	(781)	(889)
Taxes paid	(110)	(64)	(59)
	<u>(1,011)</u>	<u>(845)</u>	<u>(948)</u>
Net cash provided by operating activities	<u>1,537</u>	<u>1,469</u>	<u>1,139</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(542)	(791)	(806)
Proceeds from sale of fixed assets	25	-	-
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(517)</u>	<u>(791)</u>	<u>(806)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	(1,516)	2,016	-
Receipt of Government grants	-	28	-
Payments for Government grants	(17)	(62)	(82)
Issuance of Shares (net of issuance expenses)	12,302	-	-
Payments of convertible bonds	(2,462)	(2,462)	-
Payments of loans from banks	-	(27)	(414)
Exercise of warrants into shares	27	257	191
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	<u>8,334</u>	<u>(250)</u>	<u>(305)</u>
Translation differences on balances of cash and cash equivalents	<u>74</u>	<u>54</u>	<u>22</u>
Increase in cash and cash equivalents	9,428	482	50
Cash and cash equivalents at the beginning of the year	<u>3,917</u>	<u>3,435</u>	<u>3,385</u>
Cash and cash equivalents at the end of the year	<u><u>13,345</u></u>	<u><u>3,917</u></u>	<u><u>3,435</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>168</u>	<u>73</u>	<u>92</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,		
	2017	2016	2015
U.S. dollars in thousands			
Israel	13,277	7,693	12,144
Europe	7,266	7,236	12,431
America	15,122	8,699	10,627
East Asia	3,382	6,228	9,912
	<u>39,047</u>	<u>29,856</u>	<u>45,114</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,		
	2017	2016	2015
%			
Customer A	9	13	9
Customer B	24	12	16
Customer C	3	12	2