# 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):**

| | Group Quarter ended September 30, | | | Group Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change % | 2017 | 2016 | Change % |
| **Revenue** | **11,285** | **17,250** | **(34.6)** | **45,707** | **53,607** | **(14.7)** |
| Cost of sales | 3,870 | 5,424 | (28.7) | 14,819 | 16,889 | (12.3) |
| **Gross profit** | **7,415** | **11,826** | **(37.3)** | **30,888** | **36,718** | **(15.9)** |
| Research and development expenses | 2,430 | 2,834 | (14.3) | 8,505 | 8,130 | 4.6 |
| Sales and marketing expenses | 3,393 | 3,341 | 1.6 | 10,626 | 10,109 | 5.1 |
| General and administrative expenses | 1,603 | 1,149 | 39.5 | 4,443 | 3,547 | 25.3 |
| **Profit (loss) from operations** | **(11)** | **4,502** | **NM** | **7,314** | **14,932** | **(51.0)** |
| Net finance income | 53 | 403 | (86.8) | 106 | 757 | (86.0) |
| **Profit before income tax** | **42** | **4,905** | **(99.1)** | **7,420** | **15,689** | **(52.7)** |
| Income tax expense | 572 | 918 | (37.7) | 2,269 | 2,698 | (15.9) |
| **Profit (loss) for the period** | **(530)** | **3,987** | **NM** | **5,151** | **12,991** | **(60.3)** |
| Foreign currency translation differences from foreign operations | (85) | 117 | NM | 326 | (30) | NM |
| **Total comprehensive income (loss) for the period** | **(615)** | **4,104** | **NM** | **5,477** | **12,961** | **(57.7)** |

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

Profit before income tax is stated after charging the following:

| | Group Quarter ended September 30, | | | Group Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change % | 2017 | 2016 | Change % |
| Allowance (write back) for doubtful trade receivables | 57 | 12 | 375.0 | 77 | (12) | NM |
| Depreciation and amortization | 986 | 974 | 1.2 | 2,902 | 2,865 | 1.3 |
| Interest income, net | 61 | 458 | (86.7) | 189 | 617 | (69.4) |
| Exchange rate differences | (8) | (55) | (85.5) | (83) | 140 | NM |
| Warranty provision | (15) | 13 | NM | (38) | 56 | 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):**

| | Group | | Company | |
|---|---|---|---|---|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| **Assets** | | | | |
| Property, plant and equipment | 15,662 | 14,064 | 2,039 | 2,255 |
| Intangible assets | 6,689 | 7,469 | 196 | -- |
| Investment in equity accounted investee and subsidiaries | -- | -- | 51,149 | 48,480 |
| Deferred tax assets | 2,103 | 2,527 | 940 | 1,318 |
| **Total non-current assets** | 24,454 | 24,060 | 54,324 | 52,053 |
| Inventories | 8,542 | 9,230 | 5,174 | 6,393 |
| Trade receivables | 16,312 | 16,955 | 2,322 | 2,559 |
| Other receivables | 3,411 | 3,488 | 1,689 | 2,029 |
| Short-term investments (bank deposits) | 14,458 | 18,520 | 8,826 | 11,835 |
| Cash and cash equivalents | 13,357 | 19,467 | 6,976 | 11,631 |
| **Total current assets** | 56,080 | 67,660 | 24,987 | 34,447 |
| **Total assets** | 80,534 | 91,720 | 79,311 | 86,500 |
| **Equity** | | | | |
| Share capital* | -- | -- | -- | -- |
| Dormant shares, at cost | (2,868) | (2,413) | (2,868) | (2,413) |
| Share premium, reserves and retained earnings | 72,775 | 81,726 | 72,775 | 81,726 |
| **Total equity** | 69,907 | 79,313 | 69,907 | 79,313 |
| **Liabilities** | | | | |
| Employee benefits | 157 | 144 | 150 | 138 |
| **Total non-current liabilities** | 157 | 144 | 150 | 138 |
| Trade payables | 2,365 | 3,725 | 1,575 | 2,258 |
| Other payables | 7,399 | 7,971 | 7,448 | 4,541 |
| Current tax payable | 385 | 208 | -- | -- |
| Warranty provision | 321 | 359 | 231 | 250 |
| **Total current liabilities** | 10,470 | 12,263 | 9,254 | 7,049 |
| **Total liabilities** | 10,627 | 12,407 | 9,404 | 7,187 |
| **Total equity and liabilities** | 80,534 | 91,720 | 79,311 | 86,500 |

* No par value

**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**
Zero borrowings from banks as at September 30, 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 Quarter ended September 30, | | Group Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Cash flows from (used in) operating activities** | | | | |
| Profit (loss) for the period | (530) | 3,987 | 5,151 | 12,991 |
| **Adjustments for:** | | | | |
| Share-based payment expenses | 215 | 424 | 802 | 1,293 |
| Income tax expense | 572 | 918 | 2,269 | 2,698 |
| Depreciation of property, plant and equipment | 592 | 583 | 1,719 | 1,706 |
| Amortisation of intangible assets | 394 | 391 | 1,183 | 1,159 |
| Net finance income | (53) | (403) | (106) | (757) |
| **Changes in working capital** | | | | |
| Inventories | (119) | (809) | 738 | 1,278 |
| Trade receivables | 1,283 | 697 | 643 | (3,288) |
| Other receivables | (359) | (802) | 600 | (1,204) |
| Trade payables | (112) | 244 | (1,360) | 2,337 |
| Other liabilities | (1,424) | (304) | (501) | 1,112 |
| Employee benefits | (1) | 3 | 13 | 5 |
| Income tax paid, net | (1,584) | 363 | (2,191) | (1,573) |
| **Net cash from (used in) operating activities** | (1,126) | 5,292 | 8,960 | 17,757 |
| **Cash flows from (used in) investing activities** | | | | |
| Acquisition of property, plant and equipment | (382) | (1,505) | (3,150) | (3,466) |
| Acquisition of activity | -- | -- | -- | (1,210) |
| Short-term investments, net | 916 | (2,101) | 4,062 | (650) |
| Capitalisation of development expenses | (403) | -- | (403) | -- |
| Interest received | 61 | 458 | 189 | 617 |
| **Net cash from (used in) investing activities** | 192 | (3,148) | 698 | (4,709) |
| **Cash flows used in financing activities** | | | | |
| Proceeds from exercise of share options | -- | 231 | 567 | 665 |
| Purchase of Company's shares by the Company | (455) | -- | (455) | -- |
| Dividend paid | (7,019) | (7,004) | (15,797) | (12,248) |
| **Net cash used in financing activities** | (7,474) | (6,773) | (15,685) | (11,583) |
| **Net (decrease) increase in cash and cash equivalents** | (8,408) | (4,629) | (6,027) | 1,465 |
| **Cash and cash equivalents at beginning of the period** | 21,773 | 25,587 | 19,467 | 19,298 |
| **Exchange rate differences** | (8) | (55) | (83) | 140 |
| **Cash and cash equivalents at end of the period** | 13,357 | 20,903 | 13,357 | 20,903 |

**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 September 30, 2016 | -- | -- | -- | 12,991 | -- | 12,991 |
| Other comprehensive loss for the period ended September 30, 2016 | -- | -- | (30) | -- | -- | (30) |
| Share-based payment expenses | -- | 1,293 | -- | -- | -- | 1,293 |
| Exercise of options | -- | 665 | -- | -- | -- | 665 |
| Dividend paid | -- | -- | -- | (12,248) | -- | (12,248) |
| **Balance at September 30, 2016** | -- | 29,360 | (1,760) | 48,968 | (2,366) | 74,202 |
| | | | | | | |
| **Balance at January 1, 2017** | -- | 29,688 | (1,919) | 53,957 | (2,413) | 79,313 |
| Profit for the period ended September 30, 2017 | -- | -- | -- | 5,151 | -- | 5,151 |
| Other comprehensive income for the period ended September 30, 2017 | -- | -- | 326 | -- | -- | 326 |
| Share-based payment expenses | -- | 802 | -- | -- | -- | 802 |
| Exercise of options | -- | 567 | -- | -- | -- | 567 |
| Dormant shares, acquired at cost (437,700) | -- | -- | -- | -- | (455) | (455) |
| Dividend paid | -- | -- | -- | (15,797) | -- | (15,797) |
| **Balance at September 30, 2017** | -- | 31,057 | (1,593) | 43,311 | (2,868) | 69,907 |

* 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, 2016** | -- | 27,402 | (1,730) | 48,225 | (2,366) | 71,531 |
| Profit for the period ended September 30, 2016 | -- | -- | -- | 12,991 | -- | 12,991 |
| Other comprehensive loss for the period ended September 30, 2016 | -- | -- | (30) | -- | -- | (30) |
| Share-based payment expenses | -- | 1,293 | -- | -- | -- | 1,293 |
| Exercise of options | -- | 665 | -- | -- | -- | 665 |
| Dividend paid | -- | -- | -- | (12,248) | -- | (12,248) |
| **Balance at September 30, 2016** | -- | 29,360 | (1,760) | 48,968 | (2,366) | 74,202 |
| | | | | | | |
| **Balance at January 1, 2017** | -- | 29,688 | (1,919) | 53,957 | (2,413) | 79,313 |
| Profit for the period ended September 30, 2017 | -- | -- | -- | 5,151 | -- | 5,151 |
| Other comprehensive income for the period ended September 30, 2017 | -- | -- | 326 | -- | -- | 326 |
| Share-based payment expenses | -- | 802 | -- | -- | -- | 802 |
| Exercise of options | -- | 567 | -- | -- | -- | 567 |
| Dormant shares, acquired at cost (437,700) | -- | -- | -- | -- | (455) | (455) |
| Dividend paid | -- | -- | -- | (15,797) | -- | (15,797) |
| **Balance at September 30, 2017** | -- | 31,057 | (1,593) | 43,311 | (2,868) | 69,907 |

* 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.**

| | September 30, 2017 | June 30, 2017 | September 30, 2016 |
|---|---|---|---|
| | 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 | 352,855,376 | 352,855,376 | 351,829,313 |
| **Dormant shares** (out of the issued and fully paid share capital): | | | |
| Ordinary shares of no par value | 2,060,800 | 1,623,100 | 1,583,100 |
| **Total number of issued shares** (excluding dormant shares) | 350,794,576 | 351,232,276 | 350,246,213 |

For the three months ended September 30, 2017, no share options were exercised into ordinary shares. For the three months ended September 30, 2017, the Company purchased 437,700 of its ordinary shares at an aggregate cost of US$ 0.5 million.

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 September 30, 2017, June 30, 2017 and September 30, 2016 included 2,060,800, 1,623,100 and 1,583,100 dormant shares, respectively.

**Details of changes in share options:**

| | Average exercise price in US$ per share | Options |
|---|---|---|
| At January 1, 2017 | 1.106 | 19,381,380 |
| Granted | 1.262 | 2,989,000 |
| Cancelled | 1.616 | (697,083) |
| Exercised | 0.600 | (938,563) |
| At September 30, 2017 | 1.201 | 20,734,734 |

At September 30, 2017, the average exercise price in Singapore dollars per share was S$ 1.635, based on an exchange rate of US$ 1 = S$ 1.3609.

**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 September 30, 2017, the total number of issued shares excluding dormant shares was 350,794,576 (as at December 31, 2016- 350,293,713). As at September 30, 2017, the total number of dormant shares was 2,060,800 (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 and nine months ended September 30, 2017, the Company purchased 437,700 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 September 30, 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 September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| US cents | | | | |
| Basic earnings (loss) per share | (0.15) | 1.14 | 1.47 | 3.72 |
| Diluted earnings (loss) per share | (0.15) | 1.14 | 1.47 | 3.71 |
| Singapore cents* | | | | |
| Basic earnings (loss) per share | (0.20) | 1.55 | 2.00 | 5.06 |
| Diluted earnings (loss) per share | (0.20) | 1.55 | 2.00 | 5.05 |

Basic loss per share for the three months ended September 30, 2017 are calculated based on the weighted average number of 350,938,797 ordinary shares issued during the current period and the equivalent of 349,983,516 ordinary shares during the preceding period.

Diluted loss per share for the three month ended September 30, 2017 are calculated based on the weighted average number of 350,938,797 ordinary shares and outstanding options and the equivalent of 350,173,778 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the nine months ended September 30, 2017 are calculated based on the weighted average number of 350,865,185 ordinary shares issued during the current period and the equivalent of 349,555,955 ordinary shares during the preceding period.

Diluted earnings per share for the nine months ended September 30, 2017 are calculated based on weighted average number of 351,002,173 ordinary shares and outstanding options and the equivalent of 349,950,866 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3609 at September 30, 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:**
   (a) **current financial period reported on; and**
   (b) **immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| Net asset value (US$ thousands) | 69,907 | 79,313 | 69,907 | 79,313 |
| Net asset value per ordinary share (US cents) | 19.93 | 22.64 | 19.93 | 22.64 |
| Net asset value per ordinary share (Singapore cents*) | 27.12 | 30.81 | 27.12 | 30.81 |

At September 30, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at September 30, 2017 of 350,794,576 (not including 2,060,800 dormant ordinary shares at September 30, 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$ 1.3609 at September 30, 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:-**
   (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 disclosed in our profit guidance on October 10, 2017 and as further clarified on October 11, 2017, our business activity was significantly impaired during the third quarter of 2017. The Group reported in Q3 2017 revenues of US$ 11.3 million, an insignificant loss from operations of US$ 11,000, and a net loss of US$ 0.5 million, as compared to revenues of US$ 17.3 million, profit from operations of US$ 4.5 million and net profit of US$ 4.0 million reported in Q3 2016, and as compared to revenues of US$ 18.2 million, profit from operations of US$ 4.2 million and net profit of US$ 3.2 million reported in Q2 2017. For the nine months ended September 30, 2017, the Group realised revenues of US$ 45.7 million, profit from operations of US$ 7.3 million and net profit of US$ 5.2 million, as compared to revenues of US$ 53.6 million, profit from operations of US$ 14.9 million and net profit of US$ 13.0 million reported for the comparable period in 2016.

The sharp sequential decrease in revenues in Q3 2017, and consequently for the nine months ended September 30, 2017, was primarily due to higher than normal surplus inventories of polished diamonds, which had built up in the mid-stream entering the third quarter of 2017, and which, disappointingly and not in line with our expectations as per our report for Q2 issued August 6, 2017, built up further during the quarter, driving manufacturers to significantly slow additional production and hold off on capital expenditures. This contention is based both on inputs from our customers (some of who explicitly delayed orders due to market conditions), as well as other publicly available data (e.g., DeBeers sights volumes, which hit an abnormally low volume of only US$ 370M in October, Alrosa's flagging sales and additional publications in India).

In addition, the ongoing illicit operations of parties infringing on our intellectual properties, and uncertainties stemming from litigations pertaining to these issues, further affected our sales of capital equipment (but not our recurring revenue) in Q3 2017 (see section 10g for more details).

The results for the nine months ended September 30, 2017 versus the comparable period in 2016 were primarily impacted by lower capital equipment sales, in general, and Galaxy family equipment sales, in particular, and by increased operating expenses partly to support services for polished diamonds. We believe Research and Development expenses peaked in H1 2017, as we were bringing to fruition our new

Clarity and Colour grading technologies, and adding significant capabilities to our Advisor™ 7.0 planning software, as further detailed in section 10 (e.g., integrating light performance results with planning, supporting interactive planning of special branded cuts, etc.). Sales and Marketing expenses are being closely controlled, with very minimal expansion of our staff, directly coupled with growth in Sarine Profile™ rollout. General and Administrative expenses are significantly higher as we are aggressively fighting our IP infringements, as detailed in section 10, and should decrease, as our efforts bear fruit. Operating expenses were further impacted by an approximate 10% decline of the US$ versus the NIS in Israel, where most of our compensation expenses, especially in R&D, are incurred.

Overall recurring revenues for the nine months ended September 30, 2017 (including Galaxy™-related, Quazer™ services, polished diamond related ("Trade") services, annual maintenance contracts, etc.) represented over 46% of our overall revenue.

Overall polished diamond retail-related revenues, currently only from the Sarine Profile™ and its various components (Sarine Light™, Sarine Loupe™, Sarine Connect™, etc.), represented about 2% of our overall revenue for the nine months ended September 30, 2017. We continue to expect to improve this ratio through year-end, as new retail chains and independents continue to buy in to the paradigm, existing customers continue to expand their programs, and the number of stones being scanned increases (see Section 10 for more details).

***Balance Sheet and Cash Flow Highlights***

As at September 30, 2017, cash and cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") decreased to US$ 27.8 million as compared to US$ 38.0 million as of December 31, 2016. The decrease in Cash Balances was primarily due to the payment of US$ 15.8 million in dividends in 2017 (US$ 8.8 million final dividend paid in Q2 2017 for 2016 and the US$ 7.0 million interim 2017 dividend paid in September 2017), the repurchase of US$ 0.5 million of Sarine shares in the open market, and due to expenditures associated with Group's completed new facilities in Surat India, offset by the Group's operating results and lower inventory levels.

***Revenues***

Revenue by geographic segments -- (US$ '000)

| Q3 2017 versus Q3 2016 | | | | |
|---|---|---|---|---|
| **Region** | **Q3 2017** | **Q3 2016** | **$ change** | **% change** |
| **India** | 7,272 | 12,805 | (5,533) | (43.2) |
| **Africa** | 1,412 | 764 | 648 | 84.8 |
| **Europe** | 417 | 957 | (540) | (56.4) |
| **North America** | 274 | 300 | (26) | (8.7) |
| **Israel** | 862 | 877 | (15) | (1.7) |
| **Other*** | 1,048 | 1,547 | (499) | (32.3) |
| **Total** | 11,285 | 17,250 | (5,965) | (34.6) |

| 1-9.2017 versus 1-9.2016 | | | | |
|---|---|---|---|---|
| **Region** | **1-9.2017** | **1-9.2016** | **$ change** | **% change** |
| **India** | 33,035 | 41,840 | (8,805) | (21.0) |
| **Africa** | 3,194 | 1,793 | 1,401 | 78.1 |
| **Europe** | 1,915 | 1,865 | 50 | 2.7 |
| **North America** | 847 | 1,335 | (488) | (36.6) |
| **Israel** | 2,705 | 3,104 | (399) | (12.9) |
| **Other*** | 4,011 | 3,670 | 341 | 9.3 |
| **Total** | 45,707 | 53,607 | (7,900) | (14.7) |

| Q3 2017 versus Q2 2017 | | | | |
|---|---|---|---|---|
| **Region** | **Q3 2017** | **Q2 2017** | **$ change** | **% change** |
| **India** | 7,272 | 12,735 | (5,463) | (42.9) |
| **Africa** | 1,412 | 1,093 | 319 | 29.2 |
| **Europe** | 417 | 901 | (484) | (53.7) |
| **North America** | 274 | 258 | 16 | 6.2 |
| **Israel** | 862 | 937 | (75) | (8.0) |
| **Other*** | 1,048 | 2,227 | (1,179) | (52.9) |
| **Total** | 11,285 | 18,151 | (6,866) | (37.8) |

*primarily Asia, excluding India

Revenues for Q3 2017 decreased to US$ 11.3 million as compared to revenues of US$ 17.3 million in Q3 2016, and as compared to US$ 18.2 million in Q2 2017. Revenues for the nine months ended September 30, 2017 were US$ 45.7 million as compared to US$ 53.6 million for the comparable period in 2016. The decrease in revenues in most geographies was primarily due lower capital equipment sales (recurring revenues are flat), as a result of above average overstocking of inventory levels in the midstream, and also due to the illicit competition in India, from the infringement of our patent for the Galaxy™ family of systems and the copyright of our Advisor™ planning software (only three years older versions up to 5.2), as discussed in more detail in Section 10).

*Cost of sales and gross profit*

Cost of sales in Q3 2017 decreased to US$ 3.9 million, as compared to US$ 5.4 million in Q3 2016, with a gross profit margin of 66% in Q3 2017 versus 69% in Q3 2016, and as compared to US$ 5.7 million with a gross profit margin of 68% in Q2 2017. Cost of sales for the nine months ended September 30, 2017 decreased to US$ 14.8 million, versus US$ 16.9 million for the comparable period in 2016, with gross profit margins of 68% for the respective periods. The decrease in cost of sales on a year-over-year and sequential basis was primarily due to lower sales volumes as compared to the comparable periods. The decline in gross profits margin was primarily due to significantly lower sales volumes in Q3 2017 as compared to the preceding periods.

*Research and development expenses*

Research and development expenses for Q3 2017, for the nine months ended September 30, 2017 and the comparable periods, are presented in the table below. Beginning in Q3 2017, the Group has capitalised (in compliance with IFRS) costs associated with the development of the Sarine Clarity and Colour systems, which are planned to be in actual revenue-generating commercial use in Q1 2018, as we commence grading polished diamonds 4C's in our gemmological laboratory, as more fully discussed in section 10 below.

| **US$ (thousands)** | **Q3 2017** | **Q3 2016** | **Q2 2017** | **1-9.2017** | **1-9.2016** |
|---|---|---|---|---|---|
| R&D expenses as reported | 2,430 | 2,834 | 3,057 | 8,505 | 8,130 |
| Capitalised development | 403 | -- | -- | 403 | -- |
| Total R&D costs incurred | 2,833 | 2,834 | 3,057 | 8,908 | 8,130 |

Research and development costs in Q3 2017 of US$ 2.8 million were virtually flat as compared to Q3 2016, and declined from its peak of US$ 3.1 million in Q2 2017, on lower employee-related and outsource expenditures. The increase in research and development expenditures for the nine months ended September 30, 2017 versus the comparable period in 2016 was primarily due to higher employee-related and outsourcing expenses. The increase in employee related expenses was significantly impacted by the approximate 10% decline of the US$ versus the NIS in Israel. 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 Q3 2017 increased minimally to US$ 3.4 million as compared to US$ 3.3 million in Q3 2016, and declined from US$ 3.7 million in Q2 2017. Sales and marketing expenses for the nine months ended September 30, 2017 increased to US$ 10.6 million as compared to US$ 10.1 million versus the comparable period in 2016. The increase in sales and marketing expenses on a year-over-year basis was due to increased marketing, advertising and business development expenses. In addition, in line with our continued expansion and growing traction of our polished diamond retail-sales supporting offerings (the Sarine Profile™), we increased sales expenses in the Asia Pacific region, with a minimal expansion of staff. The sequential decrease in sales and marketing expenses for Q3 2017 as compared to Q3 2016 was primarily due to lower expenses associated with trade shows.

*General and administrative expenses*

General and administrative expenses for Q3 2017 increased to US$ 1.6 million as compared to US$ 1.1 million in Q3 2016, and as compared to US$ 1.5 million in Q2 2017. General and administrative expenses for the nine months ended September 30, 2017 increased to US$ 4.4 million as compared to US$ 3.5 million in the comparable period in 2016. The increases in general and administrative expenses were primarily due to higher third-party professional fees, mainly related to IP protection (primarily, but not solely, in India; see Section 10).

*Profit (loss) from operations*

The Group reported an insignificant loss from operations of US$ 11,000 for Q3 2017, as compared to profit from operations for Q3 2016 of US$ 4.5 million, and as compared to US$ 4.2 million in Q2 2017. Profit from operations for the nine months ended September 30, 2017 decreased to US$ 7.3 million as compared to US$ 14.9 million during the comparable period in 2016. The decrease in profit from operations on a year-over-year basis was primarily due to lower sales volume and higher operating expenses, all as detailed above. The decrease in profit from operations on a sequential basis was primarily due to lower sales volume, offset somewhat by lower operating expenses, all as detailed above.

*Net finance income*

Net finance income for Q3 2017 was US$ 53,000, as compared to US$ 403,000 in Q3 2016, and income of US$ 72,000 in Q2 2017. Net finance income for the nine months ended September 30, 2017 was US$ 106,000 as compared to US$ 757,000 for the comparable period in 2016. The decrease in net financial income in 2017 is primarily due to the net finance income in Q3 2016, and the nine months ended September 30, 2016, having included a reversal of US$ 0.4 million in interest charges relating to prior period tax assessments under dispute in India.

*Income tax expense*

The Group recorded an income tax expense of US$ 0.6 million for Q3 2017 as compared to an expense of US$ 0.9 million for Q3 2016 and an expense of US$ 1.0 million in Q2 2017. The Group recorded an income tax expense of US$ 2.3 million for the nine months ended September 30, 2017 versus US$ 2.7 million for the comparable period in 2016. Income tax expenses in Q3 2017 were primarily due to income tax expenses associated with subsidiary profitability during the current period. The decrease in the income tax expense was primarily due to lower pre-tax profitability, as discussed above.

*Profit (loss) for the period*

For Q3 2017, the Group incurred a net loss for the period of US$ 0.5 million, as compared to net profit of US$ 4.0 million in Q3 2016 and net profit of US$ 3.2 million in Q2 2017. For the nine months ended September 30, 2017, net profit decreased to US$ 5.2 million versus US$ 13.0 million for the comparable period last year. The decrease in net profit on a year-over-year and sequential basis was primarily due to significantly lower sales, as detailed above. The decrease in net profit on a year-over-year basis was primarily due to lower sales volume and higher operating expenses, all as detailed above. The decrease in net profit on a sequential basis was primarily due to lower sales volume, offset somewhat by lower operating expenses, all 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.**

a. As noted in Section 8 above, we opined, in Section 10 c Appendix 7.2 for Q2 2017, that: "Expectations are that inventory levels will come down as wholesale holiday-season buying commences towards the end of the summer and into the fall.". However, as discussed in Section 10c., below, inventory levels built up significantly, exceeding our expectations.

b. Our operating loss for Q3 2017 was nominal (US$ 11,000) and substantially lower than anticipated in our Profitability Guidance of 10 October 2017. All other forecasts which were included in such Profitability Guidance were in line with our actual results.

**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.

b. In all significant 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 continue to show consumer demand for luxury items, in general, and diamond jewellery specifically, expanding after a two-plus year hiatus.

c. De Beers' sales of rough diamonds in the third quarter of 2017 continued their year-long decline reaching an unusually low level of US$ 370 million in October and indications are of only approximately US$ 450 million in November. Similarly, Alrosa's (primary Russian producer) sales also declined significantly in Q3 and into October. Rough diamond prices remained virtually flat in the third quarter. The lower than usual quantities of stones bought in Q3 and into October provide additional indication that midstream inventories of polished stones increased excessively, more than in a normal annual cycle, as discussed in our announcement of October 11, 2017. Polished stone prices remain under pressure commensurate with the additional goods available for sale.

d. As polished inventory levels built up significantly, exceeding our expectations, as presented in our Q2 announcement of August 6, 2017, industry activity in the third quarter was less robust than expected, and the drop in our third quarter revenues was at the high end of the typical 20-30% range for the third quarter (please refer to our announcement of October 11, 2017 for further details). Anecdotal and published data indeed indicate a continued weak sentiment in the Indian diamond manufacturing segment, with some leading manufacturers having foregone Diwali bonuses to their employees, and others reportedly reducing production staff. Barring any unforeseen negative developments, we expect the inventory levels to be reduced by wholesale buying commencing after the holiday season, which typically provides for the return to normal industry activity in Q1.

e. Sales programs utilising Sarine Profile™ by retailers primarily in the Asia Pacific (APAC) region but also in North America continue to expand. We have concluded plans for launches with yet additional major retail chains in APAC (Hong Kong and China, primarily, as a result of a successful show in

Hong Kong in mid-September) and the recent show in Japan (in late October). We are on track to expand the number of stones scanned for the Sarine Profile™ in 2017, as compared to 2016.

f. Our new technologies for the automated, objective and consistent grading of a polished diamond's Clarity and Colour were formally launched at the Hong Kong show in mid-September. We have commenced initial talks with customers who have expressed interest in being launch customers for these revolutionary automated, objective and accurate polished diamond grading reports. We expect to commence issuing these reports and generating revenues therefrom in Q1 2018. These technologies address the polished diamond 4Cs grading market, which currently generates an estimated 7 million reports annually for stones typically a quarter of a carat and up (some labs grade limited quantities of stones down to a fifth of a carat), at prices ranging from US$50 to US$100 a carat, generating US$500 million annually in recurring revenue. We believe that in the longer term by introducing a cost-effective, consistent and reliable automated solution, the addressable market can eventually be expanded down to polished diamonds of a tenth of a carat and up, effectively increasing the total addressable market value by 50% to US$ 750 million annually.

g. We continue to see the illicit competition affecting sales of our inclusion mapping systems, particularly so for the systems for smaller stones. We expect the illicit competitive conditions to prevail in Q4, as per the timelines set by the High Courts in Ahmedabad for the upcoming hearings. We have continued to deliver systems in Q3, but as details pertaining to deliveries are currently sensitive vis-a-vis various developments pertaining to the illicit competition in India, we believe it is in the Group's best interest not to elaborate further at this time. We note that we have not experienced any significant drop in the number of stones being processed by our installed base of inclusion mapping systems, which, on the backdrop of the significantly reduced DeBeers sights, as noted in [c] above, is indicative, we believe, that we are not losing existing customers.

h. The patent and copyright enforcement activities through the Indian judicial system, which are currently centred in the High Courts of Gujarat in Ahmedabad, continue. We have also initiated and are continuing additional activities aimed at curtailing and/or containing these illicit activities:
   - U.S Patent Enforcement – In order to leverage our U.S. patents and copyrights with respect to the infringement activities in India, we have alerted major diamond importers and dealers that their supply of polished diamonds from India may contain goods that infringe on Sarine's U.S. patents and copyrights, which, if not abated, could lead to legal action by Sarine to preclude, under U.S. law, the importation of said infringing diamonds into the U.S. We are encouraged by the level of cooperation we have received from U.S. retailers, and the resulting supply chain inquiries and due diligence performed by the importers and dealers have, indeed, increased the pressure on the infringing parties in India.
   - Commercial – We are launching a new system, the Meteorite™, which will be the most cost-effective system in the market for scanning very small rough diamonds, specifically to compete with the illicit competition on his main turf.
   - Commercial contd. - We are leveraging our new relationships with major retailers launching Profile-enhanced programs, to initiate same only with Indian suppliers who have migrated to Advisor™ 6.0 or 7.0, thus creating a strong commercial incentive to migrate, which precludes use of infringing technologies.
   - Technological – The newest Advisor™ 7.0 has many enhanced features, specifically aimed at enabling the manufacturer to better meet today's retail trends' – branding, positioning, light performance enhancement, etc. These valuable add-ons, along with the commercial incentive noted above, have driven users of nearly 10,000 of our over 20,000 installed planning systems to migrate upwards to the newer versions of our Advisor™. This accounts for some 50% of our installed base (or some 60% of the key users).

i. The Allegro™ system is still undergoing commercial evaluation.

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

- **Polished diamond oriented systems:**
  - We will continue to enhance our **Sarine Profile™**:
    - In order to support the growing trend of branding, we are enhancing the Sarine Profile™ in order to effectively present the rough-to-polish (aka "chain of custody") story. This will include the importation of the rough stone external imaging, inclusion mapping imaging and

the Advisor™ planning imagery into the Sarine Profile™. We will leverage our dominant market share in inclusion mapping and planning to seamlessly enable this integration. The first US based program is being launched in November with additional programs in the pipeline.

- Introduction of yet another imagery format in true 360 degrees, specifically designed to enhance the ability to showcase special modified cuts, which are more and more the mainstay of special retail branded programs. This function will allow the retailer and the consumer to interactively and engagingly examine the unique faceting of these unique shapes. It should be noted that for modified shapes the stone's quality of faceting and light performance characteristics (see bullet below) are becoming an integral part of the stone's grading.
- Enhancement of our support of jewellery pieces, in addition to 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™.
- Enhancement of our support of retailers' generic marketing material, images, video, text, etc., on the overall chain, store and program levels, so as to present the retailer's positioning message more effectively.

- Continued development of special integrative processes, involving retailers, suppliers and Sarine for enhancing the **Sarine Light™** grading results of unique modified shapes of polished diamonds. By teaching the Advisor™ unique proprietary recipes for these stones' optimal polishing, we can improve polishing results significantly, thus enhancing these stones market appeal (especially in the APAC region). Initial results on three programs, which have opted for this service, have shown tangible improvements in these stones' light performance grades, with a much higher proportion of Ultimate grades derived. In one case study, the proportion of Ultimate *** graded stones, which command a significant premium at the retail outlet, doubled from only 15% to 30%, and continuing work is aimed at pushing this percentage to fully half of production,
- Further refinement of the **Clarity and Colour** grading capabilities having completed testing of the first generation of these technologies on over 14,000 polished stones for Clarity and 6,000 for Colour. Development is now focused on the online representation to be provided as part of this service, generating an exciting, self-explanatory and consumer friendly digital diamond report.

- **Manufacturing products:**
  - **Galaxy™/ Tension Mapping** - We are extending our Galaxy capabilities not only for inclusion detection but also for tension / stress detection and modelling. Understanding the location, structure and magnitude of the stress inside a rough stone is key for reducing the potential damage that can occur in a stone during laser sawing and other manufacturing processes. During Q3 2017, we conducted testing with several customers and the initial results are positive. We are planning to conduct a large scale test during 2018 in order to prove and quantify the added value of this solution.
  - **Advisor™** – following our June release (announced June 19, 2017) of our newest and most-capable-ever Advisor™ 7.0 rough planning software, we have now migrated close to 10,000 active users and this critical (i.e., as a buffer against infringements) number is growing steadily. The work on Advisor™ 8.0 has commenced. The new version, will include further planning enhancements, implementing faster, more accurate and more complex/advanced planning options.
  - **Axiom™** – We will release the third generation of our standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions. The new system will provide for unmatched accuracy in the measurement of fancy shaped diamonds, including special modified branded shapes. This ability will enable the Sarine Profile™ to support far more accurate renditions of fancy and special shapes, including the more accurate analysis of their quality. As these diamonds typically do not get a Cut grade from gem labs, by empowering much better simulations of these diamonds' light performance, hearts and arrows, and photo-realistic qualities, we will provide a far better means to show and tell their quality.

## 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/recommended, a statement to that effect.

No dividend has been declared or recommended for the current financial period.

## 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 September 30, 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 | Uzi Levami |
| Executive Chairman | Executive Director |

13 November 2017