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 March 31,		
	2019	2018	Change %
Revenue	**10,922**	**16,661**	**(34.4)**
Cost of sales	4,789	5,295	(9.6)
Gross profit	**6,133**	**11,366**	**(46.0)**
Research and development expenses	2,066	2,668	(22.6)
Sales and marketing expenses	3,248	3,455	(6.0)
General and administrative expenses	1,644	1,679	(2.1)
Profit (loss) from operations	**(825)**	**3,564**	**NM**
Net finance income (expense)	(161)	24	NM
Profit (loss) before income tax	**(986)**	**3,588**	**NM**
Income tax expense	424	480	(11.7)
Profit (loss) for the period	**(1,410)**	**3,108**	**NM**
Foreign currency translation differences from foreign operations	99	(166)	NM
Total comprehensive income (loss) for the period	**(1,311)**	**2,942**	**NM**

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

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

	Group Quarter ended March 31,		
	2019	2018	Change %
Allowance for doubtful trade receivables	(29)	7	NM
Depreciation and amortization	1,179	909	29.7
Interest income, net	1	82	(98.8)
Exchange rate differences	(162)	(58)	179.3
Warranty provision	4	2	100.0

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	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Assets				
Property, plant and equipment	14,393	14,641	1,297	1,381
Right-of-use assets	6,717	--	6,024	--
Intangible assets	4,518	4,944	325	342
Investment in equity accounted investee and subsidiaries	--	--	47,609	44,437
Deferred tax assets	982	998	--	--
Total non-current assets	26,610	20,583	55,255	46,160
Inventories	6,981	7,032	5,206	5,297
Trade receivables	13,036	16,406	2,365	3,980
Other receivables	2,256	3,037	559	835
Short-term investments (bank deposits)	12,478	12,021	5,765	7,787
Cash and cash equivalents	20,202	16,832	7,725	7,271
Total current assets	54,953	55,328	21,620	25,170
Total assets	81,563	75,911	76,875	71,330
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,576)	(3,576)	(3,576)	(3,576)
Share premium, reserves and retained earnings	68,085	69,232	68,085	69,232
Total equity	64,509	65,656	64,509	65,656
Liabilities				
Long-term lease liabilities	6,164	--	5,604	--
Employee benefits	198	192	188	182
Total non-current liabilities	6,362	192	5,792	182
Trade payables	2,525	2,328	1,210	1,377
Current lease liabilities	1,013	--	851	--
Other payables	6,570	6,831	4,296	3,889
Current tax payable	265	589	--	--
Warranty provision	319	315	217	226
Total current liabilities	10,692	10,063	6,574	5,492
Total liabilities	17,054	10,255	12,366	5,674
Total equity and liabilities	81,563	75,911	76,875	71,330

* No par value

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

Zero borrowings from banks as at March 31, 2019 and December 31, 2018

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 March 31, 2019	Group Quarter ended March 31, 2018
Cash flows from operating activities		
Profit (loss) for the period	(1,410)	3,108
Adjustments for:		
Share-based payment expenses	164	288
Income tax expense	424	480
Depreciation of property, plant and equipment	753	483
Amortisation of intangible assets	426	426
Net finance income	(50)	(24)
Revaluation of lease liabilities	211	--
Changes in working capital		
Inventories	51	901
Trade receivables	3,370	19
Other receivables	631	(201)
Trade payables	197	421
Other liabilities	82	1,308
Employee benefits	6	(3)
Income tax paid, net	(582)	(595)
Net cash from operating activities	4,273	6,611
Cash flows used in investing activities		
Acquisition of property, plant and equipment	(164)	(343)
Proceeds from realization of property, plant and equipment	17	--
Short-term investments, net	(457)	(2,890)
Interest received	76	82
Net cash used in investing activities	(528)	(3,151)
Cash flows used in financing activities		
Proceeds from exercise of share options	--	80
Payment of lease liabilities	(349)	--
Interest paid	(75)	--
Net cash from (used in) financing activities	(424)	80
Net increase in cash and cash equivalents	3,321	3,540
Cash and cash equivalents at beginning of the period	16,832	16,736
Exchange rate differences	49	(58)
Cash and cash equivalents at end of the period	20,202	20,218

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, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the Quarter ended March 31, 2018	--	--	--	3,108	--	3,108
Other comprehensive income for the Quarter ended March 31, 2018	--	--	(166)	--	--	(166)
Share-based payment expenses	--	288	--	--	--	288
Exercise of options	--	80	--	--	--	80
Balance at March 31, 2018	--	31,603	(1,552)	47,032	(3,055)	74,028
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the Quarter ended March 31, 2019	--	--	--	(1,410)	--	(1,410)
Other comprehensive income for the Quarter ended March 31, 2019	--	--	99	--	--	99
Share-based payment expenses	--	164	--	--	--	164
Balance at March 31, 2019	--	32,363	(2,113)	37,835	(3,576)	64,509

* 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, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the Quarter ended March 31, 2018	--	--	--	3,108	--	3,108
Other comprehensive income for the Quarter ended March 31, 2018	--	--	(166)	--	--	(166)
Share-based payment expenses	--	288	--	--	--	288
Exercise of options	--	80	--	--	--	80
Balance at March 31, 2018	--	31,603	(1,552)	47,032	(3,055)	74,028
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the Quarter ended March 31, 2019	--	--	--	(1,410)	--	(1,410)
Other comprehensive income for the Quarter ended March 31, 2019	--	--	99	--	--	99
Share-based payment expenses	--	164	--	--	--	164
Balance at March 31, 2019	--	32,363	(2,113)	37,835	(3,576)	64,509

*	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.

	March 31, 2019	December 31, 2018	March 31, 2018
	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	3,076,400	3,076,400	2,330,000
Total number of issued shares (excluding dormant shares)	350,595,726	350,595,726	351,342,126

For the three months ended March 31, 2019, no share options were exercised into ordinary shares. For the three months ended March 31, 2019, 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 March 31, 2019 and December 31, 2018 included 3,076,400 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US$ per share	Options
At January 1, 2019	1.107	19,876,884
Granted	--	--
Cancelled	0.912	(2,242,502)
Exercised	--	--
At December 31, 2018	1.140	17,634,382

At March 31, 2019, the average exercise price in Singapore dollars per share was S$ 1.545, based on an exchange rate of US$ 1 = S$ 1.3559.

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

As at March 31, 2019, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2018- 350,595,726). As at March 31, 2019, the total number of dormant shares was 3,076,400 (as at December 31, 2018- 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 three months ended March 31, 2019, the Company did not purchase any of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

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

These figures have not been audited or reviewed.

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2018 have been applied in the preparation for the financial statements for period ended March 31, 2019, except for the adoption of IFRS 16, Leases.

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.

The adoption of IFRS 16 had a material effect on our consolidated financial statements from January 1, 2019, and has had no impact on the presented comparable period. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead, IFRS 16 presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements (with two exceptions whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value). Therefore, from January 1, 2019, depreciation expenses and financing expenses will be recognized instead of operating lease expenses relating to assets leased under an operating lease. The adoption of IFRS 16 resulted in an increase of approximately $7.0 million in the balance of right-of-use assets and an increase of approximately of $7.3 million in the balance of lease liabilities, as at January 1, 2019. For the three months ended March 31, 2019, the Group recorded deprecation expenses of $0.3 million, interest expenses of US$ 0.1 million and exchange rate differences related to the revaluation lease liabilities of US$ 0.2 million.

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

	For the Quarter ended March 31,	
	2019	**2018**
US cents		
Basic (loss) earnings per share	(0.04)	0.88
Diluted (loss) earnings per share	(0.04)	0.88
Singapore cents*		
Basic (loss) earnings per share	(0.05)	1.19
Diluted (loss) earnings per share	(0.05)	1.19

Basic (loss) earnings per share for the three months ended March 31, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 351,319,876 ordinary shares during the preceding period.

Diluted (loss) earnings per share for the three months ended March 31, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 351,331,944 ordinary shares and outstanding options during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3559 at March 31, 2019.

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	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Net asset value (US$ thousands)	64,509	65,656		65,656
Net asset value per ordinary share (US cents)	18.40	18.73		18.73
Net asset value per ordinary share (Singapore cents*)	24.95	25.40		25.40

At March 31, 2019, net asset value per share is calculated based on the number of ordinary shares in issue at March 31, 2019 of 350,595,726 (not including 3,076,400 dormant ordinary shares at March 31, 2019). At December 31, 2018, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2018 of 350,595,726 (not including 3,076,400 dormant ordinary shares at December 31, 2018).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3559 at December 31, 2018.

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 April 18, 2019, our business activity was significantly impaired during the first quarter of 2019. The Group reported in Q1 2019 revenues of US$ 10.9 million, a loss from operations of US$ 0.8 million, and a net loss of US$ 1.4 million, as compared to revenues of US$ 16.7 million, profit from operations of US$ 3.6 million and net profit of US$ 3.1 million reported in Q1 2018, and as compared to revenues of US$ 12.2 million, profit from operations of US$ 1.0 million and net profit of US$ 0.1 million reported in Q4 2018.

During Q1 2019 our midstream customers not only continued to experience working capital issues due to credit tightening policies implemented by Indian banks but also had to meet the latter's call for return of some of the already extended credit by the Indian fiscal year's end on March 31, 2019. In addition, the uncertainties caused by the advent of lab-grown diamonds (LGD) in the market, notwithstanding the U.S. Federal Trade Commission's (FTC) latest criticism of certain players' lax implementation of their directives on the full disclosure of the diamonds' non-natural source and their warning concerning the unsubstantiated presentation of LGD as more environmentally friendly, as well as the ongoing trade disputes between the U.S. and China, which continued to dampen consumer sentiment in the critically important Chinese market, contributed to adverse sentiments in the industry's midstream.

Together, these factors resulted in a reduction in manufacturing activities, and consequently reduced recurring revenues from inclusion mapping services (down 20% y-o-y, though up 2% sequentially), as also evidenced by the ongoing reduction of miners' rough output into the pipeline, such as DeBeers sights having been reduced by as much as 25%. These negatives further contributed to a tendency to postpone capital equipment expenditures (down 50% y-o-y and 8% sequentially).

Notwithstanding all these issues, the Group delivered a record 33 Galaxy®-family inclusion mapping systems in Q1 2019. Notably, all these systems were delivered in India – continuing indication of the market's growing understanding and appreciation of the value of our technology over the pirated version of same. The delivered systems were of the Meteorite™ (29) and Meteor™ (4) models, bringing our installed base up to 443 systems as of March 31, 2019.

Overall recurring revenues for the quarter ended March 31, 2019 (including Galaxy®-related, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, spare parts, etc.) was over 55% of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still only from the Sarine Profile™ and its various components (Sarine Light™, Sarine Loupe™, Sarine Connect™, etc.) were just under 3% of our overall revenue for the quarter ended March 31, 2019.

Balance Sheet and Cash Flow Highlights

As at March 31, 2019, cash, cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") increased to US$ 32.7 million as compared to US$ 28.9 million as of December 31, 2018. The increase in Cash Balances was primarily due to lower trade receivables. See also Section 4 and 5 in reference to the implementation of IFRS 16, Leases.

Revenues

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

Q1 2019 versus Q1 2018				
Region	**Q1 2019**	**Q1 2018**	**$ change**	**% change**
India	7,019	13,523	(6,504)	(48.1)
Africa	1,345	854	491	57.5
Europe	323	344	(21)	(6.1)
North America	313	280	33	11.8
Israel	606	1,053	(447)	(42.5)
Other*	1,316	607	709	116.8
Total	10,922	16,661	(5,739)	(34.4)

Q1 2019 versus Q4 2018				
Region	**Q1 2019**	**Q4 2018**	**$ change**	**% change**
India	7,019	5,919	1,100	18.6
Africa	1,345	2,306	(961)	(41.7)
Europe	323	630	(307)	(48.7)
North America	313	222	91	41.0
Israel	606	786	(180)	(22.9)
Other*	1,316	2,319	(1,003)	(43.3)
Total	10,922	12,182	(1,260)	(10.3)

*primarily Asia, excluding India

Revenues for Q1 2019 decreased to US$ 10.9 million as compared to revenues of US$ 16.7 million in Q1 2018, and as compared to US$ 12.2 million in Q4 2018. The decrease in revenues on a year-over-year basis, mainly in India, resulted from significantly lower capital equipment sales and reduced recurring revenues due to a decline in the number of rough diamonds entering the pipeline. The sequential quarterly decrease in revenues was primarily due to lower capital equipment sales.

Cost of sales and gross profit

Cost of sales in Q1 2019 decreased to US$ 4.8 million, as compared to US$ 5.3 million in Q1 2018, with a gross profit margin of 56% in Q1 2019 versus 68% in Q1 2018, and increased as compared to US$ 4.7 million with a gross profit margin of 61% in Q4 2018. The decrease in cost of sales and the associated decline in gross margin on a year-over-year basis was primarily due to significantly lower sales volumes and product mix in Q1 2019 (increased number of Meteor™/Meteorite™ and lower recurring revenues from inclusion scanning) compared to Q1 2018. The increase in cost of sales and the decline in gross margin on a sequential basis was primarily due to product mix (increased number of Meteor™/Meteorite™) in Q1 2019 as compared to Q4 2018.

Research and development expenses

Research and development expenses for Q1 2019 decreased to US$ 2.1 million as compared to US$ 2.7 million in Q1 2018 and was virtually flat with Q4 2018. The decrease in research and development costs, as planned, was primarily due to lower employee compensation expenses and outsourcing expenses.

Sales and marketing expenses

Sales and marketing expenses for Q1 2019 decreased to US$ 3.2 million as compared to US$ 3.5 million in Q1 2018, and increased as compared to US$ 3.1 million in Q4 2018. The year-over-year decrease in sales and marketing expenses was due to decreased marketing and trade-show expenses and the absence of incentive-based compensation accruals, offset by higher sales compensation expenses in the Asia Pacific (APAC) region, in line with the Group's focus on its retail-related business development focus in this market and the addition of personnel to support this focus. The sequential increase in sales and marketing expenses was primarily related to higher sales compensation expenses in Southeast Asia, as noted.

General and administrative expenses

General and administrative expenses for Q1 2019 of US$ 1.6 million was virtually flat with Q1 2018 and increased as compared to US$ 1.4 million in Q4 2018. The increase in general and administrative expenses on a sequential basis was primarily due to higher third-party professional fees related to our proactive IP litigation activities in India (see Section 10).

Profit (loss) from operations

The Group reported a loss from operations of US$ 0.8 million for Q1 2019, as compared to profit from operations of US$ 3.6 million in Q1 2018 and US$ 1.0 million in Q4 2018. The decline in profitability was primarily due to lower revenues and gross profitability, as detailed above.

Net finance income (expense)

Net finance expense for Q1 2019 was US$ 161,000, as compared to net finance income of US$ 24,000 in Q1 2018. The increase in net finance expense was primarily due to the recording of interest expenses and exchange rate differences associated with IFRS 16 Leases (see Section 4 and Section 5).

Income tax expense

The Group recorded an income tax expense of US$ 0.4 million for Q1 2019 as compared to an expense of US$ 0.5 million for Q1 2018 and US$ 0.9 million in Q4 2018. Income tax expenses in Q1 2019 were primarily due to income tax expenses associated with subsidiary profitability during the applicable periods. Income tax expenses for Q4 2018 included the write down of US$ 0.5 million of certain deferred and other tax assets.

Profit for the period

The Group reported a net loss of US$ 1.4 million for Q1 2019 as compared to a net profit of US$ 3.1 million in Q1 2018 and US$ 0.1 million in Q4 2018. The decline in profitability was primarily due to lower revenues and gross profitability, as detailed above.

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

Not applicable.

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

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

a. The mutual trade tariffs imposed between the U.S and China were seemingly still having a negative impact on Chinese consumer sentiment, even before the latest unfavorable developments. Anecdotal indications are that during the Chinese New Year holiday retail diamond jewellery sales neither experienced a substantial expansion nor a substantial contraction, though overall retail sales expanded by 8.5% year-over-year (itself a slower expansion than a year before, which experienced 10.2% growth in retail sales over 2017).

b. Banks in India have implemented new requirements from their midstream diamond manufacturing customers for more transparency in their operations (e.g. disclosure of international trading parties' identities and proof of their being non-related parties) and financial disclosure as per accepted accounting practises, as previously reported. At fiscal year's end (March 31, 2019), midstream borrowers were required to inject capital, as leading Indian banks reduced their existing credit lines to manufacturers by a reported 20-30%. This continues to impair available working capital, has created cash-flow problems for some midstream entities, and is the primary negative factor currently impacting the midstream of the diamond industry.

c. Lab-grown diamonds (LGD) continue to be a confusing factor in the diamond industry, notwithstanding their still being an insignificant fraction of the overall retail diamond market at this point. The U.S. Federal Trade Commission (FTC) has recently disseminated stern letters to leading players in the U.S. LGD diamond trade demanding they take immediate steps to accurately adhere to the FTC's guidelines published late last year, and clearly and unequivocally disclose the non-natural source of their offered merchandise. The FTC also cautioned LGD manufacturers and retailers against making unsubstantiated claims extolling LGD's environmental and sustainability advantages over naturally sourced diamonds.

   We again emphasise that our technologies are also applicable to LGD. For HPHT LGD, currently the predominant technology utilised in the manufacture of LGD, the processes applied to natural diamonds are applicable to them as well, making their eventual market share less of an issue to our Group. As for CVD LGD, the technology applied to larger higher-quality LGD, like the Lightbox line, though these tend to be cleaner and more uniform than HPHT LGD, arguably requiring less automated inclusion scanning, they too need at least some degree of inspection for inclusions and imperfections (e.g., our DiaExpert® Eye) and subsequent planning processes. Furthermore, these CVD LGD actually create a new market for our laser cutting systems, which excel at processing these stones. Paramountly, our endeavours relating to the retail trade of polished diamonds, the Sarine Profile™, AI-driven grading of the 4Cs and the Sarine Diamond Journey™, as they pertain to branding, consumer experience and confidence, are equally applicable to the LGD consumer market. There is evident consumer demand for the full grading of LGD (notwithstanding efforts to the contrary by some industry players), and the retail sale of LGD will not differ materially from that of natural stones – the stones' story, albeit with an emphasis on other of their facets, will need to be told and the emotional connection with the customer created.

d. The third DeBeers sight of April 2019, provisionally at US$ 575 million, indicates a return to more normal levels of volume, following the first two, significantly weaker, sight cycles. We believe this may be an initial indication of a return to more normal levels of polishing activity, as there have evolved distinct shortages of goods in certain categories of polished stones.

e. To navigate the current market's challenges, we are endeavouring to manage our expenses ever more prudently and judiciously balance our long-term goals, and the efforts necessary to realise them, with the short-term taxing conditions. As exemplified by our current quarter, we have reduced our operational expenses significantly, while still focusing on achieving our targets. Our R&D costs are down by over 20% y-o-y, even better than our previously announced goals, and our S&M expenditures have decreased marginally as well, even as we have re-organised our team and added personnel in various geographies throughout the APAC region, in which we are gaining momentum. Our G&A expenses will not decrease so long as our litigation in India on IP infringement continues. We will continue to vigilantly monitor our outflow so as to advance our overall prospects with minimal short-term negative results, until general industry sentiments and activity return to normal.

f. Notwithstanding the noted negative sentiment and working capital issues, we delivered a record 33 inclusion mapping systems in Q1 2019 - 4 of the Meteor™ model and 29 of the Meteorite™ model, all in India. This continues to indicate our ongoing success at reducing the effects of the illicit competition, as detailed below. These deliveries bring our installed base to 443 as of March 31, 2019. We continue to see scanning activities at record levels including days with the number of scans exceeding 50,000.

g. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems, the number of users who continue to migrate to Advisor® 7.0 and the record quarterly sales of inclusion mapping systems to Indian manufacturers, we believe we are significantly restricting the illicit competition.

- Technological – The announced end-of-life of Advisor® 5.3 and earlier versions, as of year-end 2018 has incentivised manufacturers to migrate upwards to the latest version of our Advisor® software. As of the end of Q1 2019 some 17,000 installations have been upgraded out of a realistically convertible number probably not exceeding 20,000 of the total 24,000 planning stations in use in the market (as explained in our FY2018 full-year results announcement of February 24, 2019)
- Commercial – Our expanding relationships with mining producers' programs, such as Dominion's CanadaMark® and Lucara's Clara initiatives, as well as retailers launching programs implementing the Sarine Profile™, the Sarine Diamond Journey™ provenance solution, and the AI-grading of the 4Cs, are also adding to the migration upwards to Advisor® 7.0, locking out potential use of DBC's and other infringing technologies.
- In the Indian judicial system, we are pursuing parallel lawsuits against Diyora & Bhanderi Corporation (“**DBC**”) for patent infringement and copyright (software) infringement. The patent infringement suit has moved to trial, where the parties are in the process of submitting evidence and conducting cross-examinations of witnesses, which is tentatively scheduled to conclude at the end of June 2019, after which the court will request that the parties submit their final arguments. As for the copyright infringement case, the third party expert analysis of the issue has been executed and its findings were inconclusive, due to the refusal of DBC to provide certain files, which the expert had requested. Further motions will be filed with the court addressing this blatant refusal by DBC, which counters previous court orders to fully comply with all the expert’s requests for data.
- U.S Enforcement – We continue to provide U.S. retailers with details of the alleged infringements, and actions implemented by leading retailers in response to our representations have notably increased pressure on the infringing parties in India.

h. Our Sarine Profile™ continues to draw additional customers from throughout the APAC region and additional geographies, primarily choosing it for our market-leading light performance grading and the enhanced consumer experience it provides. The addition of sales staff in China and the ASEAN markets has increased our leads in these markets.

i. Our Sarine Diamond Journey™ continue to generate keen interest and gain traction in both the APAC and U.S. markets. Polished diamond provenance, traceability, has become a key issue of concern not only for high-end retailers (e.g., Tiffany's announcement of January 9, 2019) and concerned consumers, but for other players, as well, including banks, insurance companies, etc. In a recent meeting in New York, the U.S. Department of State reiterated before leaders of the U.S diamond industry (wholesale and retail) the U.S. government's position, that the industry move forward to resolve the issue of documentation of a polished diamond's source, as under the current environment polished diamonds are utilised extensively in criminally derived money laundering and the funding of terrorist activities and insurgencies. They have stated that they deem the Kimberly Process insufficient and that they are no longer willing to accept the industry's continued procrastination on this issue and are actively considering new legislation. The following two links provides Rapaport's and JCK Online's reporting on this meeting quoting non-disclosed third parties who described the meeting as "confrontational" and "blunt", respectively: https://www.diamonds.net/news/NewsItem.aspx?tc_dailyemail=1&ArticleID=63603 and https://www.jckonline.com/editorial-article/state-department-warns-industry/. We believe that, properly integrated into the value chain, preferably along with our AI-based 4Cs grading, our solution is the most comprehensive, presents the most readily verifiable and tamper-proof information and has the least overhead associated with its adoption. We are thus actively promoting the Sarine Diamond Journey™ as the most readily available solution to this growingly important issue. In addition to the actual verification it provides of the polished diamond's sourcing, we also provide the retailer with an unmatched visual/video means, with which to promote those aspects of the diamond's story they find most suitable to their offered goods and most appealing to their target market. Including even an optional 3D-printed scaled model of the actual original rough diamond from which the polished gem was painstakingly derived. The actual rollout with retail customers, currently most focused on the story-telling aspects of the Journey™'s capabilities, is a somewhat protracted process, due to the need for having midstream suppliers ready with stones polished using its paradigm. We therefore continue to sign key midstream polishers onto the concept, and thus have them adopt the appropriate steps during polishing to make their stones Journey™-ready for interested retailers, a tangible benefit for them, as well as for us.

We continue to focus our initiatives on the following objectives:

- **Midstream manufacturing products**:
  - **Galaxy® Tension Mapping** – In order to bolster the added-value of our offerings to the key midstream market, and create an additional source of initial (hardware) and recurring (tension analyses) revenues, we will commercially launch our tension mapping capability for our Galaxy® family of systems late in the second or early in the third quarter of this year, having successfully integrated same into our Advisor® planning software (along with other advanced planning features in Advisor® 8.0 to be concurrently launched) and having tested it on over 15,000 stones and shown its actual tangible benefits to manufacturers.
  - **Axiom™** – Our third generation of standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions is showing excellent results in its beta testing cycle and is meeting our goal of automatically grading a standard ideal round Cut's symmetry. It has also proven capable of analysing the quality of the workmanship of fancy cut diamonds and non-standardly faceted modified round makes, both of which categories typically do not get a Cut grade from other gem labs. This will enable the Sarine Technology Lab to provide a unique service of documenting their workmanship. Commercial launch should be possible in Q3 of this year.

- **Downstream polished diamond services**:
  - We continue refining the Sarine Clarity™ and Sarine Color™ AI-based grading capabilities;
  - We continue developing our abilities to fine-sort a diamond by its Clarity, 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", "milky", etc.), as well as by its Color in accordance with tinting criteria (brownish, greenish, etc.).

- **Industry-wide propositions:**
  - We continue refining our provenance (Sarine Diamond Journey™) and related (e.g., fingerprinting) capabilities**.** We have verified our ability to trace a rough diamond from mining supplier to midstream polisher and subsequently through its polishing. We are currently perfecting a revolutionary low-cost system for fingerprinting and identifying a polished stone, loose or set in jewellery, in any environment, including in the retail outlet. Details to be announced at the upcoming JCK show in the U.S. with commercial launch scheduled for the second half of the year.

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.

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

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

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

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results of the Group for the period ended March 31, 2019, 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.

Daniel Glinert

Daniel Benjamin Glinert
Executive Chairman
12 May 2019