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,		
	2019	2018	Change %	2019	2018	Change %
Revenue	**14,165**	**11,702**	**21.0**	**36,684**	**46,322**	**(20.8)**
Cost of sales	5,736	4,174	37.4	15,599	15,244	2.3
Gross profit	**8,429**	**7,528**	**12.0**	**21,085**	**31,078**	**(32.2)**
Research and development expenses	2,077	2,194	(5.3)	6,261	7,316	(14.4)
Sales and marketing expenses	3,636	3,142	15.7	10,243	10,153	0.9
General and administrative expenses	1,692	1,432	18.2	5,274	4,611	14.4
Profit (loss) from operations	**1,024**	**760**	**34.7**	**(693)**	**8,998**	**NM**
Net finance income (expense)	(215)	24	NM	(510)	135	NM
Profit (loss) before income tax	**809**	**784**	**3.2**	**(1,203)**	**9,133**	**NM**
Income tax expense	575	515	11.7	1,379	1,624	(15.1)
Profit (loss) for the period	**234**	**269**	**(13.0)**	**(2,582)**	**7,509**	**NM**
Foreign currency translation differences from foreign operations	(276)	(525)	(47.4)	(136)	(1,190)	(88.6)
Total comprehensive income (loss) for the period	**(42)**	**(256)**	**(83.6)**	**(2,718)**	**6,319**	**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 September 30,			Group Nine months ended September 30,		
	2019	2018	Change %	2019	2018	Change %
Allowance for doubtful trade receivables	(17)	91	NM	(40)	100	NM
Depreciation and amortization	1,060	894	18.6	3,311	2,853	16.1
Interest (expense) income, net	(128)	71	NM	(140)	236	NM
Exchange rate differences	(87)	(47)	85.1	(370)	(101)	266.3
Warranty provision	17	1	1600.0	11	11	--

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, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Assets				
Property, plant and equipment	13,647	14,641	1,185	1,381
Right-of-use assets	6,492	--	5,625	--
Intangible assets	3,923	4,944	291	342
Investment in equity accounted investee and subsidiaries	--	--	40,800	44,437
Deferred tax assets	894	998	--	--
Total non-current assets	24,956	20,583	47,901	46,160
Inventories	5,636	7,032	3,463	5,297
Trade receivables	17,077	16,406	4,700	3,980
Other receivables	1,542	3,037	792	835
Short-term investments (bank deposits)	9,927	12,021	7,084	7,787
Cash and cash equivalents	16,637	16,832	6,095	7,271
Total current assets	50,819	55,328	22,134	25,170
Total assets	75,775	75,911	70,035	71,330
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,576)	(3,576)	(3,576)	(3,576)
Share premium, reserves and retained earnings	61,779	69,232	61,779	69,232
Total equity	58,203	65,656	58,203	65,656
Liabilities				
Long-term lease liabilities	6,013	--	5,436	--
Employee benefits	207	192	196	182
Total non-current liabilities	6,220	192	5,632	182
Trade payables	2,864	2,328	1,298	1,377
Current lease liabilities	1,268	--	921	--
Other payables	6,602	6,831	3,777	3,889
Current tax payable	292	589	--	--
Warranty provision	326	315	204	226
Total current liabilities	11,352	10,063	6,200	5,492
Total liabilities	17,572	10,255	11,832	5,674
Total equity and liabilities	75,775	75,911	70,035	71,330

* No par value

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

Zero borrowings from banks as at September 30, 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 September 30,		Group Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit (loss) for the period	234	269	(2,582)	7,509
Adjustments for:				
Share-based payment expenses	170	122	524	743
Income tax expense	575	515	1,379	1,624
Depreciation of property, plant and equipment	763	468	2,290	1,575
Amortisation of intangible assets	297	426	1,021	1,278
Net finance income	(55)	(24)	(157)	(135)
Revaluation of lease liabilities	154	--	487	--
Changes in working capital				
Inventories	1,101	(354)	1,396	173
Trade receivables	(2,018)	892	(671)	(2,001)
Other receivables	168	350	403	483
Trade payables	(727)	(982)	536	783
Other liabilities	(14)	(195)	29	229
Employee benefits	5	1	15	(10)
Income tax paid, net	277	(823)	(480)	(1,961)
Net cash from operating activities	930	665	4,190	10,290
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(117)	(297)	(483)	(1,479)
Proceeds from realization of property, plant and equipment	3	--	36	--
Short-term investments, net	(224)	3,503	2,094	1,094
Interest received	113	71	336	236
Net cash from (used in) investing activities	(225)	3,277	1,983	(149)
Cash flows used in financing activities				
Proceeds from exercise of share options	--	--	--	80
Purchase of Company's shares by the Company	--	(93)	--	(521)
Payment of lease liabilities	(286)	--	(930)	--
Dividend paid	(1,753)	(7,013)	(5,259)	(12,281)
Interest paid	(125)	--	(296)	--
Net cash used in financing activities	(2,164)	(7,106)	(6,485)	(12,722)
Net increase in cash and cash equivalents	(1,459)	(3,164)	(312)	(2,581)
Cash and cash equivalents at beginning of the period	18,029	17,265	16,832	16,736
Exchange rate differences	67	(47)	117	(101)
Cash and cash equivalents at end of the period	16,637	14,054	16,637	14,054

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 period ended September 30, 2018	--	--	--	7,509	--	7,509
Other comprehensive loss for the period ended September 30, 2018	--	--	(1,190)	--	--	(1,190)
Share-based payment expenses	--	743	--	--	--	743
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (746,400)	--	--	--	--	(521)	(521)
Dividend paid	--	--	--	(12,281)	--	(12,281)
Balance at September 30, 2018	--	32,058	(2,576)	39,152	(3,576)	65,058
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Profit for the period ended September 30, 2019	--	--	--	(2,582)	--	(2,582)
Other comprehensive loss for the period ended September 30, 2019	--	--	(136)	--	--	(136)
Share-based payment expenses	--	524	--	--	--	524
Dividend paid	--	--	--	(5,259)	--	(5,259)
Balance at September 30, 2019	--	32,723	(2,348)	31,404	(3,576)	58,203

* 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 period ended September 30, 2018	--	--	--	7,509	--	7,509
Other comprehensive loss for the period ended September 30, 2018	--	--	(1,190)	--	--	(1,190)
Share-based payment expenses	--	743	--	--	--	743
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (746,400)	--	--	--	--	(521)	(521)
Dividend paid	--	--	--	(12,281)	--	(12,281)
Balance at September 30, 2018	--	32,058	(2,576)	39,152	(3,576)	65,058
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Profit for the period ended September 30, 2019	--	--	--	(2,582)	--	(2,582)
Other comprehensive loss for the period ended September 30, 2019	--	--	(136)	--	--	(136)
Share-based payment expenses	--	524	--	--	--	524
Dividend paid	--	--	--	(5,259)	--	(5,259)
Balance at September 30, 2019	--	32,723	(2,348)	31,404	(3,576)	58,203

* 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, 2019	June 30, 2019	September 30, 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	3,076,400
Total number of issued shares (excluding dormant shares)	350,595,726	350,595,726	350,595,726

For the three and nine months ended September 30, 2019, no share options were exercised into ordinary shares. For the three and nine months ended September 30, 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 September 30, 2019, June 30, 2019 and September 30, 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	0.265	7,070,000
Cancelled	0.929	(3,760,502)
Exercised	--	--
At September 30, 2019	0.865	23,186,382

At September 30, 2019, the average exercise price in Singapore dollars per share was S$ 1.195, based on an exchange rate of US$ 1 = S$ 1.3813.

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, 2019, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2018- 350,595,726). As at September 30, 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 and nine months ended September 30, 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 September 30, 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 $7.3 million in the balance of lease liabilities, as at January 1, 2019. For the nine months ended September 30, 2019, the Group recorded deprecation of 0.9 million, interest expense of US$ 0.3 million and exchange rate differences related to the revaluation lease liabilities of US$ 0.5 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 September 30,		For the nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
US cents				
Basic earnings (loss) per share	0.07	0.08	(0.74)	2.14
Diluted earnings (loss) per share	0.07	0.08	(0.74)	2.14
Singapore cents*				
Basic earnings (loss) per share	0.10	0.11	(1.02)	2.96
Diluted earnings (loss) per share	0.10	0.11	(1.02)	2.96

Basic earnings per share for the three months ended September 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 350,651,927 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended September 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 350,651,927 ordinary shares and outstanding options during the preceding period.

Basic earnings (loss) per share for the nine months ended September 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 351,028,220 ordinary shares during the preceding period.

Diluted earnings (loss) per share for the nine months ended September 30, 2019 are calculated based on weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 351,031,536 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3813 at September 30, 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	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Net asset value (US$ thousands)	58,203	65,656	58,203	65,656
Net asset value per ordinary share (US cents)	16.60	18.73	16.60	18.73
Net asset value per ordinary share (Singapore cents*)	22.93	25.87	22.93	25.87

At September 30, 2019, net asset value per share is calculated based on the number of ordinary shares in issue at September 30, 2019 of 350,595,726 (not including 3,076,400 dormant ordinary shares at September 30, 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$ 1.3813 at September 30, 2019.

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 preliminary update of October 17, 2019, the Group returned to nominal profitability in Q3 2019, ongoing negative conditions in the midstream notwithstanding. The Group reported revenues of US$ 14.2 million, profit from operations of US$ 1.0 million, and a net profit of US$ 0.2 million in Q3 2019, as compared to revenues of US$ 11.7 million, profit from operations of US$ 0.8 million and net profit of US$ 0.3 million reported in Q3 2018, and as compared to revenues of US$ 11.6 million, loss from operations of US$ 0.9 million and net loss of US$ 1.4 million reported in Q2 2019.

During the third quarter, the ongoing trade disputes between the U.S. and China continued to impair demand in the Chinese mainland market, compounded by the civil unrest in Hong Kong, and the issue of Lab-Grown Diamonds continued to be a distraction. However, due to the significant drop (approximately 40% less y-o-y) in the quantities of rough stones entering the production pipeline in Q3 2019, as evidenced by the reported reductions in sales at DeBeers' sights and by other mining producers, the excess inventories in the midstream continued to ease and thus the issue of working capital has been somewhat alleviated, at least for the short term. The decline in polishing activity due to the reduced quantities of rough stones entering the pipeline resulted in a decrease in the Group's recurring revenue from Galaxy scanning activities by some 24% year-over-year and 18% sequentially.

The Group reported for the nine months ended September 30, 2019 revenues of US$ 36.7 million, a loss from operations of US$ 0.7 million, and a net loss of US$ 2.6 million, as compared to revenues of US$ 46.3 million, profit from operations of US$ 9.0 million and net profit of US$ 7.5 million reported in the comparable period of 2018.

Notwithstanding challenging conditions, the Group again delivered in Q3 2019 a record 39 Galaxy®-family inclusion mapping systems, bringing our installed base up to 516 systems as of September 30, 2019, and outpacing Q1's and Q2's record deliveries. The majority of these systems were of the Meteorite™ model (32), with the remaining being of the Meteor™ model (7). A significant portion of the systems were sold under the one-off paradigm with no follow-on per-use revenues.

Overall recurring revenues for the nine months ended September 30, 2019 (including Galaxy®-related scanning, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, etc.) were over 50% of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still only from the Sarine Profile™ and its various components (mostly currently Sarine Light™, Sarine Loupe™, Sarine Connect™ and Sarine Diamond Journey™) were just under 3% of our overall revenue for the nine months ended September 30, 2019.

Balance Sheet and Cash Flow Highlights

As at September 30, 2019, cash, cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") decreased to US$ 26.6 million as compared to US$ 28.9 million as of December 31, 2018. The decrease in Cash Balances was primarily due to the payment of US$ 5.3 million in dividends in 2019 (a US$ 3.5 million final dividend for 2018 paid in Q2 2019 and the US$ 1.8 million interim 2019 dividend paid in August 2019) and increased trade receivables, offset mainly by non-cash expenses, as detailed below, lower other receivables and inventories.

The results for the three and nine months ended September 30, 2019, of net profit of US$ 0.2 million and net loss of US$ 2.6 million, respectively, included approximately US$ 0.9 million and US$ 2.9 million, respectively, in non-cash depreciation, amortisation and share based options compensation. See also Section 4 and 5 in reference to the implementation of IFRS 16, Leases.

Revenues

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

Q3 2019 versus Q3 2018				
Region	**Q3 2019**	**Q3 2018**	**$ change**	**% change**
India	10,415	7,387	3,028	41.0
Africa	837	1,256	(419)	(33.4)
Europe	231	626	(395)	(63.1)
North America	792	328	464	141.5
Israel	587	664	(77)	(11.6)
Other*	1,303	1,441	(138)	(9.6)
Total	14,165	11,702	2,463	21.0

1-9.2019 versus 1-9.2018				
Region	**1-9.2019**	**1-9.2018**	**$ change**	**% change**
India	25,592	32,970	(7,378)	(22.4)
Africa	3,146	4,723	(1,577)	(33.4)
Europe	915	1,628	(713)	(43.8)
North America	1,368	821	547	66.6
Israel	2,093	2,613	(520)	(19.9)
Other*	3,570	3,567	3	0.1
Total	36,684	46,322	(9,638)	(20.8)

Q3 2019 versus Q2 2019				
Region	**Q3 2019**	**Q2 2019**	**$ change**	**% change**
India	10,415	8,158	2,257	27.7
Africa	837	964	(127)	(13.2)
Europe	231	361	(130)	(36.0)
North America	792	263	529	201.1
Israel	587	900	(313)	(34.8)
Other*	1,303	951	352	37.0
Total	14,165	11,597	2,568	22.1

* Primarily Asia, excluding India

Revenues for Q3 2019 increased to US$ 14.2 million as compared to revenues of US$ 11.7 million in Q3 2018, and US$ 11.6 million in Q2 2019. The increase in Q3 2019 revenues on a year-over-year basis and on a sequential basis, mainly in India and North America, resulted from significantly higher capital equipment sales, including Galaxy®-family inclusion mapping systems, a significant portion of which were sold under the one-off paradigm, offset by reduced recurring revenues from inclusion mapping activities due to a significant decline in the quantities of rough diamonds entering the pipeline, all as discussed above.

Revenues for the nine months ended September 30, 2019 decreased to US$ 36.7 million as compared to US$ 46.3 million for the comparable period in 2018. The decrease in revenues on a year-over-year basis, across most geographies, resulted from significantly lower capital equipment sales due to the negative sentiment in the midstream and reduced recurring revenues from inclusion mapping activities, due to a decline in the number of rough diamonds entering the pipeline, as aforementioned.

Cost of sales and gross profit

Cost of sales in Q3 2019 increased to US$ 5.7 million, as compared to US$ 4.2 million in Q3 2018, with a gross profit margin of 60% in Q3 2019 versus 64% in Q3 2018, and as compared to US$ 5.1 million with a gross profit margin of 56% in Q2 2019. The increase in quarterly cost of sales on both year-over-year and sequential bases was primarily due to increased sales volumes in Q3 2019 versus the comparable periods. The year-over-year decline in the Q3 2019 gross profit margin was primarily due to product mix (lower recurring revenues from inclusion scanning compared to Q3 2018 and significantly higher percentage of Meteor™/Meteorite™ models in the mix). The sequential improvement in gross profit margins was mainly due to higher revenues and product mix.

Cost of sales for the nine months ended September 30, 2019 increased to US$ 15.6 million versus US$ 15.2 million for the comparable period in 2018, with gross profit margins of 57% and 67%, respectively. The increase in cost of sales for the nine months ended September 30, 2019 was mainly due to product mix, which along with significantly reduced sales also impacted the gross profit margins (lower recurring revenues from inclusion scanning compared to 2018 and a significantly higher percentage of Meteor™/Meteorite™ models in the sales mix).

Research and development expenses

Research and development (R&D) costs for Q3 2019 of US$ 2.1 million decreased as compared to US$ 2.2 million in Q3 2018 and was virtually flat with Q2 2019. Research and development expenses for the nine months ended September 30, 2019 decreased to US$ 6.3 million as compared to US$ 7.3 million for the comparable period in 2018. The year-over-year decrease in research and development costs, primarily due to lower employee compensation expenses.

Sales and marketing expenses

Sales and marketing expenses for Q3 2019 increased to US$ 3.6 million as compared to US$ 3.1 million in Q3 2018, and as compared to US$ 3.4 million in Q2 2019. The overall increase in sales and marketing expenses was mainly due to higher personnel compensation expenses in the Asia Pacific (APAC) region, from the bolstering of our sales teams in these markets, in line with the Group's focus on gaining traction in its retail-related services business in this market and from increased social and digital marketing activities. Sales and marketing expenses for the nine months ended September 30, 2019 remained flat at US$ 10.2 million as compared to the comparable period in 2018.

General and administrative expenses

General and administrative expenses for Q3 2019 increased to US$ 1.7 million as compared to US$ 1.4 million in Q3 2018, and decreased as compared to US$ 1.9 million in Q2 2019. General and administrative expenses for the nine months ended September 30, 2019 increased to US$ 5.3 million as compared to US$ 4.6 million for the comparable period in 2018. The year-over-year increase in general and administrative expenses was primarily due to higher third-party professional fees associated with IP protection and litigation. The sequential quarterly decrease in general and administrative expenses was mainly due to having concluded the current trial phase of our patent litigation in India during Q2 2019.

Profit (loss) from operations

The Group reported profit from operations of US$ 1.0 million for Q3 2019, as compared to US$ 0.8 million in Q3 2018, and a loss from operations of US$ 0.9 million in Q2 2019. The quarterly year-over-year increase in profitability was primarily due to higher revenues and gross profit, offset somewhat by increased operating expenses (higher sales & marketing and general & administrative expenses offset by lower research and development expenses, as detailed above). The quarterly sequential increase in profit from operations and return to profitability was primarily due to higher revenues and gross profit. The Group reported a loss from operations of US$ 0.7 million for the nine months ended September 30, 2019, as compared to profit from operations of US$ 9.0 million in the comparable period in 2018. The year-over-year loss of profitability was primarily due to lower revenues and gross profitability, as detailed above.

Net finance income (expense)

Net finance expense for Q3 2019 was US$ 215,000, as compared to net finance income of US$ 24,000 in Q3 2018. Net finance expense the nine months ended September 30, 2019 was US$ 510,000 as compared to net finance income of US$ 135,000 for the comparable period in 2018. The increase in net finance expense was primarily due to the recording of interest expenses and exchange rate differences associated with the new application of IFRS 16 on our leases (see Section 4 and Section 5).

Income tax expense

The Group recorded an income tax expense of US$ 0.6 million for Q3 2019 as compared to an expense of US$ 0.5 million for Q3 2018, and as compared to US$ 0.4 million in Q2 2019. The Group recorded an income tax expense of US$ 1.4 million for the nine months ended September 30, 2019 versus US$ 1.6 million for the comparable period in 2018. Income tax expenses in 2019, despite our year-to-date operational losses, were due to income tax expenses associated with subsidiaries profitability during the applicable periods.

Profit (loss) for the period

The Group reported a net profit US$ 0.2 million for Q3 2019, as compared to US$ 0.3 million in Q3 2018, and a net loss of US$ 1.4 million in Q2 2019. The quarterly year-over-year nominal decrease in profitability was primarily due to higher revenues and gross profit, offset by increased operating expenses (higher sales & marketing and general & administrative expenses offset by lower research and development expenses, as detailed above) and increased finance expenses associated with IFRS 16, as detailed above. The quarterly sequential increase in and return to profitability was primarily due to higher revenues and gross profit. The Group reported a net loss of US$ 2.6 million for the nine months ended September 30, 2019, as compared to net profit of US$ 7.5 million in the comparable period in 2018. The year-over-year loss of 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 disputes between the U.S and China continue to affect the latter's economy. This continues to have a negative impact on Chinese consumer sentiment. Major diamond / jewellery retailers in China reported same store sales down year over year by high single digit percentages with gem set jewellery (including diamond jewellery) flattish. The civil unrest in Hong Kong continues to severely impair retail sales volumes in that important trade hub, with jewellery sales there down between 35-45%. For now the U.S. economy remains strong with record low unemployment, average wage increases and overall generally positive economic news. A U.S. tariff of 10% has been levied on Chinese jewellery, which may affect U.S. consumer demand for Chinese-manufactured jewellery.

b. Banks in India continue to implement their restrictive credit policies. However, as polished diamond inventories have eased due to the significant ongoing reductions in the quantities of rough diamonds entering the midstream pipeline (see section [d] below), the impact on manufacturers' working capital has eased somewhat for now.

c. Lab-grown diamonds (LGD) continue to distract more than disrupt the diamond industry. A flurry of articles and posts on blogs continue to present the claims and counterclaims as pertaining to the sustainability and eco-friendliness of LGD, their long-term intrinsic value or lack thereof, their price ratio vs. naturals, etc. Increasing numbers of jewellers, mostly in the U.S., are offering LGD lines in parallel to natural diamond jewellery, at differentiated price points, though most industry players (e.g., 80% of RapNet members by poll) view LGD as little more than fashion jewellery with no intrinsic value, no inherent sustainability edge (due to consumption of electric power mostly generated by fossil fuels; there are LGD manufacturers claiming to use primarily renewable energy sources) and no factor of uniqueness.

d. The aggregate dollar-value of DeBeers' eight 2019 sights through September is down 27% y-o-y. Tellingly, the quantities sold at the sights in the second half of the year (sights 5 through 8) have been down, on average, over 40%, compared to the corresponding sights of 2018. Initial informal inputs indicate the latest ninth sight, closed last week, realised sales of slightly over US$ 400 million, down only some 5% y-o-y. The average price per carat of rough stones sold by DeBeers' during 2019 has decreased by 7%. At the ninth sight completed last week, DeBeers, actively reduced prices of their rough stones by 6-7%, with anecdotal information indicating significantly deeper cuts in certain categories of weak-selling stones. This reduction in prices may have helped support the higher sight value, as compared to previous months' sights, as it enticed buyers back into the market, Alrosa's sales during 2019 have decreased even more – in excess of 30% y-o-y. These reductions, resultant of the midstream's liquidity and inventory oversupply issues, have actually eased the latter, thus also easing some of the industry's liquidity issues as well, as noted above. The higher ninth sight, if initial reports are, in fact, correct, may indicate a return to more normal polishing activity.

e. Our expenses continue to be managed, with sequential slight reductions in research and development and general and administrative expenses, the latter due to our having concluded the trial phase of the patent lawsuit in India, offset by a slight increase in sales and marketing, as we continue to leverage the increased interest in our various offerings for polished diamond retail sales, primarily the Sarine Light™ and Sarine Diamond Journey™ (see [i] below).

f. We delivered yet another record 39 inclusion mapping systems in Q3 2019, 32 of the Meteorite™ model and 7 of the Meteor™ model, besting our Q2 record by five systems. This continues to indicate our ongoing success at negating the effects of the illicit competition, especially in the small stone segments. These deliveries bring our installed base to 516 as of September 30, 2019, having now surpassed the goal of reaching an installed base of 500 by year's end. We continue to see scanning activities at record levels including days with the number of scans exceeding 65,000. In the first nine months of 2019 we scanned over 13 million stones, as compared to 12 million stones scanned in the whole of 2018, on track to realise a 33% increase in the number of stones scanned for the year, mainly due to the accelerated adoption of our Meteor™ and Meteorite™ systems for small and very small stones. It should be noted that as the increase in stones being scanned is mostly due to the rollout of these models for small and very small stones, for which we collect not a pay per scan but a flat fee per machine per month, which also reflects the exponentially lower value of these stones as compared to those scanned by our Galaxy® models, the revenues collected do not increase proportionately. In this quarter, the revenues realised from scanning actually decreased due to the mix of sizes of stones scanned and the absolute reduction in the number of larger stones entering the pipeline.

g. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems and the record quarterly sales of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition mostly to stones in the Solaris™ segment of rough stones. We continue to counter all illicit competition with legal, technological and commercial means. For example, we note that following our end-of-life campaign for older offline versions of the Advisor® planning package, also employed by users of the illicit IP solutions, and having been successful in encouraging a broad migration to the online 6.x and 7.x versions, we now see over 5.5 million *unique* stones being planned monthly by our loyal online customers, again an increase of 30% from 2018. This equates to over 60 million stones annually (accounting for holidays, etc.), a solid basis for our provenance solutions. Tens of millions of stones are also still processed by legitimate users of our older offline systems.

h. Our Sarine Profile™, our umbrella term for our digital paradigm providing "profiling" data pertaining to a polished diamond to a consumer, comprising the Sarine Light™, Sarine Loupe™, Sarine Diamond Journey™, AI-derived 4Cs and other representations such as Hearts and Arrows, a third party diamond report, retailer promotional material, etc., all as opted for by the retailer, continues to gain traction in the APAC market:

- In China, as announced, we have signed a strategic cooperation agreement with NGTC, by far China's largest gemmological laboratory, regarding our advanced digital solutions, including the Sarine Light™, Sarine Diamond Journey™ and our AI-derived 4Cs to the local market and on additional ways to jointly bring additional value to the Chinese retail market. We are now starting to provide our Journey reports to retailers in China, having completed the first phase of necessary adaptations to the local Internet infrastructure of our interactive file formats and successfully completed pilot tests.
- In Japan, our Journey solution is generating a lot of buzz following the extremely successful introduction by New Art as exemplified by the following link, albeit in Japanese (https://www.exelco.com/lp/LP/all/e_p2.php?waad=YXzNcAAT). New Art have extended their adoption of the Journey, as consumers fancy the concept and identify well with the presentation of the diamond transformation from its rough origin to polished form, including our 3D-printed replica of the rough source from which their specific diamond was polished. Retailers have reported successfully leveraging these to emphasise differentiation and compete on value with residual increased sales. We have implemented Journey programs with additional retailers in Japan, and several are more in the process of implementation.
- With the addition of a dedicated sales person (see [i] below on our sales team expansion) specifically for the South East Asia and Taiwan regions, and targeted marketing and sales efforts on the ground, we have expanded our customer base across these geographies. We have added three additional customers in Taiwan and have finalised a strategic association with one of the largest jewellery

retailers in Indonesia with multiple brands, with whom programs are slated to start in December on their two signature brands.

- We have expanded into South India and have launched a program with a leading retail chain from Bangalore that comprises all our offerings, including the Sarine Light™, Sarine Diamond Journey™ and our AI-derived 4Cs. In parallel, we are also expanding our presence in North India, where we already have eight active retail customers, whom we are supporting with marketing efforts and market education.
- As the midstream manufacturers participating in our Journey Official Partners Program have mostly completed their setup, training and trial runs, we are now seeing steady growth in the number of Journey-ready stones that are being polished according to our defined standards. We have surpassed a 30,000 stone inventory, and this is now expected to accelerate more rapidly as the Journey-associated processes become an integral part of operations for most of our official partners' manufacturing. As the number of partners in the program grows, and as their inventory of Journey-ready stones grows, it is easier for retailers to adopt the Journey without a long lead curve finding relevant suppliers and waiting for their new stones to be manufactured with the applicable Journey data (we are remunerated when retailers buy the Journey-ready stones from our Journey partners and opt for the available Sarine Diamond Journey™ Report).
- We have bolstered our sales teams with the addition of dedicated sales staff in selected territories. We have appointed new sales personnel in Japan, Australia and Singapore, serving as our regional sales lead for South East Asia and Taiwan. We are also in the process of expanding our sales team in China, beyond our Guangdong and Hong Kong presences, with the addition of a sales person based in Shanghai, to focus on the strategic eastern part of China. A full-time person is now responsible for our online presence in China, along with our headquarters-led efforts on our website and other social media channels. Finally, we have hired a retail diamond industry veteran in the U.S. to lead our American sales efforts

i. From the launch at the JCK Show in Las Vegas in June and following the Hong Kong Gem and Jewellery show in September, we are definitely seeing very strong interest in our Sarine Diamond Journey™ traceability solution from several leading global brands and from key U.S. retailers, as well. In addition, our TruMatch™ fingerprinting technology is also generating interest both as part of a total traceability solution, as well as for other unique applications, as noted in last quarter's announcement:
    - E-Commerce – A consumer can readily verify that the item purchased online and that delivered are indeed one and the same merchandise, and e-tailers can instantly verify that the merchandise returned was not tampered with.
    - Buybacks and upgrades – retailers can immediately verify that they are buying back / upgrading the actual diamonds previously sold by them.
    - Jewellery cleaning and repair – A consumer will no longer have to be concerned with the "post-traumatic switch syndrome", which we are all cautioned about by our seniors, as the service provider will instil confidence by confirming for his customer that the same diamond submitted for servicing was, in fact, returned.
    - Insurance – unequivocal identification of insured gems.
    - Banking – straightforward identification of collateral against which credit is issued.

We continue to focus our initiatives on the following objectives:

- **Industry-wide propositions:**
    - We continue refining our provenance (Sarine Diamond Journey™) and related (e.g., fingerprinting) capabilities**.** We have implemented an end-to-end ability to trace a rough diamond from mining supplier to midstream polisher and subsequently through its polishing. We are now working with a number of producers on integrating the Journey paradigm with their operations to allow their submitting of specific categories of their stones into our rough source origin databases.
    - Based on retail customer feedback, we are enhancing our Sarine Diamond Journey™ to support the joint provenance of "sibling" stones – pairs of diamonds polished from the same rough source, as this can be marketed at a premium in certain markets. This feature should be launched in Q4 of this year.
    - TruMatch™ - at the HK show in September we demonstrated a working model of the system, the last link of our provenance solution for use in the retail environment on both loose and set stones. TruMatch™ is a low-cost device that enables the retailer to validate to the consumer, on the sales floor, the identity of the polished diamond. Based on the feedback from the show we are improving

the handing of the system and creating an automatic process, which will enable anyone to run the validation process with almost no training.

- **Midstream manufacturing products**:
  - **Advisor® 8.0 –** We continue to develop our next generation Advisor® 8.0 software package slated for launch mid-2020, as we continue to enhance it with functionality relating to our new tension analysis feature and comprehensive provenance (traceability) solution.
  - **Galaxy® Tension Mapping** – We have launched our tension mapping capability for our Galaxy® family of systems as a hardware add-on integrated with the existing Advisor® 7.0 software and have initiated sales of this capability to select midstream customers, while concurrently collating additional data establishing its added value. We expect penetration to accelerate next year, as industry conditions hopefully improve.
  - **Axiom™** – Our third generation of the standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions will launch in Q4 of this year, immediately following the Diwali holiday in India. It has been proven capable of automated symmetry grading of round Ideal Cut diamonds and 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 existing gem labs utilising less sophisticated equipment.

- **Downstream polished diamond services**:
  - Following demonstrations at the HK show in September, we are now releasing our new interface for our Sarine Profile™ digital solution. It is characterised by better performance (loading time and features available worldwide including in China), nuanced versions for various stages of the sale process – initial in-store or online search, intermediate follow-up to continue customer engagement and interaction and final conclusion, providing actual stone documentation for posterity. All these variations also provide a broader wealth of educational information, including simulations of various Clarity, Color and Cut grades of diamonds, for comparative purposes whether by the potential customer online or the salesperson in-store.
  - 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.).

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, 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.

On behalf of the Directors

Daniel Glinert

Daniel Benjamin Glinert
Executive Chairman of the Board
November 10, 2019