

Sarine Technologies Ltd. and its Subsidiaries

(Incorporated in Israel)

PART 1 INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3), FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statements of Comprehensive Income for the (US\$'000):

	<u>Group</u> <u>Quarter ended</u> <u>March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u> <u>%</u>
Revenue	16,271	15,487	5.1
Cost of sales	5,219	5,023	3.9
Gross profit	11,052	10,464	5.6
Research and development expenses	3,018	2,552	18.3
Sales and marketing expenses	3,492	3,110	12.3
General and administrative expenses	1,374	1,118	22.9
Profit from operations	3,168	3,684	(14.0)
Net finance (expense) income	(19)	146	NM
Profit before income tax	3,149	3,830	(17.8)
Income tax expense	698	868	(19.6)
Profit for the period	2,451	2,962	(17.3)
Foreign currency translation differences from foreign operations	398	6	6,533.3
Total comprehensive income for the period	2,849	2,968	(4.0)

Notes to consolidated statements of comprehensive income (US\$'000)

Profit before income tax is stated after charging the following:

	<u>Group</u> <u>Quarter ended</u> <u>March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u> <u>%</u>
Allowance for doubtful trade receivables	4	20	(80.0)
Depreciation and amortization	948	937	1.2
Interest income, net	72	104	(30.8)
Exchange rate differences	(91)	42	NM
Warranty provision	(6)	9	NM

NM- Not meaningful

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Statement of Financial Position as at (US\$'000):

	<u>Group</u>		<u>Company</u>	
	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets				
Property, plant and equipment	15,593	14,064	2,213	2,255
Intangible assets	7,075	7,469	--	--
Investment in equity accounted investee and subsidiaries	--	--	52,991	48,480
Deferred tax assets	2,473	2,527	1,311	1,318
Total non-current assets	<u>25,141</u>	<u>24,060</u>	<u>56,515</u>	<u>52,053</u>
Inventories	9,280	9,230	5,708	6,393
Trade receivables	15,687	16,955	2,658	2,559
Other receivables	3,413	3,488	2,181	2,029
Short-term investments (bank deposits)	21,206	18,520	12,107	11,835
Cash and cash equivalents	19,738	19,467	9,322	11,631
Total current assets	<u>69,324</u>	<u>67,660</u>	<u>31,976</u>	<u>34,447</u>
Total assets	<u>94,465</u>	<u>91,720</u>	<u>88,491</u>	<u>86,500</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(2,413)	(2,413)	(2,413)	(2,413)
Share premium, reserves and retained earnings	85,217	81,726	85,217	81,726
Total equity	<u>82,804</u>	<u>79,313</u>	<u>82,804</u>	<u>79,313</u>
Liabilities				
Employee benefits	152	144	146	138
Total non-current liabilities	<u>152</u>	<u>144</u>	<u>146</u>	<u>138</u>
Trade payables	3,388	3,725	1,640	2,258
Other payables	7,391	7,971	3,654	4,541
Current tax payable	377	208	--	--
Warranty provision	353	359	247	250
Total current liabilities	<u>11,509</u>	<u>12,263</u>	<u>5,541</u>	<u>7,049</u>
Total liabilities	<u>11,661</u>	<u>12,407</u>	<u>5,687</u>	<u>7,187</u>
Total equity and liabilities	<u>94,465</u>	<u>91,720</u>	<u>88,491</u>	<u>86,500</u>

* No par value

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

Zero borrowings from banks as at March 31, 2017 and December 31, 2016.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Cash Flows (US\$'000):

	Group	
	Period ended	
	March 31,	
	2017	2016
Cash flows from operating activities		
Profit for the period	2,451	2,962
Adjustments for:		
Share-based payment expenses	423	397
Income tax expense	698	868
Depreciation of property, plant and equipment	554	561
Amortisation of intangible assets	394	376
Net finance expense (income)	19	(146)
Changes in working capital		
Inventories	(40)	1,311
Trade receivables	1,268	(2,361)
Other receivables	36	(540)
Trade payables	(337)	373
Other liabilities	(464)	(96)
Employee benefits	8	5
Income tax paid, net	(436)	310
Net cash from operating activities	<u>4,574</u>	<u>4,020</u>
Cash flows (used in) from investing activities		
Acquisition of property, plant and equipment	(1,817)	(655)
Short-term investments, net	(2,686)	5,972
Interest received	72	104
Net cash (used in) from investing activities	<u>(4,431)</u>	<u>5,421</u>
Cash flows used in financing activities		
Proceeds from exercise of share options	219	424
Net cash used in financing activities	<u>219</u>	<u>424</u>
Net increase in cash and cash equivalents	362	9,865
Cash and cash equivalents at beginning of the period	19,467	19,298
Exchange rate differences	(91)	42
Cash and cash equivalents at end of the period	<u>19,738</u>	<u>29,205</u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended March 31, 2016	--	--	--	2,962	--	2,962
Other comprehensive income for the period ended March 31, 2016	--	--	6	--	--	6
Share-based payment expenses	--	397	--	--	--	397
Exercise of options	--	424	--	--	--	424
Balance at March 31, 2016	--	28,223	(1,724)	51,187	(2,366)	75,320
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the period ended March 31, 2017	--	--	--	2,451	--	2,451
Other comprehensive income for the period ended March 31, 2017	--	--	398	--	--	398
Share-based payment expenses	--	423	--	--	--	423
Exercise of options	--	219	--	--	--	219
Balance at March 31, 2017	--	30,330	(1,521)	56,408	(2,413)	82,804

* No par value

Statement of Changes in Shareholders' Equity**Company (US\$'000)**

	<u>Share Capital*</u>	<u>Share premium and reserves</u>	<u>Translation reserve</u>	<u>Retained earnings</u>	<u>Dormant shares</u>	<u>Total</u>
Balance at January 1, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended March 31, 2016	--	--	--	2,962	--	2,962
Other comprehensive income for the period ended March 31, 2016	--	--	6	--	--	6
Share-based payment expenses	--	397	--	--	--	397
Exercise of options	--	424	--	--	--	424
Balance at March 31, 2016	--	<u>28,223</u>	<u>(1,724)</u>	<u>51,187</u>	<u>(2,366)</u>	<u>75,320</u>
 Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the period ended March 31, 2017	--	--	--	2,451	--	2,451
Other comprehensive income for the period ended March 31, 2017	--	--	398	--	--	398
Share-based payment expenses	--	423	--	--	--	423
Exercise of options	--	219	--	--	--	219
Balance at March 31, 2017	--	<u>30,330</u>	<u>(1,521)</u>	<u>56,408</u>	<u>(2,413)</u>	<u>82,804</u>

* No par value

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
	<u>No. of shares</u>	<u>No. of shares</u>	<u>No. of shares</u>
Authorised:			
Ordinary shares of no par value	2,000,000,000	2,000,000,000	2,000,000,000
Issued and fully paid:			
Ordinary shares of no par value	352,417,188	351,916,813	351,169,691
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	1,623,100	1,623,100	1,583,100
Total number of issued shares (excluding dormant shares)	350,794,088	350,293,713	349,586,591

For the three months ended March 31, 2017, 500,375 share options were exercised into ordinary shares. For the three months ended March 31, 2017, the Company did not purchase any of its ordinary shares.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as they are held by the Company, and as such they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at March 31, 2017 and December 31, 2016 included 1,623,100 dormant shares, respectively.

Details of changes in share options:

	<u>Average exercise price in US\$ per share</u>	<u>Options</u>
At January 1, 2017	1.106	19,381,380
Granted	1.254	334,000
Cancelled	--	--
Exercised	0.433	(500,375)
At March 31, 2017	1.165	19,215,005

At March 31, 2017, the average exercise price in Singapore dollars per share was S\$ 1.628, based on an exchange rate of US\$ 1 = S\$ 1.3978.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at March 31, 2017, the total number of issued shares excluding dormant shares was 350,794,088 (as at December 31, 2016- 350,293,713). As at March 31, 2017, the total number of dormant shares was 1,623,100 (as at December 31, 2016- 1,623,100).

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

For the three months ended March 31, 2017, the Company did not purchase any of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.

These figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2016 have been applied in the preparation for the financial statements for period ended March 31, 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	For the Quarter ended March 31,	
	<u>2017</u>	<u>2016</u>
<u>US cents</u>		
Basic earnings per share	0.70	0.85
Diluted earnings per share	0.70	0.85
<u>Singapore cents*</u>		
Basic earnings per share	0.98	1.19
Diluted earnings per share	0.98	1.19

Basic earnings per share for the three months ended March 31, 2017 are calculated based on the weighted average number of 350,567,502 ordinary shares issued during the current period and the equivalent of 349,080,198 ordinary shares during the preceding period.

Diluted earnings per share for the three month ended March 31, 2017 are calculated based on the weighted average number of 350,718,584 ordinary shares and outstanding options and the equivalent of 349,278,620 ordinary shares and outstanding options during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.3978 at March 31, 2017.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:
- current financial period reported on; and
 - immediately preceding financial year.

	<u>Group</u>		<u>Company</u>	
	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Net asset value (US\$ thousands)	82,804	79,313	82,804	79,313
Net asset value per ordinary share (US cents)	23.60	22.64	23.60	22.64
Net asset value per ordinary share (Singapore cents*)	32.99	31.65	32.99	31.65

At March 31, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at March 31, 2017 of 350,794,088 (not including 1,623,100 dormant ordinary shares at March 31, 2017). At December 31, 2016, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2016 of 350,293,713 (not including 1,623,100 dormant ordinary shares at December 31, 2016).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3978 at March 31, 2017.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 - any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Overview

The Group reported in Q1 2017 revenues of US\$ 16.3 million, profit from operations of US\$ 3.2 million, and net profit of US\$ 2.5 million, as compared to revenues of US\$ 15.5 million, profit from operations of US\$ 3.7 million, and net profit of US\$ 3.0 million in Q1 2016, and as compared to revenues of US\$ 18.9 million, profit from operations of US\$ 6.3 million and net profit of US\$ 5.0 million in Q4 2016.

The year-over-year improvement in our revenues was primarily due to increased diamond manufacturing equipment sales, as well as due to increased recurring revenues. Nevertheless, net profit declined on higher operating expenses, as detailed below. The sequential quarterly decline in revenues was primarily due to fewer GalaxyTM deliveries following the cessation of the 2016 promotion of the MeteorTM under attractive introductory terms, which are no longer offered, and revised pricing of the SolarisTM, ongoing use fees. Operating expenses, were further impacted by an approximate 5% decline of the US\$ versus the NIS in Israel, where most of our compensation expenses are incurred.

With deliveries in Q1 2017 of 17 GalaxyTM family systems to customers, comprising 11 of the MeteorTM small stone machines, five SolarisTM machines and one GalaxyTM system, the Group had an installed base of 316 GalaxyTM family systems as of March 31, 2017. Overall recurring revenues for Q1 2017 (including GalaxyTM-related, QuazerTM services, polished diamond related ("Trade") services, annual maintenance contracts, and spare parts, etc.) represented approximately 42% of our overall revenue. Overall Trade revenues from our polished diamond line of products and services, the Sarine ProfileTM and its various components (Sarine LightTM, Sarine LoupeTM, Sarine ConnectTM, etc.), represented about 2% of our overall revenue for Q1 2017, but we continue to expect to double this ratio as the year unfolds, as new customers buy in to the paradigm (see Section 10 for more details), existing customers continue to expand their programs, and the number of stones processed increases.

Balance Sheet and Cash Flow Highlights

As at March 31, 2017, cash and cash equivalents and short-term investments (bank deposits) (“**Cash Balances**”) increased to US\$ 40.9 million as compared to US\$ 38.0 million as of December 31, 2016. The increase in Cash Balances was primarily due to the Group’s operating results and lower trade receivables, offset by lower payables and increased fixed assets, primarily due to the Group’s recently completed new facilities in Surat India.

Revenues

Revenue by geographic segments -- (US\$ ‘000)

Q1 2017 versus Q1 2016				
Region	Q1 2017	Q1 2016	\$ change	% change
India	13,028	12,246	782	6.4
Africa	689	563	126	22.4
Europe	597	476	121	25.4
North America	316	424	(108)	(25.5)
Israel	906	1,058	(152)	(14.4)
Other*	735	720	15	2.1
Total	16,271	15,487	784	5.1

Q1 2017 versus Q4 2016				
Region	Q1 2017	Q4 2016	\$ change	% change
India	13,028	15,223	(2,195)	(14.4)
Africa	689	627	62	9.9
Europe	597	594	3	0.5
North America	316	251	65	25.9
Israel	906	912	(6)	(0.7)
Other*	735	1,310	(575)	(43.9)
Total	16,271	18,917	(2,646)	(14.0)

*primarily Asia, excluding India

Revenues for Q1 2017 increased to US\$ 16.3 million as compared to revenues of US\$ 15.5 million in Q1 2016, but decreased as compared to US\$ 18.9 million in Q4 2016. The increase in revenues on a year-over-year basis was primarily due to increased diamond manufacturing equipment sales and increased recurring revenues, mainly in India. The sequential quarterly decrease in revenues especially in India was primarily due to fewer Galaxy™ deliveries, as noted above.

Cost of sales and gross profit

Cost of sales for Q1 2017 increased to US\$ 5.2 million as compared to US\$ 5.0 million for Q1 2016, but decreased as compared to US\$ 5.3 million in Q4 2016, with gross profit margins of 68% in Q1 2017 virtually flat versus Q1 2016, but lower than the 72% reported in Q4 2016. The year-over-year increase in the cost of sales was due primarily to higher sales volumes in Q1 2017 as compared to Q1 2016. The decrease in cost of sales on a sequential basis and the lower gross profit margin were primarily due to lower sales volumes and product mix.

Research and development expenses

Research and development expenses for Q1 2017 increased to US\$ 3.0 million as compared to US\$ 2.6 million in Q1 2016, and US\$ 2.7 million in Q4 2016. The increase in research and development on year-over-year and sequential bases was primarily due to higher employee-related and outsource expenses. The increase in employee related expenses was also impacted by an approximate 5% devaluation in the US dollar

versus the NIS. The Group continues to focus its research and development expenditures on the development of future growth products and services, as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for Q1 2017 increased to US\$ 3.5 million as compared to US\$ 3.1 million in Q1 2016 and was virtually flat with Q4 2016. Sales and marketing expenses increased on a year-over-year basis on increased marketing, advertising and business development expenses as well as increased sales expenses in the Asia Pacific region, with the expansion of our staff in line with the continued successful rollout of our Trade offerings.

General and administrative expenses

General and administrative expenses for Q1 2017 increased to US\$ 1.4 million as compared to US\$ 1.1 million in Q1 2016, and as compared to US\$ 1.1 million in Q4 2016. The increase in general and administrative expenses on a year-over-year and sequential bases was primarily due to higher third-party professional fees, mainly related to IP protection in India (see Section 10), as well as higher non-cash incentive based compensation expenses.

Profit from operations

Profit from operations for Q1 2017 decreased to US\$ 3.2 million as compared to US\$ 3.7 million in Q1 2016 and US\$ 6.3 million in Q4 2016. The decrease in profit from operations on a year-over-year basis was due to higher operating expenses, offset somewhat by increased revenues. The decrease in profit from operations on a sequential basis was primarily due to lower sales and somewhat higher operating expenses, as detailed above.

Net finance (expense) income

Net finance expense for Q1 2017 was US\$ 19,000 as compared to net finance income of US\$146,000 in Q1 2016 and net finance expense of US\$2,000 in Q4 2016. Net finance expense in Q1 2017 was primarily due to exchange rate differences associated with our NIS-linked payables.

Income tax expense

The Group recorded an income tax expense of US\$ 0.7 million for Q1 2017 as compared to an expense of US\$ 0.9 million for Q1 2016 and an expense of US\$ 1.3 million in Q4 2016. The decrease in income tax expense was primarily due to lower pre-tax profitability, as discussed above.

Profit for the period

Net profit for Q1 2017 decreased to \$2.5 million as compared to US\$ 3.0 million in Q1 2016 and US\$ 5.0 million in Q4 2016. The decrease in net profit on a year-over-year basis was due to higher operating expenses, offset somewhat by increased revenues. The decrease in net profit on a sequential basis was primarily due to lower sales and somewhat higher operating expenses, as detailed above.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

We expect the following industry trends to continue influencing our business:

- a. Fundamental global economic indicators continue to be overall positive, though geopolitical uncertainties in North Korea, Syria and Europe (Brexit) persist.
- b. In all retail diamond markets, save for the domestic market in India, end consumer demand remains robust. In the second most important market, China, general and retailer-specific indicators show consumer demand for luxury items, in general, and diamond jewellery specifically, expanding after a two year hiatus.
- c. De Beers' and other major producers' sales of rough diamonds in the first quarter of 2017 were higher than in 2016, with prices steady, indicating continued overall positive industry sentiment. The producers leveraged this sentiment to sell into the industry pipeline quantities of rough stones, which had been stockpiled during the problematic second half of 2015. The issue as to whether too many rough stones are entering the midstream needs to be closely monitored. Otherwise, an imbalance between rough stones entering and polished stones leaving the midstream may develop, as has happened in the past, creating inventory, pricing and liquidity issues.
- d. There are no significant polished diamond pricing or inventory issues at this time, though an imbalance, as noted in the previous paragraph, may be developing.
- e. The trends noted above, positive macroeconomics, continued positive consumer demand for polished diamonds in almost all markets, a robust supply of rough diamonds at favourable prices and no inventory overhang (under proper balancing of rough bought and polished sold) should underpin continued normal industry activity in 2017.
- f. With respect to those parties in India, who we suspect are operating an inclusion mapping service centre in Surat, India and who we believe to be offering for sale systems akin to our Solaris and Meteor systems, we believe that they are infringing upon our patented technology for inclusion mapping in rough diamonds, as well as infringing on our copyright of our AdvisorTM rough diamond planning software. We intend to leverage and seek remedies for the infringement of the patent granted us in India for our unique diamond inclusion scanning technology, as well as our copyrights of the AdvisorTM planning software, which without infringing upon the latter we believe the inclusion mapping results could not be gainfully utilised. These remedies will be enforced against those who unlawfully compete with us by violating our IP rights, by making, selling, renting, buying, using or using the output from infringing products and pirated software. To the degree possible and prudent, we will announce more details relating to our actions when they have actually been initiated. In addition, we will also leverage our market position and the pending release of upcoming innovations to the planning process and other facets of the diamond manufacturing and wholesale/retail sales processes, to further protect the company against such unlawful activities.
- g. As forecast in full year 2016 report, in Q1 2017 we delivered fewer systems than in Q4 2016, primarily due to termination of the MeteorTM promotion and change in pricing of the SolarisTM ongoing use fees, which took effect as of 1 January 2017. We sold 17 GalaxyTM family systems, comprising 11 MeteorTM small-stone systems, 5 SolarisTM systems, and one GalaxyTM, and the Group had an installed base of 316 inclusion mapping systems as of 31 March 2017.
- h. Sales programs utilising Sarine ProfileTM by retailers primarily in the Asia Pacific (APAC) region, and to a lesser extent in the U.S, continue to expand. Programs with retailers in the U.S. are gaining momentum slower than those in the APAC region due to various factors, including the average quality of stones sold and other corporate and consumer cultural issues. In the APAC region we have had a series of significant successes this quarter. Two new chains in Japan have joined our customer list, K-Uno which has, as announced, for the first time in Japan, adopted the full Sarine ProfileTM and Sadamatsu, which has launched the unique Wish Upon a Star diamond using Sarine light performance, as well as a large buyers' group in Australia, Leading Edge Group. Talks are continuing with other major chains. We intend to double the number of stones scanned for the Sarine ProfileTM in 2017 and expect its contribution to overall Group sales to be around 5% this year.

- i. Our new technology for the automated, objective and consistent mapping and identification of a polished diamond's inclusions and the subsequent derivation of its Clarity grade continues in large-scale testing in India, and is on track for commercialisation in Q3 2017. Likewise for the Color grading technology, which is being tested in parallel. These technologies address the US\$500 million annual 4Cs grading market, which currently generates an estimated 7 million reports a year for stones typically a fifth of a carat and up, at prices ranging from US\$50 to US\$100 a carat. We believe that by introducing a cost-effective, consistent and reliable automated solution, the addressable market can be expanded down to polished diamonds of a tenth of a carat and up, effectively increasing the total addressable market value by 50% to US\$ 750 million annually. We are considering various commercialisation avenues, all based on a recurring revenue model per each stone graded, as is the norm in the industry today. Customers could be from across the entire diamond industry value chain. Large manufacturers could adopt self-certification, especially for the smaller stones, as enabled by our technology. Existing gemmological laboratories may see value in adopting an objective consistent automated grading paradigm, a goal announced last year by the IIDGR lab (DeBeers' diamond lab), or at least utilising the initial phase of the process - the comprehensive plotting of the inclusions in the polished diamond. Large chain retailers with existing in-house gem labs may similarly utilise the technology. Finally, yet importantly, as this may be the most immediate avenue of commercialisation open to the Group, retail customers, who have already chosen or who choose to implement the Sarine Profile™, may, to reduce overhead and cost, prefer to also acquire the 4Cs data from us.
- j. The Allegro™ system's planning optimisation algorithms and shaping/polishing hardware is undergoing re-evaluation, with the help of the engineering consultants, who were involved in the original system's design and implementation, in order to fully assess its commercial potential.

We will focus our research and development initiatives on the following objectives:

- **Polished diamond oriented systems:**
 - Expansion of our operational infrastructure for Sarine Profile™;
 - Continued enhancement of Sarine Profile™ in order to provide additional capabilities for customer programs, as required, including additional shapes – current work continues on supporting less ubiquitous shapes, such as Ovals, Pears, Marquises and Hearts, as well as newly derived customer-proprietary modified shapes, more customer-generated marketing information (videos), etc.
 - Enhancement of Sarine Profile™ to support the display of jewellery pieces and not just loose polished diamonds. As retail businesses display set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
 - Development of the software infrastructure for the Clarity and Color grading capabilities currently in testing, including process management, data security, etc.
 - Initial assessment of available technologies and possible enhancements to the solutions for the authentication of a polished diamond being of natural source and untreated, especially as applicable to the high-speed screening of very small polished diamonds (so called "melee").
- **Manufacturing products:** Overall ongoing improvements to our Advisor™ rough planning software continue to enhance its capabilities and productivity along with refined IP protection. Advisor™ 7.0, with significant new value-added capabilities, including light performance simulation and evaluation, is scheduled for Q2 2017, ahead of schedule.

11. Dividend

(a) *Current Financial Period Reported*

Any dividend declared/recommended for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived.

Not applicable.

(d) Date Payable

Not applicable.

(e) Books Closure Date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect.

No dividend has been declared or recommended.

13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions under Rule 920(1)(a)(ii). If no IPT mandate has been obtained a statement to that effect.

The Group has not obtained a general mandate from its shareholders for IPTs.

14. Negative confirmation pursuant to Rule 705(5) (not required for announcement of full year results).

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results of the Group for the period ended March 31, 2017, to be false or misleading, in any material aspect.

15. Confirmation pursuant to Rule 720 (1) of the Listing Manual

The Company confirms that it has procured undertakings from all its Directors and Executive Officers in the format set out in Appendix 7.7 under Rule 720 (1) of the Listing Manual.

On behalf of the Directors



Daniel Benjamin Glinert
Executive Chairman



Uzi Levami
Executive Director

14 May 2017