RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

U.S. DOLLARS IN THOUSANDS

INDEX

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Kost Forer Gabbay & Kasierer
144 Menachem Begin Road,
Building A
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of RADA ELECTRONIC INDUSTRIES LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RADA Electronic Industries Ltd. and subsidiaries (the "Company") as of December 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kost Forer Gabbay and Kasierer,
A Member of Ernst & Young Global

We have served as the Company's auditor since 2003.

Tel-Aviv, Israel
March 28, 2018

CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,417	$ 1,205
Restricted deposits	322	317
Trade receivables (net of allowance for doubtful accounts of $14 at December 31, 2017 and 2016)	7,286	5,006
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 3)	995	1,096
Other accounts receivable and prepaid expenses (Note 4)	330	349
Inventories, net (Note 5)	7,910	7,102
Current assets related to discontinued operations	2,468	2,254
Total current assets	31,728	17,329
LONG-TERM ASSETS:		
Long-term receivables and other deposits (Note 6)	68	742
Property, plant and equipment, net (Note 7)	3,915	2,650
Long-term assets related to discontinued operations	319	266
Total long-term assets	4,302	3,658
Total assets	$ 36,030	$ 20,987

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	December 31, 2017	December 31, 2016
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Bank credit (Note 8)	$ -	$ 575
Trade payables	2,904	2,557
Other accounts payable and accrued expenses (Note 9)	2,814	1,987
Advances from customers, net	41	839
Current liabilities related to discontinued operations	328	265
Total current liabilities	6,087	6,223
LONG-TERM LIABILITIES:		
Convertible loan from shareholders, net (Note 8)	-	3,072
Accrued severance pay and other long term liability	758	663
Total long-term liabilities	758	3,735
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
EQUITY:		
Share capital (Note 11) -		
Ordinary shares of NIS 0.03 par value - Authorized: 37,500,000 at December 31, 2017 and at December 31, 2016; Issued and outstanding: 31,392,040 and 21,246,502 at December 31, 2017 and at December 31, 2016 respectively.	335	250
Additional paid-in capital	104,923	89,407
Accumulated other comprehensive income	392	222
Accumulated deficit	(77,124)	(79,363)
Total RADA Electronic Industries shareholders' equity	28,526	10,516
Non-controlling interest	659	513
Total equity	29,185	11,029
Total liabilities and equity	$ 36,030	$ 20,987

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Year ended December 31, 2017	2016	2015
Revenues:			
Products	$ 25,010	$ 11,663	$ 12,375
Services	1,172	1,158	1,699
	26,182	12,821	14,074
Cost of revenues:			
Products	17,807	10,594	11,139
Services	112	785	526
	17,919	11,379	11,665
Gross profit	8,263	1,442	2,409
Operating costs and expenses:			
Research and development, net	1,575	758	693
Marketing and selling	2,137	2,269	2,357
General and administrative	2,568	1,814	1,513
Goodwill impairment	-	-	587
Total operating costs and expenses	6,280	4,841	5,150
Operating income (loss)	1,983	(3,399)	(2,741)
Financial expenses, net (Note 13)	156	1,521	3,577
Net income (loss) from continuing operations	1,827	(4,920)	(6,318)
Net income (loss) from discontinued operations	515	13	(179)
Net income (loss)	$ 2,342	$ (4,907)	$ (6,497)
Net income (loss) attributable to non-controlling interest	103	3	(36)
Net income (loss) attributable to RADA Electronic Industries' shareholders	2,239	(4,910)	(6,461)
Basic net income (loss) from continuing operations per Ordinary share	$ 0.07	$ (0.35)	$ (0.53)
Diluted net income (loss) from continuing operations per Ordinary share	$ 0.06	$ (0.35)	$ (0.53)
Basic and diluted net income from discontinued operations per Ordinary share	$ 0.02	$ 0.00	$ (0.00)
Basic net income(loss) per Ordinary share	$ 0.09	$ (0.35)	$ (0.53)
Diluted net income (loss) per Ordinary share	$ 0.08	$ (0.35)	$ (0.53)
Weighted average number of Ordinary shares used for computing basic net income (loss) per share	24,956,915	14,029,346	11,904,088
Weighted average number of Ordinary shares used for computing diluted net income (loss) per share	28,126,509	14,029,346	11,904,088

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
U.S. dollars in thousands

	Year ended December 31,		
	2017	**2016**	**2015**
Net income (loss)	$ 2,342	$ (4,907)	$ (6,497)
Other Comprehensive Income (loss):			
Change in foreign currency translation adjustment	213	(207)	(186)
Total comprehensive income (loss)	2,555	(5,114)	(6,683)
Less: comprehensive income (loss) attributable to non-controlling interest	146	(39)	(73)
Comprehensive income (loss) attributable to RADA Electronic Industries' shareholders	$ 2,409	$ (5,075)	$ (6,610)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Number of Ordinary shares (*)	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Non controlling interest	Total equity
Balance at January 1, 2015	4,494,160	$ 119	$ 70,884	$ 536	$ (67,992)	$ 625	$ 4,172
Issuance of Ordinary shares, net of issuance costs of $1,070	3,455,284	27	7,403	-	-	-	7,430
Beneficial conversion feature related to convertible loans from shareholders (Note 8)	-	-	4,140	-	-	-	4,140
Net loss	-	-	-	-	(6,461)	(36)	(6,497)
Other comprehensive loss				(149)	-	(37)	(186)
Balance at December 31, 2015	7,949,444	$ 146	$ 82,427	$ 387	$ (74,453)	$ 552	$ 9,059
Beneficial conversion feature related to convertible loans from shareholders (Note 8)	-	-	123	-	-	-	123
Extinguishment of convertible loan	-	-	(359)	-	-	-	(359)
Share-based compensation to employees	-	-	111	-	-	-	111
Issuance of shares and warrants, net of issuance costs of $204	10,415,400	82	5,714	-	-	-	5,796
Exercise of warrants and conversion of convertible loan to Ordinary shares	2,881,658	22	1,391	-	-	-	1,413
Net income (loss)	-	-	-	-	(4,910)	3	(4,907)
Other comprehensive loss	-	-	-	(165)	-	(42)	(207)
Balance at December 31, 2016	21,246,502	250	89,407	222	(79,363)	513	11,029
Share-based compensation to employees	-	-	559	-	-	-	559
Exercise of warrants	4,218,121	36	2,105	-	-	-	2,141
Conversion of convertible loan to Ordinary shares	1,322,917	11	3,164	-	-	-	3,175
Issuance of shares, net of issuance costs of $174	4,604,500	38	9,688	-	-	-	9,726
Net income	-	-	-	-	2,239	103	2,342
Other comprehensive income	-	-	-	170	-	43	213
Balance at December 31, 2017	31,392,040	$ 335	$ 104,923	$ 392	$ (77,124)	$ 659	$29,185

(*) See Note 11a.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income (loss)	$ 2,342	$ (4,907)	$ (6,497)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Share based compensation to employees	559	111	-
Depreciation and amortization	638	554	548
Impairment of goodwill	-	-	587
Extinguishment and amortization expenses related to beneficial conversion feature and discount of convertible loans	103	1,116	2,684
Severance pay, net	93	37	53
Increase in trade receivables, net	(2,280)	(1,360)	(607)
Decrease (increase) in other accounts receivable and prepaid expenses	14	(135)	81
Decrease in costs and estimated earnings in excess of billings	809	403	1,467
Increase in inventories	(890)	(1,503)	(499)
Increase in trade payables	303	592	602
Increase (decrease) in other accounts payable, accrued expenses and advances from customers, net	31	173	(1,437)
Net cash provided by (used in) operating activities from continuing operations	1,722	(4,919)	(3,018)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(1,041)	(411)	(366)
Construction-in-process	(736)	-	-
Decrease (increase) in deposits, net	(29)	11	(10)
Change in restricted deposits, net	(5)	356	6
Net cash provided by (used in) investing activities from continuing operations	(1,811)	(44)	(370)

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31, 2017	2016	2015
Cash flows from financing activities:			
Issuance of Ordinary shares, net	9,726	5,796	7,430
Exercise of warrants	2,141	1,300	-
Proceeds from (repayment of) short-term bank credit, net	(575)	(1,841)	827
Proceeds from (repayment of) loans from shareholders, net	-	187	(5,030)
Net cash provided by financing activities from continuing operations	11,292	5,442	3,227
Net cash provided by (used in) operating activities from discontinued operations	(644)	298	253
Net cash used in investing activities from discontinued operations	(101)	(34)	(8)
Effect of exchange rate changes of discontinued operation on cash and cash equivalents	(138)	(133)	(116)
Increase (decrease) in cash and cash equivalents	10,320	610	(32)
Cash and cash equivalents at the beginning of the year	2,364	1,754	1,786
Cash and cash equivalents at the end of the year	12,684	2,364	1,754
Less cash and cash equivalents of discontinued operation at the end of the year	267	1,159	1,020
	$ 12,417	$ 1,205	$ 734

	Year ended December 31, 2017	2016	2015
(b) Supplemental disclosures of cash flow activities:			
Net cash paid during the year for:			
Income taxes	$ 17	$ 16	$ 15
Interest	$ 173	$ 658	$ 2,106
(c) Non-cash transactions			
Conversion of convertible loan including unpaid interest	$ 3,175	$ 113	$ -
Transfer of inventory to property, plant and equipment	$ 82	$ 92	$ 573
Purchase of property, plant and equipment in credit	$ 44	$ 14	$ 62

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. RADA Electronic Industries Ltd. (the "Company") is an Israeli based defense electronics contractor that specialize in the development, manufacture and sale of data recording and management systems (such as digital video and data recorders, ground debriefing stations, head-up display cameras), inertial navigation systems for air and land applications, avionics solutions (such as aircraft upgrades, avionics for unmanned aircraft vehicles ("UAVs"), store management systems and interface computers) and land radar for defense forces and border protection applications (active protective systems for armored fighting vehicles, hostile fire detection and perimeter surveillance). The Company also provides test and repair services using its CATS testers and test program sets for commercial aviation electronic systems mainly through its Chinese subsidiary.

The Company operates a test and repair shop using its Automated Test Equipment ("ATE") products in Beijing, China, through its 80% owned Chinese subsidiary, Beijing Huari Aircraft Components Maintenance and Services Co. Ltd. ("CACS" or the "subsidiary"). CACS was established with a Chinese third party, which owns the remaining 20% equity interest (see Note 1b).

The Company is organized and operates as one operating segment.

b. Discontinued operations

In December 2016, the Company committed to a plan to sell its test and repair services activity (provided through the Company's 80% owned subsidiary, CACS) in order to focus in its core business. As of December 2017, the Company's management believes that the selling transaction will be completed by June 30, 2018.

The results of the discontinued operations including prior periods' comparable results, assets and liabilities which have been retroactively included in discontinued operations as separate line items in the statements of operations and balance sheets, are presented below:

	Year ended December 31,		
	2017	**2016**	**2015**
Revenues	$ 1,729	$ 909	$ 790
Cost of sales	(909)	(698)	(626)
Operating expenses	(310)	(197)	(347)
Operating income (loss)	510	14	(183)
Finance income (expenses), net	5	(1)	4
Net income (loss)	515	13	(179)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

The major classes of assets and liabilities that were classified as discontinued operations were:

	Year ended December 31,	
	2017	2016
Cash and cash equivalents	$ 267	$ 1,159
Trade receivables	1,200	244
Other accounts receivable and prepaid expenses	61	6
Inventories	940	845
Property, plant and equipment, net	319	266
Total assets of discontinued operations	2,787	2,520
Trade payables	4	54
Accrued expenses and other liabilities	324	211
Total liabilities of discontinued operations	$ 328	$ 265

c. Liquidity and Capital Resources:

On May 15, 2016, the Company's shareholders approved an investment transaction with a new investor (the "Investor") after which the Investor became the controlling shareholder of the Company. The Company issued 8,510,638 Ordinary shares in consideration for approximately $4,000, or a price per share of $0.47 (the "Initial Investment"). The Company also issued to the Investor, warrants to purchase: (i) 4,255,319 Ordinary shares at an exercise price per Ordinary share of $0.47 (having an aggregate exercise price of $2,000) exercisable for a period of 24 months following the date of the Initial Investment and (ii) 3,636,363 Ordinary shares at an exercise price per Ordinary share of $0.55 (having an aggregate exercise price of $2,000) exercisable for a period of 48 months following the date of the Initial Investment (collectively: the "Warrants").

In addition, as part of the investment transaction, the Investor agreed to grant the Company an option, exercisable in the discretion of either the Investor or the Company, to obtain a convertible loan from the Investor in the principal amount of up to $3,175, which may be used solely for the purpose of the repayment of the outstanding convertible loan and accrued interest to its former controlling shareholder due on August 31, 2016.

On June 16, 2016, the Company obtained a $3,175 convertible loan from the Investor (convertible into Ordinary Shares at a price per share of $2.40) and repaid the outstanding loan balance owed to its former controlling shareholder in the amount of $2,988, including accrued interest of $247.

NOTE 1:- GENERAL (Cont.)

During the years ended December 31, 2016 and 2015, the Company had recurring losses and negative cash flow from operating activity. Since incorporation, the Company incurred an accumulated deficit of $77,124. As of December 31, 2017, the Company's cash position (cash and cash equivalents) totaled approximately $12,417 (excluding cash and cash equivalents attributable to the discontinued operations). In addition, for the year ended December 31, 2017 the company had positive cash flow from operating activity. Management believes that its cash and cash equivalents are sufficient for the Company to meet its obligations as they come due at least for a period of twelve months from the date of issuance of the consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

a. Use of estimates:

The preparation of financial statements in conformity with ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they were made.

b. Financial statements in U.S. dollars:

The majority of the revenues of the Company are generated in U.S. dollars. In addition, Financing activities are made in U.S. dollars.

The Company's management believes that the dollar is the currency of the primary economic environment in which the Company operates. Thus, its functional and reporting currency is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate, in the period in which the currency exchange rate changes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the Company’s foreign subsidiary, whose functional currency is not the U.S. dollar, have been translated into dollars. All balance sheet amounts have been translated using the exchange rates in effect at balance sheet date. Statement of operation amounts have been translated using the average exchange rate prevailing during the year. Such translation adjustments are reported as a separate component of accumulated other comprehensive income (loss) in equity.

c. Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary. Inter-company transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

All highly liquid investments that are readily convertible to cash and are not restricted as to withdrawal or use and the period to maturity of which did not exceed three months at time of deposit, are considered cash equivalents.

e. Restricted deposit:

Restricted cash is invested in short-term bank deposits (less than twelve months), which are mainly used as security for the Company’s guarantees to customers and lines of credits with banks. The deposits are in U.S. dollars and bear a variable interest of up to 1.32%.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories and for market prices lower than cost (see also Note 5).

Cost is determined as follows:

Raw materials and components - using the FIFO cost method.

Work in progress and finished goods - represents the cost of manufacturing with the addition of allocable indirect manufacturing costs.

Costs incurred on long-term contracts in progress include direct labor, material, subcontractors, other direct costs and an allocation of overhead, which represent recoverable costs incurred for production.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Property, plant and equipment:

Property plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are as follows:

	%
Factory and other buildings	4
Machinery and equipment	7 - 33
Office furniture and equipment	6 - 15

Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease period.

Assets, in respect of which investment grants have been received, are presented at cost less the related grant amount. Depreciation is based on net cost.

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, plant and equipment", whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2017, 2016 and 2015, no impairment losses have been identified.

As required by ASC 820, "Fair Value Measurement", the Company applies assumptions that market place participations would consider in determines the fair value of long-lived assets (or asset group).

i. Research and development costs:

Research and development costs, net of participation grants, include costs incurred for research and development, are charged to the statement of operations as incurred.

The Company received royalty-bearing grants, from the Israeli Innovation Authority ("IIA") for the purpose of partially funding research and development projects. The grants are recognized as a deduction from research and development costs incurred (see also Note 10b).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income taxes". This statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company implements a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The adoption of ASC 740-10 did not result in a change in the Company's accumulated deficit. The Company did not record any provision in connection with ASC 740-10 as of December 31, 2017 and 2016.

k. Severance pay:

The Company's agreements with most of its employees are in accordance with section 14 of the Severance Pay Law - 1963, under which the Company's contributions for severance pay shall be instead of severance compensation. Upon release of the policy to the employee, no additional liability exists between the parties regarding the matter of severance pay and no additional payments will be made by the Company to the employee.

The Company's liability for severance pay for the employees that are not covered in section 14 is calculated pursuant to Israel's Severance Pay Law - 1963, based on the most recent salary of the employees as of the balance sheet date less monthly deposits for insurance policies and/or pension funds. Employees are entitled to one month's salary for each year of employment or a portion thereof.

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligations pursuant to Israeli severance pay law or labor agreements.

Severance expense recorded in the statement of operations is net of interest and other income accumulated in the deposits. Severance expense for the years ended December 31, 2017, 2016 and 2015 amounted to $434, $251 and $553, respectively.

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Accounting for share-based compensation:

The Company accounts for share-based payment in accordance with ASC 718, “Compensation - Stock Compensation”, which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s statement of operations. The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards.

The fair value for the Company’s stock options granted to employees and directors was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31,	
	2017	2016
Dividend yield	0%	0%
Risk-free interest rate	1.78%	1.19%
Expected term (in years)	4.18	4.5
Volatility	79%	80%

The dividend yield assumption is based on the Company’s historical experience and expectation of future dividend payouts and may be subject to changes in the future.

The computation of expected volatility is based on realized historical share price volatility of the Company’s Ordinary shares.

The risk-free interest rate assumption is the implied yield currently available on the U.S treasury yield zero-coupon issues with a remaining term equal to the expected life term of the Company’s options.

The expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, as allowed under Staff Accounting Bulletin No. 110, which is the mid-point between the vesting date and the end of the contractual of the option.

m. Fair value of financial instruments:

The Company measures its financial instruments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The carrying amount of cash and cash equivalents, restricted deposits, trade receivables, other accounts receivable, bank credit, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. As of December 31, 2017 and 2016 the fair value of foreign currencies derivatives asset (liability) were 19 and (8), respectively.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, trade receivables and long-term receivables.

The Company’s cash and cash equivalents and restricted deposits are mainly held in U.S. dollars with major banks in Israel. Management believes that the financial institutions that hold the Company’s investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are derived from sales to large and solid organizations located mainly in the United States, Asia, Latin America and Israel. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to these amounts that the Company has determined to be doubtful of collection. The allowance is computed for specific debts and the collectability is determined based upon the Company's experience.

o. Comprehensive income (loss):

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components.

Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. Accordingly, the Company presents a separate consolidated statement of comprehensive income (loss).

The following table summarizes the changes in accumulated balances of other comprehensive income, net of taxes for the years ended December 31, 2017 and 2016:

	Accumulated foreign currency translation differences
Balance as of December 31, 2015	$ 387
Net current period other comprehensive loss	(165)
Balance as of December 31, 2016	$ 222
Net current period other comprehensive income	170
Balance as of December 31, 2017	$ 392

p. Warranty:

In connection with the sale of its products, the Company provides product warranties for periods between one to two years. Based on past experience and engineering estimates, the estimated liability from these warranties is $35 as of December 31, 2017 and 2016.

q. Revenue recognition:

The Company generates revenues mainly from the sale of products and from long-term fixed price contracts of defense electronics as follows: data recording and management systems, inertial navigation systems for air and land applications, avionics solutions, and avionics for UAVs, and land radar for defense forces and border protection applications.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In addition, the Company provides manufacturing, development and product support services.

The Company also generates revenues from repair services using its ATE mainly through CACS (See Note 1b).

Product revenues:

The Company recognizes revenue from sales of products in accordance with ASC 605-10, "Revenue Recognition" (Formerly "Staff Accounting Bulletin ("SAB") No. 104").

Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and the Company has determined that collection of the fee is probable. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provisions lapse, unless the Company can objectively and reliably demonstrate that the criteria specified in the acceptance provisions are satisfied.

Revenues from long-term fixed price contracts which provide a substantial level of development efforts are recognized in accordance with ASC 605-35, "Construction-Type and Production-Type contracts", using contract accounting on a percentage of completion method in accordance with the "Input Method". The percentage of completion is determined based on the ratio of actual costs incurred to total costs estimated to be incurred over the duration of the contract. With regard to contracts for which a loss is anticipated, a provision is made for the entire amount of the estimated loss at the time such loss becomes evident. As of December 31, 2017 and 2016, the provision for estimated losses identified is $0.

Revenues from long-term fixed-price contracts that involve both development and production are recorded using the cost-to-cost method (development phase) and units-of-delivery method (production phase) as applicable to each phase of the contract, as the basis to measure progress toward completion.

Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit or loss are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis.

The Company believes that the use of the percentage of completion method is appropriate as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In all cases, the Company expects to perform its contractual obligations and its customers are expected to satisfy their obligations under the contract.

Service revenues:

Revenues from services are recognized as the services are performed.

r. Basic and diluted net income (loss) per share:

Basic net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year in accordance with ASC 260, “Earnings per share”.

For the years ended December 31, 2016 and 2015, all options, convertible notes and warrants have been excluded from the computation of diluted net income (loss) per share, since their effect is anti-dilutive.

s. Derivatives and hedging:

The Company accounts for derivatives and hedging based on ASC 815, “Derivatives and hedging”, as amended and related Interpretations. ASC 815 requires the Company to recognize all derivatives on the balance sheet at fair value. If a derivative meets the definition of a hedge and is so designated, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings (for fair value hedge transactions) or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings (for cash flow hedge transactions).

The ineffective portion of a derivative’s change in fair value is recognized in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings. Cash flows related to such hedges are classified as operating activities.

The Company enters into forward exchange contracts and option contracts in order to limit the exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in NIS. Since the derivative instruments that the Company holds do not meet the definition of hedging instruments under ASC 815, any gain or loss derived from such instruments is recognized immediately as financial expenses, net.

As of December 31, 2017 and 2016, the fair value of the outstanding forward contracts was $19, which was recorded in other receivables against financial income and $8, which was recorded in other accruals against financial expenses, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Recently Issued Accounting Standards:

In May 2014, the FASB issued new standard related to revenue recognition, ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and related subsequent updates (collectively, the "new revenue standard"). Under the new revenue standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the new revenue standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new revenue standard permits two transition methods: retrospectively to each prior reporting period presented (the "full retrospective method"), or retrospectively with the cumulative effect of initially applying the new revenue standard recognized at the date of initial application (the "modified retrospective method"). The Company will adopt the new revenue standard effective January 1, 2018 using the modified retrospective method applied to those contracts which were not substantially completed as of January 1, 2018.

The Company did not have any material cumulative-effect adjustment as a result of the adoption. In addition, the adoption of ASU 2014-09 and the overall Topic 606 will not have any material impact on our consolidated financial statement line items in the year of adoption. The Company will make the additional required disclosures under Topic 606, starting with the Company's consolidated financial statements that include the initial adoption date.

In February 2016, the FASB issued guidance on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e, lessees and lessors), ASU 2016-02 - Leases (Topic 842). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. Topic 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018 (early adoption is permitted). The Company is currently evaluating the potential effect of the guidance on its consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires that the Consolidated Statement of Cash Flows explain the change in total cash and equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The ASU also requires a reconciliation between the total of cash and equivalents and restricted cash presented on the Consolidated Statement of Cash Flows and the cash and equivalents balance presented on the Consolidated Balance Sheet. ASU 2016-18 is effective retrospectively on January 1, 2018, with early adoption permitted. The Company does not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” ASU 2017-09 was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718 to a change in the terms or conditions of a share-based payment award. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The amendments in ASU 2017-09 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The adoption of this ASU will not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities”, which is intended to simplify and amend the application of hedge accounting to more clearly portray the economics of an entity’s risk management strategies in its financial statements. The ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting, reduce complexity in fair value hedges of interest rate risk and ease certain documentation and assessment requirements of hedge effectiveness. It also changes how companies assess effectiveness and amends the presentation and disclosure requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of adopting the ASU on its consolidated financial statements.

u. Recently Adopted Accounting Pronouncements:

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-09, “Compensation - Stock Compensation (Topic 718)” (“ASU 2016-09”). ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock-based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. The guidance was applied on a modified, retrospective basis in the first quarter of fiscal 2017 and did not have a material impact on the Company’s consolidated financial results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 3:- CONTRACTS IN PROGRESS

Amounts included in the consolidated financial statements, which relate to unbilled receivables are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. Summarized below are the components of the amounts:

Costs and estimated earnings in excess of billings on uncompleted contracts:

	December 31,	
	2017	2016
Costs incurred on uncompleted contracts	$ 18,184	$ 21,548*)
Estimated earnings	5,244	9,135*)
	23,428	30,683
Less - billings and progress payments	22,433	28,879
Costs and estimated earnings in excess of billings on uncompleted contracts	995	1,804
Less: Long-term portion	-	708
Costs and estimated earnings in excess of billings on uncompleted contracts - Current portion	$ 995	$ 1,096

*) Reclassified.

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2017	2016
Prepaid expenses	$ 176	$ 225
Government authorities	92	51
Advance payments to vendors	13	50
Deposits	30	23
Other accounts receivable	19	-
	$ 330	$ 349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 5:- INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	$ 3,277	$ 2,873
Work in progress, net	3,093	3,032
Finished goods	1,540	1,197
	$ 7,910	$ 7,102

Write-offs of inventories for the years ended December 31, 2017, 2016 and 2015 amounted to $122, $144 and $153, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues.

NOTE 6:- LONG TERM RECEIVABLES AND OTHER DEPOSITS

	December 31, 2017	December 31, 2016
Costs and estimated earnings in excess of billings on uncompleted contracts (see Note 3)	$ -	$ 708
Leasing deposits	68	34
	$ 68	$ 742

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2017	December 31, 2016
Cost:		
Factory building	$ 2,054	$ 1,989
Machinery and equipment *)	10,400	8,821
Office furniture and equipment	771	657
Leasehold improvements	386	241
	13,611	11,708
Accumulated depreciation:		
Factory building	1,990	1,974
Machinery and equipment *)	7,242	6,658
Office furniture and equipment	317	296
Leasehold improvements	147	130
	9,696	9,058
Depreciated cost	$ 3,915	$ 2,650

U.S. dollars in thousands, except share and per share data

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET (Cont.)

*) As of December 31, 2017, $736 relates to construction-in-process of production infrastructure.

Write-offs of machinery and equipment (cost and accumulated depreciation) for the years ended December 31, 2017, 2016 and 2015 amounted to $0, $0 and $191, respectively. The write-offs were due to fully depreciated assets that are no longer in use.

Depreciation expense amounted to $638, $554 and $548 for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 8:- BANK CREDIT AND LOANS

A. Loans and convertible note from shareholders

	December 31, 2017	December 31, 2016
Convertible note from shareholders	$ -	$ 3,175
Less: Beneficial conversion feature	-	(103)
	$ -	$ 3,072

In May 2016, as part of the investment transaction (see Note 1c), the Investor agreed to grant the Company an option, exercisable in the discretion of either the Investor or the Company, to obtain a convertible loan from the Investor in the principal amount of up to $3,175, which may be used solely for the purpose of the repayment of the outstanding convertible loan and accrued interest to its former controlling shareholder due on August 31, 2016. In June 2016, the Company exercised the option and repaid the outstanding loan balance due to its former controlling shareholder in the amount of $2,988 including accrued interest of $247.

The interest payable on the convertible loan was LIBOR+6%, payable on a quarterly basis.

During the term of the loan, the Investor had the right, but not the obligation, at its sole discretion, to convert the then remaining convertible loan amount into Ordinary shares, par value NIS 0.03, at a price per share equal to the lower of: (i) $2.40, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of the Company’s Ordinary shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than $0.47.

The Company recorded a beneficial conversion feature related to the June 2016 convertible loan as debt discount in the amount of $123. The discount was amortized over the term of the convertible loan using the interest method.

In August 2017, the Investor converted the loan into 1,322,917 Ordinary shares at a conversion price of $2.40 per share. As a result of the conversion, the company recognized the balance of the debt discount which amounted to $103 as finance expenses (see also Note 13).

U.S. dollars in thousands, except share and per share data

NOTE 8:- BANK CREDIT AND LOANS (Cont.)

B. Bank Credit

	December 31,	
	2017	2016
Bank Credit	$ -	$ 575

The Company may secure borrowing with one of its banks against specific accounts receivables of up to $2,250, out of which, $0 was utilized as of December 31, 2017. The Company has a line of credit for customer's guarantees of $500, which was utilized as of December 31, 2017 in the amount of $421. The guarantees were secured by a first priority floating charge on all of the Company's assets and, unpaid share capital and insurance rights (rights to proceeds on insured assets in the event of loss).

The agreements with the banks prohibit the Company from: (i) selling or otherwise transferring any assets except in the ordinary course of business, (ii) placing a lien on the Company's assets without the bank's consent, or (iii) declaring dividend to its shareholders.

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2017	2016
Payroll and related accruals	$ 1,787	$ 1,269
Accrued expenses - agents commissions	109	129
Accrued expenses	512	364
Royalties to IIA	406	83
Others	-	142
	$ 2,814	$ 1,987

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. As of December 31, 2017, the Company was not a party to any material legal proceedings.

b. The Company's research and development efforts have been partially financed through royalty-bearing programs sponsored by the IIA. In return for the IIA's participation, the Company is committed to pay royalties at a rate ranging from 3% to 5% of sales of the products whose research was supported by grants received from the IIA, up to 100% of the amount of such participation received linked to the U.S. dollar. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required. As of December 31, 2017, the Company received total grants from the IIA in the amount of $5,543.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The total amount of royalties charged to operations for the years ended December 31, 2017, 2016 and 2015, were approximately $569, $130 and $55, respectively. As of December 31, 2017, the Company's contingent liability for royalties, net of royalties paid or accrued, totaled approximately $683.

c. The Company's offices in Netanya, Israel, are leased under a non-cancelable operating lease expiring on February 28, 2022. In addition, the Company's motor vehicles are leased under operating leases.

Annual minimum future rental commitments under these leases, at exchange rates in effect on December 31, 2017, are approximately as follows:

2018	$	752
2019		688
2020		527
2021		381
2022		60
	$	2,408

Lease expenses for the years ended December 31, 2017, 2016 and 2015, were $888, $707 and $761, respectively.

d. Floating charges have been recorded on all of the Company's assets and specific charges have been recorded on certain assets in respect of the Company's liabilities to its banks and other creditors.

e. The Company provides bank guarantees to its customers and others in the ordinary course of business. The guarantees are to secure advances received at the commencement of a project or to secure performance of operational milestones. The total amount of bank guarantees provided to customers and others as of December 31, 2017, is approximately $421.

NOTE 11:- SHAREHOLDERS' EQUITY

a. Share capital:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

In May 2016, the Company's shareholders had approved an increase of the Company's authorized share capital by NIS 675,000 and as a result the authorized share capital is equal to NIS 1,125,000 divided into 37,500,000 Ordinary shares, par value NIS 0.03 each (adjusted to reflect the shares reverse share split effected in September 2016).

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

In May 2016, the Company's shareholders approved an investment transaction with the Investor according to which the Investor became the controlling shareholder of the Company and the Company issued 8,510,638 Ordinary shares and Warrants (see Note 1c), in consideration for the aggregate amount of approximately $4,000. Offering costs amounted to $169.

In August 2016, a shareholder of the Company converted the outstanding loan balance in the amount of $102 and accrued interest of $11 into 115,700 Ordinary shares.

In August 2016, the Company held an Extraordinary General Meeting of Shareholders at which shareholders approved the consolidation of the registered (authorized) share capital of the Company as follows: every two (2) Ordinary shares with a nominal (par) value of NIS 0.015 each will be consolidated into one (1) Ordinary share with a nominal (par) value of NIS 0.03 each. All Ordinary shares, options, warrants, convertible loan, conversion options and per share amounts have been adjusted to give retroactive effect to this reverse split for all periods presented.

In August 2017, the Company entered into agreements with several Israeli institutional investors to purchase 4,604,500 ordinary shares at price per share of $2.15, for a total consideration of $9,900. Offering costs amounted to $174.

b. Stock option plans:

In April 2015, the Company's Board of Directors adopted the "2015 Share Option Plan" (the "Plan"), which authorized the grant of options to purchase up to an aggregate of 1,500,000 Ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiary. Options granted under the Plan expire within a maximum of ten years from adoption of the plan.

In June 2016, the Company granted options to certain employees and officers of the Company, to purchase a total 984,375 Ordinary shares at an exercise price of $0.9 per share. The options will vest as follows: 25% of the options granted to each employee will vest in June 2017; additional 75% shall vest in three equal annual installments of 25% each until June 2020. These options shall be exercisable for 48 months following the date of the vesting. As part of the grant, the Company's former CEO was granted options to purchase 168,750 Ordinary shares at an exercise price of $0.90 per Ordinary share. The former CEO resigned in November 2016.

In November 2016, the Company's Audit Committee (in its capacity as the Compensation Committee) and Board of Directors determined, subject to shareholders approval, to extend until January 2017, the exercise date of the former CEO's options by accelerating the vesting of 126,563 Options as of December 31, 2016. Pursuant to the terms of the plan, the former CEO was eligible to exercise such number of the options (or any part thereof) within 90 days of the date of his resignation. The company recognized $71 share based compensation related to this acceleration.

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

In November 2016, the Company's Audit Committee (in its capacity as the Compensation Committee) and Board of Directors determined, subject to shareholders approval to grant its newly appointed CEO (i) options to purchase 68,750 Ordinary shares at an exercise price of $1.16 per Ordinary share that will vest ratably over a period of four (4) years and (ii) options to purchase 150,000 Ordinary shares at an exercise price of $1.16 per Ordinary share that will vest immediately in lieu of 99 vacation days that were accrued and redeemable for his benefit. These options are exercisable for 48 months. On January 15, 2017, the Company's shareholders approved the grant of the options to the CEO and the acceleration of the option grant to the former CEO.

In December 2016, the Company granted options to purchase 40,000 Ordinary shares at an exercise price of $1.17 per Ordinary share, that will vest immediately in lieu of 36 vacation days that were accrued and redeemable for an employee benefit. These options are exercisable for 48 months.

In February 2017, the Company granted options to a new officer of the Company to purchase a total 37,500 Ordinary shares at an exercise price of $1.26 per share. The options will vest as follows: 25% of the options granted will vest in February 2018; 75% of the options will vest in three equal annual installments of 25% each until June 2021. These options will be exercisable for 48 months following the date of the vesting.

In March 2017, the Company granted options to a consultant to the Company to purchase a total of 222,000 Ordinary shares at an exercise price of $1.22 per share. The options will vest in six equal semi-annual installments of 37,000 options starting August 2018 until February 2020. These options will be exercisable for 48 months following the date of the vesting.

On May 24, 2017, the company's Board of Directors approved an increase in the framework of the stock option plan to 2,000,000 shares.

In May 2017, the Company granted options to certain employees and officers of the Company to purchase a total of 100,000 Ordinary shares at an exercise price of $1.14 per share. The options will vest as follows: 25% of the options granted will vest in May 2018; 75% of the options will vest in three equal annual installments of 25% each until June 2021. These options will be exercisable for 48 months following the date of the vesting.

In September 2017, the Company granted options to certain employees and officers of the Company to purchase a total of 613,750 Ordinary shares at an exercise price of $2.96 per share. The options will vest as follows: 25% of the options granted will vest in February 2018; 75% of the options will vest in three equal annual installments of 25% each until June 2021. These options will be exercisable for 48 months following the date of the vesting.

In November 2017, the Company granted options to one of its officers to purchase a total of 200,000 Ordinary shares at an exercise price of $3.39 per share. The options will vest as follows: 25% of the options granted will vest in November 2018; 75% of the options will vest in three equal annual installments of 25% each until June 2021. These options will be exercisable for 48 months following the date of the vesting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2017, options to purchase 21,250 Ordinary Shares are available for future grant under the Plan.

A summary of the Company's activity for options granted to employees and directors under the Plan is as follows:

	Year ended December 31, 2017			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value Price
Outstanding at the beginning of the period	986,875	$ 0.91	7.58	$ 246
Granted	1,170,000	2.49	-	-
Exercised	(131,250)	0.90	-	-
Cancelled and forfeited	(178,125)	0.90	-	-
Outstanding at the end of the period	1,847,500	$ 1.91	8.88	$ 2,159
Exercisable	415,781	$ 1.03	7.36	$ 852

Intrinsic value of exercisable options (the difference between the closing share price of the Company's Ordinary shares on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on December 31, 2017. This amount changes based on the fair market value of the Company's Ordinary share.

As of December 31, 2017, there was approximately $1,924 of unrecognized compensation expense related to non-vested stock options, expected to be recognized up to four years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the year ended December 31, 2017 and 2016, was comprised as follows (no equity-based compensation expense recognized for the year ended December 31, 2015):

	Year ended December 31,	
	2017	**2016**
Cost of revenues	104	70
Marketing and selling	149	12
General and administrative	306	29
	559	111

c. Warrants:

On May 18, 2016, the Company issued Warrants to the Investor (see Note 1c) to purchase: (i) 4,255,319 additional Ordinary shares at an exercise price per Ordinary share of $0.47 (having an aggregate exercise price of $2,000), exercisable for a period of 24 months following the date of the Initial Investment and (ii) 3,636,363 Ordinary shares at an exercise price per Ordinary share of $0.55 (having an aggregate exercise price of $2,000), exercisable for a period of 48 months following the date of the Initial Investment. During 2016, the Investor exercised Warrants to purchase 2,659,575 Ordinary shares at an exercise price per share of $0.47 for an aggregate total consideration of $1,250. During 2017, the Investor exercised Warrants to purchase 1,595,744 Ordinary shares at an exercise price per share of $0.47 for an aggregate total consideration of $750, and an additional 2,181,818 Ordinary shares at an exercise price per share of $0.55 for an aggregate total consideration of $1,200. As of December 31, 2017, 1,454,545 Warrants are outstanding at an exercise price per Ordinary share of $0.55, exercisable through May 18, 2020.

On May 18, 2016, as part of the investment transaction, the Company issued to a consultant 510,638 Warrants to purchase Ordinary shares at an exercise price per Ordinary share of $0.47, exercisable for a period of 18 months following the date of the Initial Investment. During 2016, the consultant exercised Warrants to purchase 106,383 Ordinary shares at an exercise price per share of $0.47, for an aggregate total consideration of $50. During 2017, the consultant exercised Warrants to purchase 404,255 Ordinary shares at an exercise price per share of $0.47, for an aggregate total consideration of $190.

NOTE 12:- TAXES ON INCOME

a. The Israeli corporate tax rate and real capital gains tax was 26.5% in 2015, 25% in 2016 and 24% in 2017.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law 2016 (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), which reduces the corporate income tax rate to 23% effective from January 1, 2018.

In accordance with the tax laws, tax returns submitted up to and including the 2012 tax year can be regarded as final.

The Company's subsidiary is incorporated in China is subject to corporate tax rate of 25% in 2017 and 2016.

b. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company qualifies as an "Industrial Company" under the Law for the Encouragement of Industry (Taxes), 1969 (the "Industrial Encouragement Law"). The Industrial Encouragement Law defines an "Industrial Company" as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, from an enterprise whose major activity in a given tax year is industrial production.

The principal benefit from the above law is the deduction of expenses in connection with a public offering. Also, under the industrial Encouragement Law an "Industrial Company" is entitled to special rates of depreciation for industrial equipment and in addition to amortization of the cost of purchased know-how and patents over an eight year period for tax purposes and an accelerated depreciation rate on equipment.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

c. As of December 31, 2017, the net operating tax loss carryforward relating to the Company in Israel amounted to approximately $72,876, not including a carryforward capital loss amounting to approximately $3,827. Carryforward losses in Israel may be carried forward indefinitely and may be offset against future taxable income.

As the Company believes that it is more likely than not that the deferred tax assets in respect of these carryforward losses will not be utilized, the Company recorded a full valuation allowance for the entire balance of the deferred tax asset relating to the carryforward losses.

d. The main reconciling items between the statutory tax rate of the Company and the effective tax rate is the valuation allowance recorded in respect of the deferred tax assets relating to net operating loss carryforward and other temporary differences due to the uncertainty of the realization of such tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 12:- TAXES ON INCOME (Cont.)

Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2017	**2016**
Net operating loss carryforward	$ 17,490	$ 16,920
Capital loss carryforward	918	862
Allowances and reserve	342	325
Total deferred tax assets before valuation allowance	18,750	18,107
Valuation allowance	(18,750)	(18,107)
Net deferred tax assets	$ -	$ -

As of December 31, 2017 and December 31, 2016, the Company has provided valuation allowances in respect of deferred tax assets resulting from the tax loss carryforward and other temporary differences, since it has a history of operating losses and the current uncertainty concerning its ability to realize these deferred tax assets in the future.

The Company accounts for its income tax uncertainties in accordance with ASC 740, which clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

As of December 31, 2017 and 2016, there were no unrecognized tax benefits that if recognized would affect the annual effective tax rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 13:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2017	**2016**	**2015**
Income:			
Foreign currency exchange differences	$ 130	$ 8	$ 131
Interest on cash equivalents and restricted deposits	50	9	4
Other	34	-	-
	214	17	135
Expenses:			
Amortization of shareholders’ convertible loans discount and BCF	103	1,116	2,684
Interest on shareholders’ convertible note and loans	164	270	575
Withholding taxes on interest of convertible note and loans from shareholders	-	-	119
Bank commissions and others	82	100	152
Foreign currency exchange differences	9	25	161
Interest on loans from banks and other credit balances	12	27	21
	370	1,538	3,712
Total financial expenses, net	$ 156	$ 1,521	$ 3,577

NOTE 14:- RELATED PARTY BALANCE AND TRANSACTIONS

For the year ended December 31, 2017, the Company incurred $164 interest expense on loans received from its shareholders.

In January 2017, the Company’s shareholders approved that in addition to the directors’ fees to be paid to all of the Company’s directors commencing as of January 1, 2017, the Company will pay the Investor (see Note 1c) an additional monthly payment of approximately $4.6 (NIS 17,500) for time devoted to the Company by the Executive Chairman of the Board of Directors, who is also a co-owner of the Investor. In 2017 the Company’s consolidated audited financial statements reflect net income (before taxes), so such additional payment increased to approximately $9 (NIS 35,000).

U.S. dollars in thousands, except share and per share data

NOTE 14:- RELATED PARTY BALANCE AND TRANSACTIONS (Cont.)

In addition, the Company's shareholders approved a new engagement letter with a director of the Company (the "Director"), according to which the Director will be entitled to receive a commission of 2.5% of the net revenues received by the Company with respect to specific transactions introduced to the Company by the Director, subject to a detailed agreement to be entered into by the Director and the Company and the prior approval of any such transactions by the Company and the Audit Committee. As of December 31, 2017 no revenues were generated as a result of this agreement, therefore no commission paid.

See also Notes 8 and 11 for transactions with the Company's shareholders.

Balances with related parties:

	December 31,	
	2017	2016
Accrued expenses	$ 71	$ 71
Loan from Shareholders, net	$ -	$ 3,072

Related parties' expenses:

	Year ended December 31,		
	2017	2016	2015
Directors and management fees	$ 170	$ 22	$ -
Amortization of shareholders' convertible loans discount and BCF	$ 103	$ 1,116	$ 2,684
Interest on shareholders' convertible note and loans	$ 164	$ 270	$ 575

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. In accordance with Statement of ASC 280, "Segment Reporting", the Company is organized and operates as one business segment, which develops, manufactures and sells land radar for defense forces and border protection applications, avionics equipment and aviation data acquisition and debriefing systems.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

b. Revenues by geographic areas:

Revenues are attributed to geographic area based on the location of the end customers as follows:

	Year ended December 31,		
	2017	2016	2015
North America	$ 14,446	$ 1,553	$ 3,558
Israel	6,363	7,358	6,062
Asia	4,372	2,499	2,692
Latin America	514	1,289	1,614
Europe	281	122	148
Australia	206	-	-
Total	$ 26,182	$ 12,821	$ 14,074

c. Major customers:

Revenues from single customers that exceed 10% of the total revenues in the reported years as a percentage of total revenues are as follows:

	Year ended December 31,		
	2017	2016	2015
		%	
Customer A	7	20	24
Customer B	9	17	9
Customer C	2	16	7
Customer D	3	13	10
Customer E	5	11	13
Customer F	13	6	8
Customer G	-	-	13
Customer H	35	1	1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

d. Long-lived assets (property, plant and equipment) by geographic areas:

	December 31, 2017	December 31, 2016
Israel	$ 3,915	$ 2,650
China	319	266
	$ 4,234	$ 2,916

NOTE 16:- SUBSEQUENT EVENTS

a. As part of the Company's strategy to expand its activities in the USA, on January 2018, the company incorporated RADA Sensors Inc, a fully owned subsidiary of the Company. RADA Sensors Inc is holding 75% of interests in RADA Technologies LLC, also organized in January 2018, together with ZASE Technologies LLC, holding 25% of interests in RADA Technologies LLC.

b. In January 2018, the Investor exercised warrants to purchase an additional 1,454,545 Ordinary shares at an exercise price per share of $0.55 in consideration of $800.

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