

**On Track Innovations Ltd.
and Subsidiaries**

**Interim Consolidated Financial
Statements
As of September 30, 2009
(Unaudited)**

Interim Consolidated Financial Statements as of September 30, 2009

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Interim Consolidated Balance Sheets

US dollars in thousands, except share and per share data

| | September 30 2009 (Unaudited) | December 31 2008 (Audited) |
|--|--|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 18,381 | \$ 27,196 |
| Short-term investments | - | 904 |
| Trade receivables (net of allowance for doubtful accounts of \$3,183 and \$3,315 as of September 30, 2009 and December 31, 2008, respectively) | 5,892 | 4,567 |
| Other receivables and prepaid expenses | 3,392 | 2,994 |
| Inventories | 13,041 | 12,343 |
| Total current assets | 40,706 | 48,004 |
| Severance pay deposits fund | 1,228 | 1,189 |
| Investment in an affiliated company | - | - |
| Property, plant and equipment, net | 20,082 | 18,613 |
| Intangible assets, net | 1,747 | 2,503 |
| Total Assets | \$ 63,763 | \$ 70,309 |

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

Interim Consolidated Balance Sheets

US dollars in thousands, except share and per share data

| | September 30 | December 31 |
|---|---------------------|--------------------|
| | 2009 | 2008 |
| | (Unaudited) | (Audited) |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Short-term bank credit and current maturities of long-term bank loans | \$ 6,247 | \$ 4,984 |
| Trade payables | 8,551 | 8,071 |
| Other current liabilities | 4,113 | 3,517 |
| Total current liabilities | <u>18,911</u> | <u>16,572</u> |
| Long-Term Liabilities | | |
| Long-term loans, net of current maturities | 2,865 | 1,762 |
| Accrued severance pay | 3,615 | 3,672 |
| Deferred tax liability | 140 | 202 |
| Total long-term liabilities | <u>6,620</u> | <u>5,636</u> |
| Total Liabilities | <u>25,531</u> | <u>22,208</u> |
| Commitments and Contingencies | | |
| Equity | | |
| Shareholders' Equity | | |
| Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of September 30, 2009 and December 31, 2008; issued 23,066,829 and 21,534,788 shares as of September 30, 2009 and December 31, 2008, respectively; outstanding 23,066,829 and 21,495,409 shares as of September 30, 2009 and December 31, 2008, respectively | 547 | 508 |
| Additional paid-in capital | 186,555 | 182,944 |
| Accumulated other comprehensive income (loss) | 500 | (325) |
| Accumulated deficit | (149,403) | (135,441) |
| Shareholder's equity | <u>38,199</u> | <u>47,686</u> |
| Noncontrolling interest | <u>33</u> | <u>415</u> |
| Total Equity | <u>38,232</u> | <u>48,101</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 63,763</u> | <u>\$ 70,309</u> |

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

Interim Consolidated Statements of Operations

US dollars in thousands, except share and per share data

| | Nine months ended September 30 | | Three months ended September 30 | |
|--|--------------------------------|-------------|---------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenues | | | | |
| Sales | \$ 24,421 | \$ 29,265 | \$ 8,734 | \$ 10,317 |
| Licensing and transaction fees | 1,874 | 1,884 | 674 | 546 |
| Total revenues | 26,295 | 31,149 | 9,408 | 10,863 |
| Cost of revenues | | | | |
| Cost of sales | 14,846 | 19,093 | 5,649 | 6,052 |
| Total cost of revenues | 14,846 | 19,093 | 5,649 | 6,052 |
| Gross profit | 11,449 | 12,056 | 3,759 | 4,811 |
| Operating expenses | | | | |
| Research and development | 6,699 | 8,909 | 2,146 | 3,008 |
| Selling and marketing | 8,930 | 8,086 | 2,748 | 2,911 |
| General and administrative | 8,351 | 10,559 | 3,349 | 3,210 |
| Amortization of intangible assets | 766 | 1,025 | 251 | 367 |
| Total operating expenses | 24,746 | 28,579 | 8,494 | 9,496 |
| Operating loss | (13,297) | (16,523) | (4,735) | (4,685) |
| Financial expense, net | (763) | (667) | (385) | (101) |
| Loss before taxes on income | (14,060) | (17,190) | (5,120) | (4,786) |
| Taxes on income | (35) | 177 | (77) | 55 |
| Equity in loss of affiliate | - | (342) | - | (92) |
| Net loss | (14,095) | (17,355) | (5,197) | (4,823) |
| Net loss (income) attributable to noncontrolling interest | 133 | - | (8) | - |
| Net loss attributable to shareholders | (13,962) | (17,355) | (5,205) | (4,823) |
| Basic and diluted net loss attributable to shareholders per ordinary share | \$ (0.63) | \$ (0.86) | \$ (0.23) | \$ (0.23) |
| Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share | 22,331,068 | 20,091,808 | 22,939,063 | 20,857,776 |

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

Interim Consolidated Statements of Changes in Equity and Comprehensive Income (Loss)

US dollars in thousands, except share and per share data

| | Number of Shares issued | Share capital | Additional paid-in capital | Accumulated other comprehensive Income (loss) | Accumulated deficit | Noncontrolling Interest | Total equity |
|--|----------------------------|------------------|----------------------------------|--|------------------------|----------------------------|------------------|
| Balance as of December 31, 2007 (audited) | 19,627,068 | \$ 454 | \$ 174,494 | \$ 846 | \$ (85,446) | \$ - | \$ 90,348 |
| Changes during the nine-month period ended September 30, 2008 (unaudited): | | | | | | | |
| Stock-based compensation related to options and shares issued to employees and others | - | - | 5,294 | - | - | - | 5,294 |
| Exercise of options and warrants | 1,207,424 | 34 | 734 | - | - | - | 768 |
| Shares and options issued in connection with the purchase of a subsidiary | 300,698 | 9 | 916 | - | - | - | 925 |
| Foreign currency translation adjustments | - | - | - | (208) | - | - | (208) |
| Net unrealized loss on available- for-sale securities | - | - | - | (23) | - | - | (23) |
| Net loss | - | - | - | - | (17,355) | - | (17,355) |
| Balance as of September 30, 2008 (unaudited) | 21,135,190 | \$ 497 | \$ 181,438 | \$ 615 | \$ (102,801) | \$ - | \$ 79,749 |
| Balance as of December 31, 2008 (audited) | 21,534,788 | \$ 508 | \$ 182,944 | \$ (325) | \$ (135,441) | \$ 415 | \$ 48,101 |
| Changes during the nine-month period ended September 30, 2009 (unaudited): | | | | | | | |
| Stock-based compensation related to options and shares issued to employees and others | - | - | 2,886 | - | - | - | 2,886 |
| Exercise of options, warrants and receipts in respect of employee share purchase plan | 1,532,041 | 39 | 216 | - | - | - | 255 |
| Receipt on account of shares | - | - | 255 | - | - | - | 255 |
| Adjustment to contingent consideration in connection with the purchase of a subsidiary | - | - | 7 | - | - | - | 7 |
| Foreign currency translation adjustments | - | - | - | 838 | - | (2) | 836 |
| Net unrealized loss on available- for-sale securities | - | - | - | (13) | - | - | (13) |
| Increase of the Company's ownership interests in a subsidiary | - | - | 247 | - | - | (247) | - |
| Net loss | - | - | - | - | (13,962) | (133) | (14,095) |
| Balance as of September 30, 2009 (unaudited) | 23,066,829 | \$ 547 | \$ 186,555 | \$ 500 | \$ (149,403) | \$ 33 | \$ 38,232 |

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|-----------------------------------|-------------|------------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Total comprehensive loss: | | | | |
| Net loss | \$ (14,095) | \$ (17,355) | \$ (5,197) | \$ (7,893) |
| Foreign currency translation adjustments | 836 | (208) | 475 | 221 |
| Net unrealized gain on available-for-sale securities | (13) | (12) | - | 25 |
| Reclassification adjustment for gain on available-for-sale securities | - | (11) | - | (2) |
| Total comprehensive loss | \$ (13,272) | \$ (17,586) | \$ (4,722) | \$ (7,649) |
| Comprehensive loss attributable to the non-controlling interest | 131 | - | (13) | - |
| Total comprehensive loss attributable to shareholders | \$ (13,141) | \$ (17,586) | \$ (4,735) | \$ (7,649) |

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

Interim Consolidated Statements of Cash Flows

US dollars in thousands, except share and per share data

| | Nine months ended September 30 | |
|---|---------------------------------------|--------------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities | | |
| Net loss | \$ (14,095) | \$ (17,355) |
| Adjustments required to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation related to options and shares issued to employees and others | 2,886 | 5,134 |
| Equity in loss of affiliate | - | 342 |
| Amortization of intangible assets | 766 | 1,025 |
| Depreciation | 1,955 | 2,578 |
| Accrued severance pay, net | (96) | 366 |
| Decrease in deferred tax liabilities | (62) | (183) |
| Decrease (increase) in trade receivables | (1,222) | 878 |
| Increase in other receivables and prepaid expenses | (288) | 240 |
| Decrease (increase) in inventories | (367) | 1,127 |
| Increase (decrease) in trade payables | 232 | (2,420) |
| Increase (decrease) in other current liabilities | 438 | (631) |
| Other, net | (4) | 17 |
| Net cash used in operating activities | <u>(9,857)</u> | <u>(8,882)</u> |
| Cash flows from investing activities | | |
| Acquisition of a consolidated subsidiary, net of cash acquired (Annex C) | - | (565) |
| Proceeds from maturity of available -for sale securities and deposits | 1,418 | 24,621 |
| Purchase of available-for sale securities | (514) | (28,574) |
| Purchase of property and equipment | (2,693) | (1,176) |
| Other, net | 19 | 21 |
| Net cash used in investing activities | <u>(1,770)</u> | <u>(5,673)</u> |
| Cash flows from financing activities | | |
| Increase in short-term bank credit, net | 1,148 | 333 |
| Proceeds from long-term bank loans | 1,437 | - |
| Repayment of long-term bank loans | (388) | (389) |
| Proceeds from receipt on account of shares and exercise of options | 510 | 768 |
| Net cash provided by financing activities | <u>2,707</u> | <u>712</u> |
| Effect of exchange rate changes on cash | <u>105</u> | <u>6</u> |
| Decrease in cash and cash equivalents | (8,815) | (13,837) |
| Cash and cash equivalents at the beginning of the period | 27,196 | 35,470 |
| Cash and cash equivalents at the end of the period | \$ 18,381 | \$ 21,633 |

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

Interim Consolidated Statements of Cash Flows

US dollars in thousands, except share and per share data

| | Nine months ended September 30 | |
|---|---------------------------------------|--------------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| Supplementary cash flows activities: | | |
| A. Cash paid during the period for: | | |
| Interest | \$ 31 | \$ 47 |
| Income taxes | \$ - | \$ 6 |
| B. Non-cash transactions: | | |
| Purchase of property and equipment | \$ - | \$ 90 |
| C. Acquisition of consolidated subsidiaries: | | |
| Assets acquired and liabilities assumed of the subsidiaries at date of acquisition: | | |
| Working capital surplus, excluding cash and cash equivalents | \$ - | \$ - |
| Property and equipment | - | (31) |
| Goodwill | - | (830) |
| Customer contracts and relationships | - | (561) |
| Non competition agreement | - | (194) |
| Technology | - | (59) |
| Deferred tax liability | - | 185 |
| | - | (1,490) |
| Issuance of shares in consideration for the acquisition | - | 775 |
| Direct costs of acquisitions paid via grant of options | - | 150 |
| | \$ - | \$ (565) |

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

Notes to the Interim Consolidated Financial Statements

US dollars in thousands, except share and per share data

Note 1 - Organization and Basis of Presentation

A. Description of business

On Track Innovations Ltd. (the “Company”) was founded in 1990, in Israel. The Company and its subsidiaries (together “the Group”) are principally engaged in the field of design and development of contactless microprocessor-based smart card systems. Commencing November 2002, the Company’s shares are listed for trading on NASDAQ.

B. Basis of presentation

The accompanying unaudited interim consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly, the financial information included therein. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 20-F for the year ended December 31, 2008. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Note 2 - Inventories

Inventories consisted of the following:

| | September 30 2009 <u>(Unaudited)</u> | December 31 2008 <u>(Audited)</u> |
|-------------------|--|---|
| Raw materials | \$ 5,074 | \$ 4,435 |
| Work in progress | 4,632 | 3,747 |
| Finished products | <u>3,335</u> | <u>4,161</u> |
| | <u>\$ 13,041</u> | <u>\$ 12,343</u> |

Note 3 – The allotment of shares of Millennium Card Technology Ltd. (“MCT”) to the Company

In July 2009, the Company’s subsidiary MCT has allotted additional 76,000 shares of HK\$1.00 to the Company against the waiver of the debt of MCT to the Company in the principle amount of \$2.5 million so that such debt shall be converted into the said 76,000 shares.

Following the shares allotment, the Company holds 99.5% of MCT’s share capital.

Notes to the Interim Consolidated Financial Statements

US dollars in thousands, except share and per share data

Note 4 – Subsequent events

In November 2009 the Company and its subsidiary Millennium Card's Technology Ltd. ("MCT") signed binding agreements with SMARTRAC N.V, according to the which, SMARTRAC acquires certain machinery and production intellectual property (IP) from the Company and MCT. SMARTRAC will pay an aggregate amount of euro 8.5 million (approx. \$12.5 million) to be paid in multiple installments, whereof euro 5 million will be paid before year end and the remaining balance will be paid in eight (8) equal quarterly installments starting the first quarter of 2010. As a result, the Company will cease to produce inlays, and SMARTRAC will become the Company's exclusive supplier for wire embedded and dual interface inlays. According to the agreement, the Company will be able to continue to fulfill its existing obligations and existing orders at the MCT site.

The parties have also signed a supply agreement by which the Company will get defined lead times, production allocation and pricing of SMARTRAC products. The supply agreement ensures the Company's ability to continue and support their customers.

In addition, both parties will mutually accept and respect each others patents especially in the field of wire-embedding and dual Interface technology. As part of the agreements, all patent litigations and in particular all patent infringement legal proceedings between SMARTRAC and the Company have been ceased.