

**On Track Innovations Ltd.
and its Subsidiaries**

**Interim Consolidated Financial
Statements
As of March 31, 2011
(Unaudited)**

Interim Consolidated Financial Statements as of March 31, 2011

Contents

Page

Interim Consolidated Balance Sheets	F-2
Interim Consolidated Statements of Operations	F-4
Interim Consolidated Statements of Changes in Equity and Comprehensive Loss	F-5
Interim Consolidated Statements of Cash Flows	F-6
Notes to the interim Consolidated Financial Statements	F-8

Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

	March 31 2011 (Unaudited)	December 31 2010 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 26,286	\$ 15,409
Short-term investments	10,880	8,594
Trade receivables (net of allowance for doubtful accounts of \$263 and \$2,832 as of March 31, 2011 and December 31, 2010, respectively)	9,031	5,072
Receivables from sale of operation	1,864	2,336
Other receivables and prepaid expenses	2,164	1,532
Inventories	9,036	8,448
Total current assets	<u>59,261</u>	<u>41,391</u>
Severance pay deposits fund	1,384	1,355
Property, plant and equipment, net	15,450	14,826
Intangible assets, net	996	942
Goodwill	465	-
Total Assets	<u><u>\$ 77,556</u></u>	<u><u>\$ 58,514</u></u>

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

Interim Consolidated Balance Sheets

US dollar in thousands except share and per share data

	March 31	December 31
	2011	2010
	(Unaudited)	(Audited)
Liabilities and Equity		
Current Liabilities		
Short-term bank credit and current maturities of long-term bank loans	\$ 5,493	\$ 6,881
Trade payables	8,713	6,874
Other current liabilities	11,033	8,954
Total current liabilities	<u>25,239</u>	<u>22,709</u>
Long-Term Liabilities		
Long-term loans, net of current maturities	4,841	5,189
Accrued severance pay	3,927	3,727
Deferred tax liability	74	84
Total long-term liabilities	<u>8,842</u>	<u>9,000</u>
Total Liabilities	<u>34,081</u>	<u>31,709</u>
Liabilities related to discontinued operation	567	689
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Ordinary shares of NIS 0.1 par value: Authorized – 50,000,000 shares as of March 31, 2011 and December 31, 2010; issued: 31,705,166 and 25,384,010 shares as of March 31, 2011 and December 31, 2010, respectively; outstanding: 31,142,691 and 24,821,535 shares as of March 31, 2011 and December 31, 2010, respectively	792	610
Additional paid-in capital	208,479	190,933
Treasury shares at cost –562,475 shares as of March 31, 2011 and December 31, 2010.	(1,136)	(1,136)
Accumulated other comprehensive income	856	645
Accumulated deficit	(165,924)	(164,812)
Shareholder's equity	<u>43,067</u>	<u>26,240</u>
Non-controlling interest	<u>(159)</u>	<u>(124)</u>
Total Equity	<u>42,908</u>	<u>26,116</u>
Total Liabilities and Equity	<u>\$ 77,556</u>	<u>\$ 58,514</u>

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

Interim Consolidated Statements of Operations

US dollar in thousands except share and per share data

	Three months ended March 31	
	2011	2010
	(Unaudited)	(Unaudited)
Revenues		
Sales	\$ 10,870	\$ 13,540
Licensing and transaction fees	1,153	874
Total revenues	12,023	14,414
Cost of revenues		
Cost of sales	5,708	6,158
Total cost of revenues	5,708	6,158
Gross profit	6,315	8,256
Operating expenses		
Research and development	2,197	2,048
Selling and marketing	2,841	3,733
General and administrative	2,255	2,256
Amortization of intangible assets	151	144
Total operating expenses	7,444	8,181
Operating profit (loss)	(1,129)	75
Financial income (expense), net	49	(545)
Loss before taxes on income	(1,080)	(470)
Taxes on income	(65)	(82)
Net loss from continuing operations	(1,145)	(552)
Net profit from discontinued operations	-	59
Net loss	(1,145)	(493)
Net loss attributable to noncontrolling interest	33	9
Net loss attributable to shareholders	\$ (1,112)	\$ (484)
Basic and diluted net profit (loss) attributable to shareholders per ordinary share		
From continuing operations	\$ (0.04)	\$ (0.02)
From discontinued operations	\$ -	\$ 0.00
	\$ (0.04)	\$ (0.02)
Weighted average number of ordinary shares used in computing basic net profit (loss) per ordinary share	29,494,848	24,155,916
Weighted average number of ordinary shares used in computing diluted net profit (loss) per ordinary share	29,494,848	26,865,470

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

Interim Consolidated Statements of Cash Flows

US dollar in thousands except share and per share data

	Three months ended March 31	
	2011	2010
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss from continuing operations	\$ (1,145)	\$ (552)
Adjustments required to reconcile net loss to net cash provide by (used in) operating activities:		
Stock-based compensation related to options and shares issued to employees and others	533	982
Gain on sale of property and equipment	(4)	(6)
Amortization of intangible assets	151	144
Depreciation	429	370
Accrued severance pay, net	171	78
Accrued interest and linkage differences on long-term loans	47	14
Decrease in deferred tax liability	(10)	(9)
Linkage differences on receivable from sale of operation	(151)	-
Decrease (increase) in trade receivables, net	(3,896)	2,217
Increase in other receivables and prepaid expenses	(614)	(68)
Increase in inventories	(351)	(2,804)
Increase (decrease) in trade payables	1,569	(1,543)
Increase in other current liabilities	2,010	10,664
Net cash provided by (used in) continuing operating activities	<u>(1,261)</u>	<u>9,487</u>
Cash flows from investing activities		
Purchase of property and equipment	(582)	(179)
Purchase of available-for-sale securities	(2,449)	(2,830)
Acquisition of business operation (Supplement B)	(400)	-
Proceeds from maturity and sale of available-for-sale securities	178	984
Other, net	7	6
Net cash used in continuing investing activities	<u>(3,246)</u>	<u>(2,019)</u>
Cash flows from financing activities		
Decrease in short-term bank credit, net	(1,852)	(972)
Proceeds from long-term bank loans	151	419
Repayment of long-term bank loans	(336)	(110)
Proceeds from issuance of shares, net of issuance expenses	16,644	-
Proceeds from exercise of options and warrants, net	189	18
Net cash provided by (used in) continuing financing activities	<u>14,796</u>	<u>(645)</u>
Cash flows from discontinued operations		
Net cash used in discontinued operating activities	(122)	(306)
Net cash provided by discontinued investing activities	623	-
Total net cash provided by (used in) discontinued activities	<u>501</u>	<u>(306)</u>
Effect of exchange rate changes on cash	<u>87</u>	<u>(15)</u>
Increase in cash and cash equivalents	10,877	6,502
Cash and cash equivalents at the beginning of the period	<u>15,409</u>	<u>26,884</u>
Cash and cash equivalents at the end of the period	<u>\$ 26,286</u>	<u>\$ 33,386</u>

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

Interim Consolidated Statements of Cash Flows (cont'd)

US dollar in thousands except share and per share data

	Three months ended March 31	
	2011	2010
	(Unaudited)	(Unaudited)
Supplementary cash flows activities:		
A. Cash paid during the period for:		
Interest paid	\$ 81	\$ 44
Income taxes paid	\$ 12	\$ -
B. Acquisition of business operation:		
Assets acquired and liabilities assumed of the subsidiary at date of acquisition:		
Working capital surplus	\$ (89)	\$ -
Property and equipment	(15)	-
Goodwill	(465)	-
Customer relationships	(118)	-
Brand	(29)	-
Technology	(46)	-
	<u>(762)</u>	<u>-</u>
Issuance of shares in consideration for the acquisition	362	-
	<u>\$ (400)</u>	<u>\$ -</u>

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

Notes to the Consolidated Financial Statements

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, 2010. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Note 2 – Share capital

On February 8, 2011 the Company closed a firm commitment underwritten public offering of 6,000,000 ordinary shares, including shares issued pursuant to the underwriters over-allotment option, at a public offering price of \$3.00 per share. The proceeds to the Company, net of issuance costs, were approximately \$16,644.

Note 3 – Acquisition of business operations

On January 4, 2011 PARX Ltd., the Company's subsidiary, entered into an assets acquisition agreement with Ganis Systems Ltd. ("Ganis") for the acquisition of assets and intellectual property (IP). In consideration for this acquisition, the Company paid Ganis \$400 in cash and issued to it 130,521 ordinary shares of the Company. The ordinary shares will be subject to lock-up, where 26,760 ordinary shares will be free from lock up seven months after the closing date and an additional 34,587 ordinary shares will be released from lock-up after 12, 18 and 24 months after the closing date. In addition, under an earn-out agreement, Ganis may be entitled to certain earn-out payments of up to an additional \$450 over the next three years, based on reaching certain success criteria determined by the companies. Under the terms of the agreement, the chairman of board of the Company (or the board) will be granted an irrevocable proxy to vote the shares that are issued as part of the transaction.

The acquisition was accounted for using the purchase method of accounting and the Company allocated the purchase price according to the fair value of the tangible and intangible assets acquired and liabilities assumed.

In connection with the acquisition, the Company recognized three intangible assets: (1) customer relationships, estimated fair value of \$118, (2) technology, estimated fair value of \$46 and (3) brand, estimated fair value of \$26. Amortization is computed over the estimated useful lives of the respective assets, generally six to seven years. The Company also recognized goodwill in the estimated amount of \$465. These estimates are subject to revision, which may result in adjustments to the values presented above, when the appraisals are finalized. However, such adjustments are not expected to significantly change the information presented above.

Notes to the Consolidated Financial Statements

In thousands, except share and per share data

Note 4 - Inventories

Inventories consisted of the following:

	March 31 2011	December 31 2010
	<u>(Unaudited)</u>	<u>(Audited)</u>
Raw materials	\$ 3,486	\$ 3,007
Work in progress	2,780	2,408
Finished products	2,770	3,033
	<u>\$ 9,036</u>	<u>\$ 8,448</u>

