

**QUARTERLY REPORT
Q3 2016
Wroclaw, 11/12/2016**

THE MANAGEMENT BOARD'S LETTER

Dear Shareholders,

As a continuation of the usual practice of describing activities of PiLab SA in quarterly reports, hereby we present another set of information.

At present, PiLab shows two types of „speed” in business development; the first level is a more mature organization that generates repeatable sales and implementation processes, whereas the second is closer to the start-up level in the USA which resembles PiLab at the stage of 2014, where various technology applications in the American market are being verified

In Poland, the number of ongoing sales projects as of 12th of November 2016 is 33, , which represents more than a 22% growth relative to the previous quarter, and more than a half of them started less than 6 months ago. The statistics related to the length of the sales cycle indicate limited ability to shorten the sales process by means of a technological advantage and offered trade conditions. This is mostly due to procedures that apply in banking and insurance sectors.

As a reminder, with regard to ease and quickness of the implementation of our technology, we offer our customers an analytical environment to be built and tested based on integration of different data silos from inside and outside of the company with the objective of demonstrating proof of value. A ready-made business case represents the value provided by the DataWalk platform in a customer's organization, which can result in increasing the pace of purchase processes and shortening them below typical cycles that can last for instance 12-36 months in a banking market. Sometimes, in cooperation with a customer's team, we manage to carry out advanced analytical processes with spectacular business results in a [couple of working days](#). Thus, we can provide decision-makers with obvious arguments indicating that the return on investment in the platform can be counted in a few months.

Despite that, we still have to comply with customers' internal regulations, their budget cycles and project queuing in IT departments responsible for the technical aspect of the implementation. What is more, the processes connected with safety procedures in institutions can last several times longer than a full DataWalk implementation including training, which results in significant delays. For instance, we have been formalizing aspects related to banking secret and personal data processing in one of the prestigious and technologically advanced companies for over half a year now. Despite our practical experience with similar customers, all the preparations we have made and the procedures we have implemented, we still have to go through the accreditation process like any other supplier who intends to approach key IT systems of a financial institution. Taking into consideration the above-mentioned aspects, we begin to perceive sales projects as possible to be closed minimum 6 or as long as after 24 months since the time they were qualified for the sales funnel which outline we presented in the report on the previous quarter.

What is important, to sum up the sales thread, the results we have achieved from the systems implemented in customers' environments so far are so unquestionable that we are receiving further orders from present customers for extension of system functionalities¹. These orders make up most of the income in the reported quarter.

¹ For specific examples please review our latest use-case studies:

BZ WBK Santander bank: <http://pilab.pl/wp-content/uploads/2016/10/PiLab-BZ-WBK-Case-Study.pdf>

4Mats: <http://pilab.pl/wp-content/uploads/2016/07/PiLab-DataWalk-4Mats.pl-Case-Study-en.pdf>

It is also worth mentioning that the next identified target group of PiLab solution functionalities, apart from the finance branch, is a domestic public sector. We are conducting a range of activities aimed at taking actions at that level.

It is clear to us that business scaling is much more capital-intensive in US than in Poland. Therefore, a conscientiously carried out and, thus, time-consuming process of market testing should result in a decision about focusing on one or two of the most valuable markets for a particular technology, which is likely to yield significant profit in the future.

After hundreds of discussions with several dozen corporations in the USA as well as the technology verification at a few high-tech and Big Data conferences, DataWalk specialists are conducting negotiations with some significant institutions to launch pilot projects in their environments. The analysis of the proceedings in American corporations indicates a much higher level of challenge in the area of internal regulations and safety than in the home market. For instance, in order to limit the external subjects' contact with the internal technical infrastructure of the contractors, two of a few discussed projects are likely to be carried out by trained employees of the contracting party assisted by DataWalk Inc. specialists, without any direct access to the systems.

With reference to the protection of PiLab's intellectual property, we inform that that action we took some years ago to protect IP in UE and in the USA is being continued: we provide explanations, reply to multiple questions and patent officials' remarks. Each of these activities generates costs covered by the Company from its own resources as European Union co-financing received in 2013 ended along with the end of subvention programs in the donation perspective of 2015. PiLab has accounted for four subvention contracts; in each of them, the project indicators were positively verified during inspection in II-IIIQ 2016. Due to the fact that the patent process in EU is complicated and takes a long time and the Company is now more conscious of the advantage of a proprietary technology, the Executive Board are considering the possibility of merging the scope of protection from several patent applications in UE to one extensive application in the USA.

*We encourage you to read selected case-studies published on PiLab's website.
Also, we invite you to visit Pilab's headquarters in Wroclaw.*

Yours faithfully,



*Paweł Wieczyński
CEO*

1. BASIC INFORMATION

Company Name:	PiLab SA
Company Address:	ul. Rzeźnicza 32-33, 50-130 Wrocław
Phone:	+48 71 707 21 74
Fax:	+48 71 707 22 73
E-mail:	biuro@pilab.pl
www:	www.pilab.pl

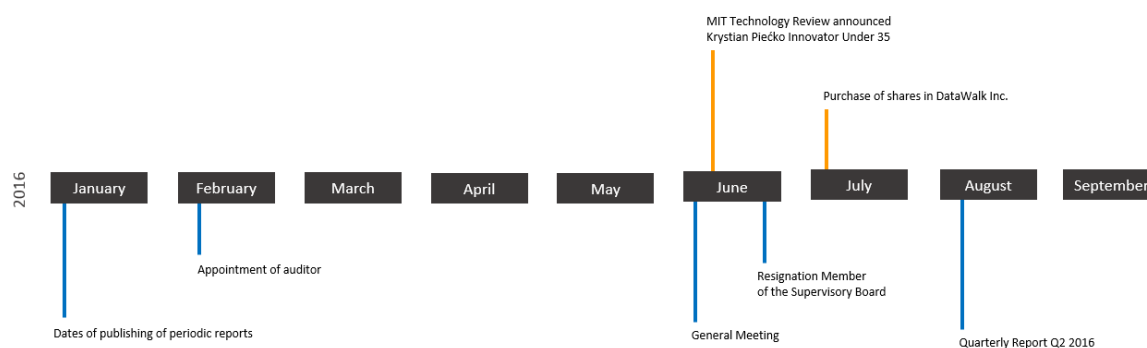
Source: Company

DataWalk Inc. (US Subsidiary)

Company Name:	DataWalk Inc.
Company Address:	1209 Orange Street, Wilmington, Delaware 19801
E-mail:	info@datawalk.com
www:	www.datawalk.com

Source: Company

2. TIMELINE



Source: Company

3. FINANCIAL DATA

Balance Sheet with comparative results

ASSETS	IIIQ 2016 PLN	IIIQ 2016 USD	IIIQ 2016 EUR	IIIQ 2015 PLN	IIIQ 2015 USD	IIIQ 2015 EUR
A Fixed Assets	1 518 266,09	393 761,63	352 102,53	598 620,81	158 558,25	141 230,79
I. Intangible assets	1 339 466,23	347 389,97	310 636,88	416 214,58	110 243,84	98 196,24
II. Tangible fixed assets	159 304,09	41 315,44	36 944,36	182 406,23	48 314,41	43 034,55
III. Long-term receivables	-	-	-	-	-	-
IV. Long-term investments	19 495,77	5 056,22	4 521,28	-	-	-
V. Long-term prepayments	-	-	-	-	-	-
B Current Assets	17 596 937,18	4 563 757,76	4 080 922,35	25 877 125,18	6 854 141,33	6 105 111,40
I. Inventory	-	-	-	-	-	-
II. Short-term receivables	2 599 128,62	674 082,84	602 766,38	1 457 044,78	385 931,23	343 756,14
III. Short-term investments	14 967 755,38	3 881 880,64	3 471 186,31	24 389 580,19	6 460 131,43	5 754 159,44
IV. Short-term prepayments	30 053,18	7 794,28	6 969,66	30 500,21	8 078,67	7 195,82
TOTAL ASSETS	19 115 203,27	4 957 519,39	4 433 024,88	26 475 745,99	7 012 699,58	6 246 342,19

LIABILITIES	IIIQ 2016 PLN	IIIQ 2016 USD	IIIQ 2016 EUR	IIIQ 2015 PLN	IIIQ 2015 USD	IIIQ 2015 EUR
A Equity	18 397 371,07	4 771 349,93	4 266 551,73	25 747 019,28	6 819 679,84	6 074 415,91
I. Share capital	300 550,00	77 947,51	69 700,83	300 550,00	79 607,46	70 907,85
II. Called up share capital (negative value)	-	-	-	-	-	-
III. Own shares (negative value)	-	-	-	-	-	-
IV. Supplementary capital	32 988 203,98	8 555 475,90	7 650 325,60	33 000 203,98	8 740 849,71	7 785 637,71
V. Revaluation reserve	-	-	-	-	-	-
VI. Other reserve capitals	-	-	-	-	-	-
VII. Previous years' profit (loss)	-9 538 930,94	-2 473 917,46	-2 212 182,50	-2 957 147,71	-783 267,39	-697 670,86
VIII. Net profit (loss)	-5 352 451,97	-1 388 156,02	-1 241 292,20	-4 596 586,99	-1 217 509,93	-1 084 458,78
IX. Write-off on net profit during the financial year (negative value)	-	-	-	-	-	-
B Liabilities and Provisions For Liabilities	717 832,20	186 169,46	166 473,14	728 726,71	193 019,74	171 926,28
I. Provisions for liabilities	-	-	-	-	-	-
II. Long-term liabilities	20 479,78	5 311,42	4 749,49	65 359,81	17 312,02	15 420,14
III. Short-term liabilities	697 352,42	180 858,04	161 723,66	663 366,90	175 707,71	156 506,13
IV. Accruals & Deferred Income	-	-	-	-	-	-
TOTAL EQUITY & LIABILITIES	19 115 203,27	4 957 519,39	4 433 024,88	26 475 745,99	7 012 699,58	6 246 342,19

Source: Company

Profit and loss account with comparative results

PROFIT AND LOSS ACCOUNT	IIIQ2016	IIIQ2016	IIIQ2016	IIIQ2015	IIIQ2015	IIIQ2015
	PLN	USD	EUR	PLN	USD	EUR
A Revenues from sales	415 520,29	106 875,25	95 724,36	529 657,50	140 694,23	126 473,29
I. Sales of products and services	415 520,29	106 875,25	95 724,36	529 657,50	140 694,23	126 473,29
II. Change in work in progress	-	-	-	-	-	-
III. Intercompany sales	-	-	-	-	-	-
IV. Sales of goods and materials	-	-	-	-	-	-
B Operating costs	2 118 667,06	544 938,67	488 082,16	2 218 475,88	589 299,23	529 734,68
I. Depreciation	49 053,64	12 617,00	11 300,60	54 787,91	14 553,45	13 082,43
II. Materials & energy	53 856,66	13 852,38	12 407,08	79 431,83	21 099,67	18 966,98
III. Cost of services	1 279 344,23	329 057,91	294 725,45	1 397 569,35	371 239,80	333 716,03
IV. Taxes and fees	11 522,00	2 963,55	2 654,35	-444,67	-118,12	-106,18
V. Salaries	587 242,40	151 043,60	135 284,37	504 696,47	134 063,77	120 513,02
VI. Benefits	74 251,67	19 098,14	17 105,53	64 237,94	17 063,68	15 338,94
VII. Other costs	63 396,46	16 306,09	14 604,79	118 197,05	31 396,97	28 223,47
VIII. Cost of goods and materials sold	-	-	-	-	-	-
C Profit/Loss on sales (A-B)	-1 703 146,77	-438 063,42	-392 357,81	-1 688 818,38	-448 605,00	-403 261,39
D Other operating incomes	2,85	0,73	0,66	32 109,49	8 529,32	7 667,21
I. Profit on sale of fixed assets	-	-	-	406,50	107,98	97,07
II. Subsidies	-	-	-	30 772,06	8 174,06	7 347,85
III. Other operating incomes	2,85	0,73	0,66	930,93	247,29	222,29
E Other operating costs	8 523,95	2 192,43	1 963,68	38 179,12	10 141,61	9 116,53
I. Loss on sale of fixed assets	-	-	-	-	-	-
II. Actualization of fixed assets	-	-	-	-	-	-
III. Other operating costs	8 523,95	2 192,43	1 963,68	38 179,12	10 141,61	9 116,53
F Profit/Loss on activity (C + D - E)	-1 711 667,87	-440 255,12	-394 320,83	-1 694 888,01	-450 217,29	-404 710,72
G Financial incomes	70 904,51	18 237,23	16 334,43	2 400,86	637,75	573,28
I. Dividends	-	-	-	-	-	-
II. Interest incomes	49 847,49	12 821,19	11 483,48	3 467,15	920,99	827,90
III. Profit on sold investments	-	-	-	-	-	-
IV. Actualization of investments	21 057,02	5 416,04	4 850,95	-	-	-
V. Other	-	-	-	-1 066,29	-283,24	-254,61
H Financial costs	20 264,93	5 212,31	4 668,48	4 039,79	1 073,10	964,63
I. Interest expenses	9 656,19	2 483,65	2 224,52	4 039,79	1 073,10	964,63
II. Loss on sold investments	-	-	-	-	-	-
III. Actualization of investments	-	-	-	-	-	-
IV. Other	10 608,74	2 728,66	2 443,96	-	-	-

PiLab Spółka Akcyjna

ul. Rzeźnicza 32-33, 50-130 Wrocław | KRS: 0000405409, NIP: 894-303-43-18, REGON: 021737247 | Sąd rejestrowy: Sąd Rejonowy dla Wrocławia-Fabrycznej we Wrocławiu | VI Wydział Gospodarczy KRS | Kapitał zakładowy: 300.550,00 zł w całości wpłacony

I.	Profit/Loss on total activity (F + G - H)	-1 661 028,29	-427 230,20	-382 654,88	-1 696 526,94	-450 652,64	-405 102,07
J	Result on extraordinary incidents (J.I. - J.II.)	-	-	-	-	-	-
I.	Extraordinary gains	-	-	-	-	-	-
II.	Extraordinary losses	-	-	-	-	-	-
K	Gross Profit/Loss (I +/- J)	-1 661 028,29	-427 230,20	-382 654,88	-1 696 526,94	-450 652,64	-405 102,07
L	Income tax	-	-	-	-	-	-
M	Other statutory appropriations of the profit	-	-	-	-	-	-
N	Net Profit/Loss (K - L - M)	-1 661 028,29	-427 230,20	-382 654,88	-1 696 526,94	-450 652,64	-405 102,07

Source: Company

Cash flow with comparative results

CASH FLOW		IIIQ2016	IIIQ2016	IIIQ2016	IIIQ2015	IIIQ2015	IIIQ2015
		PLN	USD	EUR	PLN	USD	EUR
A. Cash flows from operating activities							
I.	Net profit (loss)	-1 661 028,29	-427 230,20	-382 654,88	-1 696 526,94	-450 652,64	-405 102,07
II.	Total adjustments	-334 820,26	-86 118,54	-77 133,31	-22 811,78	-6 059,55	-5 447,07
III.	Net cash flows from operating activities (I +/- II)	-1 995 848,55	-513 348,74	-459 788,18	-1 719 338,72	-456 712,19	-410 549,13
B. Cash flows from investment activities							
I.	Inflows	-	-	-	-	-	-
II.	Outflows	277 807,78	71 454,46	63 999,21	69 779,08	18 535,59	16 662,07
III.	Net cash flows from investment activities (I-II)	-277 807,78	-71 454,46	-63 999,21	-69 779,08	-18 535,59	-16 662,07
C. Cash flows from financial activities							
I.	Inflows	-	-	-	20 811 315,00	5 528 161,03	4 969 391,58
II.	Outflows	14 211,37	3 655,28	3 273,91	26 947,57	7 158,15	6 434,63
III.	Net cash flows from financial activities (I-II)	-14 211,37	-3 655,28	-3 273,91	20 784 367,43	5 521 002,88	4 962 956,95
D.	Total net cash flows (A.III. +/- B.III +/- C.III)	-2 287 867,70	-588 458,47	-527 061,30	18 995 249,63	5 045 755,09	4 535 745,75
E.	Balance sheet change in cash, including:	-2 287 867,70	-588 458,47	-527 061,30	18 995 249,63	5 045 755,09	4 535 745,75
F.	Cash opening balance	14 653 928,42	3 769 111,45	3 375 858,92	5 394 330,56	1 432 909,36	1 288 075,30
G.	Closing balance of cash (F+/-D), including:	12 366 060,72	3 180 652,98	2 848 797,62	24 389 580,19	6 478 664,45	5 823 821,05

Source: Company

Statement of changes in share equity (funds) with comparative results

Statement of changes in share equity (funds)	IIIQ2016	IIIQ2016	IIIQ2016	IIIQ2015	IIIQ2015	IIIQ2015
	PLN	USD	EUR	PLN	USD	EUR
I. Opening balance of equity	20 058 399,36	5 159 186,03	4 620 899,23	6 632 231,22	1 761 735,97	1 583 665,14
I.a. Opening balance of equity after adjustments	20 058 399,36	5 159 186,03	4 620 899,23	6 632 231,22	1 761 735,97	1 583 665,14
II. Closing balance of equity	18 397 371,07	4 731 955,83	4 238 244,35	25 747 019,28	6 839 244,35	6 147 954,65
III. Equity including proposed profit distribution (loss coverage)	18 397 371,07	4 731 955,83	4 238 244,35	25 747 019,28	6 839 244,35	6 147 954,65

Source: Company

4. THE MANAGEMENT BOARD'S COMMENTS ON FACTORS AND EVENTS THAT AFFECT THE ACHIEVED FINANCIAL RESULTS

Pilab is continuing strategy of development on two paths. The first one, more mature, European path is growing in a stable and predictable way. We are observing continuously increasing interest in our product. Currently we are working on 33 different sales cases, which is over 20% higher than last quarter. Most of those cases started less than six months ago. Specific to our product, combined with very formal CAPEX acceptance process in most of our customers, is positioning our sales cycle within 6 to 24 months.

Simultaneously the entry into U.S. market is focusing on exploring different use-cases. This process will lead to identification of areas with the greatest potential to achieve success.

Our confidence of achieving market success is growing through experience gathered from new business cases, market research and, what is very important to us, by observation how our customers profit from using our product.

5. NOTES TO FINANCIAL DATA

The following exchange rates were applied:

EUR:

from	to	for Balance Sheet	for profit and loss	for cash flow
30.06.2015	30.09.2015	4,2386	4,1879	4,1879
30.06.2016	30.09.2016	4,3120	4,3408	4,3408

USD:

from	to	for Balance Sheet	for profit and loss	for cash flow
30.06.2015	30.09.2015	3,7754	3,7646	3,7646
30.06.2016	30.09.2016	3,8558	3,8879	3,8879

Source: NBP

Balance Sheet applicable exchange rate represents the exchange rate as of the last day of the month ending the relevant period. Profit and loss account and Cash flow exchange rate represents the average of exchange rates effective on the last day of each month within the relevant period.