

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 (loss) for the (US\$'000):

	<u>Group</u> <u>Six months ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u> <u>%</u>	<u>2020</u>	<u>2019</u>	<u>Change</u> <u>%</u>
Revenue	18,565	28,804	(35.5)	40,968	51,323	(20.2)
Cost of sales	5,484	11,876	(53.8)	13,898	21,739	(36.1)
Gross profit	13,081	16,928	(22.7)	27,070	29,584	(8.5)
Research and development expenses	3,362	4,000	(16.0)	6,796	8,184	(17.0)
Sales and marketing expenses	4,487	6,928	(35.2)	9,773	13,535	(27.8)
General and administrative expenses	2,614	3,182	(17.9)	5,738	6,764	(15.2)
Profit from operations	2,618	2,818	(7.1)	4,763	1,101	332.6
Net finance expense	(792)	(367)	115.8	(755)	(662)	14.0
Profit (loss) before income tax	1,826	2,451	(25.5)	4,008	439	813.0
Income tax expense	634	1,007	(37.0)	1,643	1,811	(9.3)
Profit (loss) for the period	1,192	1,444	(17.5)	2,365	(1,372)	NM
Remeasurement of defined benefit plan	9	(22)	NM	9	(22)	NM
Foreign currency translation differences from foreign operations	375	(365)	NM	(262)	(225)	16.4
Total comprehensive income (loss) for the period	1,576	1,057	49.1	2,112	(1,619)	NM

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

Profit (loss) before income tax is stated after charging the following:

	<u>Group</u> <u>Six months ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u> <u>%</u>	<u>2020</u>	<u>2019</u>	<u>Change</u> <u>%</u>
Allowance for doubtful trade receivables	8	(25)	NM	350	(48)	NM
Depreciation and amortisation	1,944	2,144	(9.3)	4,031	4,395	(8.3)
Interest expense, net	(274)	(183)	49.7	(255)	(195)	30.8
Exchange rate differences	(518)	(184)	181.5	(500)	(467)	7.1
Warranty provision	(55)	59	NM	(78)	53	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>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Assets				
Property, plant and equipment	12,279	13,474	1,208	1,241
Right-of-use assets	5,050	6,170	4,439	5,403
Intangible assets	2,563	3,625	206	274
Long-term trade receivables	843	756	8	686
Investment in equity accounted investee and subsidiaries	--	--	44,151	39,648
Long-term income tax receivable	1,168	916	--	--
Deferred tax assets	604	874	--	--
Total non-current assets	<u>22,507</u>	<u>25,815</u>	<u>50,012</u>	<u>47,252</u>
Inventories	6,247	5,452	3,277	3,276
Trade receivables	21,966	14,595	5,136	4,813
Other current assets	1,591	1,799	763	840
Short-term investments (bank deposits)	6,303	11,190	6,303	9,179
Restricted cash and cash equivalents	171	--	62	--
Cash and cash equivalents	21,081	18,284	10,146	7,433
Total current assets	<u>57,359</u>	<u>51,320</u>	<u>25,687</u>	<u>25,541</u>
Total assets	<u>79,866</u>	<u>77,135</u>	<u>75,699</u>	<u>72,793</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,689)	(3,576)	(3,689)	(3,576)
Share premium, reserves and retained earnings	64,380	62,996	64,380	62,996
Total equity	<u>60,691</u>	<u>59,420</u>	<u>60,691</u>	<u>59,420</u>
Liabilities				
Long-term bank financing	3,141	--	1,149	--
Long-term lease liabilities	5,344	5,716	4,914	5,218
Employee benefits	243	234	232	223
Total non-current liabilities	<u>8,728</u>	<u>5,950</u>	<u>6,295</u>	<u>5,441</u>
Trade payables	1,868	3,907	1,828	2,306
Other payables	5,903	6,076	5,869	4,425
Short-term bank financing	280	--	95	--
Current lease liabilities	1,023	1,311	724	972
Current tax payable	1,083	103	--	--
Warranty provision	290	368	197	229
Total current liabilities	<u>10,447</u>	<u>11,765</u>	<u>8,713</u>	<u>7,932</u>
Total liabilities	<u>19,175</u>	<u>17,715</u>	<u>15,008</u>	<u>13,373</u>
Total equity and liabilities	<u>79,866</u>	<u>77,135</u>	<u>75,699</u>	<u>72,793</u>

* No par value

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

	As at December 31, 2020		As at December 31, 2019	
	Secured	Unsecured	Secured	Unsecured
Payable in one year or less, or on demand	--	280	--	--
Payable after one year	--	3,141	--	--

In FY2020 the Group obtained Covid-19 support bank loans under an Israeli government guaranteed loan scheme to support companies' cash flow and mitigate uncertainties following the outbreak of the coronavirus pandemic. The loans, which are unsecured, were granted in New Israel Shekels for a period of 5 years, bearing an annual interest rate currently of 3.1% (being 1.5% plus Israeli prime) per year. Principal and interest will be paid by the Group beginning from the second year. The government bears the cost of the first year's interest. The Group at its option can repay the loans at any time. As at December 31, 2020 the Group is in compliance with all the loan conditions and covenants.

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	
	Year ended	
	December 31,	
	2020	2019
Cash flows from operating activities		
Profit (loss) for the period	2,365	(1,372)
Adjustments for:		
Share-based payment expenses	321	642
Income tax expense	1,643	1,811
Depreciation of property, plant and equipment	2,969	3,076
Amortisation of intangible assets	1,062	1,319
Net finance expense	251	6
Revaluation of lease liabilities	417	536
Revaluation of bank financing liabilities	202	--
Changes in working capital		
Inventories	(795)	1,580
Trade receivables	(7,458)	1,055
Other current assets	208	229
Restricted cash and cash-equivalents	(171)	--
Trade payables	(2,039)	1,579
Other liabilities	(307)	(502)
Employee benefits	9	42
Income tax paid, net	(645)	(2,080)
Net cash (used in) from operating activities	(1,968)	7,921
Cash flows from investing activities		
Acquisition of property, plant and equipment	(765)	(834)
Proceeds from realization of property, plant and equipment	102	63
Short-term investments, net	4,887	831
Interest received	219	422
Net cash from investing activities	4,443	482
Cash flows used in financing activities		
Purchase of Company's shares by the Company	(113)	--
Receipt of bank financing	3,220	--
Payment of lease liabilities	(1,266)	(1,264)
Dividend paid	(1,049)	(5,259)
Interest paid	(399)	(497)
Net cash from (used in) financing activities	393	(7,020)
Net increase in cash and cash equivalents	2,868	1,383
Cash and cash equivalents at beginning of the period	18,284	16,832
Exchange rate differences	(71)	69
Cash and cash equivalents at end of the period	21,081	18,284

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, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the year ended December 31, 2019	--	--	--	(1,372)	--	(1,372)
Other comprehensive loss for the year ended December 31, 2019	--	(22)	(225)	--	--	(247)
Share-based payment expenses	--	642	--	--	--	642
Dividend paid	--	--	--	(5,259)	--	(5,259)
Balance at December 31, 2019	<u>--</u>	<u>32,819</u>	<u>(2,437)</u>	<u>32,614</u>	<u>(3,576)</u>	<u>59,420</u>
 Balance at January 1, 2020	--	32,819	(2,437)	32,614	(3,576)	59,420
Profit for the year ended December 31, 2020	--	--	--	2,365	--	2,365
Other comprehensive loss for the year ended December 31, 2020	--	9	(262)	--	--	(253)
Dormant shares, acquired at cost (763,800)	--	--	--	--	(113)	(113)
Share-based payment expenses	--	321	--	--	--	321
Dividend paid	--	--	--	(1,049)	--	(1,049)
Balance at December 31, 2020	<u>--</u>	<u>33,149</u>	<u>(2,699)</u>	<u>33,930</u>	<u>(3,689)</u>	<u>60,691</u>

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the year ended December 31, 2019	--	--	--	(1,372)	--	(1,372)
Other comprehensive loss for the year ended December 31, 2019	--	(22)	(225)	--	--	(247)
Share-based payment expenses	--	642	--	--	--	642
Dividend paid	--	--	--	(5,259)	--	(5,259)
Balance at December 31, 2019	<u>--</u>	<u>32,819</u>	<u>(2,437)</u>	<u>32,614</u>	<u>(3,576)</u>	<u>59,420</u>
 Balance at January 1, 2020	--	32,819	(2,437)	32,614	(3,576)	59,420
Profit for the year ended December 31, 2020	--	--	--	2,365	--	2,365
Other comprehensive loss for the year ended December 31, 2020	--	9	(262)	--	--	(253)
Dormant shares, acquired at cost (763,800)	--	--	--	--	(113)	(113)
Share-based payment expenses	--	321	--	--	--	321
Dividend paid	--	--	--	(1,049)	--	(1,049)
Balance at December 31, 2020	<u>--</u>	<u>33,149</u>	<u>(2,699)</u>	<u>33,930</u>	<u>(3,689)</u>	<u>60,691</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.

	December 31, 2020	June 30, 2020	December 31, 2019
	No. of shares	No. of shares	No. of shares
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	353,672,126	353,672,126	353,672,126
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	3,840,200	3,840,200	3,076,400
Total number of issued shares (excluding dormant shares)	349,831,926	349,831,926	350,595,726

For the six months ended December 31, 2020, no share options were exercised into ordinary shares. For the six months ended December 31, 2020, 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 the Company holds them, 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 December 31, 2020, June 30, 2020 and December 31, 2019 included 3,840,200, 3,840,200 and 3,076,400 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US\$ per share	Options
At January 1, 2020	0.879	22,431,992
Granted	0.164	4,550,320
Cancelled	1.067	(5,522,306)
Exercised	--	--
At December 31, 2020	0.684	21,460,006

At December 31, 2020, the average exercise price in Singapore dollars per share was S\$ 0.905, based on an exchange rate of US\$ 1 = S\$ 1.3221.

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 December 31, 2020 the total number of issued shares excluding dormant shares was 349,831,926 (as at December 31, 2019- 350,595,726). As at December 31, 2020 the total number of dormant shares was 3,840,200 (as at December 31, 2019- 3,076,400).

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 six months ended December 31, 2020, the Company did not purchase any of its ordinary shares and for the year ended at December 31, 2020, the Company purchased 763,800 of its ordinary shares. 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. The figures presented were prepared in accordance with International Financial Reporting Standards (IFRS).

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, 2019 have been applied in the preparation for the financial statements for the financial year ended December 31, 2020.

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 six months ended December 31,		For the year ended December 31,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<u>US cents</u>				
Basic earnings (loss) per share	0.34	0.41	0.68	(0.39)
Diluted earnings (loss) per share	0.34	0.41	0.68	(0.39)
<u>Singapore cents*</u>				
Basic earnings (loss) per share	0.45	0.54	0.90	(0.52)
Diluted earnings (loss) per share	0.45	0.54	0.90	(0.52)

Basic earnings per share for the six months ended December 31, 2020 are calculated based on the weighted average number of 349,831,926 ordinary shares issued during the current period and the equivalent of 350,595,726 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended December 31, 2020 are calculated based on weighted average number of 349,831,926 ordinary shares and outstanding options and the equivalent of 350,595,726 ordinary shares during the preceding period.

Basic earnings per share for the year ended December 31, 2020 are calculated based on the weighted average number of 350,057,449 ordinary shares issued during the current period and the equivalent of 350,595,726 ordinary shares during the preceding period.

Diluted earnings per share for the year ended December 31, 2020 are calculated based on weighted average number of 350,057,449 ordinary shares and outstanding options and the equivalent of 350,595,726 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.3221 at December 31, 2020.

- 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:**
- (a) current financial period reported on; and**
- (b) immediately preceding financial year.**

	<u>Group</u>		<u>Company</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net asset value (US\$ thousands)	60,691	59,420	60,691	59,420
Net asset value per ordinary share (US cents)	17.35	16.95	17.35	16.95
Net asset value per ordinary share (Singapore cents*)	22.94	22.41	22.94	22.41

At December 31, 2020, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2020 of 349,831,926 (not including 3,840,200 dormant ordinary shares at December 31, 2020). At December 31, 2019, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2019 of 350,595,726 (not including 3,076,400 dormant ordinary shares).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3221 at December 31, 2020.

- 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:-**
- (a) 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**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Overview

As per our update to investors on October 28, 2020 regarding improved conditions in the diamond industry, a robust recovery in diamond polishing activities in the midstream indeed materialised in Q4 2020. This was mainly due to diminished inventories of polished diamonds because of the pandemic-related total and partial lockdowns in India from late March through July, on the backdrop of improved retail activity worldwide in general, and an increased demand for polished diamonds, in particular, leading into the end-of-year holiday season. Though the continued uncertainties from the Covid-19 crisis during H2 2020 still impaired demand for capital equipment, Galaxy scanning during the fourth quarter (as well as the initial two months of 2021) reached record levels, with peaks nearing 100,000 stones a day. This would imply a run rate that would annualise to approximately 27 million stones, as compared to just over 18 million stones and just under 19 million stones in FY2019 and FY2020, respectively. For H2 2020 recurring revenues, driven by this recovery, were up some 3% as compared with pre-pandemic H2 2019 and were up approximately 50% over H1 2020. On the expense side, as previously reported, the Group took aggressive proactive steps from late March 2020 to reduce its cost structure in light of the pandemic crisis, and prudently cut all non-essential activities, focusing on R&D and business development efforts related to our long-term goals associated with the Sarine Profile™, Sarine Diamond Journey™ and e-Grading™ offerings.

Despite the Covid-19 pandemic and the ongoing challenging, albeit improving, global conditions, we succeeded in delivering satisfactory results for H2 2020. The Group reported revenues of US\$ \$18.6 million in H2 2020, profit from operations of US\$ 2.6 million, and net profit of US\$ 1.2 million, as compared to revenues of US\$ 28.8 million, profit from operations of US\$ 2.8 million and net profit of US\$ 1.4 million reported in H2 2019, and as compared to revenues of US\$ 22.4 million, profit from operations of US\$ 2.1 million and net profit of US\$ 1.2 million reported in H1 2020.

For the full year ended December 31, 2020, the Group concluded this very challenging year with notably profitable results. The Group recorded revenues of US\$ 41.0 million, profit from operations of US\$ 4.8 million and net profit of US\$ 2.4 million, as compared to revenues of US\$ 51.3 million, profit from operations of US\$ 1.1 million, and a net loss of 1.4 million for the year ended December 31, 2019. Following a strong start to the year, including record deliveries of 50 Galaxy[®] family inclusion mapping systems in the first quarter before the Covid-19 virus spread beyond China, the pandemic severely impaired business in the second and third quarters, recovering only in the last three months of the year. However, the high proportion of recurring revenues in the product mix, coupled with the aforementioned reduction of our expenditures, resulted in improved profitability as compared to FY 2019.

The Group delivered 17 Galaxy[®]-family inclusion mapping systems in H2 2020 comprising 13 Meteorites[™], three Galaxy[®] Ultra models and one Galaxy[®] model. As of December 31, 2020 our installed base was 631 systems. During H2 2020, just under a quarter of these systems were sold under the one-off paradigm with no follow-on per-use revenues.

Continually increasing midstream diamond polishing activity from August onwards, resulted in a 50% increase in recurring revenues (mainly from inclusion mapping activities) during H2 2020 as compared to H1 2020, and by a modest 3% as compared to the pre-Covid H2 2019 comparable period. For FY2020, overall recurring revenues declined by approximately 20%, as compared to FY2019, due to the virtual freeze in polishing activity from April to June 2020, with partial fallout from the Covid-19 pandemic continuing through September. Overall recurring revenues for H2 2020 (including Galaxy[®]-related scanning, Quazer[®] services, polished diamond related services, annual maintenance contracts, etc.) was close to 65% of our overall revenue (approximately 50% for all of FY 2020). Overall rough and polished diamond wholesale and retail related (“Trade”) revenues, mostly from digital tenders, the Sarine Profile[™] and the Sarine Diamond Journey[™] were approximately 5.6% of our overall revenue for H2 2020 and 5.1% for all of FY 2020.

Balance Sheet and Cash Flow Highlights

As at December 31, 2020, cash, cash equivalents, restricted cash, and short-term investments (bank deposits) (“**Cash Balances**”) decreased to US\$ 27.6 million as compared to US\$ 29.5 million as of December 31, 2019. Despite our profitability in FY 2020, the negative operating cash flow of US\$ 2.0 million and the resultant decrease in Cash Balances was primarily due to increased trade receivables of US\$ 22.8 million as at December 31, 2020 (US\$15.4 million as at December 31, 2019) due to extended credit terms provided to certain customers and somewhat prolonged collection times associated with the Covid-19 pandemic, reduced trade payables and increased inventory levels associated with our continued procurement of parts and subsystems, based on expectations of renewed capital equipment sales. Cash balances benefited from the receipt of Covid-19 related Israel government sponsored bank loans (see 1(b)(ii) above), and were offset by the payment of a US\$ 1.0 million final FY2019 dividend in July 2020.

Revenues

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

H2 2020 versus H2 2019				
Region	H2 2020	H2 2019	\$ change	% change
India	11,374	20,803	(9,429)	(45.3)
Africa	1,733	1,541	192	12.5
Europe	993	616	377	61.2
North America	642	1,857	(1,215)	(65.4)
Israel	1,503	1,424	79	5.5
Other*	2,320	2,563	(243)	(9.5)
Total	18,565	28,804	(10,239)	(35.5)

H2 2020 versus H1 2020				
Region	H2 2020	H1 2020	\$ change	% change
India	11,374	17,187	(5,813)	(33.8)
Africa	1,733	1,375	358	26.0
Europe	993	478	515	107.7
North America	642	754	(112)	(14.9)
Israel	1,503	837	666	79.6
Other*	2,320	1,772	548	30.9
Total	18,565	22,403	(3,838)	(17.1)

2020 versus 2019				
Region	2020	2019	\$ change	% change
India	28,561	35,980	(7,419)	(20.6)
Africa	3,108	3,850	(742)	(19.3)
Europe	1,471	1,300	171	13.2
North America	1,396	2,433	(1,037)	(42.6)
Israel	2,340	2,930	(590)	(20.1)
Other*	4,092	4,830	(738)	(15.3)
Total	40,968	51,323	(10,355)	(20.2)

* Primarily Asia, excluding India

The Group reported revenues of US\$ \$18.6 million in H2 2020, as compared to revenues of US\$ 28.8 million in H2 2019, and as compared to revenues of US\$ 22.4 million reported in H1 2020. The year-over-year decrease in revenues was mainly due to lower capital equipment sales, associated with the continued uncertainties from the Covid-19 crisis, offset by a modest 3% increase in recurring revenues as compared to the pre-pandemic H2 2019, due to the strong recovery in diamond polishing activities in the midstream starting October 2020. Sequentially, as compared to H1 2020, the decline in revenues was due to an approximate 55% decline in capital equipment sales, following a strong January through March 2020, offset by an approximate 50% increase in recurring revenues following the virtual shutdown of most diamond manufacturing activities from April through June 2020. Overall revenues in H2 2020 were comprised of close to 65% in recurring revenues, as compared to approximately 40% and 35% in H2 2019 and H1 2020, respectively

Revenues for the year ended December 31, 2020 decreased to US\$ 41.0 million as compared to US\$ 51.3 million for the year ended December 31, 2019. The decrease in revenues, across most geographies, resulted from significantly lower capital equipment sales and lower recurring revenues, both down some 20%, due to the Covid-19 pandemic and its impact on the global diamond value chain.

Cost of sales and gross profit

Cost of sales for H2 2020 decreased to US\$ 5.5 million as compared to US\$ 11.9 million in H2 2019, and as compared to US\$ 8.4 million in H1 2020, with a gross profit margin of 70% in H2 2020 versus 59% in H2 2019 and 62% in H1 2020. The decrease in cost of sales in H2 2020 and the associated increase in gross margin was primarily due to the relatively higher portion of recurring revenues (mainly Galaxy inclusion scanning) and lower portion of capital equipment sales, coupled with the cost reductions of our fixed overhead, which also included temporary pay cuts and furloughs), as well as US\$0.2 million in Israeli government Covid-19 grants.

Cost of sales for the year ended December 31, 2020 decreased to US\$ 13.9 million as compared to US\$ 21.7 million for the year ended December 31, 2019, with gross profit margins of 66% in FY2020 and 58% in FY2019. The decrease in cost of sales and the associated increase in gross margin was primarily due to lower capital equipment sales in FY 2020 and the product mix (the proportionate mix in FY2020 of higher priced Galaxy®-family systems, including those sold on a one-off basis, as compared to FY2019 which had

a significantly higher proportion of lower-end MeteorTM/MeteoriteTM models in the product mix) coupled with cost reductions of our fixed overhead, which also included temporary pay cuts and furloughs).

Research and development expenses

Research and development (R&D) costs for H2 2020 of US\$ 3.4 million decreased as compared to US\$ 4.0 million in H2 2019, and was virtually flat with H1 2020. Research and development costs for the year ended December 31, 2020 decreased to US\$ 6.8 million as compared to US\$ 8.2 million for the year ended December 31, 2019. The decrease in research and development costs was primarily due to lower employee compensation and outsourcing, due to our continued focussing of expenditures on specific goals to drive future growth (see also Section 10), from cost containment measures taken in FY2020 with the onset of Covid-19, which also included temporary reductions in staff salaries, as well as US\$0.2 million in Israeli government Covid-19 grants.

Sales and marketing expenses

Sales and marketing expenses for H2 2020 decreased to US\$ 4.5 million as compared to US\$ 6.9 million in H2 2019 and US\$ 5.3 million in H1 2020. Sales and marketing expenses for the year ended December 31, 2020 decreased to US\$ 9.8 million, as compared to US\$ 13.5 million for the year ended December 31, 2019. The year-over-year decline in sales and marketing expenses was due to an all but complete cessation of trade-show and related travel expenses due to the pandemic, decreased advertising and other aggressive cost management measures during this period (e.g. temporary reductions in staff salaries, furloughs and vacations), as well as US\$0.1 million in Israeli government Covid-19 grants. The sequential decline in sales and marketing expenses was due to the cost containment measures which affected the latter nine months of 2020.

General and administrative expenses

General and administrative expenses for H2 2020 decreased to US\$ 2.6 million as compared to US\$ 3.2 million in H2 2019 and US\$3.1 million in H1 2020. General and administrative expenses for the year ended December 31, 2020 decreased to US\$ 5.7 million as compared to US\$ 6.8 million for the year ended December 31, 2019. The year-over-year decrease in general and administrative expenses was primarily due to significantly lower third-party professional fees associated with our IP protection and litigation activities, especially from the latter part of March 2020 due to the lockdown and other restrictions in India, offset somewhat by increased allowance for doubtful accounts associated with the Covid-19 pandemic effects. Overall reduced activity allowed us to also implement internal cost reduction measures in FY2020. The sequential decline in general and administrative expenses in H2 2020 as compared to H1 2020 was due to reduced third-party professional fees associated with IP protection and litigation activities, as well as lower provisions for bad debts.

Profit from operations

The Group reported profit from operations of US\$ 2.6 million in H2 2020, as compared to US\$ 2.8 million in H2 2019 and US\$ 2.1 million in H1 2020. The year-over-year marginal decrease in profit from operations was mainly due to lower absolute gross profit, from lower revenues, offset somewhat by lower operating expenses. The sequential increase in profit from operations was primarily due to lower operating expenses due to prudent and aggressive expense management and containment of costs, as detailed above.

The Group reported profit from operations of US\$ 4.8 million for the year ended December 31, 2020 as compared to US\$ 1.1 million for the year ended December 31, 2019. The increase in profit from operations in FY 2020 was mainly due to lower operating expenses due to the expense management and containment of costs, as discussed above, offset somewhat by reduced absolute gross profit (mitigated by a higher gross margin on lower revenues).

Net finance income (expense)

Net finance expense for H2 2020 was US\$ 792,000 as compared to net finance expense of US\$ 367,000 in H2 2019 and net finance income of US\$37,000 in H1 2020. The increased net finance expense in H2 2020 was primarily due to higher exchange rate expenses associated with the depreciation of the US dollar as compared to the NIS, and the corresponding revaluation of our NIS liabilities (mainly bank loans and lease liabilities).

Net finance expense for the year ended December 31, 2020 was US\$ 755,000 as compared to net finance expense of US\$ 662,000 for the year ended December 31, 2019. The increase in net finance expense was primarily due to lower interest income on our bank deposits.

Income tax expense

The Group recorded an income tax expense of US\$ 0.6 million for H2 2020 as compared to an expense of US\$ 1.0 million for both H2 2019 and for H1 2020. The year-over-year decrease in income tax expense was primarily due to lower taxable income in our Indian subsidiary as a result of Covid-19. The sequential decrease in income tax expense was mainly due to a decrease in certain subsidiary deferred tax assets in H1 2020.

The Group recorded an income tax expense of US\$ 1.6 million for the year ended December 31, 2020 versus US\$ 1.8 million for the year ended December 31, 2019, primarily due a decrease in certain subsidiary deferred tax assets, offset somewhat by higher pre-tax profitability and income tax expenses associated with subsidiaries' profitability during FY2020.

Profit (loss) for the period

The Group recorded net profit of US\$ 1.2 million in H2 2020, as compared to net profit of US\$ 1.4 million in H2 2019 and US\$ 1.2 million in H1 2020. The year-over-year decrease in net profit was mainly due to lower absolute gross profit, from lower revenues, offset somewhat by lower operating expenses. The marginal sequential increase in net profit was mainly due to due to lower operating expenses due to prudent and aggressive expense management and containment of costs, offset somewhat by higher financial expenses, as detailed above.

The Group recorded net profit of US\$ 2.4 million for the year ended December 31, 2020, as compared to a net loss of US\$ 1.4 million for the year ended December 31, 2019. The increase in net profit in FY 2020 was mainly due to lower operating expenses due to our expense management and containment of costs, offset somewhat by reduced gross profit, from lower revenues, all as discussed 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. The Covid-19 global pandemic disrupted the global diamond value chain in 2020 in various ways (in order of importance):
 - Economic uncertainty along with worldwide restrictions on retail activity reduced consumer spending on diamond jewellery by an estimated 20%.
 - Lockdowns and other government directives in India restricted manufacturing activity completely or partially for over five months of 2020.

- Less polishing activity and worldwide travel restrictions reduced the number of rough stones entering the pipeline by 30%.
- All industry trade shows were cancelled.

Though vaccination drives are underway worldwide, the Covid-19 virus and its mutations are still an issue that may affect the global diamond value chain going into 2021. There is still economic uncertainty and retail restrictions are still in effect to varying degrees in various geographies. Indian manufacturing activity has returned to full activity commencing with an exceptionally strong recovery in the fourth quarter of 2020, and DeBeers consequently reported its strongest selling cycle ("sight") in three years in January 2021. Still, the uncertainties of the pandemic may still pose a risk going forward. As an example of lingering uncertainty, the June JCK Show in Las Vegas has already been postponed to August, as a precautionary step.

- Data indicate that in 2020 China, the second largest market for polished diamonds, accounting for almost a fifth of global demand, was the only market to experience growth in luxury spending, primarily due to increased domestic spending on the back of global travel restrictions immobilising Chinese tourism abroad. Initial reports are that the Chinese New Year season in 2021 saw robust consumer spending. In other primary APAC markets, such as Japan, Korea and Taiwan, retail activity has also rebounded, but the lack of tourism in general, and Chinese tourists particularly, has muted the recovery. In the U.S., the level of retail activity varies as per local ordinances. Data show that overall diamond jewellery spending during the critical year-end holiday season was stronger than expected, also due to spending on travel and entertainment being curtailed, affording jewelers a welcomed respite. The new administration's additional stimulus measures will definitely help consumer sentiment.
- DeBeers' three sights in the last four months of 2020 recovered to an average just over US\$ 450 million, following the decimation witnessed from March through July. For 2020 overall rough stone sales dropped by some 30%. On the backdrop of a robust recovery in polishing in the last quarter of 2020, rough stone inventories dropped, and DeBeers consequently reported its strongest selling cycle (extended in duration and expanded geographically) in three years in January 2021 - US\$ 650 million (data for February's cycle, having just concluded, are not yet available). To accommodate the realities of travel restrictions, old selling paradigms have evolved in various ways. Digital tenders implementing Sarine's technologies, now offered by leading producers including Alrosa, Lucara and Grib, as well as by secondary wholesale dealers (e.g., the record Dubai tender held by Stargems), have expanded notably in the quantities and size ranges offered. We expect the scopes of these tenders to expand significantly in 2021. We also expect additional producers and wholesalers, already in varying stages of assessment and pilot trials, to adopt this paradigm in 2021.
- We do not have any clear indications on whether the banks in India are changing their policies because of the Covid-19 crisis. However, as inventories of both rough and polished stones have dramatically decreased, working capital issues are not an immediate concern.
- The Group took aggressive proactive steps in late March 2020 to reduce its cost structure and delay delivery of procured components and subsystems in light of the pandemic crisis. We either cut or halted entirely all non-essential activities, such as marketing and manufacturing, and furloughed their staff as per Israel government support programs. We also temporarily reduced the remaining staff's pay on a staggered basis, with options granted as compensation. Focus was primarily on our ongoing research and development efforts related to our long-term growth drivers in the retail trade of polished diamonds (the Sarine Diamond Journey™ and e-Grading™). These timely steps reduced the Group's operational loss to almost nil and significantly cut the negative cash flow in Q3, and with the recovery in the industry's midstream in Q4 the Group returned to profitability and significant positive cash flow, as detailed in Section 8 above. As we progressively return to our pre-pandemic level of operations, we will continue watching our expenditures prudently in light of the enduring uncertainties generated by the lingering pandemic effects.
- The Group delivered 17 Galaxy®-family inclusion mapping systems in H2 2020 comprising 13 Meteorites™, three Galaxy® Ultra models and one Galaxy® model. As of December 31, 2020 our installed base was 631 systems. During H2 2020, we sold just under a quarter of these systems under the one-off paradigm with no follow-on per-use revenues. Following the striking recovery in manufacturing activity in the last quarter of the 2020, and continuing into the initial months of 2021, we have witnessed record-setting use of our inclusion mapping systems, reaching peaks of 100,000 stones daily. On a theoretically annualised basis this equates to nearly 27 million stones, which would be a 40% increase

over pre-pandemic levels. We are continuing aggressive sales programs of our systems for small stones, the Meteor™ and Meteorite™, tailoring business models to all categories and sizes of polishers (e.g., an offering especially for polishers of stones only 10 points and under). We have also launched a new very aggressive drive for the Solaris™ model. These aggressive steps, aided by the recent disruption of our main illicitly competing entity's operations by investigations instigated by Indian tax authorities, have already generated increased requests for quotations and orders. We expect to see significant deliveries of Galaxy® family systems going forward in 2021, possibly nearing delivery levels similar to the 145 systems delivered in 2019.

- g. The Sarine Profile™, the umbrella term for our digital paradigms providing “profiling” data pertaining to a polished diamond, including light performance and imaging techniques, continues to gain recognition, although the pandemic all but curtailed our marketing activities during 2020, as noted above. Our cooperation with China's largest gemmological institute, the National Gemstone Testing Center (NGTC), has resulted in a new standard for light performance in China, being launched in H2 2020, to address the growing interest in light performance by Chinese consumers and the need for a unified benchmark. Wholesalers and retailers in the APAC market continue to plan and launch programs utilising our Sarine Profile™ technologies.
- h. We are continuing to see very strong interest in our Sarine Diamond Journey™ provenance and traceability solution. In 2020 we partnered with key miners Alrosa and Lucara, and additional producers, some of who have already concluded successful pilots, are expected to join this paradigm in 2021. Major wholesalers and retailers in China, Japan, India, Italy and Australia are already utilising our Journey offering. Leading global brands are in the process of running pilot assessments, delayed from 2020 due to the pandemic. Both the story-telling and the sustainability/responsibility aspects of the Journey concept are driving interest, with different players emphasising differing perspectives. The miners, wholesalers and high-end global/regional retail brands often focus on sustainability and responsibility issues. Our collaborating with leading producers and our formidable market-leading presence in the midstream polishing segment allow us to collate actual documentary traceability data with near no overhead or disruption to existing workflow patterns. This precludes the need to resort to declaratory inputs, a unique attribute of our service, as compared to other provenance tracing offerings, which often include assertions by the involved entities' personnel. Retailers also adopt the Journey for its story-telling capabilities, including our unique 3D-Origin™, a 3D printed model of the original rough diamond, from which the polished gem was derived. We believe that the unique feature of our Journey being derived from actual verifiable imagery and information will drive growing acceptance of the Sarine Diamond Journey™ in 2021, especially as it seamlessly integrates with our new e-Grading™ initiative.
- i. e-Grading™, currently in beta-testing, enables truly objective and consistent grading at a fraction of the time currently associated with having the grading done at an external third-party lab - minutes or hours vs. days or weeks and with none of the indirect costs of shipping, insurance, customs handling, etc. Furthermore, as our e-Grading™ paradigm is carried out on-site by the manufacturer's personnel (not professional gemmologists), it will also reduce the direct cost, typically today on a par with the overall cost of the actual polishing. e-Grading™ also offers a completely new level of operational flexibility – the polisher can prioritise its stones' sequence of grading to best meet delivery schedules. The first half of 2021 will be dedicated to the ongoing beta-testing and refinement of the solution and the implementation of the necessary operational cloud infrastructure. Broader introduction to the midstream polishers is scheduled for later in 2021.
- j. Lab-grown diamonds (LGD) continued to expand in 2020 with an estimated growth of around 25% (still a small portion of the diamond jewellery market). Market studies indicate that nearly half of U.S. retailers will offer LGD products in their stores or online in 2021, alongside their natural diamond inventories. LGD are no longer viewed as a disrupting factor in the retail segment worldwide, but rather as a lower-priced complementing product. The market acceptance of LGD jewellery has created, as we have in the past forecast, a new opportunity for the Group. Having verified the adaptability of our various technologies to LGD manufacturing, grading and trade, we will now extend our efforts to penetrate this rapidly growing market. We have shown that the Galaxy® inclusion mapping and Advisor® planning technologies can contribute to the optimal utilisation of the manufactured LGD raw material. We are now complementing the Galaxy® software with pattern recognition capabilities, in order to automatically discern between natural and LGD rough material and adjust the billing for the scanning service automatically. Our Quazer® 3 has proven to be the most cost-effective offering for dicing the LGD wafer into the cubes from which the gems are polished. And our AI-based e-Grading™ is especially applicable

to LGD grading, as it allows grading of the less expensive finished LGD gem at a much more affordable cost than that charged for existing grading services by prevailing gemmological laboratories. In addition, e-Grading™ also lends itself conceptually to LGD grading – stones created by technology should naturally be graded by technology.

We will focus our initiatives on the following objectives in 2021:

The Group's research and development initiatives will be:

- Midstream products:
 - Continue optimising our Advisor® planning proposition and bolstering its IP protection features, to be released as Advisor® 8.0;
 - Continue refining our e-Grading™ AI-based technology with second generation Clarity and Color technologies;
 - Enhance Clarity grading with fine-sorting of a diamond's inclusion characteristics in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table", etc.) as well as by its Color in accordance with tinting (brownish, greenish, etc.) and other relevant criteria;
 - Scaling up of our e-Grading solution to include advanced monitoring and process management;
 - Develop LGD-compatible derivatives of our systems, to allow their cost-effective application to LGD manufacturing.
- Downstream products and services:
 - Continue refining our provenance (Sarine Diamond Journey™) offering;
 - Adapt our AI-based grading solutions to LGD requirements and price points.

The Group's marketing efforts will focus on:

- Continuing our aggressive marketing campaigns of our Galaxy® family Meteor™ and Meteorite™ models and expand the initiative to the Solaris™ model as well;
- The broader adoption of the Group's Sarine Profile™ and Sarine Diamond Journey™, especially broadening our cooperation with additional producers, also through the expansion of the adoption of our digital tenders paradigm, and high-end luxury retailers;
- The commercial rollout of our e-Grading™ innovation;
- Establishing strategic collaboration with leading players in the LGD segment;
- Enhancing the Sarine brand recognition at the retail and end-consumer level through targeted social media and similar initiatives.

11. Dividend

(a) Current Financial Period Reported

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

On February 28, 2021, the Board of Directors recommended that the Annual General Meeting (AGM) approve a final dividend of US 0.5 cents per ordinary share for the financial year ended December 31, 2020. This will bring our total payout for 2020 to some US\$ 1.75 million, if approved at the AGM and is in line with our net profit for FY2020, despite the very challenging year as a result of Covid-19. In FY2019 the Company paid a final dividend of US 0.3 cents per share.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

On February 23, 2020, the Board of Directors recommended that the Annual General Meeting (AGM) approve a final dividend of US 0.5 cents per ordinary share for the financial year ended 31 December 2019. Following the outbreak of the Covid-19 pandemic which impaired the Company's key operating markets, the Board of Directors on May 25, 2020 recommended a revised final dividend of US 0.3 cents per ordinary share, which was subsequently approved at the adjourned AGM held on 25 June 2020.

(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.

	<u>Amount before tax US\$'000</u>	<u>Tax rate applicable to shareholders %</u>
2020	1,749	20%/0% ¹ / 10% ^{2,3}
2019	1,049	20%/0% ¹ / 10% ^{2,3}

¹ The tax rate will be 20% (20% in 2019) for individual Israeli shareholders and 0% (0% in 2019) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2019).

³ Payments to shareholders of dividends distributed by the Company will be subject to a tax deduction at source at the rate of 20%, in compliance with Israeli tax directives. Tax amounts deducted from dividend payments will be deposited with a trustee. A shareholder claiming eligibility for preferential tax treatment on dividend payments pursuant to Israeli tax laws or international tax treaties may apply to the trustee within 30 days of the distribution date providing all necessary details and documents, for reimbursement of excess deduction, subject to verification of such eligibility. Details regarding the application procedure shall be provided by the Company in the formal dividend announcement posted on the SGX.

(d) Date Payable

	<u>Amount US\$'000</u>
14 May 2021 ^{***}	1,749
17 July 2020	1,049

(e) Record Date

5:00 PM on:

	<u>Amount US\$'000</u>
04 May 2021 ^{***}	1,749
07 July 2020	1,049

^{***}Pending Annual General Meeting Approval

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

Not applicable.

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).

Not applicable.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)

15. Segmented revenue and results for business or geographical segments (of the Group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

In accordance with IFRS 8 Operating Segments, the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. The Group operates in only one operating segment. Presented below are revenues broken out by geographic distribution.

	India	Africa	Europe	North America	Israel	Others	Consolidated
	2020						
	US\$'000						
External revenues	28,561	3,108	1,471	1,396	2,340	4,092	40,968
Unallocated expenses							36,205
Profit from operations							4,763
Net finance expense							755
Income tax expense							1,643
Profit for the year							2,365

	India	Africa	Europe	North America	Israel	Others	Consolidated
	2019						
	US\$'000						
External revenues	35,980	3,850	1,300	2,433	2,930	4,830	51,323
Unallocated expenses							50,222
Profit from operations							1,101
Net finance expense							662
Income tax expense							1,811
Profit for the year							(1,372)

16. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

See section 8 above.

17. Breakdown of sales.

	2020 <u>US\$'000</u>	2019 <u>US\$'000</u>
Revenue reported for:		
First half-year ended 30 June	22,403	22,519
Second half-year ended 31 December	18,565	28,804
	<u>40,968</u>	<u>51,323</u>
Profit (loss) for the period:		
First half-year ended 30 June	1,173	(2,816)
Second half-year ended 31 December	1,192	1,444
	<u>2,365</u>	<u>(1,372)</u>

18. A breakdown of the total annual dividend (in US dollar value) for the issuer's latest full year and its previous full year.

	<u>Latest Full Year</u> <u>US\$'000</u>	<u>Previous Full Year</u> <u>US\$'000</u>
Ordinary	1,749*	2,802

*Pending Annual General Meeting Approval.

19. Interested Person Transactions

The Company confirms that, during the year ended December 31, 2020, there was no person occupying any managerial position in the Company or any of its subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company.

20. 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

28 February 2021