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,		
	2018	2017	Change %	2018	2017	Change %
Revenue	**11,702**	**11,285**	**3.7**	**46,322**	**45,707**	**1.3**
Cost of sales	4,174	3,870	7.9	15,244	14,819	2.9
Gross profit	**7,528**	**7,415**	**1.5**	**31,078**	**30,888**	**0.6**
Research and development expenses	2,194	2,430	(9.7)	7,316	8,505	(14.0)
Sales and marketing expenses	3,142	3,393	(7.4)	10,153	10,626	(4.5)
General and administrative expenses	1,432	1,603	(10.7)	4,611	4,443	3.8
Profit (loss) from operations	**760**	**(11)**	**NM**	**8,998**	**7,314**	**23.0**
Net finance income	24	53	(54.7)	135	106	27.4
Profit before income tax	**784**	**42**	**1,766.7**	**9,133**	**7,420**	**23.1**
Income tax expense	515	572	(10.0)	1,624	2,269	(28.4)
Profit (loss) for the period	**269**	**(530)**	**NM**	**7,509**	**5,151**	**45.8**
Foreign currency translation differences from foreign operations	(525)	(85)	517.6	(1,190)	326	NM
Total comprehensive income (loss) for the period	**(256)**	**(615)**	**(58.4)**	**6,319**	**5,477**	**15.4**

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,		
	2018	2017	Change %	2018	2017	Change %
Allowance for doubtful trade receivables	91	57	59.6	100	77	29.9
Depreciation and amortization	894	986	(9.3)	2,853	2,902	(1.7)
Interest income, net	71	61	16.4	236	189	24.9
Exchange rate differences	(47)	(8)	487.5	(101)	(83)	21.7
Warranty provision	1	(15)	NM	11	(38)	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, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Assets				
Property, plant and equipment	14,414	15,646	1,469	1,961
Intangible assets	5,370	6,648	360	411
Investment in equity accounted investee and subsidiaries	--	--	44,207	47,200
Deferred tax assets	1,459	1,595	400	400
Total non-current assets	21,243	23,889	46,436	49,972
Inventories	7,274	7,200	5,247	4,285
Trade receivables	19,270	17,269	4,240	2,566
Other receivables	2,552	2,888	1,264	1,507
Short-term investments (bank deposits)	11,287	12,381	8,263	9,165
Cash and cash equivalents	14,054	16,736	6,035	8,792
Total current assets	54,437	56,474	25,049	26,315
Total assets	75,680	80,363	71,485	76,287
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,576)	(3,055)	(3,576)	(3,055)
Share premium, reserves and retained earnings	68,634	73,773	68,634	73,773
Total equity	65,058	70,718	65,058	70,718
Liabilities				
Employee benefits	198	208	188	197
Total non-current liabilities	198	208	188	197
Trade payables	2,533	1,750	2,183	1,167
Other payables	7,192	6,673	3,835	3,987
Current tax payable	394	720	--	--
Warranty provision	305	294	221	218
Total current liabilities	10,424	9,437	6,239	5,372
Total liabilities	10,622	9,645	6,427	5,569
Total equity and liabilities	75,680	80,363	71,485	76,287

* No par value

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

Zero borrowings from banks as at September 30, 2018 and December 31, 2017.

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, 2018	Group Quarter ended September 30, 2017	Group Nine months ended September 30, 2018	Group Nine months ended September 30, 2017
Cash flows from operating activities				
Profit (loss) for the period	269	(530)	7,509	5,151
Adjustments for:				
Share-based payment expenses	122	215	743	802
Income tax expense	515	572	1,624	2,269
Depreciation of property, plant and equipment	468	592	1,575	1,719
Amortisation of intangible assets	426	394	1,278	1,183
Net finance income	(24)	(53)	(135)	(106)
Changes in working capital				
Inventories	(354)	(119)	173	738
Trade receivables	892	1,283	(2,001)	643
Other receivables	350	(359)	483	600
Trade payables	(982)	(112)	783	(1,360)
Other liabilities	(195)	(1,424)	229	(501)
Employee benefits	1	(1)	(10)	13
Income tax paid, net	(823)	(1,584)	(1,961)	(2,191)
Net cash from (used in) operating activities	665	(1,126)	10,290	8,960
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(297)	(382)	(1,479)	(3,150)
Short-term investments, net	3,503	916	1,094	4,062
Capitalisation of development expenses	--	(403)	--	(403)
Interest received	71	61	236	189
Net cash from (used in) investing activities	3,277	192	(149)	698
Cash flows used in financing activities				
Proceeds from exercise of share options	--	--	80	567
Purchase of Company's shares by the Company	(93)	(455)	(521)	(455)
Dividend paid	(7,013)	(7,019)	(12,281)	(15,797)
Net cash used in financing activities	(7,106)	(7,474)	(12,722)	(15,685)
Net decrease in cash and cash equivalents	(3,164)	(8,408)	(2,581)	(6,027)
Cash and cash equivalents at beginning of the period	17,265	21,773	16,736	19,467
Exchange rate differences	(47)	(8)	(101)	(83)
Cash and cash equivalents at end of the period	14,054	13,357	14,054	13,357

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, 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
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

* 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, 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
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

* 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, 2018	June 30, 2018	September 30, 2017
	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	352,855,376
Dormant shares (out of the issued and fully paid share capital)**:**			
Ordinary shares of no par value	3,076,400	2,923,500	2,060,800
Total number of issued shares (excluding dormant shares)	350,595,726	350,748,626	350,794,576

For the three months ended September 30, 2018, no share options were exercised into ordinary shares. For the three months ended September 30, 2018, the Company purchased 152,900 of its ordinary shares at an aggregate cost of US$ 0.1 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, 2018, June 30, 2018 and September 30, 2017 included 3,076,400, 2,923,500 and 2,060,800 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US$ per share	Options
At January 1, 2018	1.248	19,833,650
Granted	0.872	7,970,000
Cancelled	1.330	(1,875,499)
Exercised	0.396	(201,500)
At September 30, 2018	1.104	25,726,651

At September 30, 2018, the average exercise price in Singapore dollars per share was S$ 1.509, based on an exchange rate of US$ 1 = S$ 1.3671.

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, 2018, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2017- 351,140,626). As at September 30, 2018, the total number of dormant shares was 3,076,400 (as at December 31, 2017- 2,330,000).

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 at September 30, 2018, the Company purchased 152,900 and 746,400, respectively, 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, 2017 have been applied in the preparation for the financial statements for period ended at September 30, 2018, except for the adoption of IFRS 15, Revenues from Contracts with Customers and IFRS 9 (2014), Financial Instruments.

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 15 and IFRS 9 (2014) has had an immaterial effect on the Group's consolidated financial statements from January 1, 2018, and has had no impact on the presented comparable periods.

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,	
	2018	2017	2018	2017
US cents				
Basic earnings (loss) per share	0.08	(0.15)	2.14	1.47
Diluted earnings (loss) per share	0.08	(0.15)	2.14	1.47
Singapore cents*				
Basic earnings (loss) per share	0.11	(0.21)	2.93	2.01
Diluted earnings (loss) per share	0.11	(0.21)	2.93	2.01

Basic earnings per share for the three months ended September 30, 2018 are calculated based on the weighted average number of 350,651,927 ordinary shares issued during the current period and the equivalent of 350,938,797 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended September 30, 2018 are calculated based on the weighted average number of 350,651,927 ordinary shares and outstanding options and the equivalent of 350,938,797 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the nine months ended September 30, 2018 are calculated based on the weighted average number of 351,028,220 ordinary shares issued during the current period and the equivalent of 350,865,185 ordinary shares during the preceding period.

Diluted earnings per share for the nine months ended September 30, 2018 are calculated based on weighted average number of 351,031,536 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$ 1.3671 at September 30, 2018.

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, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Net asset value (US$ thousands)	65,058	70,718	65,058	70,718
Net asset value per ordinary share (US cents)	18.56	20.14	18.56	20.14
Net asset value per ordinary share (Singapore cents*)	25.37	27.53	25.37	27.53

At September 30, 2018, net asset value per share is calculated based on the number of ordinary shares in issue at September 30, 2018 of 350,595,726 (not including 3,076,400 dormant ordinary shares at September 30, 2018). At December 31, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2017 of 351,140,626 (not including 2,330,000 dormant ordinary shares at December 31, 2017).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3671 at September 30, 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 has become evident through the years, and due to the industry cycles, as explained in detail in our Q3 2017 announcement of 11 October 2017 relating to this issue at length (http://sarine.listedcompany.com/newsroom/20171011_191233_U77_V9C2MPMWP8SNP7PY.1.pdf), the third quarter is generally a weaker quarter. Notwithstanding its overall weakness, on a year over year basis the Group's profitability in Q3 continued to improve on marginally increased revenues, with higher operating net profits, primarily due to lower operational expenses and normalised tax expenses. It is notable that the Group realised (+6%) higher Galaxy® recurring revenues, as compared to the comparable period of 2017, despite lower aggregate volumes of rough stones entering the pipeline in 2018 (see section 10).

The Group reported Q3 2018 revenues of US$ 11.7 million, profit from operations of US$ 0.8 million, and net profit of US$ 0.3 million, as compared to revenues of US$ 11.3 million, a loss from operations of US$ 11,000, and a net loss of US$ 0.5 million in Q3 2017. For the nine months ended September 30, 2018, the Group realised revenues of US$ 46.3 million, profit from operations of US$ 9.0 million and net profit of US$ 7.5 million, as compared to revenues of US$ 45.7 million, profit from operations of US$ 7.3 million and net profit of US$ 5.2 million reported for the comparable period in 2017. On a sequential basis, the Group reported Q3 2018 revenues of US$ 11.7 million, profit from operations of US$ 0.8 million, and net profit of US$ 0.3 million, as compared to revenues of US$ 18.0 million, profit from operations of US$ 4.7 million, and net profit of US$ 4.1 million in Q2 2018. Weakness in the third quarter was primarily in capital equipment sales. Recurring Galaxy® revenues increased sequentially (+5%).

In addition to the usual cyclicality affecting Q3 revenues, additional negative developments specific to 2018 contributed to create a negative sentiment in the midstream of the diamond industry:

- uncertainty surrounding trade tariffs' impacts on China – as manifested by a 30% drop in equity markets and a 20 - 25% reduction in luxury consumption;
- an ongoing tightening of credit by Indian banks, as a result of a major fraud and transparency issues, resulting in cash flow problems for some of the industry players;

- the cumulative 15% devaluation of the Indian Rupee (INR) in U.S. dollar terms (over half of which in Q3), impacting the profitability of Indian manufacturers selling goods in their domestic market and also resulting in our equipment being more expensive as compared to domestic Indian competitors, who price their products in INR; and

- uncertainties regarding the long-term effects of the advent of lab-grown (LGD = "synthetic") diamonds into the market, as DeBeers launched its Lightbox line of jewellery and the U.S. Federal Trade Commission updated its definition of a diamond to include LGD;

all as further elaborated upon in section 10.

With deliveries in Q3 2018 of 13 Galaxy® family systems to customers, comprising 11 Meteorite™ models, a Meteor™ model and a Galaxy® system, our installed base grew to 390 systems as of September 30, 2018. Notably, all the systems for smaller stones were delivered in India. Overall recurring revenues for the nine months ended September 30, 2018 (including Galaxy®-related, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, spare parts, etc.) represented just under half 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 over 2% of our overall revenue for the nine months ended September 30, 2018, just under a 20% overall improvement year-over-year.

Balance Sheet and Cash Flow Highlights

As at September 30, 2018, cash and cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") decreased to US$ 25.3 million as compared to US$ 29.1 million as of December 31, 2017. The decrease in Cash Balances was primarily due to the payment of US$ 12.3 million in dividends in 2018 (a US$ 5.3 million final dividend for 2017 paid in Q2 2018 and the US$ 7.0 million interim 2018 dividend paid in August 2018), the repurchase of US$ 0.5 million of Sarine shares in the open market, higher trade receivables (on credit to certain customers and higher recurring revenues), and due to capital expenditures associated with the opening of the Sarine Technology Labs in Ramat Gan and Mumbai, offset by the Group's improved operating results.

Revenues

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

Q3 2018 versus Q3 2017				
Region	**Q3 2018**	**Q3 2017**	**$ change**	**% change**
India	7,387	7,272	115	1.6
Africa	1,256	1,412	(156)	(11.0)
Europe	626	417	209	50.1
North America	328	274	54	19.7
Israel	664	862	(198)	(23.0)
Other*	1,441	1,048	393	37.5
Total	11,702	11,285	417	3.7

1-9.2018 versus 1-9.2017				
Region	**1-9.2018**	**1-9.2017**	**$ change**	**% change**
India	32,970	33,035	(65)	(0.2)
Africa	4,723	3,194	1,529	47.9
Europe	1,628	1,915	(287)	(15.0)
North America	821	847	(26)	(3.1)
Israel	2,613	2,705	(92)	(3.4)
Other*	3,567	4,011	(444)	(11.1)
Total	46,322	45,707	615	1.3

Q3 2018 versus Q2 2018				
Region	**Q3 2018**	**Q2 2018**	**$ change**	**% change**
India	7,387	12,060	(4,673)	(38.7)
Africa	1,256	2,613	(1,357)	(51.9)
Europe	626	658	(32)	(4.9)
North America	328	213	115	54.0
Israel	664	896	(232)	(25.9)
Other*	1,441	1,519	(78)	(5.1)
Total	11,702	17,959	(6,257)	(34.8)

*primarily Asia, excluding India

Revenues in Q3 2018 were US$ 11.7 million, as compared to US$ 11.3 million in Q3 2017 and as compared to US$ 18.0 million in Q2 2018. Revenues for the nine months ended September 30, 2018 were US$ 46.3 million as compared to US$ 45.7 million for the comparable period in 2017. The increase in revenues on a year-over-year basis was primarily due to increased recurring revenues, mainly from Galaxy®-family inclusion mapping operations, as noted above, on flat capital equipment sales. On a sequential basis the decrease in revenue in Q3 2018 as compared to Q2 2018 was mainly due to lower capital equipment sales, offset somewhat by increased recurring revenues.

Cost of sales and gross profit

Cost of sales in Q3 2018 increased to US$ 4.2 million, as compared to US$ 3.9 million in Q3 2017, with a gross profit margin of 64% in Q3 2018 versus 66% in Q3 2017, and as compared to US$ 5.8 million with a gross profit margin of 68% in Q2 2018. Cost of sales for the nine months ended September 30, 2018 increased to US$ 15.2 million versus US$ 14.8 million for the comparable period in 2017, with gross profit margins of 67% and 68%, respectively. The increase in cost of sales on a year-over-year basis was primarily due to marginally higher sales volumes and product mix as compared to the comparable periods, and included expenses associated with the newly opened Sarine Technology Laboratories. The sequential decline in gross profits margin was primarily due to lower sales volumes in Q3 2018 as compared to the preceding period.

Research and development expenses

Research and development expenses for Q3 2018, for the nine months ended September 30, 2018 and the comparable periods, are presented in the table below. The Group capitalised in Q3 2017 (in compliance with IFRS) costs associated with the development of the Sarine Clarity™ and Sarine Color™ systems, resulting in lower reported expenses.

US$ (thousands)	**Q3 2018**	**Q3 2017**	**Q2 2018**	**1-9.2018**	**1-9.2017**
R&D expenses as reported	2,194	2,430	2,454	7,316	8,505
Capitalised development	--	403	--	--	403
Total R&D costs incurred	2,194	2,833	2,454	7,316	8,908

Research and development costs for Q3 2018 decreased to US$ 2.2 million as compared to US$ 2.8 million in Q3 2017 and as compared to US$ 2.5 million in Q2 2018. Research and development costs for the nine months ended September 30, 2018 decreased to US$ 7.3 million versus US$ 8.9 million for the comparable period in 2017. The decrease in research and development costs, as planned, was primarily due to lower employee compensation and outsourcing expenses following the completion of major development efforts in 2017 related to key Sarine Profile™ enhancements – the AI-based grading of Clarity and Color.

Sales and marketing expenses

Sales and marketing expenses for Q3 2018 decreased to US$ 3.1 million as compared to US$ 3.4 million in Q3 2017 and as compared to US$ 3.6 million in Q2 2018. Sales and marketing expenses for the nine months ended September 30, 2018 decreased to US$ 10.2 million as compared to US$ 10.6 million for the comparable period in 2017. The decrease in sales and marketing expenses on a year-over-year basis was primarily due to lower compensation expenses as we continue to restructure our sales and marketing staff and a decrease in marketing and trade-show expenses. The sequential decrease in sales and marketing expenses for Q3 2018 as compared to Q2 2018 was primarily due to lower expenses associated with trade shows and due to lower compensation expenses, including the absence of incentive based compensation accruals in Q3 2018.

General and administrative expenses

General and administrative expenses for Q3 2018 decreased to US$ 1.4 million as compared to US$ 1.6 million in Q3 2017 and US$ 1.5 million in Q2 2018. The year-over-year and sequential quarterly decreases in general administrative expenses was primarily due to lower compensation expenses, including the reversal of certain incentive based compensation expenses in Q3 2018. General and administrative expenses for the nine months ended September 30, 2018 increased modestly to US$ 4.6 million as compared to US$ 4.4 million for the comparable period in 2017. The year-over-year increase in general and administrative expenses was primarily due to higher third-party professional fees related to our proactive IP protection activities mainly in India (see Section 10).

Profit from operations

Profit from operations for Q3 2018 increased to US$ 0.8 million as compared to a loss from operations of US$ 11,000 in Q3 2017, and decreased from US$ 4.7 million in Q2 2018. Profit from operations for the nine months ended September 30, 2018 increased to US$ 9.0 million as compared to US$ 7.3 million for the comparable period in 2017. The sequential decrease in profit from operations was mainly due to lower revenues, somewhat offset by lower operating expenses, and the increase in profit from operations on a year-over-year basis was primarily due to higher revenues and lower operational expenses, all as detailed above.

Net finance income

Net finance income for Q3 2018 was US$ 24,000 as compared to US$ 53,000 in Q3 2017, and US$ 87,000 in Q2 2018. The decrease in quarterly net finance income was mainly due to higher exchange rate differences in the current period. Net finance income for the nine months ended September 30, 2018 was US$ 135,000 versus US$ 106,000 for the comparable period in 2017. The increase in net finance income was primarily due to higher interest rates available in the market on our bank deposits.

Income tax expense

The Group recorded an income tax expense of US$ 0.5 million for Q3 2018 as compared to an expense of US$ 0.6 million for Q3 2017 and US$ 0.6 million in Q2 2018. Income tax expenses in Q3 2018 and Q3 2017 were primarily due to income tax expenses associated with subsidiary profitability during the applicable periods. The sequential decrease in income tax expenses was due to lower pre-tax profitability as discussed above. The Group recorded an income tax expense of US$ 1.6 million for the nine months ended September 30, 2018 versus an expense of US$ 2.3 million for the comparable period in 2017. The year-over-year decrease in income tax expenses was due to the impact of product mix on the profitability of Group subsidiaries and due to the write-down of US$ 0.3 million of certain deferred and other tax assets in 2017.

Profit for the period

Net profit for Q3 2018 increased to US$ 0.3 million as compared to a net loss of US$ 0.5 million in Q3 2017, and declined from US$ 4.1 million in Q2 2018. Net profit for the nine months ended September 30, 2018 increased to US$ 7.5 million as compared to US$ 5.2 million for the comparable period in 2017. The sequential decrease in net profit was mainly due to lower revenues, somewhat offset by lower operating expenses, and the increase in net profit on a year-over-year basis was primarily due to higher revenues, lower operational expenses and lower taxes in 2018, 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.

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 trade tariffs imposed between the U.S and China have had a negative impact, primarily, on the Chinese economy. The Chinese equity market has lost 30% of its value, and there is a reported 20-25% drop in the demand for luxury items. The weakening consumer sales in this key market, was also manifested in a weak Hong Kong show in September (further disrupted by the typhoon). This clearly contributed to the weakened sentiment in the diamond industry polishing midstream in Q3. Recent new developments indicate the two trading partners may be actively seeking a solution to their differences, and there is a possibility we may have seen the worst of this issue's impact. On the flip side, initial estimates in the U.S. forecast the best holiday season sales ever. These two markets are the two largest polished diamond markets and robust consumer appetite in the U.S., especially if bolstered by renewed demand from China with the removal of trade tariffs, should drive correspondingly renewed robust activity in the diamond industry midstream. Beyond short-term concerns, limited to the Chinese market, prospects for the diamond industry remain positive. Growing middle classes in developing economies are expected to increase demand for diamond jewellery, and the new mines, which started to produce in 2016, will, at peak production, only offset the depletion and cessation of production expected commencing 2020 at key existing mines (see https://www.bain.com/insights/global-diamond-industry-report-2017).

b. Banks in India have for some time been tightening their requirements from their customers for their continued issuing of credit, and in some instances have limited or curtailed the extension of additional credit lines to some of their customers in the midstream polishing industry. On the backdrop of the seasonal weakness in Q3, this has created a shortage of available funds and created cash-flow problems for some midstream entities. As seasonal downstream demand for polished diamonds rebounds due to holiday season (November through February) inventory depletions, typically towards the end of Q4 or into Q1 of 2019, and cash flows commensurately rebound, this issue should become less acute. The impact on the Group has been some US$ 0.1 million, included in the allowance for doubtful trade receivables noted in section 1(a) above.

c. The Indian Rupee (INR) has been devalued against the US$ by some 15% from the beginning of 2018, approximately half of said devaluation occurring in Q3. Mostly this is a psychological issue with short-term negative impact on the industry sentiment in India, as the rough stones and polished gems are bought and sold in US$, and the manufacturers' costs, which are mostly in INR, are, in fact, reduced by this devaluation to their benefit. However, the devaluation does have three effects:
    - Manufacturers who have a significant domestic Indian component to their sales, to which they sell in INR, will be impacted negatively in the short term, until the INR stabilises and they can factor its new value into their business models;
    - Additionally, as the manufacturers' foreign currency export credits are pegged in INR, the actual USD equivalent has depreciated sharply, thus causing a working capital shortfall for rough material imports, as discussed in the referenced article

(https://economictimes.indiatimes.com/markets/stocks/news/diamond-traders-seek-export-credit-limits-in-dollars/articleshow/66504903.cms); and

- The Group's products, which are priced in US$, become more expensive as compared to our Indian competitors' ones, which are priced in INR, impeding our competitiveness, again until the INR stabilises and appropriate adjustments can be made. This has probably contributed somewhat to our impaired legacy products sales in Q3.

d. DeBeers has launched their line of Lightbox jewellery based on lab-grown (aka "synthetic") diamonds (LGD), albeit with a significant price disparity from natural diamonds – as much as 80% less than a natural stone of comparable quality, aiming to position LGD as one step above fashion jewellery. The U.S. Federal Trade Commission (FTC) has also refined their guidelines and have now ruled that LGD are de facto and de jura diamonds, but must be advertised and sold with a definitive adjective specifying their non-natural source. These developments have created uncertainty and have compounded the negative sentiments currently prevailing in the industry.

Long term it seems likely that LGD will, in fact, capture a segment of the retail market for polished diamond jewellery, if for no other reason than the forecast growth in the numbers of middle-class consumers worldwide vs. the actual forecast of diminishing sources of natural diamonds, as noted above in paragraph [a]. The relevant questions are by when and in which segments will LGD capture a significant (predominant?) market share. Some estimates forecast an initial LGD CAGR of 22% through 2023, then tapering off to achieve an average CAGR of 9% and a market share of 5% through 2035, based on a forecast doubling of the total demand due to middle class growth, as noted above (http://www.paulziminsky.com/lab-grown-diamond-jewelry-market-forecast). If one assumes the growth of LGD comes with almost no growth to total demand, the market share of LGD will be 15% in 2035. Other estimates put the CAGR of LGD at a very similar 8%. We believe that the advent of LGD has, in fact, already begun, albeit, for the most part, without appropriate consumer disclosures. From this aspect, DeBeers and the FTC's initiatives are most welcome, as they will, most likely, accelerate the process of these goods being sold with the proper disclosures.

The question as to when and in which segments LGD will capture a significant market share, and what that share will be, is open to debate, with widely varying opinions (see https://www.forbes.com/sites/pamdanziger/2017/09/02/diamonds-disrupted-how-man-made-diamonds-will-disrupt-the-mined-diamond-industry/#17c60bf7f529), which is the main reason for the current uncertainties. We cannot address this issue fully, but we can note, to the benefit of our shareholding public that there are many issues affecting the ultimate outcome:

- culture - i.e., U.S. vs. APAC;
- consumer income levels;
- bridal vs. "non-consequential" jewellery - engagement, wedding and anniversary jewellery are more emotionally "charged", hence possibly less prone to be "acceptable" if LGD;
- size - centre stones vs. surrounding settings;
- cost - DeBeers has set a whole new pricing scale with LGD priced as fashion jewellery;
- current and future limitations of the technologies for creating LGD - high-pressure/high-temperature (HPHT) vs. chemical vapour deposition (CVD) processes; and more

It should be noted that most HPHT LGD (today the predominant type of LGD manufactured, though this may shift over time, as the varying technologies costs evolve) require most, if not all, of the processes applied to natural diamonds, thus making their market share less of an issue to our Group. As for CVD LGD, though these tend to be cleaner and more uniform, thus arguably requiring less inclusion scanning and planning processes, they too need at least some form of inspection for inclusions and imperfections, essentially depending on one's self-determined cut-off Clarity threshold. Furthermore, they actually create a strong market for our laser cutting systems, which excel at processing these stones, creating a new market for us.

Finally, it is worthwhile noting that all our new endeavours relating to the retail trade of polished diamonds (our Sarine Profile™ offerings as well as the automated AI-driven technology-based grading of the 4Cs and the Sarine Diamond Journey™) all primarily address the market of polished diamonds over 20 points. Thus the advent of LGD will probably have limited bearing on these initiatives. Furthermore, though, on the one hand, De Beers does not grade their LGD at all, on the other hand, we have already been approached by various players across the industry value chain, regarding the applicability of our new technologies to grading LGD. Thus, there be a new opportunity here – the 4Cs grading of LGD, as one could argue that technology-derived grading of the 4Cs is the most suitable for technology-derived LGD.

e. In dollar terms, the first seven sights of 2018, for which there are final data, continue to show a slight decrease in aggregate (-2%), as compared to the corresponding period of 2017. As rough prices are slightly (2-3%) higher year over year, this indicates the number of stones entering the pipeline is down (by some 4+%). Alrosa's offerings have trended similarly. It is also noteworthy that, due to the negative sentiment in the industry, in general, and the more pronounced uncertainty pertaining to smaller diamonds, specifically, DeBeers allowed the deferment of parcels of small diamonds at their seventh and eighth sights (resulting for sight 7 in a delta of US$ 75 million between initial provisional and actual final sales data; final sales data for sight 8 are not yet available). Due to the slight increases in the prices of rough diamonds, manufacturer margins have come under pressure.

f. Due to the negative sentiment and uncertainties, the seasonal slowing in midstream activity due to the Diwali holiday is more pronounced this year with many manufacturers closing early and some planning on a longer than usual shutdown of their facilities. If, as expected, U.S. holiday season sales are vigorous and Chinese demand rebounds, this extended furlough may actually contribute to more fervent manufacturing activity going into Q1 2019.

g. New retailers in China, Japan, Malaysia and Thailand continued to adopt the enhanced Sarine Profile™ this quarter. The Japan Service Centre was opened, is now fully operational and has started processing goods for Japanese customers. The ability to process goods in Japan makes it significantly easier for our actual and potential customers, and we expect that it will bring more business in Japan. Several additional new retailers have, in fact, confirmed that they will start sending goods to the centre during the recent International Jewellery Tokyo (IJT) show. Evaluation of our technology-based AI-driven 4Cs grading continues with various customers in both the APAC and U.S. markets. We expect additional customers to launch programs utilising this paradigm in 2019.

h. Our Sarine Diamond Journey™ feature, which verifies, documents and graphically depicts the stone's transition from a specific rough stone to specific polished gem(s), continues to generate keen interest in light of the current trends emphasising provenance and branding, as was again demonstrated at the IJT Show in Japan last month, where several leading Japanese clients expressed keen interest in this paradigm. The initial commercial launch in APAC will be with CIMA, a leading bridal jewellery outlet chain in Japan and our Sarine Light™ launch customer from 2013. Discussions with prominent upstream producers (mining companies), in addition to Dominion's CanadaMark® initiative, continue.

i. We delivered 13 inclusion mapping systems in Q3. 11 of the new Meteorite™ model, 1 of the Meteor™ model and 1 Galaxy® system. Notably, all the systems for small stones were delivered in India, which continues to underpin our belief in our ongoing success at containing the effects of the illicit competition, as detailed below. These deliveries bring our installed base to 390 as of 30 September 2018. We continue to see scanning activities at record levels, and are on track to finish 2018 with an estimated 20% growth in the number of stones scanned for the year, as compared to the 10 million scanned in 2017. This, even though the volumes of DeBeers and Alrosa's rough sales have decreased by some 2+% on a yoy basis. We believe this too is an indication of our success in reducing the infringing parties' impact on our business.

j. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems (irrespective of the slight drop in the number of rough stones entering the pipeline so far this year), as mentioned above, the number of users who continue to migrate to Advisor 7.0 and the sales of increasing numbers of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition.

- In the Indian judicial system, we are pursuing parallel lawsuits against Diyora & Bhanderi Corporation ("**DBC**") for patent infringement and copyright (software) infringement. In both actions we have requested interim injunctions to put an immediate halt to the infringing activities, pending the trials and final outcomes of the matters.
  - Our appeal of the trial court's decision not to grant an interim injunction against the infringing parties has just been denied by the High Court of Gujarat, and we are contemplating our next course of action.
  - The motion for an injunction based on the software copyright infringement suit is ongoing. We have further filed a motion for an injunction based on the fact that the infringing party does not have a license from us to use the software, and could have not

been given any such license by a third party, as they allege, since such third party also never acquired the requisite license to the software.

- U.S Enforcement – As announced on 26 June 2018, having been alerted to the suspected infringement of U.S. patents and copyrights by the relevant Indian parties, major diamond importers and dealers, including Signet and Tiffany, have modified their supply chain verification and certification process for polished diamonds procured from India, and now require verification that such goods do not contain products that infringe third party intellectual property rights, including Sarine's U.S. patents and copyrights. The inquiries and actions initiated by these leading retailers have notably increased pressure on the infringing parties in India.
- Technological – The tangible benefits and enhanced planning capabilities provided by our current planning software and hardware continue to incentivise manufacturers to migrate upwards to the latest version of our Advisor® software. To date, users of some 14,000 installations of our 20,000+ installed planning systems have adopted the latest software. As of December 31, 2018, Sarine will no longer support Advisor 5.3 (or earlier versions). For the initial six months of 2019, we will offer a limited-time upgrade option (to either Advisor 6.0/7.0, as per the customer's preference). As of July 1, 2019 there will no longer be any upgrade option, and delinquent users of older versions will need to buy a new license for Advisor 7.0 for US$ 6,000. We believe this will further incentivise migration upwards, further helping to thwart infringement.
- Commercial – Our expanding relationships with mining producers' programs, such as Dominion's CanadaMark® initiative and Lucara's Clara initiative, as well as retailers launching programs implementing the enhanced Sarine Profile™, including grading of the 4Cs and the Sarine Diamond Journey™, and the fact that only suppliers who have migrated to Advisor® 7.0 can participate in same, are also adding to the migration upwards, locking out DBC.

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

- **Polished diamond oriented systems and services**:
  - o With the accelerating penetration of the Sarine Profile™ into the Chinese mainland market, we have enhanced our support of the unique online environment in China, as dictated by government regulation, so as to provide customers in China the same levels of accessibility and performance as provided globally. A major upgrade to our cloud access infrastructure will be released in Q4 2018, a few months later than previously planned.
  - o We will continue to enhance our **Sarine Profile™**:
    - Personalisation of the Sarine Profile™ by the diamond's consumer buyer, allowing the creation / importation of text, imagery, music and video (e.g., the proposal), as a means of personifying his / her message to the ultimate recipient of the purchased jewel. The enabling of these types of personalisation provides the retailer with two added value capabilities – the rippled dissemination on the buyer's social media of the retailer's information with its logo etc. increasing awareness of the brand, and, as the buyer needs to provide personal information to upload his/her personal message/data, this enables the retailer to follow up with the buyer and keep engaged with him/her.
    - Enhancement of our support of jewellery pieces, in addition to loose polished diamonds. As retail businesses display set jewellery more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
  - o Further refinement of the **Sarine Clarity™ and Sarine Color™** AI-based grading capabilities, to achieve broader relevance to additional shapes and sizes of polished diamonds and even better accuracy and consistency.
  - o Fingerprinting of a polished diamond – see below.
  - o Diamond traceability (provenance) – the issue of diamond traceability has become a major issue in focus for a number of reasons, including consumer confidence, retailers' need to ensure responsible sourcing, the advent of LGD, as discussed at length above in section [d], and a growing trend of branding on the part of mining producers - e.g., Dominion's CanadaMark® powered by the **Sarine Journey™**, DeBeers Tracr® announced earlier this year and similar efforts announced or being contemplated by other players. The Sarine Journey™, based on existing Sarine technologies already integrated as key elements of the manufacturing process, provides a key element of traceability from the rough source stone to the polished gem. As this functionality is based on existing technologies in use by our extensive midstream installed base, it enables a seamless solution at minimal cost with little overhead and essentially no disruption of the current polishing processes (i.e., no additional steps requiring significant more time). We are now working on further

developments to our Sarine Journey™ so as to provide a complete solution from rough to polish, and from polish to report ("certificate") and from polish to jewellery, so that the audit trace can be visualised and verified at any point, including at the retail point of sale, regardless of whether the stone is still loose or has already been set. To this end we are testing various methods of identification of the stone ("fingerprinting") using both high-end solutions, as well as affordable in-store technologies.

- **Manufacturing products**:
  - **Galaxy® Tension Mapping** – We have extended our Galaxy® capabilities not only for inclusion detection but also for tension/stress detection and modelling. Based on ongoing beta-operations at leading manufacturers, we have shown that understanding the location, structure and magnitude of stress inside a rough stone contributes both to the reduction of risk of damage to the stone during laser sawing, as expected, and also to increased yield from the planning process, as the safety margin used for planning can be reduced significantly. We have ascertained that clear quantifiable significant value can be realised through the use of this new feature. We are further expanding our beta testing to additional leading manufacturers with an aim to launch commercially in the first half of 2019. The business model will be based on acquisition of the necessary hardware add-on for the user's Galaxy® system and a per scan fee, similar to the inclusion mapping fee, based on the weight of the rough stone being scanned.
  - **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 continuing beta-testing in India, with excellent results also on fancy cuts and non-standard faceting models. This will enable the Sarine Profile™ to support more accurate analyses and renditions of fancy and special shapes. As these diamonds typically do not get a Cut grade from gem labs, by empowering better analyses of these diamonds by the Sarine Technology Lab, we should be able to provide a better means to document their quality, with potential to add impetus to our reports' adoption. This new enhanced model will also be able to automatically grade a standard ideal (round) cut's symmetry

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, 2018, to be false or misleading, in any material aspect.

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

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

On behalf of the Directors

Daniel Benjamin Glinert
Executive Chairman of the Board

November 11, 2018