Disclaimer

Set out below is an unofficial translation into the English language, for convenience purposes only, of the financial statements of Itamar Medical Ltd. (the "**Company**") for the year ended December 31, 2014 (the "Financial Statements") that originally were prepared in the Hebrew language.

The full, legal and binding version of the Financial Statements for all purposes is the Hebrew version, filed by the Company with the Israel Securities Authority and published on the MAGNA website: www.magna.isa.go.il, on March 24, 2015

In the event of a contradiction or inconsistency between this translation and the Hebrew version of the Financial Statements, the provisions of the Hebrew version shall prevail.

This translation was not carried out by the Company, nor checked by the Company, and accordingly, the Company does not guarantee that the translation fully, correctly or accurately reflects the Hebrew version of the Financial Statements and its contents.

Neither the Company, nor any of its directors, employees, advisors or other office holders, accept any responsibility on any grounds whatsoever to any other person in connection with this translation into English of the Financial Statements. The Company assumes no liability for any damages or loss of any kind (including, without limitation, indirect, special, incidental, punitive or consequential damages,) that might arise from the use of this translated version of the Financial Statements.

Readers are advised to read the authoritative Hebrew version of the Financial Statements in all matters which may affect them and/or their decisions in any way. Below are links to the Company's Financial Statements in Hebrew:

http://maya.tase.co.il/bursa/report.asp?report_cd=888228
http://maya.tase.co.il/bursa/report.asp?report_cd=888228-01&CompCd=1411&Type=Pdf

ITAMAR MEDICAL LTD.

2014 ANNUAL REPORT

MARCH 23, 2015

ITAMAR MEDICAL LTD.

2014 ANNUAL REPORT

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ITAMAR MEDICAL LTD.

(THE "COMPANY")

PART A – DESCRIPTION OF CORPORATE AFFAIRS

1. Description of Corporate Operations and Development of Corporate Business

1.1. Introduction

The Board of Directors of Itamar Medical Ltd. is pleased to present this description of the corporate affairs for the year ended December 31, 2014 (**the** "**reported period**") which reviews the corporation and evolution of its business in 2014. This report was compiled in conformity with the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Reporting Regulations**"). Financial data in this report are in dollars, including the Notes to the Company's consolidated financial statements as of December 31, 2014. Data in this report which are indicated to be correct as of the date of this report are current as of March 23, 2015.

With regard to references to professional articles included in this report, note that the Company has not independently verified the data and/or forecasts included in such research and has not carried out in itself the experiments/research mentioned therein. However, to the best of the Company's knowledge, the professional articles to which the Company refers in this report are scientific publications in well-known journals in various fields of medicine, considered to be reliable - since these journals verify and validate each article prior to publication through peer review committees.

The Company meets the definition of "Small Corporation" in the Reporting Regulations. On March 18, 2014, the Company's Board of Directors resolved to adopt the reliefs set forth in the Reporting Regulations with regard to small corporations, on the following matters: (a) enclosing financial statements of an associated company; (b) report on effectiveness of internal controls over financial reporting; (c) enclosing of highly material valuations; (d) details of exposure to market risk. Note that due to the carrying amount of convertible notes (Series L), the Company included a chapter on exposure to market risk in the Board of Directors' Report.

1.2. Definitions and legend

For convenience, in this report the following abbreviations shall have the following meanings:

The "Corporation" or - Itamar Medical Ltd.

The "Company"		
The "U.S. Subsidiary"	-	Itamar Medical Inc., incorporated in the U.S. and wholly-owned by the Company.
The "Japanese subsidiary"		Itamar Medical Japan Co. Ltd., incorporated in Japan and wholly-owned by the Company.
The "Group"		The Company and its subsidiaries.
"PAT"	-	Peripheral Arterial Tone; PAT™
"PAT signal"	-	This signal measures changes in peripheral arterial pulse volumes and various parameters of arterial activity.
"PAT technology"	-	Technology for monitoring the PAT signal.
"CPT code" or "reimbursement code"	-	Insurance coverage standard for (reimbursement to users of) medical procedures as published by the AMA from time to time (see Section 6.2 below)
"ISA"	-	The Israel Securities Authority
"report date" or "report publication date"		March 23, 2015
"TASE"	-	The Tel Aviv Stock Exchange Ltd.
"dollar" or"$"	-	U.S. dollar
"NIS"	-	New Israeli Shekel
The "Industrial R&D Promotion Law"	-	The Industrial Research and Development Promotion Law, 1984
The "Companies Law"	-	The Companies Law, 1999
The "Securities Law"	-	The Securities Law, 1968
"FDA"	-	The Food and Drug Administration is the U.S. regulatory body charged with, amongst others, regulation and monitoring of the development and registration of drugs and medical devices in the U.S.

1.3. Overview

The Company was incorporated in 1997 as a private company in Israel and it is engaged in research and development of non-invasive PAT-signal-based medical devices, mainly for diagnosis of cardiological conditions, as well as sleep breathing disorders and in production, marketing, sale and leasing of those devices.

On February 27, 2007, the Company issued a prospectus in which it first offered securities to the public - shares, convertible notes (Series A) and warrants (Series 1). On March 13, 2007, the Company listed its securities for trading on the TASE, making the Company a public company, as defined in the Companies Law and a reporting entity, pursuant to provisions of the Securities Law and regulations published thereunder. In addition, as described in Section 3 below, the Company has a shelf prospective which is effective until February 12, 2016

The unique technology developed by the Company is capable of monitoring the PAT signal. The PAT signal measures changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. These arterial activity parameters accurately reflect the patient's sympathetic nervous system (autonomous (involuntary) nervous system) activity, as well as changes to the endothelial system (the "**endothelium**" or the "**endothelial layer**").

The peripheral arterial volume is measured, using the PAT Technology, by way of a thimble-shaped probe which fits over the patient's finger and transmits information to a computer-based processing system which monitors the PAT signal and diagnoses the patient. The information derived from the PAT signal is potentially useful in diagnosis of a wide range of common medical conditions.

As of the date of this report, the Company is developing and marketing products based on the PAT signal that are mainly for diagnosis of cardiological conditions, as well as sleep breathing disorders: EndoPAT™ ("**EndoPAT**") and WatchPAT™ ("**WatchPAT**"). The WatchPAT diagnoses sleep apnea, which has been proven to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart. EndoPAT is used to diagnose endothelial malfunction, which is a proven predictor of cardiovascular disease. For more information about the general environment in which the Company operates and on the Company's products, see Sections **6** and **8** below.

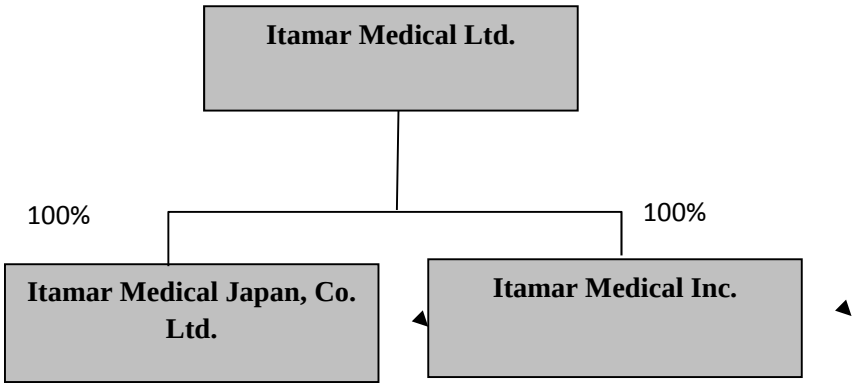
During 2014, following changed in the Company's senior management, the Company revised its strategic plan to focus on marketing of EndoPAT and WatchPAT to the cardiology markets (while continuing to market WatchPAT to the sleep disorder market) in the U.S., Japan and China, which the Company regards as the major

markets for its products with potential for increased sales volume. The Company has changed the format of its financial statements (commencing with this report) to reflect this change and reports on only one operating segment. For further information on the Company's strategy, see Section 31 below.

In January 2015, the U.S. subsidiary launched the Total Sleep Solution (–"**TSS**") family of products and services. TSS is intended to provide a complete Sleep Apnea management solution to cardiology medicine (clinics and departments in hospital-based environments). The TSS changes the Company's business model and shifts it from a manufacturer and seller of medical devices to a complete service pathway provider, including products, education and services throughout the patient care pathway. For further details, see Section 8.4 below.

1.4. Holdings structure

The following is the Company's holding structure:



1.5. Year and form of incorporation

The Company was incorporated and registered in Israel on January 15, 1997 under the name Itamar Medical (CM) 1997 Ltd., as a private company in conformity with provisions of the Companies Ordinance (New Version), 1983. On July 24, 2000, the Company changed its name to Itamar Medical Ltd.

The Company has a wholly-owned subsidiary, Itamar Medical Inc., registered in the State of Delaware, U.S. This subsidiary is engaged in marketing the Company's products in the U.S.

The Company also has a wholly-owned subsidiary, Itamar Medical Japan Co. Ltd., registered in Japan. This subsidiary is engaged in marketing the Company's products in Japan.

2. Operating segment

The Company has one operating segment - medical products for cardiology. The Company is engaged in the research, development, marketing, selling and leasing of non-invasive medical devices using the PAT signal as follows:

2.1. **WatchPAT** - a product for diagnosis of sleep apnea, which has FDA approval and, beyond the medical benefit, may lead to overall cost reduction of the medical process (diagnosis, treatment and monitoring) compared to current testing used at sleep laboratories. According to published research[1], the total cost of medical management based on a sleep laboratory (PSG) is almost three times (in some cases, for sleep laboratories in hospitals, even ten times) the total cost of medical management based on mobile testing devices, such as WatchPAT. In the past, a U.S. insurer - United Healthcare - issued a directive which stipulates that reimbursement requests for sleep testing at a sleep laboratory would be rejected, unless home sleep testing was first conducted (July 2011, Volume 44)[2].

As from 2014, the Company is striving to expand use of WatchPAT to other market segments, given recently-published scientific research which proves the connection between Sleep Apnea and severe medical conditions such as: hypertension, diabetes, heart disease, arrhythmia, neurological conditions and even complications following surgery under full anesthesia. The Company intends to join forces with distributors specializing in these market segments.

As mentioned above, in January 2015, the U.S. subsidiary launched the Total Sleep Solution, a WatchPAT based family of products and services for the treatment of Sleep Apnea. For further details, see Section 8.4 below.

2.2. **EndoPAT** is used for diagnosis of endothelial dysfunction, an early stage of arteriosclerosis and indication of developing heart disease. EndoPAT2000 has FDA approval.

In January 2014, the CPT code (code III), which is a code for emerging technologies and not a full insurance code (as described in Section 8.2 below). This is a specific

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1 Townsend D, Sharma A, Brauer E, Scattarelli D, McEiver J, Eiken T, Freiberg M Assessing Efficacy, Outcomes, and Cost Savings for Patients with Obstructive Sleep Apnea Using Two Diagnostic and Treatment Strategies. *Sleep Diagnosis and Therapy, Dec. 2006.*

2 https://www.unitedhealthcareonline.com/ccmcontent/ProviderII/UHC/en-US/Assets/ProviderStaticFiles/ProviderStaticFilesPdf/Tools%20and%20Resources/Network%20Bulletin/NetworkBulletin_July2011supplement.pdf

code for reimbursement of the EndoPAT test for symptomatic patients (at risk for heart disease) ("**symptomatic patients**") or patients with heart disease. Since the insurance reimbursement matter has not yet been finalized, penetration of the clinical treatment market by this product is still directed to markets that are not insurance-dependent, with emphasis on the Health and Wellness market which focuses of the prevention of medical problems independently of the possibility of obtaining financial reimbursement for the tests.

3. Investments in corporate capital and transactions in corporate shares

In February 2013 the Company filed a shelf prospectus for the possible issuance of shares, notes, warrants and commercial paper (the "**shelf prospectus**"). On January 26, 2015, the Company received the ISA's consent for the extension of the period of the offering of securities under hew shelf prospectus by another 12 months, i.e. – until February 12, 2016.

Following is information about investments in the Company's capital and other capital raised by the Company during the past two years:

Issue date	Nature of the transaction	Identity of investors	Price of securities	Number of securities allotted	Total consideration	Reference to offering report
February 2013	Public issuance (by publication of a shelf offering pursuant to the shelf prospectus) of notes (Series L).	The Public	NIS 1.00 for each NIS 1 par value of notes.	NIS 62,556,000 par value.	Approximately NIS 62.6 million, of which approximately NIS 13.3 million (approximately $3.5 million) invested by interested parties and used to repay private loans extended by said interested parties to the Company.	For details - see immediate report dated February 28, 2013 (reference: 2013-01-051114) regarding the outcome of the public issuance of notes. For more information see Section 24.3 below and Section 5 of the Board of Directors' report enclosed as Part B of this Annual Report. See also Section 24.4 below with regard to the commitment of interested parties as of that date, to provide a credit facility to the Company, including against issuance of the Company's notes.
March 2013	Private issuance of notes (Series	Three institutional investors	NIS 0.985 for each NIS 1 par value of	NIS 13,700,000 par value.	Approximately NIS 13.5 million (approximately $3.5 million)	For details - see immediate report dated March 12, 2013 (reference: 2013-01-003424) regarding the outcome of the

	L).		notes.			private offering of notes.
December 2013	Private issuance of shares.	Migdal Insurance Company Ltd.	NIS 1.35 per share.	11,111,111 ordinary shares of NIS 0.01 par value each.	Approximately NIS 15 million (approximately $4.4 million)	For details - see immediate reports dated December 8, 2013 (reference: 2013-01-091030) and December 25, 2013 (reference: 2013-01-107569).
January 2014	Private issuance of shares.	Phoenix Investments and Finance Ltd. and Phoenix Insurance Company Ltd. (nostro account-elementary)	NIS 1.35 per share.	13,703,703 ordinary shares of NIS 0.01 par value each.	NIS 18,500,000.	For details -see immediate reports dated December 22, 2013, (reference: 2013-01-102862), as amended on January 1, 2014, (reference: 2014-01-001936) and January 7, 2014 (reference: 2014-01-00822).
May 2014	Private issuance of shares	Two institutional investors – Migdal Insurance Company Ltd. and Yelin Lapidot Investment House Ltd.	NIS 1.80 per share	13,111,111 ordinary shares of NIS 0.01 par value	Approximately NIS 23.6 million (approximately $6.8 million)	For details – see immediate report dated May 8, 2014 (reference: 2014-01-068535)

4. Dividend distribution

The Company has not distributed any dividends since its incorporation. As of December 31, 2014, the Company has no distributable earnings.

The deed of trust of the Series L notes provides that, should the Company distribute dividends in excess of 50% of its legally distributable earnings accrued since October 1, 2012, as reflected by its audited annual financial statements or its interim financial statements, as the case may be, net of any distributions made from the date of the original issuance of the notes, this would constitute a cause for the immediate redemption of the notes.

The Company does not intend to distribute dividends in the foreseeable future, but rather intends to invest its future profits in the expansion of the Group's activities.

5. Material recent developments during the reported period

For information about material developments in the Company's financial results, see the Company's Board of Directors' Report as of December 31, 2014, included in Part B of this Annual Report.

6. General environment and impact of external factors on the Company's operations

6.1 Healthcare budgets in target market countries

The Company's operations are focused on development, manufacture, sale and marketing of medical devices; in early 2015 the Company launched Total Sleep Solution, a WatchPAT based family of products and services for the treatment of Sleep Apnea. Investment in healthcare in countries in which the Company does business, as well as budgets allocated for purchase of medical devices, are under reduction pressures. The Company's products are not considered to be life-saving devices and therefore their sales volume may be negatively impacted in periods of economic slow-down. However, on some Far East markets the Company's products are utilized in preventive medicine by way of early detection of cardiological problems.

6.2 Reimbursement policies of healthcare insurers

Most developed nations, including the Company's primary target markets, have a policy of full or partial expense reimbursement for medical testing and treatment by various healthcare insurers, which is stipulated from time to time by Government policy (with regard to patients insured under Government healthcare insurance policies) as well as by private and public healthcare insurers (for patients insured under private or public healthcare insurance policies).

The Company believes that, should it succeed in securing sufficient expense reimbursement for use of its products (so as to cover the medical expense for the end customer and/or profitability for the testing or treatment provider) - demand for the Company's products and services in its target markets should increase.

In the U.S. there are two major healthcare associations tasked with considering and approving medical codes used for medical reporting and for (full or partial) expense reimbursement for medical testing and treatment, as follows:

- One is the U.S. Centers for Medicare & Medicaid Services ("**CMS**"), an organization which provides healthcare insurance for U.S. citizens aged 65 and over and to those with low income. For information about CMS regulations with

regard to expansion of insurance coverage provided to its patients in the U.S., including the Company's WatchPAT product, see Section 8.1 below.

- The other is the American Medical Association ("**AMA**"), which is the general association of private healthcare insurers in the U.S.

There are also professional organizations which set guidelines for the physicians with regard to medical procedures. Such guidelines include the inclusion or non-inclusion of specific medical procedures and indication of the significance of such medical procedures for patient diagnosis and treatment (and do not determine the insurance reimbursement). Non-inclusion or exclusion of the Company's product from medical procedures in these guidelines may materially impact the Company's ability to sell its products.

6.3 Medical research

Medical research published in recent years, with regard to the importance of endothelial function and the importance of assessing this function, as well as medical research concerning the connection between sleep breathing disorders and other conditions, may result in increased demand for the Company's products in this segment. Furthermore, publications with regard to connections between the Company's fields of endeavor and other medical fields, such as: endothelial function and metabolic syndrome, erectile dysfunction, primary and repeat cardiac events, stroke and congestive heart failure, the effect of Sleep Apnea on Arrhythmia (such as atrial fibrillation), hypertension, diabetes, heart disease, chronic heart failure, neurological conditions, complications following surgery under full anesthesia etc. may impact the use of the Company's products.

6.4 Developments in medical treatment (devices and drugs)

Introduction of new medical treatment procedures, with emphasis on unique, innovative drugs for treatment of cardiovascular problems (such as arteriosclerosis) and sleep breathing disorders in countries where the Company operates, is likely to result in increased use of the Company's products designed for diagnosis of heart conditions and sleep breathing disorders prior to the start of treatment.

6.5 Development and production of competing products

The Company's operations are impacted by competition in development and marketing of competing products using different technologies. The Company is unable to impact neither the entry of new competitors into the market nor continued development of existing competitors - and therefore the Company intends to further invest in improvement of its own products, including through development of new

applications in order to bolster its competitive position. For more information about these competitors, see Section 14 below.

6.6 Approval policy of the Company's products by regulators in each country

The Company's operations are impacted by policies of regulators concerning approval of its products in the target markets. Refusal to approve distribution of a product, or rescinding of existing approval, would impact the Company's business results. For information about relevant regulators and required approvals, see Section 27 below.

6.7 Adult population and public awareness

A trend of aging population is apparent in the western world. The Company believes that demand for healthcare products and innovative technology, such as the Company's would continue to grow in the senior population (aged 40-80) in Western countries. Furthermore, a growth trend is apparent in public awareness in Western countries in which the Company does business, of the importance of early diagnosis of arteriosclerosis as well as of the importance of resolution of sleep breathing disorders and their critical impact on quality of life during waking hours and on the cardiovascular system - a field in which the Company is engaged.

6.8 Fluctuations in exchange rates

Fluctuations in exchange rates of various currencies have a significant impact on the Company's operating results, primarily since the Company's sales are mostly in the U.S. and in Europe, in dollars and in Euros, as well as in Japan in Japanese yen, whereas a significant portion of the Company's expenses is in Israeli currency (NIS). In order to limit the Company's exposure to exchange rate fluctuations, the Company takes measures, from time to time, to hedge its exposure to loss due to exchange rate fluctuations, as listed in Sections 7 and 9 of the Board of Directors' report, enclosed as Part B of this Annual Report.

6.9 Fluctuations in raw material prices

The Company's cost basis is impacted by fluctuations in raw material prices and in their availability (primarily: (i) plastics whose price is impacted, amongst others, by oil prices; and (ii) electronic components). The Company has no material influence over fluctuations in raw material prices, other than by taking advantage of various opportunities to purchase raw material at attractive prices.

6.10 Additional taxation of sales of medical equipment in U.S. as from 2013

Following the healthcare reform in the U.S., which requires all U.S. citizens, aged under 65 to acquire healthcare insurance and in order to partially fund the cost of this reform, the U.S. Federal Tax Authority imposed an additional Excise Tax, effective as from January 1, 2013, at the rate of 2.3% on sales of medical equipment in the U.S. The medical equipment manufacturer or importer is liable for payment of this additional tax. This tax applies to sales of the Company's products in the U.S. For more information about the breakdown of Company sales by geographic areas, see Note 5 to the Company's financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

7. General information about the Group's operations

7.1 Since its inception, the Company is engaged in research and development of non-invasive diagnostic medical equipment and relevant services for early diagnosis and monitoring of medical conditions, focusing on cardiovascular conditions and on sleep breathing disorders. The unique technology developed by the Company can monitor the PAT signal, which provides a view of the sympathetic nervous system and of changes in the endothelial system, as well as an indication of patient health.

7.2 The WatchPAT product

7.2.1 The Sleep Apnea Syndrome is manifested in constantly recurring episodes of full or partial breathing interruption during sleep. In most cases, people suffering from Sleep Apnea are not aware of these breathing interruptions during their sleep and often wake up to get their breath back and avoid suffocation. These cases of waking up may result in a host of health issues, such as intense tiredness and sleepiness, primarily during morning hours, a tendency to fall asleep in passive situations, including when driving, lack of concentration, headaches during morning hours, impotency and depression. According to published research[3], sleep breathing disorders impact the cardiovascular system and conditions, with a significant connection between Sleep Apnea and hypertension, diabetes, heart disease and Arrhythmia (such as atrial fibrillation), congestive heart failure, neurological conditions,

[3] Increased incidence of cardiovascular in middle-aged men with obstructive sleep apnea: 17 year follow up. *Am J Respir Crit Care Med.* 2002;166:159 –165. Prospective study of the association between sleep disordered breathing and hypertension: NEJM vol. 342, May 11, 2000; Nocturnal Ischemic Events in patients with Obstructive Sleep Apnea Syndrome and Ischemic Heart Disease: ACC, vol.34, no. 6

Prospective Study of Obstructive Sleep Apnea and Incident Coronary Heart Disease and Heart Failure the Sleep Heart Health Study; *Circulation.* 2010;122:352-360

complications following surgery under full anesthesia and other diseases. The prevalence and severity of Sleep Apnea increase as the weight of U.S. and world population continues to increase, as well as with higher average age. Furthermore, there is growing evidence indicating that people who suffer from this syndrome develop more surgical complications and constitute a population at increased risk.

7.2.2 The most common test currently available for diagnosis of various sleep disorders, including Sleep Apnea, is a PSG test (See Section 14.2.1 below), which is conducted in sleep laboratories. Laboratory diagnosis involves simultaneous testing and recording of 20 or more channels, requires the patient to stay at the sleep laboratory, along with a technician, for one night or longer, attaching electrodes to various body parts, chest and abdomen belts and air tubes in the nostrils - and its cost is relatively higher than with mobile devices (this cost is partially reimbursed by insurers).

Other testing for sleep disorder diagnosis is conducted with devices which do not require use of a laboratory environment, which the patient can take home with them ("home sleep testing"). Such devices often have fewer channels than tested using PSG, require training by a technician and according to published research, some of them may lack certain clinical data[4] - but are considered acceptable for preliminary diagnosis of sleep disorder and are approved for such use by the FDA.

As a result of the foregoing, demand for mobile devices for sleep breathing disorder diagnosis is growing as the awareness of sleep disorder grows - primarily due to the discomfort, high cost and long wait required for appointment which are associated with PSG testing carried out at sleep laboratories.

7.2.3 The Company-developed product, WatchPAT, is a mobile device for convenient use in diagnosis of sleep breathing disorders.

7.3 <u>The EndoPAT product</u>

7.3.1 As medical statistics indicate, cardiovascular disease is the most common cause of death in Western countries. According to information published by the

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[5] Heart Disease and Stroke Statistics--2013 Update: A Report from the American Heart Association, Circulation. 2013;127:e6-e245

American Heart Association[5] in December 2012, based on data from 2009-2010, in the U.S. alone over one third of the adult population (83.6 million people) were diagnosed with, or at high risk of developing, one or more types of cardiovascular disease. Increased life span, changes in life habits (such as changes of employment and leisure habits, changes of consumption, etc.) and dietary changes increase the prevalence of cardiovascular diseases and therefore increase the need for diagnosis, treatment and prevention of such diseases. For information about the potential market size for this product - see Section 8.2 below.

7.3.2 A major cause of such disease is atherosclerotic lesions due to changes in the structure and function of the inner lining of blood vessel walls (the endothelium) and the formation of inflammatory processes which may give rise to local stenosis in the vascular lumen, as well as damage to the integrity of the arterial and formation of blood clots. The damage to endothelial function can occur years before the formation of atherosclerotic lesions. Therefore, early detection and early treatment thereof are of great importance.

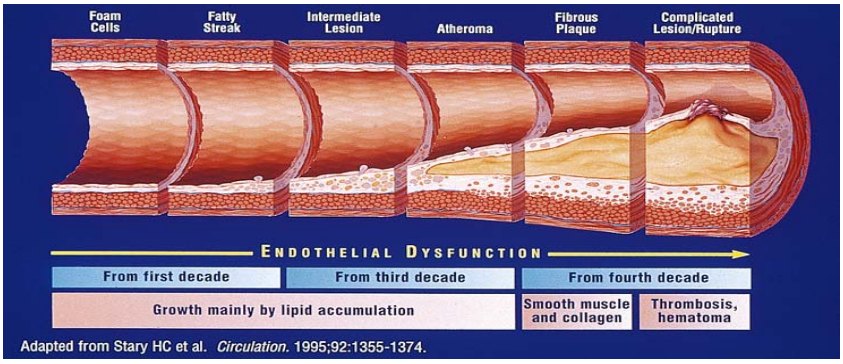
7.3.3 The EndoPAT 2000 is a non-invasive device which uses the PAT technology to evaluate endothelial function in arteries at an early stage of disease development and which may be used for diagnosis for administration of appropriate treatment.

The endothelium consists of a single layer of extremely densely arranged flat epithelial cells coating the inner vascular wall. Since the endothelium is an organ on its own, damage to it – non-continuity of cells, faulty functioning of the mechanism secreting substances such as NO (Nitric Oxide) etc. – is systemic. This means that if damage is found to the endothelium in the finger, this would indicate a potential similar damage to the endothelium of cardiac arteries.

Endothelial dysfunction constitutes a preliminary stage of arteriosclerosis. It affects the functioning of blood vessels in various parts of the body and often leads to coronary artery disease.

7.3.4 The following illustration shows the stages of development of arteriosclerosis, beginning with a minor accumulation of fat in the arterial walls (to the left) and finally resulting in a total blockage and arterial aneurysm (to the right).

[5] Heart Disease and Stroke Statistics--2013 Update: A Report from the American Heart Association, Circulation. 2013;127:e6-e245



7.3.5 As from 2014, the Company focuses its activities on secondary prevention, mainly in the United States. This is the clinical-treatment market of symptomatic patients or patients with a heart condition at high risk of repeat cardiac events and who suffer from various symptoms. Scientific research made public over the past two years proves that assessment of arterial function allows for diagnosis of patients at risk of recurring heart attacks in the short to medium term (2-5 years). Research has found that, on average, heart patients who despite treatment of their condition remain with impaired arterial function, had a 4 times higher risk of repeat cardiovascular events (angina pectoris, heart attack, stroke or even death) - compared to those found to have proper arterial function6. Consequently, the reimbursement code assigned to EndoPAT testing in the U.S., valid as from January 2014, is designated for use in symptomatic patients or those patients diagnosed as having a heart disease. At the same time, the Company continues to support its current activities for primary prevention of the first heart attack, primarily in Japan (and in China), and endeavors to expand these activities).

7.4 Restrictions, legislation, standards and special constraints applicable to operating segment

Marketing and sale of the Company's products around the world are subject to various regulatory approvals such as: FDA (U.S. Food and Drug Administration), CE Mark (European standard for products), PMDA (the Japanese Healthcare Authority, equivalent to the FDA) and other international standards in various countries, designed to ensure product quality and safety. For more information about restrictions and legislation applicable to the Company, see Section 27 below. Note that the

6 Peripheral endothelial function and cardiovascular events in high-risk patients, Matsazawa et al , Journal of American Heart Association 2013

Company has received FDA, CE and PMDA approval for both WatchPAT and EndoPAT.

7.5 Changes in scope of operations

For information about changes in scope of the operations, see Note 5 to the Company's consolidated financial statements as of December 31, 2014, included in Part C of this Annual Report.

7.6 Evolution of markets and changes in customer characteristics

The relevant markets for Company business - primarily in the U.S., have changed over the past decade due to multiple factors, including increased awareness by physicians of the importance of early diagnosis and treatment of sleep breathing disorders in general and cardiovascular disease particularly, as well as increased public awareness of these issues through electronic media and the internet. The increase in such awareness is due, amongst others, to scientific publications which link sleep breathing disorders to other conditions (Arrhythmia, heart disease, hypertension etc.) and due to ever increasing awareness of the implications of the various risk factors for diseases in the field of the Company's activities.

Furthermore, ambulatory devices (mobile devices for home use) for diagnosis of Sleep Apnea allow other medical experts (such as: family physicians, cardiologists and otolaryngologists) to also conduct testing in this field, thereby increasing current exposure to testing of sleep breathing disorders and further increase awareness of such testing.

7.7 Technological changes which may materially impact the Company's activities

Developments in product miniaturization and improvements in wireless data communications, as well as developments in computing, impact the development of The Company's products. The Company regularly monitors such technological developments.

7.8 Critical success factors in operating segment and changes thereto

The critical success factors are:

7.8.1 Adoption of home sleep testing by various insurers and setting of appropriate reimbursement for testing to be conducted, as listed in Section 6.2 above (expense reimbursement policy of healthcare insurers).

7.8.2 Setting up joint ventures and efficient marketing and distribution systems and strategies in different world countries.

7.8.3 Product introduction and deployment across healthcare service systems in different world countries.

7.8.4 Success of strategic partners in implementing the strategic plan.

7.8.5 Success of clinical trials – the success of clinical trials and publication of their results are essential to increasing awareness of products and their advantages.

7.8.6 Presentation of technological innovation compared with competitors.

7.8.7 Development of other innovative applications in response to needs of product users.

7.8.8 Provision of high-quality service, technical support and malfunction repair to customers.

7.8.9 Achievement of advantages and added value for products, compared with other medical procedures in the relevant markets.

7.8.10 Protection of intellectual property through patent registration.

7.9 Changes in suppliers and raw materials

For details see Section 21 below.

7.10 Major barriers for penetrating markets

7.10.1 Achievement of recognition and support within the international medical community for the unique medical signal and for the products.

7.10.2 The need to acquire knowledge and technological infrastructure in the technology-oriented market with many competing developments.

7.10.3 Investment of substantial economic resources in the development, regulatory and marketing stages of the products.

7.10.4 Long time periods from start of development to commercial launch of products, which require significant external financing.

7.10.5 The need to protect development though patent registration. Patent approval processes and the possibility of objections to patent registration form a barrier for development of technological products.

7.10.6 Obtaining regulatory approvals from relevant supervisory entity in the local healthcare market, for commercial marketing of the Company’s products

(including FDA in the United States, and CE in Europe) and retaining such approvals after their receipt - a process which entails the investment of effort, time and money.

7.11 Alternatives for the Company's products and changes thereto

7.11.1 The WatchPAT product

The most common test at present for diagnosing various sleep disorders is the PSG test, performed at sleep laboratories. For more information about this test, see Section 7.2.2 above and Section 14.2.1below. There are also tests using mobile devices, essentially similar to the Company's, in the sense that they do not require use of a laboratory environment and the patient may take them home. For more information see Section 14.2.2 below.

7.11.2 The EndoPAT product

The EndoPAT2000 is a device designated for assessment of endothelial function/arterial function by non-invasive means approved for this purpose by the FDA, which allows early discovery and diagnosis of cardiac disease. However, it is possible that in future some biological marker would be found and approved for diagnosis of defects in the endothelial layer. To the best of the Company's knowledge, there is one U.S. company in early stages of marketing a competing product, after receiving FDA approval (however, the usage indication as approved by the FDA does not mention testing of endothelial function or diagnosis of endothelial dysfunction

7.12 Competition and changes therein

For information about the competition in the market, names of major competitors of the Company and the products which they offer - see Section 14 below.

8. Products and services

8.1 WatchPAT 200

WatchPAT is a mobile device which may be operated in patients' homes, non-invasive, simple to operate for diagnosis of breathing disruption during sleep, identifies waking stages and sleeping stages, and distinguishes between the various sleeping stages. The failure rate of the test using the WatchPAT is lower than 2% and as such is also significantly lower than the failure rates in the testing of competing products, as set out in Section 14 below.

The Company continues its efforts to expand the use of WatchPAT to other market segments, given recently-published scientific research which proves the connection between Sleep Apnea and severe medical conditions such as: hypertension, diabetes, Arrhythmia, heart disease, congestive heart failure, neurological conditions and even complications following surgery under full anesthesia. The Company intends to join forces with specific distributors who specialize in these market segments, who would market The Company's products to physicians, clinics and hospitals who would use The Company's products for clinical treatment needs.

In May 2014, the Company launched a platform using the cloud storing and processing system under the trade name of CloudPAT™ ("**CloudPAT**"). The services provided by CloudPAT simplify the use of WatchPAT and facilitate easy and convenient consultation with medical experts (the Company's services do not include such consultations).

The Company has also launched a new and improved version of the probe for the WatchPAT device, which simplifies the testing process and makes its use more convenient, both fitting it and while sleeping. For further details, see Section 8.3 below.

The major geographic markets in which the WatchPAT is marketed are North America, Israel and Japan. The list price of the WatchPAT system is $4,950.

WatchPAT200

Size of the diagnostic testing market for diagnosis of sleep disorders –

The Company estimates, as of the date of this report, that WatchPAT addresses an existing market (mainly in the U.S.) of ambulatory sleep testing valued at $250 million annually from sales, and the Japanese market of ambulatory sleep testing valued at $100 from sales. The Company estimates that the share of ambulatory sleep testing is likely to increase at the expense of laboratory sleep testing, given the need for rapid, low-cost testing in response to the growing market for diagnosis of sleep breathing disorders.

The information about the potential market size constitutes forward-looking information, as defined in the Securities Act. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. This information, in whole or in part, may not materialize or may materialize differently due, amongst others, to the following reasons: increased popular awareness of the importance of maintaining a healthy life style so as to reduce the risk of illness, reduction of healthcare budgets of the relevant bodies (including hospitals, HMOs, insurers etc.), development of drugs to efficiently deal with illnesses that the Company's products are intended to diagnose, competition in the market, and the expansion of the market for alternative products (including an increase in the market share of testing at sleep laboratories), entry of lower-cost competitors which would lead to lower prices on the relevant markets.

Insurance coverage in the U.S. for use of WatchPAT

In March 2008, CMS published final regulations with regard to extension of insurance coverage provided to its policyholders in the U.S. for home diagnosis (including the Company's WatchPAT product) of Sleep Apnea and for use of CPAP (Continuous Positive Airway Pressure) masks for treatment of Sleep Apnea following diagnosis by means of testing by ambulatory / home systems (including by the Company's WatchPAT product) or testing at sleep laboratories.

In November 2010, the official AMA website announced that the AMA had granted the Company's WatchPAT product an insurance coverage standard (Category I CPT code), confirming that the Company's product may be used as a commercial clinical product. The Company's WatchPAT product was also granted reimbursement code 95800 ("**reimbursement code**") effective as from January 2011. The reimbursement code is used for medical reporting and expense reimbursement (in whole or in part) to physicians / patients for tests and medical treatments with approved reimbursement

codes. AMA set the recommended reimbursement amount for Code 95800 at $206 per test (on average). Note that as of the report date, the actual average reimbursement amount by CMS for code 95800 is $178. This decision had no effect on the volume of home testing as of 2010, but in later years, sales of WatchPAT in the U.S. market grew (for more information see the Company's consolidated financial statements as of December 31, 2014, enclosed as part C of this Annual Report). Note that this reimbursement code is not unique to the Company's WatchPAT product, but is also used for other devices designated for diagnosis of sleep disorders through home testing - provided that they comply with the same criteria defined for the reimbursement code. Many private insurers have adopted the reimbursement code - at amounts ranging between $170-350 per test, depending on the state and the insurer.

In February 2011, the American Academy for Sleep Medicine ("**AASM**") published qualification standards for diagnosing sleep disorders in adults outside sleep laboratories[7], whereby AASM officially recognized the CPT code which includes the technology on which the Company's WatchPAT product is based, as an approved method for diagnosis of Sleep Apnea. This recognition by AASM is further to the adoption process of home testing (compared to the previous practice of testing at sleep laboratories) by various entities and is likely to further support the effort to turn home sleep testing into a common standard among private insurers in the U.S., too. Furthermore, a technical evaluation of home testing devices published in 2011 concluded that the WatchPAT device is as acceptable like other devices in the field of Sleep Apnea diagnosis[8].

It should be noted that some significant insurance companies, mainly in California and Massachusetts, do not cover Code 9500. Blue Cross Blue Shield is the largest among those companies.

Insurance coverage in Japan for use of EndoPAT

In January 2014, the Company reported that it had obtained approval for import of WatchPAT into Japan, from the Ministry of Health, Labor and Welfare (the "**approval**" and "**MHLW**"), the entity at the Japanese Ministry of Health responsible for approval of innovative technologies as qualifying for reimbursement, that as from January 1, 2014, the WatchPAT product is listed as an approved technology for diagnosis of Sleep Apnea and as such it is eligible for reimbursement at JPY 7,200 (approximately $60) (the "**reimbursement amount**"). Reimbursement is provided to

7 www.aasmnet.org/resources/pdf/OCSTstandards.pdf (Feb. 2011)

8 Journal of Clinical Sleep Medicine, Vol. 7, No. 5, 2011 (www.ncbi.nlm.nih.gov/pmc/articles/PMC3190855/)

any medical institution which conducts testing for diagnosis of sleep breathing disorder, as ordered by a physician. To the best of the Company's knowledge, the WatchPAT device is the only device in Japan, in the reimbursement category for home sleep testing, which does not require the measuring of nasal air flow.

8.2 EndoPAT

EndoPAT2000 is a non-invasive, mobile device, user independent and simple to operate, used in testing for endothelial dysfunction and arterial rigidity.

The Company markets its EndoPAT2000 product both for primary prevention of a first heart attack and for secondary prevention in symptomatic patients or those with a heart condition at high risk of repeat cardiac events and who suffer from various symptoms. The EndoPAT2000 is also sold for clinical trials in the drug development process and for other research use.

In 2013 and 2014, the EndoPAT2000 has met certain milestones which promote the transition from sales mainly to research institutions, as heretofore, to a stage of commercialization and marketing, principally through distributors, for widespread clinical use. This transition is in line with the Company's strategic plan.

The major geographic markets in which the EndoPAT is marketed are North America, Japan and Israel. The list price of the EndoPAT system is approximately $27,000. The Company also offers rental or leasing plans in North America, in order to facilitate the purchase of its product. For further details of the rental model for the Company's products, see Section 31.3.3 below.

Size of the diagnostic testing market for diagnosis and cardiac illness risk assessment

According to AMA, in the U.S. alone there are approximately 83 million people at high risk of, or suffering from, a heart disease. All these people constitute the target market for EndoPAT tests.

Insurance coverage in the U.S. for use of EndoPAT2000

In July 2013, AMA granted a Category III CPT code for insurance reimbursement for the non-invasive procedure for testing of endothelial function using the Company's EndoPAT product. A Category III CPT code is designated for emerging technologies, allowing U.S. physicians to claim reimbursement by medical insurers (while not requiring insurers to approve such claims), pending receipt of a Category I CPT Code which stipulates an agreed reimbursement.

In general, the insurance coverage amount for a category III code is not approved and requires proactive application to insurers. Receiving a reimbursement code is a key factor in accelerated penetration of commercial markets in the U.S. The aforementioned reimbursement code is effective as from January 1, 2014 and the Company is acting to have it adopted by insurers and to obtain as many reimbursement claims as possible in order to obtain a Category I reimbursement code. The Company is unable to estimate if and when the Category I reimbursement code will be received.

Notwithstanding the foregoing, the Company is unable to assess the implications of setting the reimbursement amount as noted above due, amongst others, to the absence of a set schedule for code adoption by private insurers (who use AMA reimbursement codes) and there is no guarantee as to the reimbursement amount. It should also be noted that the reimbursement amount set by AMA may change after approval, due to unexpected changes in government funding for the healthcare system.

Insurance coverage in Japan for use of EndoPAT

In Japan, citizens and permanent residents are required to have healthcare insurance. There are two major types of healthcare insurance in Japan. One is the Employees' Healthcare Insurance, designated for employed Japanese citizens ("**EHI**") and the other is the National Healthcare Insurance ("**NHI**"), designated for Japanese citizens who do not fulfill the criteria for inclusion under EHI.

In November 2011, the Company was informed by the NHI organization that the organization has initially set reimbursement for NHI patients for testing using the Company's EndoPAT product, at 2,000 Japanese yen per test (approximately $17). This amount is valid for both NHI and EHI patients, but only for patients with symptoms.

8.3 Sensors / probes (thimbles)

The PAT sensor developed by the Company is offered in two configurations for testing performed using the Company's different products: the ED (pneumatic) sensor configuration, used for testing endothelial function; and pneumonia-optic sensor configuration for WatchPAT, used in testing for sleep breathing disorders. In addition, the Company uses a standard oxygen saturation meter (oximeter sensor) in its WatchPAT device.

Advanced PAT sensors – Unified Probes

Recently, the Company received the approval of the FDA, the CE, the Israeli Ministry of Health and the Canadian Ministry of health for the use of a new upgraded

version of the sensor for the measuring of the PAT signals and for measuring blood oxygen saturation by the WatchPAT device using a unified probe. Heretofore, the oxygen saturation was measured by a separate oximeter attached to another finger of the same hand. The PAT sensors are designed for a single use. Their list price (as of the date of this report) ranges from $20 for EndoPAT sensors (each test requires two sensors at a total cost of $40) to $55 for WatchPAT sensors (each test requires one sensor at a total cost $50). These sensors must be replaced prior to each test - which is why they are sold separately from the Company's products.

The Company's revenues from sales of sensors in the reported year accounted for about 40% of total Company revenues (the remaining 60% were derived from sale of ancillary services, such as support and warranty services, WatchPAT and EndoPAT products and ancillary products).

8.4 Total Sleep Solution ("**TSS**")

In January 2015, the U.S. subsidiary launched the TSS family of products and services. TSS which provide a complete Sleep Apnea management solution to cardiology medicine (clinics and departments in hospital-based environments). The TSS changes the Company's business model and shifts it from a manufacturer and seller of medical devices to a complete service pathway provider, including products, education and services throughout the patient care pathway.

The solution includes: (i) home testing using the WatchPAT device; (ii) use of CloudPAT solution for interpreting the WAtchPAT test results for physicians and physician networks; (iii) Service Agreements with Independent Diagnostic Testing Facilities ("**IDTF**") for patient diagnostic services using the WatchPAT device for physicians and/or medical facilities which do not have the WatchPAT device; and (iv) Service agreements with Durable Medical Equipment ("**DME**") service providers for the therapeutic device deployment.

The Company remains the hospital or practice interface throughout the process and manages the solution for the customer, securing the use of its products and services.

The TSS has three types of products or services to address the main unmet needs of the customers:

8.4.1 **EasySleep** - Hospital or practice refers all eligible patients to TSS for Obstructive Sleep Apnea ("**OSA**") diagnosis and, when needed, therapy. All OSA services are provided by referral to the proper IDTF and DME. The referring hospital or physician is informed about the progress and patient

compliance; however, it is not involved in the ownership or billing and reimbursement process and does not benefit financially from it.

8.4.2 **BalancedSleep -** Hospital or practice purchases the equipment (the WatchPAT device) and the logistical solution from the Company and serves as the prescription and billing party. The Company provides all logistical and medical devices solutions directly and through its network. The hospital pays for devices, sets up billing and receives reimbursement from insurers.

8.4.3 **MaxSleep** - Hospital or practice purchases the WatchPAT devices from the Company and executes the entire process, including some components of TSS such as interpretation and sometimes DME management. The Hospital or practice pays only for products, and not for services, retaining more operational revenue.

8.5 Planned improvements to existing the Company's products:

8.5.1 **General**: The Company intends to develop its PAT technology to serve as a platform for other medical applications, including assessment of cardiovascular indicators other than endothelial dysfunction.

8.5.2 WatchPAT device: The Company is reviewing additional applications to make the device relevant for extended indications and new markets (lowering the minimum age for use of the device, diagnosis of other parameters related to sleep breathing disorders).

In September 2014, the Company commenced the development of its WatchPAT product so as to adapt it for diagnosing children and toddlers. This includes a smaller version of the device and a sensor suitable for young ages, the development of software and algorithms, and ancillary accessories. At present children and toddlers must be tested for sleep breathing disorders in hospital laboratories; the new development will make it possible to diagnose children and toddlers at home.

8.6 Trends and changes in demand for the Company's products

For information about trends and changes to demand for the Company's products in the reported period, see Section 4 (Statement of Operations Analysis) of the Board of Directors' report enclosed as Part B of this Annual Report.

8.7 Information regarding marketing approvals obtained from authorized regulators

Below is information about marketing approvals obtained from authorized regulators for the Company's products:

8.7.1 The Company's products approved by the "FDA"[9]:

Name of approved product	Date of first approval	Approval process	Approval number	Equivalent product	Indication on documents filed with FDA
WatchPAT 200U	May 30, , 2014	Traditional	K133853	WP200S-3	The WatchPAT200U (WP200U) device is a non-invasive home care device for use with patients suspected to have sleep related breathing disorders. The WP200U is a diagnostic aid for the detection of sleep related breathing disorders, sleep staging (Rapid Eye Movement (REM) Sleep, Light Sleep, Deep Sleep and Wake), snoring level and body position. The WP200 U generates peripheral arterial tonometry (PAT) Respiratory Disturbance Index ("PRIDI"), Apnea-Hypopnea index ("PAHI"), PAT sleep standing identification (PSTAGES) and optional snoring level and body position discrete states from an external integrated snoring and body position (SBP) sensor. The WP200U's PSTAGES and SPB provide supplemental information to its PRDI/PAHI. The WP200U's PSTAGES and SBP are not intended to be used as the sole or primary basis for diagnosing any sleep related breathing disorder, prescribing treatment, or determining whether additional diagnostic assessment is warranted.

[9] The table excludes The Company's products which received FDA approval and which were replaced by a newer model, including WatchPat™100 products (originally approved by the FDA in 2001 and withdrawn from FDA records on January 1, 2013) as well as previous generations of WatchPat™200 (originally approved by the FDA in 2008).

[1]2 All indications in this table are a concise translation for convenience of the indication - which is originally in the language of the country in which approval was granted. For the sake of clarity, note that the binding indication is the one originally published in the language of the country in which approval was granted.

WatchPAT 200 S-3	June 2, 2011	Traditional 510(k)	K102567	1.Itamar WatchPAT200S-2, K081982 2.Braebon Ultima Snoring Mike 0540,K020312 3.Embla, K971813	The WatchPAT200S-3 (WP200S-3) device is a non-invasive home care device for use with patients suspected to have sleep related breathing disorders. The WP200S-3 is a diagnostic aid for the detection of sleep related breathing disorders, sleep staging (Rapid Eye Movement (REM) Sleep, Light Sleep, Deep Sleep and Wake), snoring level and body position. The WP200S-3 generates peripheral arterial tonometry (PAT) Respiratory Disturbance Index ("PRIDI"), Apnea-Hypopnea index ("PAHI"), PAT sleep standing identification (PSTAGES) and optional snoring level and body position discrete states from an external integrated snoring and body position (SBP) sensor. The WP200S-3's PSTAGES and SBP provide supplemental information to its PRDI/PAHI. The WP200S-3's PSTAGES and SBP are not intended to be used as the sole or primary basis for diagnosing any sleep related breathing disorder, prescribing treatment, or determining whether additional diagnostic assessment is warranted.

EndoPAT2000	November 12, 2003	Traditional 510(k)	K032519	1. Itamar PAT® 1000 RD K001852 2. Standard Procedures used for endothelial dysfunction evaluation: -The Intra-coronary Acetylcholine (Ach) Challenge method ("Gold Standard") -The method of Flow Mediated Dilation (FMD) response to reactive hyperemia of the brachial artery	The EndoPAT device is a non-invasive device intended for use as a diagnostic aid in the detection of coronary artery endothelial dysfunction (positive or negative) using a reactive hyperemia procedure. The EndoPAT has been shown to be predictive of coronary artery endothelial dysfunction in the following patient population: patients with signs or symptoms of ischemic heart disease, who are indicated for coronary artery angiography, but who lack angiographic evidence of obstructive coronary artery disease. The device is intended to be used in a hospital or clinic environment by competent health professionals. The EndoPAT device is not intended for use as a screening test in the general patient population. It is intended to supplement, not substitute, the physician's decision-making process. It should be used in conjunction with knowledge of the patient's history and other clinical findings.

8.7.2 The Company's products granted the CE mark:

Name of approved product	Date of first approval	Approval period	Approval number	Notified Body	Indication[10]
WatchPAT200	June 10, 2008	October 11, 2019	316 CE	Intertek AMTAC	For description of the indication, see description for FDA.
EndoPAT2000	January 29, 2003	October 11, 2019	316 CE	Intertek AMTAC	For description of the indication, see description for FDA.

8.7.3 The Company's products listed in the Registry of Approvals for Medical Accessories and Devices kept by the Israeli Ministry of Health ("**MDA**"):

Name of approved medical device	Indication 4	MDA approval number	Date of first MDA approval	Approval period
EndoPAT2000	Diagnosis of endothelial function in the vascular system.	6690002	February 17, 2004	December 31, 16
WatchPAT200	Device for home use without medical supervision which provides an automated analysis and diagnostic assistance for sleep breathing disorders.	6690402 (6690001)	March 24, 2009	September 30, 2017
WatchPAT200U	Device for home use without medical supervision which provides an automated analysis and diagnostic assistance for sleep breathing disorders.	6690402	December 28, 2014	September 30, 2017

[10] All indications in this table are a concise translation for convenience of the indication - which is originally in the language of the country in which approval was granted. For the sake of clarity, note that the binding indication is the one originally published in the language of the country in which approval was granted.

8.7.4 The Company's products approved by a qualified regulator in another territory which is a material target market:

The WatchPAT product

Country	Regulatory authority	Date of first approval	Approval period	Approval number	Indication[11]
Canada	Health Canada	November 17, 2011 (except for approval # 86745 granted on July 27, 2011)	Renewable annually.	86745, 87677, 87675, 87676	The WatchPAT200 device is a non-invasive home-use device for use with patients suspected to have sleep related breathing disorders. The WatchPAT200 device is used to assist in diagnosis of sleep breathing disorders, sleep stages (Rapid Eye Movement (REM) Sleep, Light Sleep, Deep Sleep and Wake), snoring level and body position. WatchPAT200 generates a Peripheral Respiratory Disturbance Index ("PRDI"), Apnea-Hypopnea index ("PAHI"), PAT sleep staging identification (PSTAGES) and an external probe to measure snoring level and body position. The device's PSTAGES and SBP measures provide complementary information to PRDI / PAHI and are not intended to be used as the sole or primary basis for diagnosis of any sleep-related breathing disorder, prescribing treatment, or determining whether additional diagnostic assessment is warranted. The device is not intended for use by those under 17 years of age.
Canada	Health Canada	January 1, 2015	Renewable annually.	94546	The WatchPAT200U device is a non-invasive home-use device for use with patients suspected to have sleep related breathing disorders. The WatchPAT200U device is used to

[11] All indications in this table are a concise translation for convenience of the indication - which is originally in the language of the country in which approval was granted. For the sake of clarity, note that the binding indication is the one originally published in the language of the country in which approval was granted.

Country	Regulatory authority	Date of first approval	Approval period	Approval number	Indication[11]
					assist in diagnosis of sleep breathing disorders, sleep stages (Rapid Eye Movement (REM) Sleep, Light Sleep, Deep Sleep and Wake), snoring level and body position. WatchPAT200U generates a Peripheral Respiratory Disturbance Index ("PRDI"), Apnea-Hypopnea index ("PAHI"), PAT sleep staging identification (PSTAGES) and an external probe to measure snoring level and body position. The device's PSTAGES and SBP measures provide complementary information to PRDI / PAHI and are not intended to be used as the sole or primary basis for diagnosis of any sleep-related breathing disorder, prescribing treatment, or determining whether additional diagnostic assessment is warranted. The device is not intended for use by those under 17 years of age.
Japan	Japan Ministry Of Health	August 9, 2013	No expiration date	Shonin 22500BZX00339000	WatchPAT200 is used to support the assessment/diagnosis of sleep breathing disorders and sleep stages in hospitals or at home, for patients suspected of suffering from sleep breathing disorders.
Korea	Korea Food and Drug Administration	November 11, 2009	No expiration date	09-1162	WatchPAT200 records a medical signal during sleep and is used for diagnosis of Sleep Apnea. Respiratory events, snoring and body position during sleep are recorded and stored in the memory of this mobile device.

The EndoPAT product

Country	Regulatory authority	Date of first approval	Approval period	Approval number	Indication[12]
Canada	Health Canada	October 28, 2004	Renewable annually.	66319	For description of the indication, see description for FDA.
Japan	Japan Ministry Of Health	July 7,, 2009	No expiration date.	Shonin 22100BZX00816000	EndoPAT device for measuring and recording endothelial reaction of blood vessels.
China	State Food and Drug Administration	March 1, 2011	Through February 12, 2020.	Reg. No: SFDA (I) 20112210684 No. 1008926	EndoPAT is designated for non-invasive diagnosis of endothelial function. The EndoPAT2000 testing was approved for populations with symptoms of coronary ischemia or symptoms which may require angiographs of the coronary arteries. This definition applies to all hospitals or healthcare professionals in the clinical environment. This is a complementary test as part of the physician's decision making process, together with the patient's medical history.

9. Composition of revenues from products and services

For information about composition of revenues from the Company's two, products, see Note 5 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

10. New products

The Company is focused on improvement and development (including development of new, advanced versions) of its existing products. For more information about planned improvements and new indications for existing Company's products, see Section 8.5 above. The Company has been engaged in research and development of the PAT signal and PAT technology, as well as development of products and applications (based on this technology).

11. Customers

Major customers for the WatchPAT products are: cardiologists, distributors, research institutes, independent medical centers in the private sector, hospitals, and physicians

[12] All indications in this table are a concise translation for convenience of the indication - which is originally in the language of the country in which approval was granted. For the sake of clarity, note that the binding indication is the one originally published in the language of the country in which approval was granted.

involved with treatment of sleep disorders (such as dentists and otolaryngologists) and sleep laboratories.

Major customers for the EndoPAT products are: distributors, research institutes, and independent medical centers in the private sector, hospitals, pharmaceutical companies and researchers in this field.

11.1 Agreements with material customers

Master agreement for sale of products and services to a Material Customer - on September 30, 2007, the subsidiary signed a master agreement with a Material Customer (the **"Customer**") for sale of the Company's WatchPAT product, the zzzPAT software and ancillary devices and for provision of ancillary services for these products to Customer A and to related entities. On November 15, 2013, the agreement was extended through October 31, 2015. Total Company's revenues from this customer in the years ended December 31, 2014 and 2013 amounted to $2,564,000 and $2,056,000, respectively or 16% and 15%, respectively, of total Company's revenues for these years.

For information about the Company's material distributors, on which the Company is dependent so that their loss would have a material negative impact on the operating segment or would cause the Company to incur material additional cost due to the need to replace them - see Section 11.1 above. Also see Section 29 below with regard to co-operation agreements signed by the Company and third parties with regard to use of the Company's products.

11.2 Below is information about Company sales by customer type (dollars in thousands):

Customers	**2014**	**2013**	**2012**
Pharmaceutical companies	1,021	154	992
Research institutes	1,891	1,427	1,501
Clinical	13,475	11,756	10,933

12. Marketing and distribution

12.1 Overview

The major markets in which the Company currently operates are the U.S., Japan and China. The Company selected these markets for being the largest, most advanced markets in the world with appreciation for and use of the Company's technology, and because the Company's limited marketing and distribution resources require it to focus

on lucrative markets where the Company has an advantage over other vendors. The Company believes that the markets it has selected allow for efficient marketing with limited resources and a simpler sales process. Furthermore, the Company has selected Israel as a center of excellence for conducting additional clinical trials and gaining more experience in deployment of its technology within work processes. For financial information regarding geographical regions, see Note 5 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

Distribution and marketing of the Company's products are based on two channels: direct sales channel (through representatives of the Company or its subsidiaries) and indirect sales through distributors. It is Company strategy to join forces with manufacturers of medical equipment or specific distributors who specialize in relevant market segments, who would market the Company's products to physicians, clinics and hospitals who would use the Company's products for clinical treatment needs, while continuing direct sales (by Company representatives).

In general, agreements with distributors include sales commissions and, in some cases, commitment by these distributors to achieve certain business and marketing targets and/or certain minimum sales - in return for which the Company grants them exclusivity in their region and/or operating segment. The Company intends to continue closely monitoring the progress and success of its marketing strategy in order to allow the Company, if needed, to make adjustments to its marketing and sales strategy.

12.2 Agreements with distributors

The Company typically enters into distribution agreements with various distributors who are Company customers, for distribution of its products to end users in specific geographical regions or to specific market segments (e.g. marketing to clinics with a specific specialization). The term of such agreements is typically between 1 and 5 years, with optional extension. However, in most cases, these distribution agreements may be terminated by 30-60 days' advance notice for various reasons listed in these agreements. Some of the Company's agreements with distributors stipulate that the distributor would be an exclusive distributor for the Company's products in the specific region for that agreement.

The Company warrants its products for the longer of: (i) 12 months from product sale to the end user; (ii) 14 months from the Company invoice date to the distributor; and (iii) the minimum statutory or regulatory warranty period in the region where the agreement is applicable (in Europe, warranty is typically for a 24-month term). The warranty covers components, work and delivery to the customer, as well as replacement as deemed necessary by the Company. The warranty also covers remote support 24 hours a day and seven days a week. The customer is to meet Company requirements regarding proper use, storage and transport of the Company's products and the said warranty is only valid provided Company requirements are met and the product is used properly.

Distribution agreements typically stipulate a minimum annual quota of products which the distributor is required to purchase, as well as product prices payable by the distributor to the Company. These agreements include provisions to safeguard confidential information and proprietary rights of the Company with regard to its products and PAT technology.

The distribution agreements stipulate that the Company would indemnify the distributor in case of any breach of proprietary rights of any third party and in any case where a third party may incur damage due to negligence by the Company. Accordingly, the distributor would indemnify the Company in any case where a third party may incur damage due to any deed or omission or breach of agreement by the distributor.

The Company does not accept returns of products sold, except in cases where products are supplied to customers for a predetermined and agreed-upon limited trial period or when the return was approved in advance by special approval of the Company marketing manager.

12.3 Material distributors

12.3.1 **Exclusive agreement for distribution in Japan - with Philips Respironics GK -** in February 2014, the Company entered into a distribution agreement with Philips Respironics GK ("**Philips**"), the local Philips subsidiary in Japan, which markets diagnostic and treatment solutions for the sleep market. According to the distribution agreement, Philips is licensed by the Company as the exclusive distributor of the Company's WatchPAT product and ancillary accessories in Japan. The distribution agreement includes customary provisions for such agreements with regard to minimum sales quotas to safeguard exclusivity, intellectual property rights, and Company warranty for the products during the warranty period etc. The term of the distribution agreement with Philips is up to five years, renewable by mutual consent. The Company considers Philips to be a strategic distributor since it is one of the two largest companies in the world for products for diagnosis and treatment of sleep breathing disorders and is the exclusive distributor of WatchPAT in Japan

12.3.2 **Marketing agreement with Medtronic Inc.**[13] **("Medtronic") –** in March 2014, the Company entered into a marketing agreement (the "Agreement") with Medtronic, a world-wide leader in cardiological technology. As part of the Agreement, Medtronic and the Company are to market WatchPAT as part of a comprehensive solution to be offered by Medtronic to physicians specializing in cardiological electro-physiology in the U.S. The Agreement gives the companies exclusive rights to market WatchPAT to physicians in the U.S. (the "**Territory**") who specialize in cardiological electro-physiology and arrhythmia

[13] Medtronic is the parent company of Medtronic International Technology Inc. Note that Medtronic holds 19.93% of the Company's issued and paid-in share capital and is considered, for the sake of caution, to be the controlling shareholder of the Company, for all intents and purposes.

and the parties may agree on expansion of the Territory. The Company retains the right to enter into agreements with other companies for other market segments. The Agreement includes a commitment by Medtronic to make a specified investment in marketing as well as minimum sales quotas.

The Agreement term is 43 months. The first six months of the Agreement constitute a pilot period, after which the Agreement would be in effect for another three periods (one period of 13 months and two additional periods of 12 months each) - unless either party should decide to terminate the Agreement. In September 2014, the Company announced that the six-month pilot period would be extended for six months (making the total pilot period one year) to enable the parties to complete the process of building and entrenching the overall solution. Moreover, the "initial period" set out in the Agreement (the 13 months following the pilot period) was extended so as to encompass the pilot period as well. For more information about the Agreement, its scope and commitments by the Company and by Medtronic – see the immediate reports issued by the Company on March 5, 2014 and September 30, 2014 (reference numbers: 2014-01-005622 and 2014-01-166029, respectively).

The Company considers Medtronic to be a strategic distributor since it is a leader in its field and focuses on cardiology, as does the Company.

12.3.3 **Three-year exclusive distribution agreement with Nihon Kohden Corporation** ("**Nihon Kohden**") – in June 2014, the Company entered into an agreement with Nihon Kohden (the "**Agreement**"), which is to purchase EndoPAT2000 systems and auxiliary products from the Company and sell them to customers in Japan, including general practitioners and hospitals.

Nihon Kohden specializes in production, development and distribution of electronic medical devices in Japan. Its international activities include branches in the U.S., Europe and Asia and working with distributors on other markets. It had an annual sales turnover of over $1.3 million in 2013.

The Agreement is for a three-year period and it gives Nihon Kohden exclusive rights to sell EndoPAT2000 systems in Japan, provided the stipulated order quota is met in each of the years, in adherence with the prices set in the Agreement and that the following obligations are met: confidentiality, intellectual property, mutual reimbursement, employment of arbitration to settle disputes and provisions for early termination of the Agreement in case of breach and/or insolvency and/or change in the control of one or the other of the parties.

The Company considers Nihon Kohden to be a strategic distributor because it is the exclusive distributor of EndoPAT2000 in Japan.

12.3.4 **Exclusive distribution agreement with Beijing Viable Medical Investment Co. Ltd. ("BVMI")** – in November 2014, the Company entered into an agreement with BVMI (the "**Agreement**"), under which, commencing January 1, 2015,

BVMI is to be the sole distributor of EndoPAT in China, provided the minimum sales quotas stipulated by the Agreement are met. Under the Agreement, which is for 76 months, BVMI is to purchase EndoPAT2000 systems and auxiliary products from the Company and sell them to customers in China, including general practitioners and hospitals. As of the date of this report, the Company cannot determine whether BVMI will meet the minimum sales quotas stipulated by the Agreement and whether actual sales resulting from the Agreement will have a material impact on its revenues.

The Company considers BVMI to be a strategic distributor because it is its exclusive distributor in China.

12.3.5 Agreement with Arterial Health International LLC ("**AHI**") for representation and distribution in the U.S. – in March 2015, the Company entered into representation and distribution agreements (the "**Agreements**") with AHI. Under the representation agreement, AHI is to be the sole service provider in ten states in various parts of the U.S. for cardiovascular examinations performed using the EndoPAT2000 device on customers under the cardiovascular examination package provided by AHI. Under the representation agreement, AHI has undertaken to fulfil minimum purchase quotas in each of the years 2015 – 2017. The minimum purchases, if materialized, will not make AHI a major customer[14]. For further details, see the Company's immediate report of March 3, 2015 (2015-01-045556)

It should be noted that the distributors working with the Company do not have the right to return surplus products. However, when the Company finds that a certain distributor is accumulating an inventory of the Company's products, the Company considers the situation and in some cases may decide not to recognize revenues from sales to that distributor, even though the distributor has no right to return surplus products.

For information about the Company's material customers, see Section 11.1 above. Also see Section 29 below with regard to cooperation agreements signed by the Company and third parties with regard to use of the Company's products.

12.4 <u>The Company's marketing operations</u>

The Company's marketing operations include: (i) education and sponsorship of educational activities; (ii) market education and development - for new indications for existing products; (iii) attending and hosting professional conferences - the Company invests resources in promoting its products among physicians in various segments, as well as to pharmaceutical and medical equipment companies around the world; to this end, the Company attends professional conferences in order to increase public

[14] Based on the Company's 2014 sales data.

awareness of the medical implications of endothelial dysfunction and the importance of early diagnosis in order to improve the prognosis for patients already diagnosed with a heart condition; (iv) professional publications; (v) advertising videos on TV; (vi) articles published in the press and in digital media; (vii) direct mailing; (vi) telemarketing; (ix) clinical and technical support for customers; (x) the Company's website; (xi) Company representatives regularly meet current and potential customers to review product improvements; (xii) marketing and promotion of applications for the Company's products to researchers and experts who may influence public opinion in the relevant fields; (xiii) product management - the Company continues to develop and improve its current products, based, amongst others, on feedback received from current and potential customers; (xiv) co-operation with customers who are leading physicians in the fields of cardiology, internal medicine, integrative medicine (combining conventional and alternative medicine); and (xv) employing marketing consultants and reimbursement consultants in the U.S. for identifying trends and developments in relevant markets.

The Company also employs professional consultants for assistance in penetrating the market with its products. The Company's professional and consulting team consists of experienced professionals and researchers in the Company's fields. This team assists the Company in the manufacturing process, in consulting and in marketing efforts of the Company's products.

13. Order backlog

As of the report date, the Company has no order backlog. It should be noted that under some agreements with distributors/marketers the latter undertake to purchase a minimum annual quantity of the Company's products (In this section the **"undertaking"**). Failure to fulfill the undertaking allows the Company to abolish the exclusivity of the distributor/marketer, or even the entire agreement therewith. The Company does not treat such undertaking as order backlog until actual orders are received.

14. Competition

14.1 Overview

As of the report date, there are several competitors who market systems and/or services which may provide a complete or partial solution for the cardiology field in various countries in which the Company does business - primarily in the U.S. and Japan. As of the report date, the Company is unable to estimate its market share for its operating segments.

14.2 Company's competitors for WatchPAT

14.2.1 **Sleep laboratories using Polysomnography testing** ("**PSG**") – is the most common test currently available for diagnosis of sleep disorders (recent estimates claim that two thirds of sleep tests in the U.S. are currently conducted at sleep laboratories - and this rate is even higher in Japan). Advantages: PSG

includes all information channels required for diagnosis of sleep breathing disorders (7-20 channels, such as: eye movement, chest movement, leg movement, pulse, sleep position etc.) and is therefore highly functional; some PSG systems include video filming of the patient; this test is non-invasive. Disadvantages: PSG requires the patient to be connected to multiple electrodes, which impacts the patient's sleep and may therefore impact the test efficacy; it requires the patient to stay at the sleep laboratory, along with a technician, for one night or longer; is it considered an expensive test - its cost is $700 per patient in the U.S. (although this is mostly reimbursed to the patient by the insurer). PSG systems are made by several companies, including: Respironics (merged into Philips Medical), Embla, Nihon Kohden, Viasys Healthcare, Puritan Bennett, , Cadwell Laboratories, Cleavemed, Stellate Healthcare, Grass Technologies (a subsidiary of Astro-Med Inc.), and others. The cost of a PSG device is between $15,000 and $25,000. Note that the market for PSG device manufacturing includes many competitors and to the best of the Company's knowledge, no manufacturer has a market share of 20% or more.

14.2.2 **Manufacturers of mobile systems for diagnosis of sleep breathing disorders** - there are several in target market mobile systems for diagnosis of sleep breathing disorders available in the Company's target markets. Advantages: These are partially mobile, hence they do not require over-night sleep at the sleep laboratory and patients may operate them in the home environment; the test is non-invasive; the price of these systems is lower than that of a PSG system and ranges between $2,500 and $7,000. Disadvantages: Operating these systems is not simple and requires training; the patient cannot move about during the night with these systems; they contain relatively few PSG channels (between 4-7) (for information about test channels, see Section 14.2.1 above) and therefore have an inferior functionality; some do not include EEG monitoring and therefore are incapable of monitoring the patient's actual sleep time (in case of extensive waking time during the night) or their sleep patterns. Quite a few PSG manufacturers, including Respironics, Resmed, Philips, Compumedics, Embla and others, also compete in the market for mobile systems.

14.2.3 **Manufacturers of screening devices** - screening devices are used for preliminary testing, prior to diagnosis of sleep breathing disorders, or before (and for the purpose of) providing assessment with regard to surgical intervention for resolving sleep breathing issues. The commonly used screening devices are oxygen saturation meters (Pulse Oximetry) and air flow meters. Advantages: Low cost, compared to mobile and Polysomnography systems - between $1,000 and $2,000 in the U.S.; mobile and simple devices to operate, may be operated by the patient independently; non-invasive testing. Disadvantages: Contain few testing channels (1-2, compared to 6 channels for the Company's product) and therefore have an inferior functionality. Moreover, some were found to be un-acceptable for sleep testing based on AASM

criteria[15]. Manufacturers of screening devices who are significant competitors of the Company include: ARES, ApneaLink, Stardust, Nox, Braebon, Clevemed, and Embletta.

14.3 Company's competitors for EndoPAT

To the best of the Company's knowledge, there is no specifically designated device for assessment of endothelial function which has been approved in the U.S. However, a complex test is possible based on ultrasound equipment. To the best of the Company's knowledge, its EndoPAT2000 product is the first FDA-approved product for assessment of endothelial function, allowing for early discovery and diagnosis of heart conditions by non-invasive means.

As of the date of this report, the U.S. company Endothelix Inc**. (**"**Endothelix**") claims to be able to diagnose the endothelial layer by measuring changes in temperature in fingers. To the best of the Company's knowledge, Endothelix has published few articles in scientific journals and its products were approved by the FDA (translation of this approval mentions "vascular reaction" and does not explicitly approve this system for assessment of endothelial function).

Indirect competitors of the Company for the EndoPAT product are:

14.3.1 **Ultrasound device manufacturers** - ultrasound devices are capable of measuring endothelial dysfunction of the brachial artery in the hand. This technique is named FMD (for Flow Mediated Dilation). Advantages: Allows for obtaining information about changes to artery size, which form an indication of proper blood flow; non-invasive; and these devices have been used for a very long time and are available at nearly every hospital. Disadvantages: Use of the ultrasound device requires highly skilled operators; test results are operator-dependent and interpretation is interpreter-dependent; device sensitivity to changes is low; ultrasound systems are costly ($30,000-250,000 per system). To the best of the Company's knowledge, ultrasound testing of endothelial function is not common place for clinical use.

14.3.2 **Invasive testing** - to the best of the Company's knowledge, the only accurate technique currently available for assessment of endothelial function is invasive and is performed in angiographic surgery. This technique is used to measure blood flow in reaction to injection of ACH (acetylcholine). Advantages: Highly accurate. Disadvantages: Invasive, and therefore dangerous for the patient; expensive - at a cost of $3,000. To the best of the Company's knowledge, invasive testing is performed at only a few centers around the world, primarily for research purposes.

[15] Journal of Clinical Sleep Medicine, Vol. 7, No. 5, 2011 (www.ncbi.nlm.nih.gov/pmc/articles/PMC3190855/)

14.3.3 **Diagnostic angiography or virtual angiography** - two major tests are commonly used in the secondary prevention market, or designated for symptomatic patients with symptoms such as Angina Pectoris: ECG and invasive diagnostic angiography. Both tests allow for diagnosis of non-obstructive coronary artery disease, whereas EndoPAT testing was proven as a test which can diagnose both types - including the type not diagnosed by angiography.

14.3.4 **Methods of assessing arterial rigidity** - there are methods for assessment of arterial rigidity in patients, which allow the physician to assess cardiovascular risk. These methods are based on analysis of blood flow speed (blood flows faster the more rigid the arteries) or on measuring returned waves. Manufacturers of devices used for assessing arterial rigidity include HDI, Hypertension Diagnostics Inc. and AtCor Medical - maker of Sphygmocor. Advantages: Non-invasive. Disadvantages: Despite the existence of a certain connection between endothelial dysfunction and arterial rigidity, it is typically assumed that these conditions are not correlated. To the best of the Company's knowledge, since these methods are not specific to assessing endothelial dysfunction, they are not commonly accepted as a practical tool for such use.

14.3.5 **Other diagnostic methods** - existing methods for diagnosis of cardiovascular disease include, as of the report date, the following: Medical imaging systems (stress tests combined with medical or ultrasonic imaging, eco-cardiographs etc.), scanners for assessing levels of calcium deposits in arteries (EBCT), a sonographic test of the carotid arteries for evaluation of arterial wall thickness (CIMT), ECG systems for evaluation of cardiac function and various blood tests (such as CRP tests) and systems for monitoring blood oxygen saturation in the finger, such as Angioscan. These methods are intended to provide a risk assessment for future cardiovascular events, assessment of heart and/or artery condition following a cardiovascular event that has already occurred and for diagnosis of various cardiovascular diseases. Advantages: Fairly accurate and mostly non-invasive. Disadvantages: Use of these methods requires fairly expensive medical equipment, some require radiation and a high skill level on the part of the examiner. In addition, the level of sensitivity is mostly low and, to the best knowledge of the Company, these methods are usually particularly effective for diagnosing cardiovascular diseases and/or events as stated, usually at a relatively advanced stage of the disease and/or event. They are appropriate for obstructive heart diseases - but are unsuitable for diagnosis of micro-vascular heart conditions or those of a type not resulting from arterial obstruction - but rather from the arteries being incapable of extending as needed. Preliminary screening for assessing the risk of cardiac events or cardiovascular disease, as noted, is performed based on existing risk factors, such as: cholesterol and hypertension. However, according to published

studies[16], these risk factors do not fully reflect the risk of cardiac events, and in fact 60% of all subjects in the study (88,000 men suffering from chronic heart disease - CHD) were found to have only one of these risk factors, or none at all.

14.4 In order to address the competition for the Company's products, the Company invests substantial resources in development of additional features for its products. For instance, features were added to the WatchPAT device, allowing it to distinguish between sleep and wakefulness and also to identify the patient's sleeping stages (deep-sleep stage, light sleep and REM sleep stages) and probes which make it possible to quantify the intensity of snoring and to determine the body position during sleep. Furthermore and subject to technology and budget constraints, the Company intends to invest resources in future in order to develop additional diagnostic capabilities of its products, based on the PAT technology (diagnosis of other sleep disorders, development of additional medical applications in cardiology and in other medical fields).

14.5 Tabular disclosing advantages and disadvantages of competing products for WatchPAT [17]

The following table provides disclosure of properties of the Company's WatchPAT product for sleep breathing disorders, compared to competing ambulatory products.

Note that the significant advantage of the Company product over other competing ambulatory products listed below - is the reimbursement code (95800) assigned to the Company product which provides CMS reimbursement of $170 per test – more than 10% higher than reimbursement for testing using the competing home-testing products.

[16] Prevalence of Major Modifiable Risk Factors in Men with CHD, Khot, et al. JAMA. 2003

[17] According to sleepreviewmag.com- December 2011

Product name	Company name	Cost (in dollars)	Warranty	Product type[18]	Number of channels	Reimbursement availability[19]	How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)
WatchPAT	Itamar Medical Ltd.	4,500	One year	Type III	7	CMS reimbursement ranges between $120-240 per test (varies by geographical region and socio-economic rating of the region). AMA set average reimbursement codes amounting to $97 (code 95801)	Non-invasive. May be used independently.

[18] Type II is a product with at least 7 recording channels, including: EEG, EOG, EMG, ECG and heart rate, air flow and oxygen saturation, which calculates sleep stages and calculates the AHI (Apnea-Hypopnea Index) for Apnea.

Type III is a product with at least 4 recording channels, including: 2 respiratory channels (breathing or air flow) as well as heart rate or ECG measurement oxygen saturation.

Type IV is a product which measures three or more parameters. CMS states that these devices should have the ability to measure at least 3 parameters, but does not state which ones.

[19] Insurance reimbursement varies by state in the USA, by region (within each state) and by CMS vs. AMA institutions. Therefore, in some regions AMA institutions allow for higher reimbursement than CMS institutions - and vice versa.

Product name	Company name	Cost (in dollars)	Warranty	Product type[18]	Number of channels	Reimbursement availability[19]	How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)
						and $206 (code 95800) per test[20], although it is uncertain whether private insurers would adopt these reimbursement codes and is so - at what amount (for more information, see Section 8.1 above).	
Medibyte Jr	Braebon Medical Corporation	2,750	One year	Type III	7	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
ARES	Advanced Brain	3,500	One year	Type III	4	The reimbursement code for this product is 95806 and the	Non-invasive. May be used

[20] The test covered by reimbursement code 95800 also includes measurement and reporting of sleep time. Tests which do not measure this parameter are covered by reimbursement code 95801.

Product name	Company name	Cost (in dollars)	Warranty	Product type[18]	Number of channels	Reimbursement availability[19]	How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)
	Research					average reimbursement for it is $186 per test.	independently.
Easy ApneaTrak	Cadwell Laboratories Inc.	4,500	One year	Type III and IV	9	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
Nox T3	CareFusion	4,000	Two years	Type III	14	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
SleepView	CleveMed	3,500	One year	Type III	7	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
Somte	Compumedic	4,495	One year	Type III and IV	13	The reimbursement code for this product	Non-invasive. May be used

Product name	Company name	Cost (in dollars)	Warranty	Product type[18]	Number of channels	Reimbursement availability[19]	How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)
	s					is 95806 and the average reimbursement for it is $186 per test.	independently.
Embletta Gold	Embla	3,500	Two years	Type III	9 in/14 out	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
SleepTrek3	Grass Technologies	3,995	3 years	Type III	6	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
Trex	Natus Medical Inc.	No information available about this parameter	One year	Type II	24	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.

Product name	Company name	Cost (in dollars)	Warranty	Product type[18]	Number of channels	Reimbursement availability[19]	How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)
Nomad	Nihon Kohden	4,675 (including probes, software and training tape)	One year	Type III	12	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
OxyHolter with LX Sleep	Northeast Monitoring	3,795	Three years (option - two additional years)	Type III (OxyHolter /A)	6	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
NovaSom Home Sleep Test	NovaSom Inc.	No information available about this parameter	No information available about this parameter	Type III cardio-respiratory monitor	5	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
Alice PDx	Philips Respironics	No information available about this parameter	Two years	Type II, III, IV	20	The reimbursement code for this product is 95806 and the average reimbursement for it	Non-invasive. May be used independently.

Product name	**Company name**	**Cost (in dollars)**	**Warranty**	**Product type[18]**	**Number of channels**	**Reimbursement availability[19]**	**How device is used (invasive or non-invasive, independent, with assistance from another person, only by a physician etc.)**
						is $186 per test.	
ApneaLink Plus	ResMed	2,490 (including ancillary products for 3 training sessions)	Two years	Type III	4	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.
SOMNOscreen Plus	SOMNOmedics	Depends on channel configuration	Two years	Type I-IV	1-58	The reimbursement code for this product is 95806 and the average reimbursement for it is $186 per test.	Non-invasive. May be used independently.

The Company is not aware of any side-effects and/or dangerous effects of using any of the medical devices listed in the above table.

The Company believes that duration until test results are obtained, using the aforementioned medical devices, is irrelevant - since all of these products are capable of producing results within a relatively short time.

15. Seasonality

There is no significant seasonality in Company sales in its operating segment.

16. Production capacity

To the best of the Company's knowledge, its sub-contractors have no short-term manufacturing restrictions relative to the Company's manufacturing needs. Below is information about potential and actual utilized manufacturing capacity for the Company's products:

No.	Product	Annual potential	Utilization of production capacity (%)	Comments
1	WatchPAT200	Unlimited	Unlimited	The Company uses sub-contractors for manufacturing of sub-assemblies based on Company specification, with the Company currently performing assembly, final testing, packaging and delivery of its products.
2	Sensors for WatchPAT200	360,000 units	45%	Sub-assemblies are assembled by the sub-contractors. Assembly, final testing and packaging are performed by the Company.
3	EndoPAT2000	Unlimited	Unlimited	The product is supplied by a sub-contractor, tested and packaged according to Company specification - including logistics / material procurement, assembly, final testing and product packaging. If needed, the Company has all the knowledge and is fully capable of independently manufacturing EndoPAT2000 - from logistic procurement through to final testing and product packaging - at Company facilities. Additional quality control procedures are performed on Company premises.
4	Sensors for EndoPAT2000	490,000 units	44%	Sub-assemblies are assembled by the sub-contractors. Assembly, final testing and packaging are performed by the Company.
5	Analysis and data processing software enclosed with products.	The Company has no limitation on manufacturing capacity.		

* Annual potential based on a single 12-hour shift; this potential should grow based on the number of shifts operated in future.

** A probe kit per test using the EndoPAT2000 device includes two sensors.

For more information on Company assessment of the effect of loss of business relationship with one of its sub-contractors and with regard to dependence on suppliers and sub-contractors, see Section 21 below.

17. Fixed assets, land and facilities

As of the publication date of this report, The Company's operations are based in Israel (management, research and development, production, marketing and sales) from Company offices at 9 Halamish Street, Northern Industrial Zone, Caesarea (with an area of 1,371 square meters) (the "**offices**"). The Company leases the offices pursuant to a lease dated July 2007 (as amended in December 2008) from the Caesarea Property Corporation for payment of monthly rent which, as of the date of this report, amounts to approximately NIS 80,000 (linked to the Israeli Consumer Price Index) (the "**lease**"). The lease term is five years (i.e. through January 2019). Each party may terminate the lease in certain cases of breach by the other party. As collateral to secure the lease, the Company has provided a bank guarantee amounting to NIS 400,000 against which it has pledged in favor of Bank Hapoalim, as of the report date, an NIS-denominated deposit amounting to NIS 400,000.

18. R&D Expenses

18.1 Research and development activities and results thereof

Since its inception, the Company has been engaged in research and development of the PAT signal and PAT technology, as well as development of products and applications (based on this technology) in its operating segment.

In order to conduct research and development activities, the Company has development teams in the following areas: hardware, software, algorithms, data processing and clinical application development.

Since its inception, the Company has initiated research and clinical co-operation for: (i) Consolidating the science underlying the products developed and marketed by the Company; (ii) continuous improvement and development of these products; (iii) achieving recognition among the medical community through scientific publications. As of the date of this report, the Company is involved in research activities conducted at academic centers in the U.S., Europe and Japan - such as Harvard University, Mayo Clinic and Mount Sinai Hospital. The Company also cooperates with researchers and institutions conducting large scale population-based studies**,** such as the FHS **(**Framingham Heart Study**)** and the Gutenberg-Heart Study **(**PREVENT-it). Through the date of this report, the Company has financed its investment in research and development primarily from its own resources and by raising funds from the public.

18.2 Research and development expenses and grants

Year	R&D expenses (dollars in thousands)	R&D expenses recognized as intangible asset (dollars in thousands)
2014	2,017	-
2013	1,893	-
2012	2, 148	28

Development grants received by the corporation and their repayment terms

18.2.1 The Chief Scientist of the Ministry of Economy:

18.2.1.1 Through the report date, the Company had two programs approved by the Chief Scientist of the Ministry of Economy (the "**Chief Scientist**") - one from September 2003 to August 2004 and the other from September 2004 to August 2005), which were defined as programs for development of a non-invasive and easy-to-operate system for diagnosis of endothelial dysfunction (development of EndoPAT3000 product). For these two programs, the Company has received grants amounting to NIS 3,770,000 through the report date[21].

Below are details of grants which the Company received from the Chief Scientist and has yet to repay:

Name of medical device for which grant was received from the Chief Scientist	Total grants received from the Chief Scientist as of the report date (dollars in thousands)*	Grant repayment terms and schedules	Special conditions stipulated by the Chief Scientist with regard to grants and/or repayment terms thereof
Development of non-invasive, easy to operate system for diagnosis of endothelial dysfunction EndoPAT3000	437	See Section 18.3.1.2.2 below	Royalty payment at 3%-5%
Development of non-invasive, easy to operate system for diagnosis of endothelial dysfunction EndoPAT3000	409	See Section 18.3.1.2.2 below	Royalty payment at 3%-5%

[21] The Company had grants approved amounting in total to NIS 3,800 thousand.

***** No grants were received in 2012-2014.

18.2.1.2 General terms and conditions for certificates of approval

The balance of principal and interest with respect to future liabilities of the Company to repay the Chief Scientist, on the financial statements as of December 31, 2014 amounted to $851,000 and $135,000, respectively. The various certificates of approval issued to the Company by the Chief Scientist (the "**certificate of approval**") stipulate conditions which the Company is required to fulfill, in conformity with provisions of the Industrial R&D Promotion Law, and regulations based thereon, including the following:

18.2.1.2.1 The Company undertook to inform the Chief Scientist of any change of 25% or higher in holding of Company shares and/or any of the following means of control of the Company: (a) voting rights at General Meetings of the Company's shareholders; (b) right to appoint directors of the Company; (c) right to participate in the Company's earnings.

Transfer of such means of control to a foreign resident or to a foreign company which would make the foreign resident or foreign company an interested party, as defined in the Securities Law, is subject to notification of the Chief Scientist and to a written commitment by the foreign resident or to a foreign company, in conformity with provisions of the Industrial R&D Promotion Law.

18.2.1.2.2 The Company has undertaken to pay royalties to the State Treasury out of all revenues with respect to products, single-use devices, spare parts and software for testing of endothelial dysfunction and to submit all reports, in conformity with provisions of Industrial R&D Regulations (Royalty Rates and Payment Rules), 1996 and with procedures of the Industrial R&D Administration.

Royalties range between 3%-5% of future sales of these products up to full repayment of the grant, linked to the dollar and bearing LIBOR interest, as updated from time to time[22].

The grants from the Chief Scientist were granted for development of the EndoPAT3000 product. Accordingly,

[22] According to Regulation 2(e) of Industrial R&D Regulations (Royalty Rates and Payment Rules), 1996, the royalties payable to the State Treasury range between 3%-5%, based on the repayment start date.

the Company undertook to pay the Chief Scientist royalties from any future sales. As of the date of this report, the Company expects it would complete development of the EndoPAT3000 product and/or unique technology thereof in 2015; however, the Company reviews from time to time the viability of completing development of the EndoPAT3000. Royalties with respect to sales of the EndoPAT3000 product and/or unique technology thereof between 2015 and 2017 should fully cover, according to Company estimates, its commitment to the Chief Scientist - should development of the EndoPAT3000 and/or its unique technology indeed be completed in 2017.

It should be noted that the Company has a dispute with the Chief Scientist with regard to the source of revenues for which the Company is liable to pay royalties to the Chief Scientist. According to the letter of commitment signed by the Company with regard to grants received from the Chief Scientist, the Company must pay royalties on all its sales of cardiology products, i.e. for sale of various EndoPAT products, not only on sales of the EndoPAT3000 product and/or unique technology thereof. After consulting with experts, Company management believes it is not required to pay royalties on all its sales EndoPAT devices - but only on sales of products resulting from unique technology supported by Chief Scientist funding. The product for which the Company has actual sales since 2004 is EndoPAT2000, which does not include technology supported by Chief Scientist funding. This matter is under negotiation with the Chief Scientist. For more information about commitments to the Chief Scientist, see Note 26a to the Company's consolidated financial statements for the year ended December 31, 2014, presented in Part C of this Annual Report.

18.2.1.2.3 The Company has undertaken not to transfer to any party the knowledge, rights there to and production rights resulting from research and development according to the approved programs, without consent from the Research Committee.

18.2.1.2.4 The certificates of approval stipulate that should the Company be convicted of any violation of intellectual property laws of the State of Israel by a final, conclusive verdict - the Investment Center may retroactively rescind

the benefits granted to the Company pursuant to the Industrial R&D Promotion Law and may demand repayment of the grants with interest and linkage differences.

As of the date of this report, the Company is in compliance with all terms and conditions of the certificates of approval and believes it would be able to continue being in compliance with them in future. Furthermore, as of the date of this report, the Company has made all of the required investments pursuant to the certificates of approval and has no future obligations pursuant there to.

18.2.2 Grants from other sources

The Company has received an initial grant of approximately 50,000 Euros from the Horizon 2020 project of the European Union for development of a clinical trial plan for iMUC (Investigation Management of Unexplained Chest Pain). The goal of this trial is to prove that EndoPAT aids in making treatment of patients with chest pain without significant diagnostic catheterization findings more efficient and improves clinical results, as well as patients' acceptance of treatment and the lifestyle changes recommended by their physicians.

18.3 Clinical trials

The following table provides disclosure of trials conducted by the Company, directly or indirectly through any party on behalf thereof, during the reported period.

It should be noted that both WatchPAT and EndoPAT were FDA approved in the U.S., received the CE mark in Europe, the Department of Instruments and Accessories in Israel and in other countries; also note that the clinical trials listed below are in connection with development of new indications for WatchPAT and EndoPAT or for validation of the outcome of use of the Company's products compared to other products, so as to assist the Company in obtaining approval from regulatory authorities in other countries in which the Company intends to market its products in the future.

Trial name	Development stage in which trial was conducted	IND/ IDE opened for this trial?	Clinical trial objective	Number of sites where trial is to be conducted	Medical institution where trial is to be conducted (geographic location of sites where trial is to be conducted)	Planned number of trial patients	Number of trial patients through the prospectus date	Trial nature and status	Schedule	Expected cost (estimated, in dollars)	Accrued cost (in dollars)	Final results/ interim results
Carmel	Post-validation of WatchPAT device	No	Validation of home sleep testing vs. over-night sleep testing at sleep laboratory	1	Carmel Medical Center	100	98 patients	Comparative, concealed interpretation, Concluded	Concluded	10,000	4,000	Isamar's SBP probe is validated
Carmel – Children	Validation of WatchPAT device	No	Reduce age limit for device from 17 to 12 by validation vs. over-night sleep testing at sleep laboratory	1	Carmel Medical Center	50	10	Comparative, double blind, In process	Started in November 2012. Expected conclusion in 2015.	6,000	1,000	Final results have yet to be received
Professor Thomas Penzel	Post-validation of WatchPAT device	No	Comparison of home sleep testing using WatchPAT to testing using a different home test (Embletta)	1	Berlin, Charite Hospital.	30	49	Comparative, double blind, cross over Concluded	Concluded	9,000	9,000	Demonstrated WatchPAT advantage over Embletta in home sleep testing. Article is in the process of being written. Results were presented at the annual convention of the German sleep medicine association.
EndoPrivent	Post-validation of WatchPAT device	No	Comparison of assessment of ischemia using angiography to EndoPAT testing	1	Mayo Clinic	150	150	Comparative Double blind Concluded	Trial started in 2011 Concluded	87,000	87,000	Article is in the process of being written
Oxymetry measurement using unified probe	Development, validation of WatchPAT device	No	Series of trials for development, evaluation and proving accuracy of blood oxygen saturation with	1	Clinimark Desaturation Laboratory Louisville, Colorado.	50-100	70	Comparative Concluded	Series of trials concluded in May 2014	80,000	80,000	The unified probe met the applicable ISO80601-2-61:2011 requirements The revised product was approved by the

Trial name	Development stage in which trial was conducted	IND/ IDE opened for this trial?	Clinical trial objective	Number of sites where trial is to be conducted	Medical institution where trial is to be conducted (geographic location of sites where trial is to be conducted)	Planned number of trial patients	Number of trial patients through the prospectus date	Trial nature and status	Schedule	Expected cost (estimated, in dollars)	Accrued cost (in dollars)	Final results/ interim results
			WatchPAT using unified probe and custom algorithms									FDA in May 2014
Carmel WP200U	Post-validation	No	Performance comparison of two configurations of the WatchPAT device	1	Carmel Medical Center	150	50	Comparative	First patient recruited in October 2013. Completed in 2014.	11,000	4,000	Final results show high correlation between the devices.
WP200 in children	Data collection for development.	None	Data collection	1	Chicago University - Comer Children Hospital	100	19	Comparative	On-going, expected to continue through 2015	10,000	3,000	In process

19. Intangible Assets

19.1 Overview

The Company has knowledge with regard to product development in its domains (based on the PAT technology) including, amongst others, information, know-how, data, knowledge, intellectual property, drawings, technical specifications, software, algorithms, a list of potential customers and plans. The Company acts in as much as possible to protect its business interests and any other knowledge with regard to its products and business by registering patents and trademarks in various countries around the world and invests substantial resources to do so. The Company also enters into non-disclosure agreements with third parties who are exposed to the Company information, in whole or in part, including its suppliers, sub-contractors, employees and customers.

19.2 Shrink-wrap agreements

All the Company's products are sold under license agreements and shrink-wrap agreements, which incorporate stipulations restricting use of the products solely for the purposes set out in the operating manuals. With respect to some the Company's products, the shrink-wrap agreements include stipulations that, in absence of express consent by the Company, prohibit the use of data generated by or resulting from use of the Company's products for the purpose of filing applications for regulatory approvals required for drugs or other medical products. The aforementioned restrictions prescribed in the license and the shrink-wrap agreements concerning the use of the Company's products, are made possible due to the broad protection obtained for PAT signal and PAT technology by the large number of patents owned by the Company.

19.3 Ownership agreements, intellectual property license and independent development

The Company has received Shonin approval (a regulatory approval for importing and marketing medical equipment in Japan) and MAH approval (authorized distributor approval from healthcare authorities in Japan) with regard to import and sale of EndoPAT in Japan by the Company's Japanese subsidiary. With respect to these approvals, the Company created an intangible asset valued at $350,000, which is amortized over a seven-year period.

19.4 Patents

Most of the patents owned by the Company and most of the patent registration applications filed by the Company typically protect the Company's intellectual property, from a number of aspects, including its

PAT technology (possible methods for measuring the PAT signal), PAT signal (manner of analyzing the signal features) and the application (protection of the Company's products). Below are details of patents wholly owned by the Company and patent applications filed by the Company as of the publication date of this report.

19.4.1 As of the date of this report, the Company has material registered patents as follows:

Patent name	**Patent description**	**Patent rights (ownership, usage rights or other rights)**	**Expected expiration date**	**Patent number**	**Countries in which granted**
Method and apparatus for the non-invasive detection of medical conditions by monitoring peripheral arterial tone.	Parent application. Describes physiological PAT signal, proprietary apparatus for its measurement, and major medical applications. Umbrella patent Provides a physiological description of the PAT signal, proprietary apparatus for its unique signal measurement method, and major medical applications.	Wholly owned by the Company under its former name - Itamar Medical (CM) 1997 Ltd.	July 23, 2017	732592	AU
				2260142	CA
				97196857-8	CN
				200310123725-	CN
				69739061-6	DE
				0926980	FR
				0926980	GB
				3971457	JP
				512290	KR
				333378	NZ
				2220653	RU
				6319205	US
Method and apparatus for non-invasively evaluating endothelial	In-depth description of PAT signal and apparatus for application to endothelial	Wholly owned by Itamar Medical Ltd.	October 22, 2021 (Only in the U.S. – February 8, 2022)	2002214210	AU
				2424389	CA
				154833	IL
				4049671	JP
				6939304	US

Patent name	Patent description	Patent rights (ownership, usage rights or other rights)	Expected expiration date	Patent number	Countries in which granted
activity in a patient.	function measurement. In-depth description of PAT signal and apparatus for application to endothelial function measurement.				
Non-invasive probe for detecting medical conditions.	Further PAT probe variations. Additional variations for PAT probe.	Wholly owned by Itamar Medical Ltd.	March 26, 2022 (Only in the U.S. – August 8, 2022)	244197	CA
				1372467	CH/LI
				60239923-8	DE
				1372467	FR
				1372467	GB
				1372467	IE
				1372467	IT
				4116444	JP
				1372467	NL
				1372467	SE
				7374540	US

19.4.2 As of the date of this report, the Company has material patent applications pending as follows:

Patent name	Patent description	Patent rights	Expected expiration date	Advancement date	Application filed on	Countries in which application was filed
Method and apparatus for non-invasively evaluating endothelial activity in a patient	In-depth description of PAT signal and apparatus for application to endothelial function measurement. In-depth description of PAT signal and apparatus for application to endothelial function measurement.	Wholly owned by Itamar Medical Ltd.	October 22, 2021	October 23, 2000	October 22, 2001	EP HK
Non-Invasive Apparatus And Method For Determining Sleep Stages	Facilitates differentiation between deep and light sleep Facilitates differentiation between deep and light sleep.	Wholly owned by Itamar Medical Ltd.	May 26, 2026	April 14, 2008	April 13, 2009	CA CN (allowed) EP (allowed) IN RU US

Typically, the patent duration is set at 20 years from date of application for patent recording. During the protection period the patent owner is required to pay maintenance fees in some countries. Payment dates for patent maintenance fees vary from one country to another.

It should be noted that the patent registered by the Company for the PAT signal (which is a unique technology developed by the Company on the

basis of which it has developed its products in the field of sleep breathing disorder diagnosis and in the field of cardiology) will expire in July 2017 and there are likely to be significant consequences for the Company, should any entity start to develop PAT based products to compete with the Company's existing products.

It should be noted that notwithstanding the foregoing, the Company's products make use of additional custom technologies (other than the PAT signal), the patents for which have not yet expired (with regard to the WatchPAT product, this refers to a patent expiring in 2022, except in the U.S. where it expires in 2024); with regard to the EndoPAT product, this refers to a patent expiring in 2021, except in the U.S. where it expires in 2024) (the "**supplementary patents**") and the Company believes that the existence of these supplementary patents will make it more difficult to develop PAT based products to compete with Company.

It should be noted that there is no certainty that patent recording applications submitted by the Company will result in a patent grant and/or that no attempts will be made by third parties to refute recorded patents of the Company or to demand their cancellation. Furthermore, the mere registration of a patent does not prevent the Company's competitors from producing identical products to those of the Company, in a manner which may impact the Company's capacity to compete in the market. In such case, the Company may sue such infringing competitors for infringing on the Company's registered patents.

19.5 Trademarks

As of the report date, the Company has filed applications for registration of the following trademarks: EndoPAT™**,** WatchPAT™, EndoSCORE™ and Itamar™ in countries listed in the table below. In some countries, approval had been received by the report date (see table below). The Company believes that should it fail to register the requested trademarks in its name, this may materially impact its financial results. This is due to the fact that through the report date, the Company has operated (and still does) in those countries without any registered trademarks.

The status of trademarks shortly prior to publication of this report:

Country	**Trademarks (status and expiration year)**				
	PAT™	**EndoPAT™**	**WatchPAT™**	**EndoScore™**	**Itamar™**
U.S.	REG (2020)	REG (2021)	Allowed	Allowed	Application recorded
Canada	REG (2026)	REG (2025)			
Europe	REG (2017)	REG (2017)	REG (2023)	Application recorded	

Country	Trademarks (status and expiration year)				
	PAT™	**EndoPAT™**	**WatchPAT™**	**EndoScore™**	**Itamar™**
Japan	REG (2018)	REG (2018)	REG (2023)	Application recorded	Application recorded
China	Application recorded		REG (2023)		
India		Under prosecution	Application recorded		
USSR	Application recorded		REG (2023)		
Mexico			REG (2023)		
Korea	Application recorded	REG (2024)	REG (2024)		
Singapore	Application recorded	REG (2024)	REG (2024)		

REG = Registered Trademark.

19.6 The Company believes its success depends, to a large extent, on its ability to protect its intangible assets and intellectual property as described above, in particular the PAT technology, on which the Company's products are based.

19.7 Costs invested in major intangible assets and their carrying amounts as assets on the financial statements

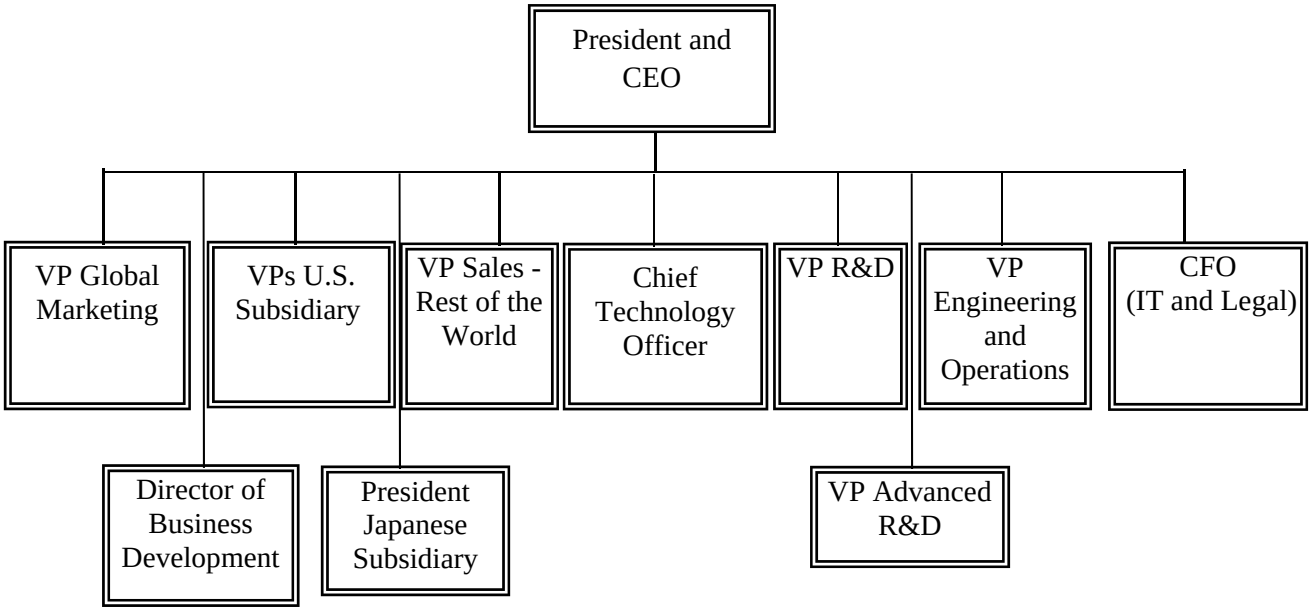
19.7.1 Expenses for patent maintenance and registration since Company inception through the report date amount to $1.6 million.

19.7.2 In recent years, the Company has capitalized expenses amounting to $220,000 with respect to its Bracelet product (accessory for the WatchPAT product which enables patient identification) and Cloud PAT (an online platform for use of cloud storage and processing technology). Upon completion of development and start of commercial sales, the Company discontinued capitalization of expenses with regard to this development. Total capitalized expenses are depreciated over a 3-year term, based on expected future benefit from this development.

20. Human resources

20.1 Organizational structure

Following is a chart describing the Company's organizational structure as of the publication date of this report:



20.2 Headcount

	2014	**2013**
Sales and marketing	31	24
Support for sales and marketing	12	7
Management, HR, IT and finance	22	18
Operations and production	43	46
Engineering & research	11	10
Total	**119 (of which 7 officers)**	**105 (of which 6 officers)**

The number of Company employees, as of December 31, 2014, has increased by 13% since December 31, 2013. The increase in headcount was primarily in sales and marketing and in support for sales and marketing, due to the Company's focusing on sales in the U.S. and in Japan, in conformity with its new strategic plan. As of the date of this report, the Company has no material dependence on any employee. However, should Dr. Jacob Sheffy, the Company's Chief Technology Officer, quit the Company's employ, this might cause the loss of significant knowhow and experience and slow down future development of the Company's products, as well as collaboration with third parties relating to the Company's products.

Subsequent to the report date, on January 22, 2015, the Company's Board of Directors, having received the consent of the Compensation Committee, approved a performance-based monthly pay increase of up to $21 thousand for all employees of the Company and its subsidiaries, of which $3 thousand – to officers who have held their positions at least a year, as specified in Section 9 of Part D of this Annual Report.

20.3 Advisory Board

In addition to the Company's staff, Board of Directors and Board committees, the Company also has an Advisory Board, composed of world-renowned experts in their fields, who advise the Company with regard to clinical and research use of The Company's products as well as on matters concerning insurance reimbursement and support from professional organizations in the U.S. Members of the Advisory Board are: (i) Prof. Amir Lerman, who is Co-chair for Academic Affairs at the Cardiovascular Division of Mayo Clinic; (b) Prof. Peter Gantz, who is the chief of cardiology at San Francisco General Hospital of the University of California (UCSF); (ii) Prof. Michael Shechter, Head of Clinical Research at the Heart Center, Sheba Hospital, Tel Hashomer, Israel; (f) Professor Peter Collins, Head Director of Cardiology at Brompton Hospital of Imperial College, London: Prof. Kirk N. Garratt, Head of the Invasive Cardiology Department of the North Shore-LIJ Health System in New York; Prof. Binoy K. Singh, Head of Cardiology at the Lenox Hill Hospital in New York.

20.4 Company investment in training

The Company invests resources in training its employees for their various roles, from the date they are recruited and throughout their employment with the Company. Some employees, such as production employees, are required to be certified for their job. During their employment period, employees are sent to attend external workshops and professional courses as required, and in addition the Company conducts internal training and courses for professional groups delivered by company representatives and/or by external instructors as required.

20.5 Compensation plans for employees and Board members, 1997 and 2003

20.5.1 **Overview** - On April 9, 1997, the Company Board of Directors approved the compensation plan (the "**First Plan**") to provide incentives to employees. On December 29, 2003, the Company Board of Directors approved a further stock option plan for Company employees (the "**Second Plan**"), effective through December 31, 2013.

As of the date of this report, the Company no longer grants options under the First Plan or the Second Plan.

20.5.2 **Vesting period** - On November 30, 2000, the Company Board of Directors resolved to revise the vesting period for options granted pursuant to this plan, whereby the vesting period would be four years. As of the report date, all options granted under the First Plan and the Second Plan have fully vested.

20.5.3 **Exercise period** - Options granted under the First Plan may be exercised for shares through the tenth anniversary of their grant date (the "**exercise period**").

20.5.4 **Contract termination** - The plan includes provisions concerning termination of the grantee's employment agreement with the Company, including in case of termination for cause, death, disability or retirement; the plan stipulates the period in which the grantee may exercise the remaining vested options after their termination date.

20.5.5 **Adjustments** - According to the plan, upon occurrence of any of the events listed below, the grantee's right to exercise their options would be adjusted in conformity with the mechanism set forth in the plan, which is designed to ensure that grantees' rights would not be impacted by occurrence of these events: (i) bonus share distribution; (ii) rights issuance; (iii) change to the Company's capital; (iv) dividend distribution; (v) merger.

20.6 Compensation plan for Israeli employees, 2007

Below is a summary description of plan highlights. For more information see Chapter 3 of the outline issued by the Company on March 2, 2014 (reference: 2014-01-003498) and the Company's immediate reports of August 14, 2014 (reference: 2014-01-134136) and of August 31, 2014 (reference: 2014-01-146286) regarding revision of vesting terms and measurement of meeting the preconditions for the vesting of options issued to employees and officeholders, in Israel and abroad.

20.6.1 **Overview** - On February 19, 2007, the Company's Board of Directors approved a new stock option plan as incentive for the Company's employees and Board members (the "**2007-1 Plan**"). The plan is subject to the capital gain taxation path through a trustee, in conformity with Section 102 of the Income Tax Ordinance, 1961 and regulations based there upon.

20.6.2 **Exercise price of options -** The options are offered to grantees at no charge; the exercise price would be set by the Company's Board

of Directors and would be listed in the grant letter, provided it is not less than the par value for a single Company's share.

20.6.3 **Vesting period** - As noted in the grant letter.

20.6.4 **Exercise period** - After the tenth anniversary of the grant date, all unexercised options shall expire and shall not confer on the grantee any right whatsoever.

20.6.5 **Adjustments** - According to the plan, upon occurrence of any of the events listed below, the grantee's right to exercise their options would be adjusted in conformity with the mechanism set forth in the plan, which is designed to ensure that grantees' rights would not be impacted by occurrence of these events: (i) bonus share distribution; (ii) rights issuance; (iii) change to the Company's capital; (iv) dividend distribution; (v) merger.

20.7 Compensation plan for U.S. employees, 2007

Below is a summary description of plan highlights. For more information see Chapter 3 of the outline issued by the Company on March 2, 2014 (reference: 2014-01-003498) and the Company's immediate reports of August 14, 2014 (reference: 2014-01-134136) and of August 31, 2014 (reference: 2014-01-146286) regarding revision of vesting terms and measurement of meeting the preconditions for the vesting of options issued to employees and officeholders.

20.7.1 **Overview** - On February 19, 2007, the Company Board of Directors approved a stock option plan to provide incentives to Company employees, consultants and service providers who are U.S. residents (the "**grantees**" and the "**2007-2 Plan**").

20.7.2 **Option exercise price –** The options are granted to grantees at no charge; the exercise price would be set by the Company Board of Directors and would be listed in the grant letter to the grantee, provided it is no less than par value for a single Company's share.

20.7.3 **Option vesting period** - The vesting period would be listed in the grant letter and is subject to statutory provisions in the U.S. with regard to the vesting period, as they may be at that time.

20.7.4 **Exercise period** - After the tenth anniversary of the grant date, all unexercised options shall expire and shall not confer on the grantee any right whatsoever.

20.7.5 **Adjustments** - According to the plan, upon occurrence of any of the events listed below, the grantee's right to exercise their options would be adjusted in conformity with the mechanism set forth in

the plan, which is designed to ensure that grantees' rights would not be impacted by occurrence of these events: (i) bonus share distribution; (ii) change to the Company's capital; (iii) transaction as defined in the plan (in general terms, this is a merger or a transaction for sale of a major part of operations).

20.7.6

20.8 Below is a summary of information about options pursuant to the aforementioned compensation plans, as of March 23, 2015:

As of March 23, 2015, a total of 27,463,753 options have been allotted, convertible into 27,463,753 Company ordinary shares, constituting approximately11.07% of the Company's issued and paid-in share capital, fully diluted, as follows:

	The 1997 plan, 1998 plan and 2003 plan	**The first 2007 plan**	**The second 2007 plan**	**Total:**
Number of option granted	9,315,054	34,717,970	6,724,050	50,757,074
Number of grantees	125	159	72	299
Exercise price range	NIS 0.01 – NIS 8.03	NIS 0.01 - 2.34	NIS 0.23 - 2.50	
Options exercised	5,717,825	8,367,055	791,021	14,875,901
Options returned / cancelled / expired	1,645,604	4,476,487	2,295,329	8,417,420
Remaining options granted and not yet exercised (excluding options returned / cancelled / expired)	1,951,625	21,874,428	3,637,700	27,463,753

	The 1997 plan, 1998 plan and 2003 plan	The first 2007 plan	The second 2007 plan	Total:
Vested options out of remaining ones	1,951,625	8,713,671	1,150,073	11,815,369
Remaining option as percentage of the Company's issued and paid-in share capital, on a fully diluted basis[23].	0.79%	8.82%	1.46%	11.07%

* Where the exercise price is denominated in dollars, it was converted to NIS at the representative dollar/NIS exchange rate as of March 22, 2015 which was $1 = NIS 4.053.

20.9 Benefits and the nature of employment agreements

The Company (and its subsidiaries in the U.S. and in Japan) usually enters into individual employment agreements with employees. The Company signs with its employees using one of two types of individual employment agreements. One is for regular (exempt) employees (including senior officers of the Company) and the other – for hourly employees.

As a rule, it is company policy to improve employment terms for its employees subject to their performance. Such improvement of employment terms may be reflected by granting additional benefits to employees, such as study funds, stock options, one-time bonus payments, pay raises and longer paid leave.

20.10 Restructuring

In the course of updating the Company's strategic plan for 2014 onwards, the Company increased its sales staff while reducing staff levels in other areas. For more information about the update to the

[23] See footnote 1 in chapter 1 above.

strategic plan, see immediate reports dated October 3, 2013 (reference: 2013-01-157473) and January 29, 2014 (reference: 2014-01-026425). The Company reviews from time to time the need to align its headcount with the state of Company business and global market conditions, primarily in the following areas: marketing, sales and technical support in Israel and in the U.S. This is done in line with growth in the Company's marketing operations. Furthermore, the Company intends to increase the number of production employees in relation to the increase in production volume and to the ratio of in-house production to production by sub-contractors.

20.11 Compensation Policy

On January 14, 2014, the General Meeting of the Company's Shareholders approved the Company's officer compensation policy (after approval by the Compensation Committee and by the Board of Directors at its meeting on November 20, 2013), in conformity with provisions of Amendment 20 to the Companies Law ("the **Compensation Policy**"). The compensation policy is valid for three years as from its approval date. For more information about the Compensation Policy, see the Company's immediate report dated January 8, 2014 (reference: 2013-01-009652).

20.12 Officers

With regard to compensation of the Company's officers, including waiver, indemnification and insurance, see Sections 9 and 21 of Part D of this Annual Report ("Additional Information about the Corporation"). For information about grant of option to officers, see also Note 27 to the consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

21. Raw materials and suppliers

21.1 Major raw materials used in the Company's activities and availability thereof

The Company's products are composed of purchased components (**"off-the-shelf components**"), such as: rugged electronic components and custom made components manufactured for the Company according to a Company-specific specification, such as: injected plastic parts, CNC machined parts etc. Most of these custom components are produced in Israel and the Far East, while off-the-shelf components are produced overseas (U.S., Europe and Asia-Pacific) and purchased by the Company directly from the manufacturer or through Israeli or foreign agents (jointly in this Section: the "**suppliers**").

Most components may be purchased and delivered within five weeks at most, but some components may require a lead time of up to 14 weeks. The Company prepares in advance for purchasing components with long lead times, by maintaining minimum inventory and/or by signing annual agreements with relevant manufacturers or agents.

21.2 Dependence on raw material supplier - Nonin Medical Inc. ("**Nonin**")

The Company is dependent on raw material supplier Nonin, engaged in development, manufacturing and sales of a system (with embedded software and a sensor) for measuring blood oxygen saturation (OEM system), used in the WatchPAT product. In conjunction with agreements with Nonin, the Company commits to order a certain volume of products from Nonin under an annual framework order, at a price set forth in the order, reflecting the volume discount to which the Company is entitled.

Nonin does not supply components for the new version of WatchPAT (which has been approved in North America and Israel but is still awaiting approval in other markets, including Japan and Europe) which uses the unified probe. Therefore, the volume of following the launching of the new WatchPAT, the use of the old version has declined, and Nonin supplies only components for the manufacture of the previous version, when the need arises, and for servicing customers still using the previous version.

The Company purchases from Nonin in 2014 and 2013 accounted for 19% and 18%, respectively, of total Company purchases from suppliers (including sub-contractors). The Company believes that a sudden termination of its agreement with Nonin may impact its capacity to serve customers who are still using the previous version of WatchPAT. However, it is possible that the products will be upgraded to the new version.

21.3 Sub-contractors (providing raw materials which are finished products)

The Company has about 16 sub-contractors, who manufacture and/or assemble custom products and/or components for the Company. Contracting with sub-contractors is typically through a framework order, renewable every six months, or by specific order. As of the date of this report, the Company uses multiple sub-contractors concurrently in different geographic regions, so as to reduce its dependence on sub-contractors. Furthermore, available sub-contractors on the market allows for flexibility in choice of sub-contractors and ease of transition from contracting with one sub-contractor to contracting with another. Furthermore, if need be - the Company may transition the final assembly operations to its own facility.

21.4 Dependence on sub-contractors

The Company is dependent on CPC Solutions Ltd., which assembles the EndoPAT2000 product in accordance with the Company's technology and instructions and under Company supervision. Company purchases from this sub-contractor in 2014 and 2013 accounted for approximately 7% and 9%, respectively, of total Company purchases from suppliers (including sub-contractors).

The Company maintains sufficient product inventory at its warehouses, hence the Company believes that, should contracting with any sub-contractor be disrupted, the Company may use this inventory of finished products and assemble the product at Company facilities while trying to locate an alternate sub-contractor.

22. Working capital

22.1 Summary of composition of the Company's working capital

Current assets of the Group, consisting mainly of cash and cash equivalents, listed securities, trade receivables and inventories) as of December 31, 2014 amount to $23,569,000; current liabilities, consisting mainly of trade payables, current maturities of notes (Series L, provisions, accrued expenses and other accounts payable) amount to $4,712,000; therefore, the Company's working capital amounts to $18,857,000 (current ratio: approximately 5). The Group's working capital primarily consists of cash and investments in securities, current maturities of convertible notes, inventories and trade receivables as follows:

22.2 Inventories

Average inventories in 2014 declined to approximately $1,150,000. The Company continues to strive to reduce its inventory level on hand at any given time, while maintaining minimum inventory required for its proper operations. In the fourth quarter of 2014, inventory level was approximately $1,432,000, with record sales at $4.5 million. Inventory days in 2014 were at approximately 90 days.

The Company maintains raw material inventories based on its annual sales forecast, and maintains sufficient inventory of components with long lead times, such that the inventory in its possession shall be enough to deliver products for one more quarter. For components with long lead time and/or subject to other constraints, the Company maintains an inventory for up to six months' use. It is Company policy, with regard to inventory of finished products, to maintain, at the start of each calendar quarter, inventory equal to 25% of finished products which the Company would be required to supply in that calendar quarter. Furthermore, the

Company anticipates that if contracting with any sub-contractor is disrupted, it may use this inventory until an alternate sub-contractor is located.

22.3 Credit policy

	As of December 31, 2014	
	Average credit amount, dollars in thousands	**Average credit days**
Customers	2,810	Current + 60 days
Suppliers	1,083	Current + 30 days

As to doubtful and bed debt, See Note 25 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

23. Investments

The Company has no material investments in affiliated companies, partnerships and ventures other than subsidiaries.

24. Financing

24.1 Overview

As of the publication date of this report, the Company has convertible notes (Series L), as described below, an outstanding loan of $1.9 million from four major shareholders and a credit facility from a bank, as described below.

Below is information about the average interest rate for borrowings in effect during 2014 (convertible notes (Series A) (fully redeemed on February 10, 2014); notes (Series L) as described in Section 0 below; and loans from four major shareholders as described in Section 24.4 below), which are not designated for specific use in 2014:

	Short-term loans / current maturities			Long-term loans		
	Average principal (dollars in thousands)	**Average interest rate**	**Effective interest rate**	**Average principal (dollars in thousands)**	**Average interest rate**	**Effective interest rate**
Non-banking	1,439	7.5%	11.57%	-	-	-

	Short-term loans / current maturities			Long-term loans		
	Average principal (dollars in thousands)	**Average interest rate**	**Effective interest rate**	**Average principal (dollars in thousands)**	**Average interest rate**	**Effective interest rate**
sources (linked to Consumer Price Index)						
Non-banking sources (not linked to Consumer Price Index)	-	-	-	14,823	8.82%	26.43%
Bank sources	-	-	-	-	-	-

24.2 Convertible notes (Series A), issued in 2007

On March 13, 2007, the Company allotted NIS 82,948,320 par value convertible notes (Series A. All Series A notes fully redeemed on February 10, 2014.

24.3 Convertible notes (Series L), issued in 2013

24.3.1 During 2013, the Company issued to the public NIS 76,256 thousand par value convertible notes (Series L) for total gross consideration amounting to $20.5 million. Of the total consideration for this issuance, a total of $3.6 million was received from four interested parties in the Company on said date, who submitted bids to purchase notes as part of the public offering: Medtronic International Technology, Inc., Dr. Giora Yaron, Mr. Martin Grestel and Caremi Partners Ltd. (jointly: the "**four interested parties**"). The consideration received from the four interested parties was used by the Company for full early repayment of the private loan which the four interested parties had extended to the Company prior to issuing the notes, such that in effect, the private loan was converted to debt with respect to notes, as described in Section 24.4 below. It should be noted that Caremi Partners Ltd. is no longer considered an interested party in the Company as from May 21, 2013.

24.3.2 For more information about the notes (Series L), see: (i) shelf offering report dated February 27, 2013 (reference: 2013-01-049497), including the enclosed Deed of Trust; and (ii) Chapter E of the Board of Directors' report (specific disclosure for noteholders), enclosed as Part B of this Annual Report.

24.4 Credit facility from interested parties dated 2011

In March 2011, the Company's Board of Directors approved the credit facility agreement entered between the Company and its then four interested parties (the "**credit facility**") For more information see immediate report by the Company dated March 2, 2011 (reference: 2011-01-067005).

The first and second withdrawals under this credit facility, in a total amount of approximately $3.6 million, were made in February 2012 and March 2012**.** The Company fully repaid the first two withdrawals, as described in Section 24.3.1 above.

In February 2014, the Company made the third and last withdrawal, amounting to $1,940,000, on account of the credit facility. The third withdrawal was transferred to the Company in February 2014 (by way of offset of the amount thereof against principal and interest payable by the Company to the four interested parties on February 10, 2014 on account of the Series A notes which held thereby). The third withdrawal bears at annual interest rate of 10.4% (unlinked). The principal for the third withdrawal matures in two equal installments in February of 2017 and 2018. Interest on the third withdrawal is payable on February 10 and August 10 of each year from August 10, 2014 through February 10, 2018. The third withdrawal is subject to all other provisions of the credit facility agreement. For more information about the third withdrawal, see immediate report by the Company dated March 2, 2014 (reference: 2014-01-002238).

As of the date of this report (after the third and last withdrawal as described above has been made), the Company has exhausted all its rights under the credit facility and the credit facility has expired.

The credit facility and the withdrawals thereunder were approved as transactions at market terms in conformity with provisions of Section 1(5) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000 (the "**Relief regulations**").

24.5 Irrevocable undertaking to place a credit facility to the Company – January 2015

In January 2015, the Company received an irrevocable undertaking to place a credit facility of up to NIS 9,058,131 (the "**credit amount**"), subject to certain conditions, from certain Company's shareholders: (i) Medtronic International Technology, Inc.; (ii) Itamar Technologies and Investments (1994) Ltd., a company controlled by Dr. Giora Yaron; and (iii) Mr. Martin Grestel, (jointly: the **"three shareholders**"). The credit facility may be utilized in a single withdrawing from January 2017 to February 28, 2017. Should the credit amount or a portion thereof remain unutilized after February 28, 2017, the facility will expire and the Company will no longer be entitled thereto. The credit, if utilized, will bear interest at the annual rate of 10.4% (unlinked). The principal of any amount drawn will mature in one payment on February 28, 2018. The Company is not obligated to utilize the credit amount and that the resolution to utilize the credit must be adopted subject to any binding legal provisions. For additional details, see immediate report by the Company dated January 25, 2015 (reference: 2015-01-017752).

24.6 Credit facility from bank

The Company has a new Israeli shekel credit facility from a bank amounting to NIS 100,000.

24.7 Grants

For information about grants from the Chief Scientist and the Company's obligation to pay royalties to the State Treasury out of certain Company revenues, see Section 18.3 above.

24.8 Below is summary information about material loans and credit facilities of the Company as of March 25, 2015

Loan	**Loan amount / utilized credit facility (dollars in millions)**	**Terms and conditions of the loan**		**Restrictions applicable to the Company - financial liabilities**	**Restriction on borrowing or restriction which materially increases the cost of raising capital or new debt**
		Annual interest rate	**Linkage**	**Repayment schedule**	
Notes (Series L)	Approximately 19.7	8.65% (unlinked)	Principal and interest not linked to any index or	See Section 24.3 above.	---

Loan	Loan amount / utilized credit facility (dollars in millions)	Terms and conditions of the loan		Restrictions applicable to the Company - financial liabilities	Restriction on borrowing or restriction which materially increases the cost of raising capital or new debt
		Annual interest rate	Linkage	Repayment schedule	
			currency		
Loan from shareholders (2011 credit facility)	Approximately 1.8	10.4% (unlinked)	Principal and interest not linked to any index or currency	See Section 24.4 above.	---

24.9 Company's assessment of need to raise funds

The Company reviews from time to time options to raise capital or debt, including through issuance on the TASE in Israel or overseas, or through private placement with investors in Israel and/or overseas. Any funds raised would be designated to enable the Company to realize its growth potential while allowing the Company to support all its other business and financial objectives and liabilities (including note redemption). Company management believes that the Company's survival over the next 12 months is not contingent on external financing sources in addition to those currently available to the Company including, amongst others, the aforementioned credit facilities. See also see Section 20 to the Board of Directors' report (projected cash flows for 24 months), enclosed as Part B of this Annual Report

25. Taxation

For details, see Note 11 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

In March 2015, the Company was notified by the Income Tax Authority that it intends to perform an audit on the tax years 2010 – 2013.

26. Environmental risk and management thereof

26.1. The Company operates in conformity with provisions of the Work Safety Regulations (Safety and Hygiene in Work with Hazardous Materials in

Medical, Chemical and Biological Laboratories), 2001. To this end, the Company established a Safety Committee (the "**Committee**") consisting of: (i) its VP Engineering and Operations as the chairman of the Committee, (ii) its Quality Manager, (iii) its Safety Advisor and (iv) its safety trustees. This Committee convenes in accordance with an annual plan prepared by the Safety Manager (in 2014, the Committee convened nine times) to receive updates and to discuss issues requiring its attention; the Committee also ensures that the Company's operations are in conformity with requirements by the Ministry of Economy, the Ministry of Health and the Ministry of Environmental Protection. The Company is under constant supervision by these ministries and their committees, as well as under supervision by other qualified authorities. These authorities issue and renew the Company's licenses for its regular operations.

26.2. The Company's activities with regard to air, water and waste water quality and prevention of soil contamination:

A significant portion of manufacturing of the Company's products is made through suppliers and sub-contractors; the Company's production activity at its laboratories, located in the Company's offices in Caesarea, is restricted and primarily focused on: (i) production of the probe for WatchPAT and EndoPAT; and (ii) assembly of WatchPAT sub-assemblies. Consequently, Company operations have no impact on air, water or soil quality.

26.3. As noted in Section 27.7 below, the Company holds a valid business license for conducting its operations at its facility in Caesarea, which was granted after visits to the Company by teams on behalf of the Ministry of Health. In these visits, the team reviewed, amongst others, the Company's handling of chemicals, plumbing, installed UFR (Unmeasured Flow Reducer) devices and other aspects related to safety and environmental protection.

26.4. The annual costs invested by the Company for compliance with environmental protection provisions applicable to the Company, as well as anticipated costs through 2015 and in 2016 are not material for the Company.

27. Restrictions on and supervision of Company operations

27.1 Operations subject to specific legislation

The Company is in compliance with material statutory requirements applicable to the Company in the various countries in which it operates, as listed below. Company operations are subject to compliance with

legislation in the State of Israel, due to the fact that the development center and assembly facility for the Company's products is located in Israel; it is also subject to compliance with standards and administrative guidelines which apply to products sold by the Company it the U.S., Canada, Europe, Asia-Pacific and in other markets in which the Company shall operate in future. The requirements for obtaining permission to sell the Company's products differ from one country to another, and so does the duration required for testing by the authorities and the cost associated with such testing. Absence of licensing for the Company's products or services in certain countries would prevent the Company from selling in these countries and consequently may impact the Company's revenues accordingly.

27.2 U.S. market - the FDA

To the best of the Company's knowledge, based on public information, the FDA is a federal entity under the U.S. Department of Health and Human Services, tasked with protecting the health of the U.S. public by establishing and enforcing high product standards through various regulatory requirements and in conformity with provisions of the Federal Food, Drug and Cosmetics Act (the "**FDC Act**"). Companies that produce medical devices and intend to market them in the U.S. are compelled to comply with FDA regulatory requirements, as well as other regulatory requirements that may exist in various U.S. states, during and after development, production and marketing process of these medical devices. FDA requirements include, amongst others, manufacturing of medical devices in conformity with quality assurance regulations, obtaining scientific reports with regard to the medical devices, appointment of a U.S. agent and allowing FDA representative's access to supervise manufacturing processes at the plant. Moreover, the Company is required to adapt its production facilities to FDA requirements, which, similar to the Company's compliance with requirements of the Quality Systems Registrars ("**QSR**"), will be periodically reviewed by the FDA.

Failure by the Company to comply with FDA requirements, including QSR requirements, may impact the Company's ability to produce, deliver and/or sell its products. Furthermore, failure to comply with regulatory requirements regarding medical devices may lead to civil and criminal sanctions being imposed on the Company, including issuing a public notice regarding the product, refusal to authorize marketing and sales of new products or revoking the sales and marketing authorization for current products. For further details on the Company's risk factors related to the need for FDA approval of its products, see Sections 34.4 and 34.9 below.

The Company's products being marketed (WatchPAT200 and EndoPAT2000) have been approved by the FDA. For details see Section 8.7 above .

27.3 European Common Market - CE mark

The CE mark is a European standard for products, whereby the manufacturer declares that the product meets the required criteria and technical specifications of the relevant authorities, such as health, safety and environmental protection. The mark enables free trade among EU countries and EFTA countries (Island, Liechtenstein, Switzerland and Norway) and allows law enforcement and customs agencies in European countries not to approve marketing of similar products which do not carry the CE mark. Pursuant to the European Conformity Directive concerning medical devices (Medical Devices Directive - 93/42/EEC), as from June 14, 1993, medical device manufacturers are required to act in accordance with terms and conditions of the European Conformity Directive, whereby a "medical device" is defined as any device or material intended to be used for treating human beings, including diagnosis and treatment. After obtaining the CE mark, companies must successfully pass an annual audit by the Notified Bodies. As of the report date the Company, the Company's marketed products (WatchPAT200 and EndoPAT2000 and accessories for these products) are CE approved by the regulatory body. For details, see Section 8.7.2 above**.**

27.4 Canadian market - Health Canada and CSA

The Company has obtained approval from Health Canada for its EndoPAT2000, WatchPAT200 and related products. Health Canada is, according to public information, the Canadian authority supervising the marketing and sale of medical products - similar to the FDA in the U.S. and to the Medical Accessories and Devices department in Israel. Furthermore, the Company's marketed products comply with the Canadian CSA (Canadian Standard Association) standard, which requires compliance with requirements similar to those described previously in relation to the European Common Market's CE mark (such as safety). In addition, in January 2015, Health Canada approved the innovative and upgraded version of WatchPAT, which contains the unified probe and measures both the PAT signal and blood oxygen saturation**.** For more information see Section 8.7.40 above.

27.5 The market in Japan – PMDA

The Company has obtained approval from PMDA (Pharmaceutical Medical Device Authority) in Japan (the parallel entity in Japan to the FDA charged with all import approval for medical equipment and drugs

in Japan) for importing and marketing in Japan its EndoPAT2000 product in the cardiology segment. The PMDA approval for import and marketing in Japan of the Company's WatchPAT200 product in the sleep medicine segment was granted to the Company distributor, Philips (for more information see Section 12.3.1 above).

27.6 Israeli legislation

27.6.1 **The Industrial R&D Promotion Law**

Starting in 2004 and up to the report date, the Company has obtained approval of two Chief Scientist programs related to development of non-invasive, easy to operate system for diagnosis of endothelial dysfunction, under the Industrial R&D Promotion Law. The various approval documents issued to the Company by the Chief Scientist impose different conditions the Company must comply with under provisions of the Industrial R&D Promotion Law and regulations pertaining thereof. For more information see Section 18.3 above.

27.6.2 **Medical Devices and Accessories** - An MDA is any device, accessory, chemical material, biological or technological product used in medical treatment or required for operation of any device or accessory used in treatment which is not primarily intended as a medicinal influence on the human body ("**MDA**"). The MDA Department of the Ministry of Health is the authority tasked with granting various import permits for MDA, monitoring marketing of MDA in Israel and approval of MDA clinical trials. All the Company's products have received MDA approval: (i) for the WatchPAT200 product, MDA approval since March 24, 2009; (ii) for the EndoPAT2000 product, MDA approval since February 17, 2004; and (iii) for ancillary Company's products, MDA approval since September 12, 2013. In addition, in December 2014, the Company received MDA approval for the upgraded version of the sensor for the measuring of the PAT signals and for measuring blood oxygen saturation using a unified probe

27.6.3 **Public Health Regulations (Medical Trials in Human Subjects), 1980**

In Israel, a pre-condition for conducting clinical trials in human subjects is obtaining a permit in conformity with the research program (protocol) from a committee (known as the Helsinki Committee), which operates pursuant to the Public Health Regulations (Medical trials in humans), 1980. The Company's

production and R&D operations are subject to provisions specified by the Ministry of Health, including: Public Health Regulations and the Helsinki Committee.

27.7 Business License

The Company holds a business license in conformity with provisions of the Business Licensing Law, 1968 as from January 28, 2007, received from the Ministry of Interior, Haifa District. The business license is valid through December 31, 2015.

27.8 Export License

The Company has an export license as from February 6, 2007, allowing it to export its products from Israel.

27.9 Standards

The Company is committed to comply with the quality standards promulgated by certain institutions/ countries in which its products are sold: (a) the Israeli Standards Institute (including ISO standards); (b) Canadian Regulation (including SOR standards); (c) Japanese quality management standard for the medical industry: (d) U.S. regulation (including cGMP standards); (e) European Community standards and directives (including EEC, RoHSII[24] and REACH[25] standards); and (F) MDA approval in Israel.

27.10 Quality Control

The Company's products are produced based on engineering documentation, and their quality is tested by employees who are professionally trained and certified for doing so. Company sub-contractors provide complete products and/or assemblies / components thereof to the Company, in compliance with the required quality standards. All complete products, assemblies and components received by the Company are subject to a receiving control process for the purpose of quality testing.

[24] RoHS II (Restriction of Hazardous Substances Directive 2011/65/EU) - a directive for restriction of hazardous materials, adopted by the EU and required by Notified Bodies for grant of CE mark. The directive restricts use of six hazardous substances used in manufacturing electric and electronic equipment.

[25] REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) - a European standards concerning chemicals and safe use thereof (EC 1907/2006). The standard is designed to improve protection of human health and the environment through better identification of major features of chemicals.

Quality testing is performed in conformity with cGMP regulation 21 CFR part 820 QSR, ISO9001:2008 standard, ISO 13485:2012 EN standard, CAN/CSA-ISO 13485:2003 standard and Japanese MHLW Ministerial Ordinance No. 169, 2004.

28. Material agreements (not in the ordinary course of business)

28.1 Product liability insurance

The Company is insured by an insurance policy with respect to monetary claims for bodily or property damage by a third party, arising from clinical trials or from faulty products (where the product fault originated from the manufacturing process until leaving the Company). The insurance policy provides coverage of up to $7 million per single case and in total. The insurance policy does not cover, amongst others, expenses incurred due to bodily or property damage for which the Company is liable by contract (unless the Company would have been liable for it in absence of the contract as well) as well as punitive fines and interest, warranty not approved by the Company, certain cases of re-packaging of products, demonstration, installation or replacement procedures (unless conducted on Company premises), products sold and then re-classified or used as part of a different product by or on behalf of the seller, products purchased from another supplier as ancillary to the Company's products etc.

28.2 Other insurance policies

The Company is insured by other insurance policies, including business insurance, employer and third party liability insurance and healthcare insurance for Israeli citizen's travel overseas for short stays.

29. Collaboration agreements

The Company is a party to several strategic collaboration agreements which contribute to the Company from the technology development or marketing aspects, as the case may be. Below is a list of the Company's strategic collaboration agreements:

29.1 Research collaboration between the Company and Mayo Clinic on various research and development issues:

29.2 Collaboration with the endothelial function assessment clinic in the Levayev Heart Center at Sheba Tel Hashomer Medical Center (the "**clinic**")

In October 2013, the Company and the clinic reached agreement whereunder the clinic would make clinical use of the EndoPAT2000 device so as to allow clinic patients to be tested using the device.

29.3 Evaluation agreement with North Shore - Long Island Jewish Health System, Inc. - a U.S. network of medical centers ("**North Shore-LIJ**")

In October 2013, the Company signed an evaluation agreement for testing using the EndoPAT2000 device with North Shore-LIJ, one of the largest providers of healthcare services in the U.S. and the largest healthcare service provider in the state of New York. According to the agreement, the Company would provide to North Short-LIJ its EndoPAT2000 devices for six months (the "**testing evaluation period**") for no consideration for providing the devices (the Company would receive non-material consideration for consumables). According to the agreement, in the first stage, the EndoPAT2000 device would be used at 11 North Shore-LIJ medical centers in New York City, which would offer their patients the use of the device during the evaluation period. The collaboration agreement was signed in order to promote the Company's marketing strategy and clinical use of the EndoPAT2000 device in the U.S.

In April 2014, the parties reached an agreement for the extension of the testing evaluation period for another six months. The number of the EndoPAT devices used for such evaluation during the extension period was to be doubled.

29.4 Collaboration agreement with the Souraski Tel Aviv Medical Center (the "**medical center**")

In April 2014, the Company reported that the medical center commenced clinical use of the EndoPAT device for treatment of post-catheterization patients and patients of the cardiologic system.

29.5 Collaboration agreement with the Shaare Zedek Medical Center in Jerusalem

In June 2014, the Company reported that, as part of its drive for the adoption of new technologies, the Shaare Zedek Medical Center commenced clinical use of the EndoPAT device for the rehabilitation of cardiac patients and treatment of cardiology patients.

29.6 Collaboration with the Israeli company Galmed Research and Development Ltd. (" **Galmed**")

In September 2014, the Company entered into a collaboration agreement with Galmed, whereunder the latter purchased 60 EndoPAT2000 systems with ancillary accessories, in order to integrate arterial function tests

performed by that device into its wide-scope clinical trial on about 240 NASH (non-alcoholic steatohepatitis – a fatty liver disease not resulting from the abuse of alcohol) suffering from overweight and insulin resistance. The use of EndoPAT2000 is designated as testing the effect of the medicine on the endothelial function (arterial function), a significant indicator of cardiovascular events. The importance of this agreement is the wide-scope integration of the Company's EndoPAT2000 systems in the development of a medicine with large market potential.

Galmed is engaged in the manufacture of an oral medicine for the treatment of liver diseases and cholesterol gallbladder stones, taken once a day. The medicine developed by Galmed, "Aramchol," will initially be used for NASH patients suffering also from overweight and insulin resistance. Such patients are exposed to the two gravest complications of the disease: cardiac problems and severe liver diseases, first – cirrhosis of the liver and then liver cancer, which might necessitate liver transplant. To the best of the Company's knowledge, the goal of the experiment is to prove that Aramchol can successfully reduce liver fat, and thus reduce or completely suppress the process that leads to clinical liver complications. The trial is scheduled to be carried out in 60 medical centers in 15 countries – in Europe, Israel and Latin America.

29.7 Collaboration with the women's heart clinic at the Rabin Medical Center – Beilinson and Hasharon Hospitals

In November 2014, the Company reported that the Cardiology Department of the Rabin Medical Center commenced using the EndoPAT device for treatment of women at its Women's Heart Clinic. Studies have shown that the EndoPAT tests can indicate risks or defective function of small blood vessels, a disorder common mainly in women which cannot be checked by regular catheterization.

These collaboration agreements are additional steps in the implementation of the Company's new strategic plan to promote the clinical use of the Company's products in additional markets, as described in Section 31 below.

30. Legal Proceedings

The Company is not a party to any significant legal proceedings.

31. Business objectives and strategy

31.1 Major objectives and strategy

During 2014, following changes in senior management, the Company changed its strategic plan. The Company's objective in the coming few years is to focus on marketing of its cardiology products (EndoPAT and

WatchPAT), while continuing its activities in the sleep market using its WatchPAT device, to further commercialize its two products, the EndoPAT and the WatchPAT, as well as further development (including additional applications) of these products. The Company also intends to continue investing resources in developing further products and further medical applications in these areas of medical diagnosis.

This strategy is further encouraged by the new trends in the health field. One of those trends is reducing health expenditure by primary prevention of diseases, before they develop, and another one is reducing health costs by secondary prevention after the treatment strategy has been established, so as to prevent repeated hospitalization. As mentioned elsewhere in this report, there is mounting evidence that sleep disorders are a significant factor in development of cardiovascular diseases. The Company's vision is turning the PAT technology into the leading standard in diagnosing and treatment of the major cardiovascular diseases.

In order to realize these objectives, the Company has decided to update its strategic plan for the coming years based on:

31.1.1 Primary focus on the U.S., Japanese and Chinese markets, which the Company regards as the major markets for its products, while continuing its activities in Europe.

31.1.2 Establishing significant marketing and distribution channels, including through contracting co-operation agreements and strategic marketing and distribution agreements with third parties. For further details of agreements with distributors and collaboration agreements – see Section 8.4 above.

31.1.3 Expanding the use and sales of its WatchPAT device to the cardiology market, in addition to sales to the traditional sleep market; another objective is the expansion of extensive clinical-therapeutic use of its EndoPAT device among cardiologists, hospitals and catheterization clinics across the U.S. for symptomatic or diagnosed patients, for monitoring and customizing their treatment in order to improve the treatment outcome.

31.1.4 Expansion of sources of financing at the Company's disposal for the implementation of its strategy as delineated above.

In addition, as part of its new strategic plan for 2014, the Company has expanded its sales workforce, while the workforce in other fields has decreased. The Company reexamines its manpower needs from time to time in order to adjust its staff to its business position and the situation on the world market, in particular in the areas of marketing, sales and

technical support in Israel and in the US. Such adjustment is a function of the expansion of the Company's marketing activities. The Company also intends to increase the number of the production workers in its employ, due to the growth in output and the proportion of own manufacture and manufacture by subcontractors.

For more information about the Company's strategic plan, see the immediate reports dated October 3, 2013 (reference: 2013-01-157473) and January 29, 2014 (reference: 2014-01-026425).

In order to achieve its objectives, the Company intends to continue marketing unique products and applications, having clinical and other advantages in comparison to competing products, as well as to extend the scope of current protection of its intellectual property by applying for patents and registered trademarks.

31.2 Company objectives for each of its major medical products for 2014 and 2015:

Medical product	**Current status**	**2014 and 2015**
WatchPAT	Product development and trials have been completed and it is being sold in several countries, including the U.S., Japan and European countries.	Currently, the Company is focused on: (a) development of additional indications and improvements for the device, as listed in Section 8.5.2 above; and (b) increase revenues from product sales by penetrating new segments and taking various initiatives to increase sales in the Company's major markets today - U.S. and Japan - through Company sales staff and various marketers, as well as by taking action to ensure the highest possible reimbursement for use of the Company's products.
EndoPAT	Product development and trials have been completed and it is being sold in several countries, including the U.S., Japan and European countries.	Currently, the Company is focused on: (i) penetration of markets which are not sensitive to insurance reimbursement, such as the wellness market; (ii) intensify penetration of the Japanese market; (iii) further action in order to secure insurance reimbursement in the U.S.; (iv) joining forces with distributors; and (v) penetration

Medical product	Current status	2014 and 2015
		of the Chinese market. With regard to penetrating new markets, the Company continues to focus its efforts on penetrating the market in Japan, primarily due to its importance for the EndoPAT product, which in 2012 received approval for insurance reimbursement in Japan, and due to the extensive interest in this device in Japan.

31.3 Company's objectives for the coming years

The major components of the Company's business strategy for the next few years, for the purpose of achieving its objectives are as follows:

31.3.1 **Development and expansion of the marketing and distribution channels, with a focus on U.S., Japan** and China - diverting additional resources (including financial, managerial and human resources) to establishing significant marketing and distribution channels in Japan and the U.S., including through contracting collaboration agreements and strategic marketing and distribution agreements with third parties and establishing operations in Japan. This is done concurrently with continued service provision to existing Company customers and distributors in other markets - Europe, Asia-Pacific and South America. The Company would continue to operate in the Israeli market, despite its smaller size, since it allows the Company more rapid response and development times. As regards marketing agreements reached in 2014 with significant Japanese and U.S. distributors, see Section 12.3 above.

31.3.2 **Expanding implementation of sales model to commercial - clinical customers in the U.S.** – the Company intends to expand the implementation of the sales model to commercial - clinical customers in the U.S. to a leasing model (the "**leasing model**") whereby the customer/physician would not be required to invest in purchase of fixed equipment (the Company's WatchPAT or EndoPAT products) but would rather lease this equipment from the Company and would commit to purchase the consumables provided by the Company (single-use probes). In practice, the progress achieved with the EndoPAT leasing model in the United

States in 2014 was slower than envisaged, as a result of the slow approval of insurance reimbursement under health insurance policies. The Company continues cooperation with its principal customers and with external agencies in order to promote the inclusion of insurance reimbursement in health insurance policies. The Company believes that the leasing model may result in an increase in number of systems installed at hospitals and private clinics, as well as a more moderate sales growth rate over the short term. In the long term, the Company believes, the leasing model may result in significant sales growth.

31.3.3 **Expanding the use of the WatchPAT product to other market segments** – the Company is striving to expand the use of WatchPAT to other market segments, given recently-published scientific research which proves the connection between Sleep Apnea and severe medical conditions such as: hypertension, diabetes, arrhythmia, heart disease, neurological conditions and even complications following surgery under full anesthesia. The Company intends to join forces with distributors specialized in these market segments.

31.3.4 **Expanding the use of EndoPAT product to other market segments** – The Company will continue to support its current operations in primary prevention of heart attacks as a medium to long-term objective, but will focus its activities on secondary prevention - monitoring of symptomatic patients or following a cardiac event.

31.3.5 **Expanding penetration of the wellness market** – the wellness market and integrative medicine (combining conventional and alternative medicine) form a growing market in the U.S. In this regard, the Company has recently announced its collaboration with a leading U.S. manufacturer of nutritional additives - Thorne Research. This market involves both primary prevention and early diagnosis, as well as secondary prevention.

31.3.6 **Obtaining approval for extensive insurance coverage for use of the Company's products and adoption thereof by insurers** – The Company intends to obtain extensive insurance coverage for use of its products. For more information, see Section 6.2 above.

31.3.7 **Obtaining the support of professional associations for the Company's products** – the Company intends to continue approaching professional associations to seek their support for

the Company's products and for reimbursement codes submitted/to be submitted to the AMA panel and included in medical guides/protocols.

31.3.8 **Expanding the use of PAT signal and PAT technology in studies and clinical trials** - current and future, multi-patient, in various medical areas, which involve multi-year monitoring.

31.3.9 **Continuation of publishing clinical trials supporting the efficiency of the Company's products** – the Company intends to continue investing resources in order to increase the scope of information published with regard to its products, including publication of research results related to its products and publication of positive results generated by use of its products.

31.3.10 **Increasing awareness of availability of PAT signal and PAT technology as a platform for early diagnosis and monitoring in various medical fields** – the Company intends to invest resources to increase awareness among the medical community of the importance of the PAT signal and PAT technology and their clinical efficiency in diagnosis of a wide range of illnesses.

31.3.11 **Developing and marketing additional applications of the PAT signal and PAT technology** – the Company intends to invest resources in order to identify additional applications of the PAT signal and PAT technology by adding features to existing products, development of new applications for existing products and entrance into additional medical fields.

The information in Section 31 with regard to Company objectives, sales potential for its products in the U.S., change in expense structure, intent to contract marketing and distribution agreements with third parties and its business strategy and its financial implications, constitutes forward-looking information, as defined in the Securities Act. Forward-looking statements are uncertain, future-oriented information based on information available to the Company as of the report date, which includes company expectations or intentions as of the report date. Difficulties in development of PAT technology and/or failure of negotiations with potential distributors and/or customers and/or strategic customers and/or delays in clinical trials and/or changes to market structure or the competition may alter the objectives and strategy listed above.

31.4 Anticipated development over the next year

In 2015, the Company will start to implement its revised strategy, highlighted in Section 31.3 above. The Company will focus on

implementing the marketing and distribution agreements it has signed, in order to maximize sales. It will also take steps for reaching new agreements with distributors and hospitals.

32. Information regarding extraordinary changes in corporate business

For information about events subsequent to December 31, 2014, see Note 28 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

33. Financial information regarding geographical areas

For financial information regarding geographical areas where the Company has activities, see Note 5 to the Company's consolidated financial statements as of December 31, 2014, enclosed as Part C of this Annual Report.

34. Discussion of risk factors

34.1 Recognition of The Company's products and their acceptance by the international medical community

The Company's success depends on recognition by the medical community of technology developed by the Company. Recognition by the medical community of products incorporating methods for use of PAT technology for diagnosis of medical conditions as a global standard depends on the Company's ability to provide evidence that its products are efficient, cost effective and that they provide significant improvement in performance and data compared to other diagnostic tools available in the market. Even should the Company succeed in proving the advantages of its products in cost and medical performance, there is a risk that healthcare service providers, having invested significantly in other devices, will therefore avoid purchasing the Company's products. There is no certainty that the Company would be successful in generating recognition for its products in the market and within the medical community.

34.2 Reimbursement policies of healthcare insurers

As of the report date, most medical insurers cover or only allow partial reimbursement of expenses associated with tests using the Company's products. Failure of the Company to have all medical insurers allow full reimbursement for expenses associated with using the Company's products may adversely impact acceptance of the products by the medical community. Even with reimbursement provided for the Company's products - there is no certainty as to the reimbursement amount. A low reimbursement amount may impact use of the Company's products as well as Company revenues.

Furthermore, the Company sells its products primarily in the U.S. Patients in the U.S. do not typically use medical services which are not paid for by a third party, such as insurers or government healthcare organizations. Therefore the Company's success in the U.S. sales relies on the agreement of such third parties to pay for tests and medical services based on the Company's products.

There is a CMS initiative in the U.S., at the nation-wide level, to reduce some payments with respect to home sleep testing.

34.3 Demand for the Company's products

There is no certainty about the level of demand for the Company's products, which depends on acceptance of the Company's products and of its exclusive technology (the PAT technology) on which they are based as products having added value compared to current methodologies existing in the market.

34.4 Failure or delay in obtaining approvals, permits and licenses required for marketing the Company's products

Marketing of the Company's products around the world is subject to regulatory permits and approvals from various entities, such as the FDA in the U.S., Shonin in Japan etc. The process for obtaining such permits and approvals is costly and intensive, with typical duration of 3-24 months. Changes to legislation and/or policy of regulatory bodies or new legislation may delay the process of obtaining required permits, a delay which may cause the Company additional expenditures. In addition, there is no certainty that the Company shall obtain the required approvals for marketing its products. Should the Company fail to obtain the approvals and licenses as mentioned, this may adversely impact results of its operations.

34.5 Competition

The field in which the Company operates is characterized by significant research effort and many technological developments. Development of medical technologies and medical devices competing with the Company's products may impact demand for its products, and there is no certainty that the company will successfully and efficiently compete with its competitors. In addition, there are other technologies in the areas of cardiology and of diagnosing sleep breathing disorders, some of which are owned by companies far larger and powerful than the Company, from both operational-commercial and financial aspects, which are better known by the healthcare system and by various healthcare service providers. It is uncertain whether the Company will be successful in

efficiently facing its competitors in the market. Furthermore, since the Company operates in markets where significant other players operate (with significant market share and financial strength), there may be products and/or competitors on the market which would implement drastic price reduction policies (dumping) and/or who would promote marketing of products which do not involve consumable components (requiring single-use for each testing) - which would be a challenge for the Company in proving the economic benefit of its products.

34.6 Financing and investment sources

As of the report date, the Company has a shareholder equity shortfall. The Company also has a negative operating cash flow. The Company does not anticipate needing additional financing sources, beyond those available to the Company within the next 12 months. However, the Company's success depends on its ability to become profitable and to generate a positive cash flow in future or, alternatively, its capacity to raise additional capital or debt in future for its operations - primarily support for a marketing and sales organization of the size required to generate significant revenues.

34.7 Operational and commercial growth

The Company intends to expand the volume of its commercial and business operations. Such growth requires proper and efficient management and resource investment in Company management, professional staff, operations etc. The Company is not very experienced in this field, so there is no certainty as to whether the Company would successfully and efficiently handle the expansion of its business and the associated requirements, including meeting demand for its products.

34.8 Results of clinical trials

The results of clinical trials, whether by the Company or by third parties, may present a negative outcome with regard to use of the Company's products, so as to negatively influence the willingness of the medical community and/or end customers to purchase the Company's products.

34.9 Regulatory developments, international standards and permits

Marketing of the Company's products around the world is subject to legislation and standards in the U.S., Europe, Israel and elsewhere. The Company is impacted by regulatory changes occurring from time to time with relation to health in general and to the Company's products in particular. New discoveries in medicine and changes to standards and regulation may impose different restrictions on Company operations,

including future approval of its products or revoking of current licenses and permits. For details see Section 27 above.

34.10 Development of additional applications

The Company wishes to develop in future, additional applications based on the PAT technology in order to extend its product line. There is no certainty that the Company will meet the technological, clinical and regulatory requirements or any other requirements which may apply to the Company in the development process of new products. There is also no certainty that the Company will have the financial means to allow such development. The Company believes that the ability to develop new applications is essential for preserving and/expanding its market share in competitive environment.

34.11 Reliance on proprietary technology

All the Company's products, whether on the market or being developed, rely on PAT technology. These products all focus on monitoring and analysis of the PAT signal. Should this technology be rejected by the market and the medical community, the Company may face difficulties in marketing its products. The same goes for market, scientific and medical developments which may not recognize this technology and may have material negative impact on the Company's operating results.

34.12 Product liability

The Company's products have applications in the areas of diagnosis and analysis of information regarding the patient's clinical and health situation. The Company's products are complex, sophisticated products which may harbor defects and faults - some of which may not have been discovered yet. As a result, the Company may be sued for defects in the product and for product liability in both the trial phase and the marketing phase.

34.13 Uncertainty regarding protection of intellectual property

The Company relies on its ability to register its patent rights for its various developments and on its ability to protect its trade secrets and trademarks. There is no certainty that the Company will succeed in recording additional patents or any patent for any of its various developments, nor shall that patents granted to the Company shall not be claimed by third parties. In addition, in some countries the Company enjoys no legal protection of its intellectual property. For information about the Company's intellectual property, see Section 19 above.

34.14 Failure to meet production demand

The Company's inability to meet demand for its products, in terms of production volume, may impact its sales. In addition, defects in the manufacturing process for the Company's products may lead to products being returned to the Company, which may negatively impact the Company's financial results as well as customer decisions regarding future use of the Company's products.

34.15 Intellectual property rights of third parties

The Company's success depends, among others, on its ability to protect its intellectual property without infringing on any intellectual property rights of any third party. There is no certainty that any patent or other intellectual property owned by any third party may not require the Company to modify its products or the underlying technology for the Company's products, or pay royalties for licenses or discontinue the development of certain products, now or in the future. Although intellectual property conflicts are typically resolved by means of licensing and similar arrangements, such arrangements entail significant expenses, which may be material for the Company. In addition, there is no certainty that the Company will be successful in obtaining the licenses it requires. The Company is liable for law suits regarding infringement of intellectual property rights by third parties, which may cause the Company further expenses and resource investment. Potential outcomes of such legal proceedings may lead to interdiction and material restriction of Company activity, whether in development, production or marketing of its products.

34.16 Reliance on suppliers and manufacturers

Some material components in some of the Company's products are supplied by a small number of suppliers, or are manufactured by a single or a few manufacturers. This reliance of the Company on suppliers and manufacturers acting as sub-contractors of the Company exposes the Company to potential situations where the supplier or manufacturer is no longer able to deliver or produce the said component at all or within the schedule required for development of the Company's products. The Company is also exposed to a situation where its contract with any supplier or manufacturer shall expire, which would cause delays and extra expenses associated with completing development and manufacturing of the product.

34.17 Medical protocols

Professional associations publish from time to time practice guidelines, suggesting processes and procedures intended for various medical conditions. There is no certainty that such guidelines will include and/or prefer the Company's products. Such guidelines have significant importance and influence on decisions by various health plans on including the Company's products in the range of covered tests and procedures offered to their customers. In addition, many physicians are acting in conformity with recommendations made in these guidelines.

34.18 Mass production and marketing of the Company's products

The Company has not yet gathered much experience in mass marketing of its products, and its success in doing so depends on many different factors, including the Company's ability to contract with component manufacturers. The Company has no certainty about the challenges it may face in moving to mass production and marketing.

34.19 Carryforward loss

Through the report date, the Company has accumulated carryforward loss as described in Note 11e to the Company's consolidated financial statements, enclosed as Part C of this Annual Report. It is uncertain whether the Company would be able to utilize all of its carry-forward loss for tax purposes in the foreseeable future.

34.20 Trade secrets

The Company relies to a large extent on its trade secrets and proprietary knowledge in developing its products and their underlying technology. The company's failure to keep and protect its trade secrets may allow a third party to discover its trade secrets and make use of such information to compete with the Company. There is also no certainty that any third party may not succeed in developing identical or similar technology on its own, thereby impacting the competitive advantage of the Company's products.

34.21 Exchange rate fluctuations

All Company sales are made in dollars, while some of its expenses, particularly payroll and human resource expenses, are in NIS. Exchange rate fluctuations may cause higher expenses for the Company.

Following are Company estimates of the impact of risk factors on the Company:

		Degree of impact of risk factor on the Company		
		Major impact	**Medium impact**	**Minor impact**
Macro-economic risk factors				
1.	Exchange rate fluctuations		✓	
Sector-specific risk factors				
2.	Competition	✓		
3.	Regulatory developments, international standards and permits		✓	
4.	Medical protocols		✓	
5.	Development of additional applications			✓
6.	Reliance on proprietary technology	✓		
7.	Reimbursement policies of healthcare insurers	✓		
8.	Intellectual property rights of third parties		✓	
9.	Reliance on suppliers and manufacturers			✓
10.	Product liability			✓
11.	Financing and investment sources		✓	
Company-specific risk factors				
12.	Failure or delay in obtaining approvals, permits and licenses required for marketing the Company's products		✓	

		Degree of impact of risk factor on the Company		
		Major impact	**Medium impact**	**Minor impact**
13.	Recognition of the Company's products and their acceptance by the international medical community	✓		
14.	Results of clinical trials	✓		
15.	Demand for the Company's products	✓		
16.	Mass production and marketing of the Company's products			✓
17.	Meeting production demand			✓
18.	Carry-forward loss			✓
19.	Uncertainty regarding protection of intellectual property			✓
20.	Trade secrets			✓
21.	Operational and commercial growth		✓	

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ITAMAR MEDICAL LTD.

PART B

REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF COMPANY'S AFFAIRS

AS OF DECEMBER 31, 2014

Board of Directors' Report for the Year Ended December 31, 2014

We hereby present the Board of Directors' Report of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company"**) and its subsidiaries (the "**Group**") as of December 31, 2014 (the "**report date**"), and the Company's consolidated financial results for the year ended December 31, 2014 (the "**reporting period**"), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report includes, among others, a description of the state of corporate affairs, operating results, shareholders' equity and cash flows, as well as the impact of events in the reported period on data included in the Company's consolidated financial statements as of December 31, 2014 (the "**financial statements**"). Data included in this report, which are stated as of the issuance date are true as of March 23, 2015.

Preparation of the financial statements

The financial statements enclosed in Part C of this report are prepared in conformity with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010. The functional currency and the reporting currency of the financial statements is the U.S. dollar ("dollar" or "$"). For more information, see Note 2b to the Company's consolidated financial statements.

Chapter A – Board of Directors' Explanations of the State of Corporate Affairs

1. Summary description of the Company

The Company is engaged in research and development, marketing, selling and leasing of non-invasive medical devices and associated support services for the diagnosis and assessment of various medical conditions, including cardiology disease and sleep breathing disorders. The unique proprietary technology developed by the Company is capable of non-invasively recording, measuring and analyzing the Peripheral Arterial Tonometry; PAT™ ("**PAT**") signal.

The Company develops and markets two products: WatchPAT™ ("**WatchPAT**") and EndoPAT™ ("**EndoPAT**"). For more information about the Company's products, see Section 2 of Part A of this report.

Towards the end of 2013, following changes in the Company's senior management, which occurred at the end of 2013 and during 2014, the Company changed its strategic plan in order to focus on marketing its products (EndoPAT and WatchPAT) in the Cardiology field (in parallel with the continuing its operation in the sleep breathing disorder field using its WatchPAT device), as well as to focus in the U.S. and Japanese markets and lately in the Chinese market, which the Company identified to be the main markets to its products, with a potential to increase its revenues. As a result, the Company changed the format of its financial statements (starting with the financial statements for the year ended December 31, 2014) and reports one operating segments, the Cardiology Segment. For more details about the Company's strategy, see Section 31 of Part A of this report.

2. Major events during and after the reported period

The Company's revenues increased by approximately 23% in 2014, over the corresponding period last year, together with improvement of the gross margin rate.

During 2014 and from January 1, 2015 through the issuance date of the report, the Company focused on several significant areas, as described below, in order to further support growth in this year:

a. Activities focused in line with the new strategy, reflected by signing and execution of significant distribution agreements: (i) an exclusive distribution agreement with Philips Respironics GK, the local Philips representative in Japan to distribute the WatchPAT device and accessories, including insurance reimbursement approved by the qualified agency of the Japanese Ministry of Health in January 2014; (ii) a marketing agreement with Medtronic, Inc. (which is the parent company of Medtronic International Technology, Inc., which is considered to be a controlling shareholder of the Company), whereby Medtronic, Inc. will market together with the Company the WatchPAT device to doctors in the U.S. who specialize in Arrhythmia (electrophysiology); and (iii) an exclusive distribution agreement in Japan with Nihon Kohden Corporation ("**Nihon Kohden**"), whereby Nihon Kohden will distribute the EndoPAT2000 system and accessories to customers in Japan, including general practitioners and hospitals; (iv) an exclusive distribution agreement in China with Beijing Viable Medical Investment Co. Ltd. ("**BVMI**"), whereby, starting January 1, 2015, BVMI will distribute the EndoPAT system in China; and (v) representation and distribution agreements with Arterial Health International LLC ("**AHI**"). Under the representation agreement, AHI is to be the sole service provider in ten states in various parts of the U.S. for cardiovascular examinations performed using the EndoPAT2000 device on customers under the cardiovascular examination package provided by AHI. The Company also entered into a cooperative distribution agreement with AHI for WatchPAT (the new version with the special sensor, the unified probe) and EndoPAT for Primary Care Physicians. For more information, see Section12.3 of Part A of this Annual Report.

b. In January 2015, the U.S. subsidiary launched the Total Sleep Solution (TSS), a family of products and services in the U.S., which is intended to provide a complete Sleep Apnea management solution to Cardiology practices and departments in hospital-based environments. The TSS shifts Itamar from a manufacturer and seller of medical devices to a complete service pathway provider, including products, education and services throughout the patient care pathway. For more information, see Section 8.4 of Part A of this Annual Report.

c. Reinforcing of the Company's financial position with: (i) private placements, in January and May 2014, of equity to three institutional investors: HaPhoenix Investments and Finance Ltd. and with HaPhoenix Insurance Company Ltd. (Elementary Nostro) ("**HaPhoenix**"), Yelin Lapidot Investment House Ltd. ("**Yelin Lapidot"**) and Migdal Insurance Company Ltd. ("**Migdal**"). Following this private placement, Yelin Lapidot became an interested party in the Company, and Migdal, which had been an interested party prior to this private placement, increased its holding stake in the Company. Thus, the Company completed raising a total of NIS 57.1 million, gross (approximately $16.4 million) from institutional investors since December 2013; and (ii) third and final withdrawal on account of a credit facility provided to the Company by four of its shareholders, by way of offset against principal repayment on notes (Series A). In addition, In January 2015, subsequent to the report date, Medtronic International Technology, Inc., Itamar Technologies and Investments (1994) Ltd. (a company controlled By Dr. Giora Yaron, which is an interested party) and Mr. Martin Gerstel, which is an interested party (together the "**Three Shareholders**") granted the Company an irrecoverable commitment to grant the Company a line of credit in the total amount of up to NIS 9,058,131 (approximately $2.3 million). For more information, see Sections 3 and 24.5 of Part A of this Annual Report.

d. Further promote and support for clinical research, as reflected by a significant research publication in 2014 of ACC (American College of Cardiology), which showed that EndoPAT testing of patients who have undergone angiography provided a non-invasive indication of the need for repeat angiography. Such research reinforces the scientific proof of the clinical need for the Company's products. The Company has reported that its EndoPAT device has been put to clinical use at the Tel Aviv Sourasky Medical Center in April 2014, at the Shaare Zedek Medical Center in Jerusalem in June 2014, and at the Rabin Medical Center (Beilinson-Hasharon) in November 2014. The Company has also reported the continuation of the evaluation of its EndoPAT2000 device with the healthcare chain, North Shore – Long Island Jewish Health System, Inc. in the United States.

e. In addition, in September 2014, The Company also entered into a cooperation agreement with an Israeli company, Galmed Research and Development Ltd. ("**Galmed**"). As part of this agreement, testing of Endothelial function by the Company's EndoPAT2000 product, will be included as part of a large-scale clinical trial conducted with NASH (Nonalcoholic Steatohepatitis) patients who suffer from obesity and insulin resistance. For more information, see Section 29 of Part A of this Annual Report.

f. As for support for its future product line, the Company has received Federal Drug and Food administration ("**FDA**") approval in the U.S. for a new, improved version of its WatchPAT Unified Probe, a product which incorporates an oximetry sensor within the probe sensor, thereby simplifying the test process and further increasing its efficacy.

g. The Company has launched further development designed to adapt its WatchPAT device for diagnosis in children and infants. Such development includes a smaller device and a new probe adapted for younger patients, software and algorithm development as well as other accessories. Since currently, children and infants undergo sleep breathing disorder diagnosis at hospital labs, this development would potentially allow for in-home diagnosis of children and infants as well.

h. The leasing model for the EndoPAT device in the United States is making slower than expected progress, due to delay in approval of insurance reimbursement by healthcare insurers. The Company continues to work with its major customers and with external agencies in order to have the appropriate insurance coverage included on healthcare insurance.

Information provided above with regard to continued growth of the Company, constitutes forward-looking information, as this term is defined in the Israeli Securities Law. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, *inter alia*, to delay in negotiations with distributors and/or delay in research and development and/or change in market structure and requirements or market competition and/or financing difficulties which could impact the development of Company business.

3. The Group's Financial position (Development of Items in the Statement of Financial Position)

In this report, the Company's notes (Series A), convertible into the Company's ordinary shares and listed for trading on the Tel Aviv Stock Exchange Ltd. ("**TASE**") and was fully repaid in February 2014, as well as Company's notes (Series L), listed for trading on the TASE in March 2013 and convertible into the Company's ordinary shares.

Item	December 31, 2014	December 31, 2013	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
Cash and cash equivalents and investments in securities	18,336	18,881	(3%)	During the year ended December 31, 2014, the Company concluded two rounds of capital raising by equity issuance to institutional investors, in the total amount of $11.8 million, and repaid the third and final installment of notes (Series A), amounting to $5.2 million (after offset of the third withdrawal, amounting to $1.9 million from the Company's four major shareholders). The net balance was used to finance operating activities in the amount of $5.4 million. In addition, there was a decrease in this item as a result of the devaluation of the NIS against the USD which decreased the balance of cash, cash equivalent and short term investments the nominated in NIS.
Current assets	23,569	22,648	4%	The increase in current assets is primarily due to increase in trade receivables due to increased sales in the fourth quarter of 2014 (compared to the fourth quarter of 2013). In addition, there was an increase in inventories, mainly as a result of production of the new and upgraded version of the WatchPAT. On the other hand, there was a decrease in cash and cash equivalents balances and investments in securities as described above.
Current	4,712	11,416	(59%)	The decrease is primarily due to the

Item	December 31, 2014	December 31, 2013	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
liabilities				third and final repayment of principal of notes (Series A).
Non-current liabilities	24,623	27,011	(9%)	The increase is due to a decrease in the fair value of the warrants embedded in notes (Series L), primarily due to a decrease of 6% in the value of Company shares as of December 31, 2014, compared to December 31, 2013 and to the decrease in the time value of the warrants. This decrease is partially offset by a loan obtained from four shareholders of the Company, as described below in section 6.4 below.
Working capital	18,857	11,232	68%	The increase in the working capital and in the current ratio is primarily due to $11.8 million in capital raised and to a $1.9 million loan received from four shareholders of the Company, as described below in section 6.4 below as well as the third and final principal repayment of principal of notes (Series A).
Current ratio	5.0	2.0		
Capital deficiency	4,770	14,643	(67%)	The decrease in capital deficiency is due to capital raised by equity issuance to institutional investors, partially offset by the loss recorded in the first nine months of 2014 (for more information see operating results analysis of operating results in Section 4 below).

4. The Group's operating results (development in statements of operations items)

The Company's results of operations, net of expenses not involving cash flows, as presented under summary of Non-IFRS financial data, also indicate an improving trend (improvement in gross profit, decrease in operating loss and consequently, a decrease in the loss for the reported periods).

Below is a summary of operating results (dollars in thousands):

Summary of operating results as presented in the financial statements:

	Year Ended December 31,		Quarter Ended December 31,	
	2014	**2013**	**2014**	**2013**
Revenues	16,387	13,337	4,476	3,760
Cost of revenues	4,798	(4,258)	1,179	996
Gross profit	11,589	9,079	3,297	2,764
Selling and marketing expenses	8,436	7,396	2,516	2,234
Research and development expenses	2,017	1,893	496	438
General and administrative expenses	4,745	4,997	1,206	2,351
Operating loss	(3,609)	(5,207)	(921)	(2,259)
Financial income	(468)	829	(135)	158
Financial expenses	(2,817)	(5,235)	(553)	(1,427)
Gain (loss) from financial derivatives	3,743	(3,350)	(991)	(4,768)
Financial income (expenses), net	458	(7,756)	(1,679)	(6,037)
Loss before taxes on income	(3,151)	(12,963)	(2,600)	(8,296)
Income tax credit (expense)	(124)	44	93	79
Loss for the period	**(3,257)**	**(12,919)**	**(2,507)**	**(8,217)**

	Year Ended December 31,		Quarter Ended December 31,	
	2014	**2013**	**2014**	**2013**
Revenues	16,387	13,337	4,476	3,760
Cost of revenues	4,622	4,101	1,134	989
Gross profit	11,765	9,236	3,342	2,771
Selling and marketing expenses	8,018	7,373	2,387	2,172
Research and development expenses	1,827	1,862	443	457
General and administrative expenses	3,684	3,686	960	1,185
Operating loss	(1,764)	(3,685)	(448)	(1,043)
Financial income	(468)	829	(135)	158
Financial expenses	(2,817)	(5,235)	(553)	(1,427)
Loss on financial derivatives	(114)	(228)	(87)	(9)
Financial expenses, net	(3,399)	(4,634)	(775)	(1,278)
Loss before taxes on income	(5,163)	(8,319)	(1,223)	(2,321)
Income tax credit (expense)	(124)	44	93	79
Adjusted loss for the period*	**(5,287)**	**(8,275)**	**(1,130)**	**(2,242)**
Adjustments to loss for the period: Loss for the period – Non-IFRS	**(3,**275**)**	**(12,919)**	**(2,507)**	**(8,217)**
Adjustments:				
Depreciation and amortization	324	400	78	76
Change in provision for doubtful and bad debt	46	117	36	155
Expenses due to share-based payment	1,475	143	359	123
Settlement agreement with former distributor	-	682	-	682
Revaluation of embedded options	(3,857)	3,122	904	4,759
	(2,012)	4,664	1,377	5,975
Adjusted loss for the period*	**(5,287)**	**(8,275)**	**(1,130)**	**(2,242)**

* Non-IFRS adjusted loss, which eliminates non-cash components, or non-recurring components.

** Adjusted information, not in conformity with IFRS rules, which eliminates non-cash components.

Non-IFRS measures should be considered in addition to, and not as a substitute for, the results presented in accordance with IFRS. The Company presents such non-IFRS measures because management believes that such non-IFRS information is useful because it can enhance the understanding of its ongoing economic performance and therefore uses internally this non-IFRS information to evaluate and manage its operations. The Company has chosen to provide this information to investors to enable them to perform comparison of operating results in a manner similar to how the Company analyzes its operating results.

Analysis of statement of operations data in the year ended December 31, 2014

Item	For the Year Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
Revenues	16,387	13,337	23%	The increase in revenues, compared to the previous year is attributable to an increase of 27% in revenues from the sale of the EndoPAT, an increase which is due to both an increase in sales by the subsidiary in Japan, which commenced operations in the second quarter of 2013, an increase in sales to pharmaceutical companies, and an increase in sales in China. In addition, revenues from the WatchPAT also increased by 18% over the previous year.
Gross profit	11,589	9,079	28%	Gross margin in 2014 was 71% of total revenues, compared to 68% in the previous year. The improvement in gross margin is primarily attributable to: (i) streamlining of production processes and cost reduction; and (ii) attribution of fixed expenses to a larger production volume.
Selling and marketing expenses	8,436	7,396	14%	The increase, compared to the previous year, is primarily due to recruitment of sales staff in the U.S. and in Japan, which increased payroll, sales commissions and payroll-related benefits, and to an increase in expenses with respect to options granted to officers and employees. This increase was partially offset by: (i) expenses in the previous year for a one-time campaign to rise of the importance of EndoPAT testing; and (ii) Expenses

Item	For the Year Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
				relating to achieving insurance reimbursement in the U.S. and Japan.
General and administrative expenses	4,745	4,997	(5%)	The decrease, compared to the previous year, was primarily due to the following: (i) legal expenses in the previous years in respect of legal proceeding with American Cardio, LLC ("**AMC**"), a former distributor of the Company in the U.S., which ended up in a settlement; and (ii) expenses in the previous year relating to the settlement reached with AMC (for more information, see immediate report of the Company dated December 19, 2013, reference: 2013-01-102514). This decrease was partially offset by: (i) increase in payroll expenses with respect to options granted in December 2013 and during 2014 to employees, CEO, officers and directors; and (ii) increase in the number of employees.
Operating loss	(3,609)	(5,207)	(31%)	The improvement in operating loss, compared to the previous year, was attributable to improved gross profit, due to increase in revenues and also to improved gross margin, which was partially offset by increase in selling and marketing expenses.
Financial income	(468)	829		The transition from income in the previous year to expense in the current year was primarily due to financial expenses with respect to exchange rate differentials on NIS-denominated cash balances in 2014, due to revaluation of the dollar against the NIS (by 12%), whereas in the previous year, financial income were recorded due to devaluation of the dollar against the NIS (by 7%).
Financial expenses	(2,817)	(5,235)	(46%)	The decrease, compared to the previous year, is primarily due to the effect of the change in dollar/NIS exchange rate on the liability amount of the notes (Series L). In 2014, financial income relating to exchange rate differentials on the notes (Series L) amounted to $1.6 million,

Item	For the Year Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
				compared to financial expenses of $0.8 million in the previous year.
Gain (loss) from financial derivatives	3,743	(3,350)		The transition from loss from financial derivatives in the previous year to gain in the current year is due to non-cash change in the fair value of warrants embedded in the notes (Series L), issued in the first quarter of 2013. The gain in the current year is primarily due to a decrease of 6% in the share price (as of December 32, 2014, compared to December 31, 2013) and the decrease in the time value of the options as a result of passage of time, which reduced the liability relating to the embedded warrants. In the previous year In the previous year, the loss resulted from an increase of 10% in the share price. Furthermore, in the previous year, there was a gain which resulted from the change in value of the embedded warrants in notes (Series A), offset by issuance expenses attributed to warrants embedded in notes (Series L) which, according to IFRS, were directly recognized in the statement of operations, amounted to $0.5 million.
Loss	(3,275)	(12,919)	(75%)	The decrease in the loss in the current year is primarily attributable to improved gross margin and to transition to net financial income, which was partially offset by the increase in selling and marketing expenses.
Adjustments to loss	(2,012)	4,664		The change in adjustments to loss, compared to the previous year, is mainly due to gain recognized in 2014 with respect to revaluation of warrants embedded in the Company's notes (Series L), compared to a loss in the previous year and costs of settlement with a former distributor in 2013. Conversely, in 2014, expenses increased due to option granted to employees, CEO, officers and directors in December 2013 and in 2014.
Adjusted loss	(5, 287)	(8,275)	(36%)	The decrease in adjusted loss, compared

Item	For the Year Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
				to the previous year, is primarily due to increase in revenues and to improved gross margin, as well as to improved net financial expenses due to revaluation of the dollar against the NIS.

Analysis of statement of operations data in the quarter ended December 31, 2014

Item	For the Three-Month Period Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
Revenues	4,476	3,760	19%	The increase, compared to the corresponding quarter last year is primarily due to an increase of 21% in revenues from the sale of the WatchPAT. The increase in the revenues from the sale of the WatchPAT is due, among others, to sales to Philips Japan and to increase in sales by the subsidiary in the U.S. There was also an increase of 17% in revenues from the sale of the EndoPAT, which is partially attributable to sales of $546 thousands resulting from the distribution agreement with BVMI in China and $587 thousands resulting from the distribution agreement with Nihon Kohden in Japan.
Gross profit	3,297	2,764	19%	Gross profit in the fourth quarter of 2014 accounted for 73% of total revenues in the period, similar to the corresponding quarter last year.
Selling and marketing expenses	2,516	2,234	13%	The increase, compared to the corresponding quarter last year is due to the same reasons indicated above in comparison of the years ended December 31, 2014 and 2013.
General and administrative expenses	1,206	2,351	(49%)	The increase, compared to the corresponding quarter last year is primarily due to (i) legal expenses in the corresponding quarter last year in respect of legal proceeding with AMC; and (ii) expenses in the corresponding quarter last year relating to the settlement reached

Item	For the Three-Month Period Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
				with AMC. This decrease was mainly offset by (i) increase in payroll expenses due to options granted to employees, CEO, officers and directors in December 2013 and in 2014; and (ii) increase payroll expenses resulting from the increase in the number of employees.
Operating loss	(921)	(2,259)	(59%)	The improvement, compared to the corresponding quarter last year, is primarily due to decrease in general and administrative expenses, compared to the corresponding quarter last year and improved gross margin, which was partially offset by the increase in selling and marketing expenses.
Financial income	(135)	158		The transition from income in the corresponding quarter last year to expense in the current quarter was primarily due to financial expenses with respect to exchange rate differentials on NIS-denominated cash balances in the fourth quarter of 2014, due to revaluation of the dollar against the NIS (by 5%), whereas in the corresponding quarter last year, financial income were recorded due to devaluation of the dollar against the NIS (by 2%).
Financial expenses	(553)	(1,427)	(61%)	The decrease, compared to the corresponding quarter last year, is primarily due to the effect of the change in dollar/NIS exchange rate on the liability amount of the notes (Series L). In the current quarter, financial income relating to exchange rate differentials on the notes (Series L) amounted to $0.7 million, compared to financial expenses of $0.2 million in the corresponding quarter last year.
Loss from financial derivatives	(991)	(4,768)	(79%)	The decrease in the non-cash loss, compared to the corresponding quarter last year, is primarily due to change in the fair value of warrants embedded in the notes (Series L). The impact of revaluation of these warrants in the current quarter

Item	For the Three-Month Period Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
				amounted to a loss of $0.9 million (this loss is primarily due to an increase of 12% in the share price in the fourth quarter of 2014). In the corresponding quarter last year, the loss was primarily due to change in the fair value of the warrants embedded in notes (Series L), amounting to $4.9 million (this loss is primarily due to an increase of 36% in the share price in the fourth quarter of 2013).
Loss	(2,507)	(8,217)	(69%)	The decrease in the loss in the current quarter is primarily attributable to: (i) increase in revenues; (ii) decrease in general and administrative expenses; and (iii) decrease in loss from financial derivatives.
Adjustments to income (loss)	1,377	5,975	(77%)	The change in adjustments to loss, compared to the corresponding quarter last year, is mainly due to a decrease in loss recognized in the fourth quarter of 2014 with respect to revaluation of warrants embedded in the Company's notes (Series L), compared to the corresponding quarter last year. Conversely, in the fourth quarter of 2014, expenses increased due to option granted to employees, CEO, officers and directors in December 2013 and in 2014.
Adjusted loss	(1,130)	(2,242)	(50%)	The decrease in adjusted loss, compared to the corresponding quarter last year is primarily due to improved gross profit due to the increase in sales and to improved gross margin, as well as to decrease in general and administrative expenses.

5. Liquidity

In the reported period, the Company increased its investors' base, which are interested parties by raising funds from investors who are leading institutional investors. The fund raising will enable the Company to invest in its current operations: (i) increase sales and marketing effort in markets on which Company operations are focused: U.S., Japan and Israel. These efforts have started to yield results which are reflected in higher sales over the past four quarters; and (ii) accelerated research and development operations by the Company and early launch of improvements and new indications for the Company's products.

Activity Type	For the Year Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
Operating activities	(5,443)	(4,762)	14%	The increase in cash flows used in operating activities is primarily due to: (a) increase in trade receivables, primarily due to sales concentrated in the last month of the quarter; (b) increase in inventories in the current year, compared to decrease in the previous year; (c) increase in interest payment to holders of notes (Series A), notes (Series L) and on the loan from four of the Company's shareholders; and (d) decrease in other accounts payable and in accrued expenses. This increase was partially offset by: (i) a decrease in operating loss, excluding the effect of options granted to employees, CEO, officers, consultants and directors; and (ii) an increase in trade payables, compared to the previous year due to an increase in supply of goods.
Investing activities	(3,176)	(6,220)	(49%)	Cash flows used in investing activities in the current year are primarily due to purchase of available-for-sale securities using proceeds from equity issuance, net of repayment of notes (Series A).
Financing activities	6,930	16,032	(57%)	Cash flows provided by financing activities in the current year were primarily due to private placements with institutional investors and due to a loan received by way of offset against notes repayment, to the four of the Company's shareholders. This positive cash flow was partially offset by repayment of notes (Series A). In the previous year year, cash flows provided by financing activities resulted from debt raised on the TASE, by issuance of notes (Series L), amounting in total, net of issuance expenses, to $19.9 million. Conversely, the Company repaid principal of various loans.

Activity Type	For the Three-Month Period Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
Operating	83	(881)		The transition from cash flows used in operating activities in the corresponding

Activity Type	For the Three-Month Period Ended December 31,		Change Increase (Decrease) %	Company Explanations
	2014	2013		
	Dollars in thousands			
activities				quarter last year to cash flows provided by operating activities in the current quarter, is primarily due to: (i) a decrease in operating loss, excluding the effect of options granted to employees, CEO, officers, consultants and directors; (ii) a substantial increase in receivables in the current quarter, compared to the corresponding quarter last year. This improvement was partially offset by: (i) increase in inventories in the current quarter, compared to a decrease in the corresponding quarter last year; and (ii) a substantial increase in other accounts payable and inrued expenses, compared to the corresponding quarter last year.
Investing activities	(1,130)	2,599		Cash flows used in investing activities in the current quarter are primarily due to: (a) purchase of available-for-sale securities; (ii) loss from a hedging transaction; and (iii) purchase of property and equipment and intangible assets. In the corresponding quarter last year cash flows provided investing activities resulted from redemption of short-term bank deposits.
Financing activities	-	4,379	(100%)	In the current quarter there were no operating activities. Cash flows provided by financing activities in the corresponding quarter last year are due to proceeds from issuance of shares to an institutional investor and from exercise of stock options.

6. Financing sources

6.1 Overview

Since its initial public offering in March 2007, the Group financed its operations primarily by issuance of equity and debt to the public and to institutional investors and by private loans from shareholders.

For more information about the Company's financing and grants received from the Chief Scientist, see Sections 24 and 18.3, respectively, in Part A of this Annual Report.

6.2 Private placement with institutional investors

Following the equity placement conducted in December 2013 in which the Company raised $4.3 million. in January 2014, the Company conducted a material private equity placement with HaPhoenix (which became an interested party in the Company upon conclusion of this issuance), for a total consideration of $5.2 million.

In May 2014, the Company conducted another material private equity placement with Migdal, which is an interested party in the Company, and with Yelin Lapidot (which became an interested party in the Company upon conclusion of this issuance), for a total gross consideration of $6.8 million.

Exercise of convertible securities

During the year ended December 31, 2014, employees and a director exercised 1,828,000 options for a total consideration paid to the Company of $305,000. In addition, NIS 740 par value of convertible notes (Series L) were converted into ordinary shares.

6.3 Line of Credit from a bank

The Company has a line of credit from a bank in the total amount of NIS 100 thousands.

6.4 Shareholders' credit facilities

Credit facility – March 2011

In February 2014, the Company made a third and final withdrawal on the credit facility provided in March 2011 by the than four shareholders, amounting to additional $1.9.

Irrecoverable undertaking to provide a credit facility – January 2015

In January 2015, the Company received an irrecoverable undertaking to provide a credit facility from three of its shareholders in the total amount of NIS 9,058,131 (approximately $2.3 million) during January 2017 through February 28, 2017.For more information about the undertaking to provide a credit facility from January 2015, see Section 24.5 of Part A of this report.

6.5 Equity, cash balances, deposits and securities and future equity issues

As of December 31, 2014, the Company has capital deficiency of $4,957 thousands.

As of December 31, 2014, the Group has cash and cash equivalents and investments in NIS denominated money market funds, amounting to $18,836 thousnds.

The Company reviews from time to time options to raise capital, including through issuance in the TASE or through private placement with investors in Israel and/or overseas. The funds raised or to be raised are designated to help the Company realize its growth potential, focusing on its target markets (in line with the Company's strategy), to accelerate development processes and to maintain the Company's capacity to achieve its other business and financial targets and to fulfill its liabilities (including repayment of notes (Series L)).

6.6 Long-term loans (including current maturities)

The average balance of long-term loans in the year ended December 31, 2014 amounted to $16,263 thousands, compared to $17,874 thousands in the previous year.

7. Summary of exposure to market risk and management thereof

Sensitivity to change in exchange rates of the dollar against other currencies (sensitivity to dollar revaluation or devaluation against other currencies)

Assets and liabilities	Gain (loss) from change			Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate	Fair value	5% decrease in exchange rate	10% decrease in exchange rate
NIS	(1,604)	(804)	(16,057)	804	1,604
EUR	125	63	1,249	(63)	(125)

Sensitivity to changes in the share price

	Gain (loss) from change			Fair value	Gain (loss) from change		
	23% increase in share price	10% increase in share price	5% increase in share price		5% decrease in share price	10% decrease in share price	23% decrease in share price
Convertible notes (Series L)	3,572	1,343	671	(23,726)	(1,002)	(1,616)	(3,460)

Sensitivity to changes in interest rate

	Gain (loss) from change			Gain (loss) from change	
	10% increase in interest rate	5% increase in interest rate	Fair value*	5% decrease in interest rate	10% decrease in interest rate
Convertible notes (Series L)	636	322	(18,710)	(331)	(672)

*Convertible notes, excluding the conversion component.

Sensitivity to changes in standard deviation

	Gain (loss) from change			Gain (loss) from change	
	10% increase in standard deviation	**5% increase in standard deviation**	**Fair value**	**5% decrease in standard deviation**	**10% decrease in standard deviation**
Convertible notes (Series L)	555	279	(23,726)	(282)	(568)

As of the report date, the policy on market risk management and actual risk management are aligned. For more information about the policy and actual risk management, see Section 10 below.

8. Compensation of interested parties and senioroffice holders

On January 14, 2014, the Company's shareholders approved the Company's compensation policy for the directors and other office holders for more information see immediate report of the Company dated December 1, 2014, reference: 2013-01-210786, the Company's complementary report dated January 7, 2014, reference: 2014-01-008164, the Company's complementary immediate report dated January 8, 2014, reference: 2014-01-009652 and immediate report of the outcome of the General Meeting of Company's shareholders dated January 14, 2014, reference: 2014-01-015454) (the "**Compensation Policy**").

On January 22, 2015, subsequent to the report date, the Company's Board of directors approved, after approval by the Company's Compensation Committee, an increase of the employees of the Company and its subsidiaries, which is based on their performance, in a total amount of $250 thousand per year, out of which an amount of $36 thousand relates to office holders who are employed by the Company at least one year, as described in Section 9 of Part D of this report.

The Company Board of Directors reviewed and found that officer remuneration, as set forth in Section 9 in Part D of this report (which is in conformity with Regulation 21 of the Reporting Regulations), is in line with the Compensation Policy.

Chapter B – Exposure to Market Risk and Management Thereof

9. Exposure to market risk and management thereof

The person responsible for management of market risk at the corporation

The person responsible for market risk management at the Company is Mr. Shaul Sharoni, the Company's CFO. For information about the CFO's qualifications, education and experience, see Section 16 of Part D of this report.

Description of market risk to which the Company is exposed

Exchange rate fluctuation risk

Most of the Company's payments, except for those of the U.S. and Japanese subsidiaries, are made in NIS, while most of its revenues are denominated in the functional currency (dollar) and in foreign currency (Euro and Japanese Yen ("**Yen**")); therefore, the Company is exposed to the dollar/NIS, dollar/Euro and dollar/Yen exchange rates; it acts through its investment committee (consisting of four members), appointed by the Company's Board of Directors, to reduce currency risk by maintaining liquid means on hand in short-term NIS-denominated deposits, in dollars, Euro and Yen, as well as purchasing hedging transactions, from time to time, in accordance with the Company's needs.

Interest rate risk

As of December 31, 2013, the Group has no exposure to interest rate risk, since all its borrowing is based on fixed interest rates.

Financial instrument risk

The Group is exposed to change in value of financial instruments in which it invests from time to time, in order to hedge its exposure to NIS and other foreign currency exchange rates.

Exposure to change in value of securities

The Group is exposed to change in value of securities in which it has invested. In June 2013, the Company invested approximately $6.6 million in NIS-denominated money market funds. As of December 31, 2014, the balance of this investment amounts to approximately $6.2 million. The decrease resulted from the devaluation of the NIS against the dollar.

In addition, in May and December 2014, the Company investment approximately $2.9 million with two brokers, which invest, according to the Company's investment policy in government bonds and NIS-denominated corporate bonds, with no exposure to shares.

State of global financial markets

The Group's results of operations were in the past and are currently impacted by the economic slow-down in Japan, as well as by the deteriorating financial crisis in the Euro Zone countries, where the Group's products are sold. The deteriorating financial crisis in the Euro Zone countries and Japan, which are major target markets for the Group, may further increase the negative impact on the Company results of operations and may lead to lower demand for the Group's products in these markets.

Company policy with regard to market risk management

The Company, through the person responsible for market risk management at the Company and in consultation with the Company's investment committee, periodically evaluates the current economic and accounting exposures and how these may be mitigated, through work meetings. Based on these evaluations, the Company formulates, from time to time, its investment policy, by specifying investment options for cash and cash equivalent balances at the Company, specifying the risk associated with each such investment option.

In general, the Company strives to align, in as much as possible, the linkage basis of its financial assets with that of the cash flow to be served by said assets. Consequently, since the great majority of the Company's expenditures is NIS-denominated and in order to reduce such exposure, the Company invests most of its liquid balances in NIS-denominated assets and converts, from time to time, its cash and cash equivalent balances from Euros to NIS, in order to avoid the risk of unexpected fluctuations in exchange rates. Cash balances in dollars, which form the majority of proceeds from sales overseas, are kept in this currency until needed to make payments in NIS, or when the investment committee considers it beneficial to convert dollars into NIS.

The Company periodically reports its investments and investment results to the Company's investment committee.

As of December 31, 2014, the Company has contracts denominated in dollars (or Euros) with distributors and customers; conversely, the great majority of its expenditure is in NIS. Material change in dollar/NIS exchange rates (or Euro/NIS or Yen/NIS) could materially impact the Company's profitability. Therefore, the Company has material exposure to exchange rate risk.

In order to reduce this exposure, which could affect the Company's profitability, and in accordance with the Company's market risk management policy, the Company enters, from time to time, into hedging transactions using financial derivatives with regard to the dollar/NIS exchange rate, such as cylinder transactions, forward transactions or writing call options. The Company does not intend to keep material balances in Euro or Yen.

In the year ended December 31, 2014, the Company converted to NIS most of its cash Euro balances. Thus, the Company materially reduced its exposure to changes in the dolla/Euro exchange rate.

In December 2013 and in January 2014, the Company made a material private equity placement to two institutional investors, for gross consideration amounting to $9.5 million (received in NIS). In May 2014, the Company raised a further $6.8 million (received in NIS) from other institutional investors.

The Investment Committee, at its meetings held on February 12, 2014 and on June 16, 2014, resolved to invest the Company's cash balance in bank deposits, NIS-denominated money market funds and with portfolio managers. The Company also decided to hedge its dollar/NIS currency exposure through dollar/NIS put options for six-month and one-year terms.

The six-month dollar/NIS options written in December 2013 expired worthless (so that the Company was not required to make a further payment to the bank).

The Investment Committee, at its meeting on November 6, 2014, following the sharp revaluation of the dollar against the NIS in the three months preceding the meeting, decided to realize the loss and to close all dollar/NIS put options outstanding as of the said date. The cost of closing these options amounted to $169,000.

Other than the foregoing, the Company made no other investments in derivatives during the reported period.

Supervisory means and policy implementation

Supervision of the market risk management policy and implementation thereof lies with the Chief Risk Officer of the Company and with the Company's investment committee (appointed

by the Board of Directors and consisting of Board members), which usually convene semi-annually or whenever the Company is exposed to a significant event or required to make strategic decisions.

The Company's market risk management policy is supervised through other means, as follows: The person responsible for market risk management at the Company provides to the investment committee, semi-annually, a report on market risk management and on Company investment composition, in line with the Company's cash flow.

10. Linkage basis report

For information about the linkage terms of monetary balances as of December 31, 2014 and 2013, see Note 25a to the Company's consolidated financial statements.

11. Sensitivity analysis

In conformity with the Regulations, below is a report on exposure to financial risks. This report includes sensitivity analysis to fair value of financial instruments. This sensitivity analysis tested the impact of market risk on fair value. Sensitivity analysis was conducted using 5% and 10% change (upwards and downwards). Sensitivity analysis was performed in respect of:

11.1 Sensitivity to changes in exchange rates

- Excess liabilities over assets on the NIS-linked statement of financial position items (linked and not linked) for the amount of $12,974 thousands. For more information about hedging transactions conducted by the Company, see Section 10 above.

- Excess assets over liabilities on the Euro statement of financial position items, amounting to $1,249 thousands.

- Excess assets over liabilities on the Yen statement of financial position items, amounting to $228 thousands.

11.1.1 Sensitivity to changes in dollar/NIS exchange rate (dollars in thousands):

This sensitivity analysis is based on the exchange rate as of December 31, 2014 - $0.2571 per NIS 1.

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	343	171	3,429	(171)	(343)
Investments in marketable securities available-for sale	892	446	8,919	(446)	(892)
Trade receivables	5	2	49	(2)	(5)

Other receivables	13	7	131	(7)	(13)
Restricted deposit	13	7	131	(7)	(13)
Trade payables	(52)	(26)	(521)	26	52
Other accounts payable	(45)	(23)	(453)	23	45
Derivatives	(916)	(458)	(9,162)	458	916
Loans from shareholders	(159)	(80)	(1,594)	80	159
Convertible notes	(1,687)	(844)	(16,871)	844	1,687
Total	**(1,604)**	**(804)**	**(16,057)**	**804**	**1,604**

11.1.2 Sensitivity to changes in dollar/EUR exchange rate (dollars in thousands):

This sensitivity analysis is based on the exchange rate as of December 31, 2014 - $1.2149 per EUR 1.

Assets and liabilities	**Gain (loss) from change**		**Fair value**	**Gain (loss) from change**	
	10% increase in exchange rate	**5% increase in exchange rate**		**5% decrease in exchange rate**	**10% decrease in exchange rate**
Cash and cash equivalents	66	33	661	(33)	(66)
Trade receivables	65	33	650	(33)	(65)
Other receivables	1	-	5	-	(1)
Other accounts payable	(7)	(3)	(67)	3	7
Total	**125**	**63**	**1,249**	**(63)**	**(125)**

11.2 Sensitivity to change in the share price (dollars in thousands):

	Gain (loss) from change			**Fair value**	**Gain (loss) from change**		
	23% increase in share price	**10% increase in fair value**	**5% increase in fair value**		**5% decrease in fair value**	**10% decrease in fair value**	**23% decrease in fair value**
Convertible notes (Series L)	3,572	1,343	671	(23,726)	(1,002)	(1,616)	(3,460)

On June 22, 2008 the fair value of Company convertible notes (Series A) decreased by 23%.

11.3 Sensitivity to change in interest rate (dollars in thousands):

	Gain (loss) from change		**Fair value**	**Gain (loss) from change**	
	10% increase in interest rate	**5% increase in interest rate**		**5% decrease in interest rate**	**10% decrease in interest rate**
Loans from shareholders	52	26	(1,594)	(27)	(55)
Convertible notes (Series L)*	565	286	(16,871)	(294)	(596)
Commitment to the Chief Scientist	19	10	(244)	(10)	(21)
Total	**636**	**322**	**(18,710)**	**(331)**	**(672)**

*The debt component.

11.4 Sensitivity to change in standard deviation (dollars in thousands):

	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in interest rate	5% increase in interest rate		5% decrease in interest rate	10% decrease in interest rate
Convertible notes (Series L)	555	279	(23,726)	(282)	(568)

Chapter C - Corporate Governance Aspects

12. Charitable donations

The Company has not adopted any policy with regard to charitable donations. The Company made no material charitable donations in the reported period.

13. Directors with accounting and financial expertise

The Board of Directors has determined that the appropriate minimum required number of directors with accounting and financial expertise will be two directors. As of the report date, the Company regards the following directors as having accounting and financial expertise: Ms. Miri Katz, Ms. Regina Ungar and Mr. Ilan Biran. For more information about the qualifications of the aforementioned directors, see Chapter 15 in Part D of this Annual Report.

14. Independent directors

On October 7, 2014, the Company's shareholders approved the amendment of the Company's Bylaws, whereby external and independent directors would constitute a majority of the Board members in office. For more information see the Company's immediate report convening an annual and extraordinary general meeting of the Company's shareholders, dated September 1, 2014 (reference: 2014-01-149151).

As of the report date, two independent directors serve on the Company's Board of Directors (Dr. Samuel Morry Blumenfeld and Mr. Ilan Biran) and two external directors (Ms. Miri Katz and Ms. Regina Ungar), all together constituting the majority of incumbent directors serving on the Company's Board of Directors.

15. Internal Auditor of the Company

Item	Details
Name	Mr. Doron Cohen, CPA – Partner at Fahn Kanne Control Management Ltd. (a member firm of Grant Thornton).
Start of term in office	July 26, 2007

Item	Details
Compliance with statutory provisions	The Auditor is in compliance with provisions of Section 146(b) of the Companies Law, 1999 and the provisions of Sections 3(a) and 8 of the Internal Audit Law, 1992.
Holding of securities of the Company or affiliated entity thereof	As of the report date, the Company is unaware of any holdings which the firm of Fahn Kanne, CPAs has acquired, by itself or through employees thereof, of securities of the Company or affiliated entity thereof.
Material business or other relations with the Company or affiliated entity thereof	None
Is the Auditor employed by the Company or an external service provider thereto?	The Internal Auditor is not employed by the Company, but rather is an external service provider to the Company (as Partner of Fahn Kanne Control Management Ltd. (a member firm of Grant Thornton)) - and has no other position with the Company.
Identity of the Internal Auditor's supervisor within the organization	Mr. Martin Grestel, Co-chairman of the Board of Directors
Work plan	The internal audit plan is determined based on the outcome of the risk survey conducted in the fourth quarter of 2007. The audit plan is an annual plan, with the scope and timing of matters audited in 2014 determined by the Audit Committee and by the Internal Auditor in conformity with the risk survey report, as stipulated by section 149 of the Companies Law and in conformity with the fraud and embezzlement survey conducted in the Company in 2010. The Internal Auditor may not deviate from the work plan without prior approval of the Audit Committee.
Overseas audit or audit of investees	As part of the Internal Auditor's 2010 audit plan, with a scope of 220 hours, the Internal Auditor conducted an audit of the U.S. subsidiary Itamar Medical Inc., which was incorporated and operates in the U.S. The audit at this subsidiary included the following matters: sales, inventories, customer service, payroll, expenses and IT. Another audit was done in the second half of 2014.
Scope of employment	The scope of employment of the Internal Auditor and its team for 2014 was specified at 370 hours. Deviation from the total number of hours is only allowed subject to approval of the Audit Committee and the Board of Directors. The Company considers the scope and nature of the Internal Auditor's work plan to be reasonable under the circumstances and appropriate for implementation of the

<table>
<tr><th>Item</th><th>Details</th></tr>
<tr><td></td><td>Internal Audit objectives, since the matters selected are material for the Company and would be reviewed from different aspects.
<table>
<tr><td></td><td>Audit of operations in Israel (in hours)</td><td>Audit of operations overseas (in hours)</td></tr>
<tr><td>Internal Audit in the Company</td><td>170</td><td>-</td></tr>
<tr><td>Internal audit in the subsidiary – Itamar Medical Inc.</td><td>-</td><td>200</td></tr>
</table></td></tr>
<tr><td>Conducting the audit (professional standards applied by the Internal Auditor in executing the audit plan)</td><td>Based on information provided to management by the Internal Auditor, the latter conducts the audit based on professional standards generally accepted in Israel, in conformity with professional guidelines for internal audit, in conformity with the Internal Audit Law and in conformity with the Companies Law. The Company’s Board of Directors relies on the Internal Auditor’s report with regard to the latter’s compliance with professional standards applied in conducting the audit.</td></tr>
<tr><td>Access to information</td><td>The Internal Auditor has full, unrestricted, direct access to IT systems and to financial data for conducting the audit, in conformity with Section 9 of the Internal Audit Law - both in the Company and in its subsidiaries. With regard to internal audit of the U.S. subsidiary in 2010 and in 2014, the Internal Auditor travelled to the U.S. for a week to conduct his audit. The audit included meetings with staff at the office, interviews as well as physical and evidentiary audit.</td></tr>
<tr><td>Internal Audit report</td><td>Findings of the Internal Auditor are regularly reported in writing, throughout that year, to the Chairman of the Board of Directors, to the CEO, to the Chairman of the Audit Committee and to the Company’s Independent Auditors. The Audit Committee discusses the Internal Auditor’s findings and determines the schedule and persons responsible for implementation of those recommendations approved by the Audit Committee.</td></tr>
<tr><td>Reports submitted and discussed during the reported period</td><td>On March 23, 2014, the Audit Committee discussed the Internal Auditor’s report with regard to implementation of the latter’s recommendations concerning manufacturing and manufacturing planning.</td></tr>
</table>

Item	Details
	On May 20, 2014, the Audit Committee discussed the Internal Auditor's report with regard to implementation of the latter's recommendations concerning quality assurance. On November 18, 2014, the Audit Committee discussed the Internal Auditor's report with regard to implementation of the latter's recommendations concerning the U.S. subsidiary. On March 19, 2015, the Audit Committee discussed the Internal Auditor's report with regard to the Company's budget.
Board of Directors' assessment of the Internal Auditor's activities	The Board of Directors believes the scope, nature, continuity of operations and the work plan to be reasonable for achieving the Internal Audit objectives.
Remuneration of the Internal Auditor	Remuneration of the Internal Auditor is set at a pre-determined rate per work hour. In return for tits work, the Company would pay the Internal Auditor NIS 220 per hour. The Board of Directors believes that this remuneration of the Internal Auditor would not influence, nor impair the latter's professional judgment. To the best of the Company's knowledge, the Internal Auditor does not hold any securities of the Company.

16. Independent Auditor's fee

The firm of Somech Chaikin, CPAs is the Company's Independent Auditor.

The following table lists summary data with regard to the Independent Auditor's fee for their services to the Group in 2013 and in 2014:

	2014		**2013**	
	Work hours	**Total pay (dollars in thousands)**	**Work hours**	**Total pay (dollars in thousands)**
Audit services, audit-related services and tax services	3,119	150	3,307	181
Other services	116	9	-	-

The Independent Auditor's fee was approved by the Company Board of Directors, after a recommendation was made by the Audit Committee; it was determined based, among others,

on the scope of work of the Independent Auditor and based on the Company's past experience, and comparison done to audit fees in comparable public companies.

17. Approval of the financial statements

Management compiles and prepares the financial statements and the Independent Auditor audits or reviews them. The Company organ responsible for overall control (as defined in Opinion 76 of the Institute of Certified Accountants in Israel) with regard to approval of the financial statements is the Board of Directors, which as of the report date consists of seven members: Dr. Giora Yaron (Co-Chairman of the Board of Directors); Mr. Martin Gerstel (Co-Chairman of the Board of Directors); Mr. Gary Ellis (director); Mr. Ilan Biran (independent director); Dr. Samuel Morry Blumenfeld (independent director); Ms. Miri Katz (external director); and Ms. Regina Ungar (external director).

The Company has resolved that the Audit Committee would also serve as the Company's Financial Reporting Committee (the "**Committee**"), in conformity with provisions of Companies Regulations (Provisions and Conditions regarding Financial Statement Approval Process), 2010.

The Company's Audit Committee consists of three members: Ms. Regina Ungar (external director, Committee Chairperson); Ms. Miri Katz (external director); and Mr. Ilan Biran (independent director). The three Committee members all have accounting and financial expertise and are capable of reading and understanding financial statements, and have provided statements to this effect prior to their appointment. For details regarding their skill, education, experience and knowledge, based on which the Company regards them as having accounting and financial expertise and as being qualified to read and understand financial statements, see Section 15 in Part D of this Annual Report.

Prior to the meetings of the Committee and of the Board of Directors, all members thereof receive a copy of the Company's financial statements. At the meetings of the Committee and of the Board of Directors, the directors have the opportunity to raise questions regarding the financial statements and to the audit or review process conducted by the Company's Independent Auditor. The Company's Independent Auditor, President and CEO and/or CFO respond to questions raised by directors, as the case may be. After discussion and responding to all questions raised by directors, a vote is held to approve the financial statements. After approval of the financial statements by the Board of Directors, the Chairman of the Board of Directors, the President and CEO and the CFO are authorized to sign the financial statements.

Approval of the financial statements for the year ended December 31, 2014 consisted of two meetings, as follows:

On March 19, 2015, the Committee held a meeting to form its recommendations to the Board of Directors with regard to approval of the financial statements. The Company's Internal Auditor and Independent Auditor were invited to attend this Committee meeting. The Committee meeting was attended by the following Committee members: Ms. Regina Ungar (external director, Committee Chairperson); Ms. Miri Katz (external director); and Mr. Ilan Biran (independent director). The meeting was also attended by Dr. Giora Yaron, Co-Chairman of the Board of Directors; Gilad Glick, President and CEO; Mr. Shaul Sharoni, CFO; and the Company's Independent Auditor. At the Committee meeting, the following matters were discussed, among others: assessments and estimates with regard to the financial statements for the year ended December 31, 2014; completeness and appropriateness of disclosure on the financial statements for the year ended December 31, 2014; changes made

to accounting policy and accounting treatment applied to issues material for the Company; valuations, including underlying assumptions and estimates, relied upon in the financial statements for the year ended December 31, 2014. The discussion included a presentation of the aforementioned matters by the Company's CFO and comments by the Independent Auditor on the matters presented.

After presentation of the financial statements and discussion by the Committee, the Committee resolved to recommend that the Board of Directors approve the financial statements. The recommendations made by the Committee were provided in writing to Board members on March 20, 2015.

On March 23, 2015, the Board of Directors held a meeting to discuss and approve the financial statements. At this meeting, the Board of Directors did discuss the Committee's recommendations and approved the Company's financial statements as of December 31, 2014. The Board of Directors considers that the Committee's recommendations were provided to the directors in a timely manner prior to the aforementioned Board meeting, in view of the scope and complexity of these recommendations. The aforementioned Board meeting was attended by the following directors: Dr. Giora Yaron, Mr. Martin Gerstel, Mr. Gary Ellis, Mr. Ilan Biran, Ms. Regina Ungar, Ms. Miri Katz and Dr. Samuel Morry Blumenfeld.

Chapter D – Disclosure with Regard to Financial Reporting by the Corporation

18. Subsequent events mentioned in the financial statements

For subsequent events in the financial statements, see Note 28 to the Company's financial statements as of December 31, 2014.

19. Critical accounting estimates

In preparation of the financial statements, management is required to exercise judgment in making estimates, assessments and assumptions which impact application of accounting policy and reported amounts for assets and liabilities, revenues and expenses. The estimates and the underlying assumptions thereof are regularly reviewed. Changes to accounting estimates are recognized in the period in which such change occurs. The following are the major assumptions made in the financial statements with regard to uncertainty as of the report date, as well as critical estimates calculated by the Company, where a material changes in such estimates and assumptions may alter the value of assets and liabilities in the financial statements for the next reporting year.

Obligation to the Chief Scientist

For details about the obligation to the Chief Scientist, see Section 18.3 of Part A of this report.

Valuation of embedded warrants in convertible notes (Series L)

In March 2013, the Company issued, in conjunction with a public offering and private placement (see Note 28b to the Company's consolidated financial statements), NIS 76 million par value convertible notes. The notes bear interest at 8.65% per annum, with principal and interest not-linked. Interest on the notes is payable semi-annually, from 2013

through 2018. The notes are convertible, such that each NIS 1.92 par value notes may be converted into one ordinary share of NIS 0.01 par value.

In conformity with IFRS, convertible notes are to be bifurcated into two components: a liability component with no conversion rights, which is measured at depreciated cost using the effective interest method, and a conversion option linked to the Israeli Consumer Price Index, is measured at fair value upon each reporting date. Changes to fair value of this component are recognized in the statement of operations in each period.

The valuation was prepared by PricewaterhouseCoopers Consulting Ltd. (the "**appraiser"**), which specializes, among others, in corporate valuation, valuation of employee stock options, financial instruments and financial derivatives. The appraiser has no personal interest in shares of the Company, shareholders thereof or affiliated parties thereof. The appraiser has no dependence on or affinity to these entities, as defined in the Companies Law, 1999. For more information about valuation of embedded warrants in notes (Series L), see the valuation report enclosed with this Annual Report.

In valuing the conversion warrants, the valuator applied the binomial model, which allows for specification of complex realization and conversion conditions. The model also allows for specification of information which is variable over time.

Valued item	Valuator	Valuation date	Valuation[(1)]	Resulting effect[(2)]	Share price	Standard deviation	Discount rate
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of February 28, 2013	7,450	-	153.7	66.1%	13.80%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of March 12, 2013	1,692	-	156.9	65.9%	13.63%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2013	13,019	3,877	203.7	63.0%	13.86%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2014	9,162	(3,857)	190.9	62.1%	16.78%

The valuation as of February 28, 2013, the date of the public offering, is for NIS 62,556,000 par value convertible notes; the valuation as of March 11, 2013, the date of the private placement, is for NIS 13,700,000 par value convertible notes. The valuation as of the report date is for total par value issued in the public offering and in the private placement.

(1) Data in dollars in thousands. The valuation was made in NIS and translated into dollars using the exchange rate upon the valuation date.

(2) Resulting effect in dollars in thousands, for the reported period.

20. Warning signs

The Company Board of Directors, at its meeting held on March 23, 2015, discussed the provisions of Regulation 10(b)(14) of the Regulations regarding warning signs. When such

warning signs occur within the corporation, a reporting entity should enclose a disclosure of the forecasted cash flow with details of existing and anticipated liabilities of the corporation over the two years following the date of the financial statements (the "**forecasted cash flow statement**" and the "**forecasted cash flow statement period"**, respectively) Two of the aforementioned warning signs which occur at the Company are: capital deficiency and continuous negative operating cash flow.

At the Board of Directors' meeting, the following matters were discussed, amongst others: (i) the Company's business plan, which includes updated targets and options to align the Company with the markets in which it does business and at which it targets its products; (ii) data with regard to estimated sales volume by the Company for the forecasted cash flow period (including estimates by the Company with regard to continued proceedings for adoption of insurance coverage in the U.S. for Company products by private insurers) ; (iii) total Company expenses for the period, adjusted for its economic and business environment; and (iv) the Company's current and anticipated liabilities over the forecasted cash flow period, including with respect to Company notes (Series L).

The Board also reviewed the financing sources available to the Company, as listed in section 6 above. The Board of Directors was also presented with the Company's current and anticipated liabilities over the forecasted cash flow statement period, including with respect to Company' notes (Series L).

As of December 31, 2014, the Company had cash and cash equivalents and investments in marketable securities balance of $18.3 million.

In view of the foregoing, even though as of December 31, 2014, the Company had capital deficiency and continuous negative operating cash flow, the Company's Board of Directors determined that as of the date of this report, the existence of the aforementioned warning signs does not indicate a liquidity problem and that there was no reasonable concern that, during the forecasted cash flow statement period, the Company may not fulfill its current and anticipated obligations when these become due. The Company's Board of Directors continued to review, from time to time, the need for taking additional measures, including additional streamlining measures.

The projected cash flow presented below includes increase in operating due to the change in strategy and in business focus applied by the Company, as described in Part A of this Annual Report, which includes expansion of its marketing efforts and focusing on relevant markets for the Company's products. The Company has a streamlining plan in place, which would be activated should the Company fail to achieve its objectivesin order to maintain sufficient cash flow sources.

The Company's budget assumes growth in the Company's expenses in coming years. The Company has a streamlining plan in place, which would be activated should the Company fail to achieve its objectives.

Below is the forecasted cash flow statement for the 24-month period following January 1, 2015 (dollars in millions):

	Notes	January 1, 2014 through December 31, 2014 (Forecasted)	January 1, 2014 through December 31, 2014 (Actual)	January 1, 2015 through December 31, 2015	January 1, 2016 through December 31, 2016
Opening balance – excluding pledged deposits	1	19.0	19.0	18.3	10.1
Own sources:					
Cash flow provided by operating activities	5	(7.1)	(5.1)	(10.7)	(10.5)
Cash flow provided by financing activities:					
Credit facility from major shareholders	3	1.9	1.9	-	-
Issuance of shares upon exercise of options	5		0.3	-	-
Capital raising	5	5.3	11.8	-	-
Sources – from investees:	5	3.8	(0.2)	4.4	8.5
		3.9	8.7	(6.3)	(2.0)
Total sources		22.9	27.7	12.0	8.1
Expected liabilities (expected use):					
Cash flow used in financing operations					
Repayment of convertible notes	2	7.1	7.1	-	-
Interest payment on notes	2	2.2	2.2	1.7	1.7
Interest payment on loan from shareholders	3	0.1	0.1	0.2	0.2
Total uses		9.4	9.3	1.9	1.9
Closing balance		13.5	18.3	10.1	6.2

1. The balance of liquid assets (including cash and cash equivalent and investments in securities (NIS-denominated money market funds)) refers to the Company and its wholly-owned subsidiaries. The Company does not foresee any restrictions on transfer of liquid assets between the Company and its subsidiaries in the U.S. and Japan.

2. Calculated based on outstanding par value and dollar/NIS exchange rate of 3.80.

3. Calculated based on loan principal and dollar/NIS exchange rate of 3.80.

   In February 2014, the Company made a third and final withdrawal on the credit facility provided by four shareholders, amounting to $1.9 million (in NIS) (for more information, see Section 24.4 of Part A of this Annual Report).

4. Sensitivity to exchange rate fluctuations:

   In March 2013, the Company raised $19.5 million (in NIS currency) by issuance of notes (Series L) (convertible notes bearing NIS-denominated interest at 8.65% per annum), to support sales and marketing growth as well as development of new applications and products (for more information about the notes, see Section 24.3 of Part A of this Annual Report).

5. In May 2014, the Company conducted a material private placement of shares with Yelin Lapidot Investment House Ltd. and Migdal Insurance Company Ltd. for total net consideration of $6.7 million. As a result, the Company's Board of Directors approved, in July 2014, to accelerate the budget against the original budget which was approved in January 2014, which was the basis for the 2014 forecast.

6. The Company reviews, from time to time, options to raise capital, including through issuance on the TASE or through private placement with investors in Israel and/or overseas. The funds to be raised are designated to enable the Company to realize its growth potential while allowing the Company to support all its other business and financial objectives and liabilities (including redemption of notes of various series).

7. In the first quarter of 2017, the first tranches of notes (Series L) and shareholders' loans in the total amount of NIS 45,215 thousand ($11,626 thousand translate at the exchange as of December 31, 2014) are due. Out of this amount, an amount of NIS 9,920 thousand ($2,551 thousand translate at the exchange as of December 31, 2014) relates to notes owned bty the major shareholders and loans from such shareholders.

   Assuming that the convertible notes (Series L) (par value of NIS 76.3 million will not be converted, the cash and cash equivalents and other liquid investments of the Company with the addition of positive cash flows from operating activities in the first quarter of 2017 will not be sufficient to repay such notes.

   As mentioned in sub-section 7 above, the Company reviews, from time to time, options to raise capital, but three is no assurance that the Company will be successful in raising the funds needed to repay such amounts. It should be noted that during 2013 and 2014, the company was able to raise capital by way of issuance convertible notes and shares to institutional investors in amounts exceeding materially the amount needed for the aforementioned debt repayment. In case that the market conditions will not enable the abovementioned capital raising (or only partial capital raising will occur), the Company will reduce its operating activities in order to reduce its operating costs in order to help itself in repaying such debt.

   In addition, on January 2015, the Company received an irrecoverable undertaking to provide a credit facility from three of its shareholders in the total amount of NIS 9,058,131 (approximately $2.3 million) during January 2017 through February 28, 2017. The amount represents the amounts due to such shareholders on February 28, 2017. For more information see Section 24.5 of Part A of this report.

The Company's forecasted cash flow and aforementioned information constitute forward-looking information, as this term is defined in the Securities Act. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, inter alia, to failure of Company estimates to materialize with regard to Company revenues and expenses over the forecasted cash flow statement period, exchange rate fluctuations, increasing competition in markets in which the Company does business and any other risk

factors for the Company, technology innovations, lack of sufficient reimbursement for use of Company products.

Chapter E – Specific Disclosure for Noteholders

21. Additional information with regard to outstanding convertible notes (Series L)

21.1. Information with regard to notes

	Convertible notes (Series L)
First issuance date on the TASE:	March 3, 2013
Par value upon issue:	NIS 62,556,000 par value (in March, soon after the public issuance, the Company extended this notes series by private placement of NIS 13,700,000 par value notes (Series L)).
Par value as of December 31, 2013:	76,256,000
Par value (according to linkage terms) as of December 31, 2014:	76,255,260
Accrued interest as of December 31, 2014:	$576 thousand
Fair value in the financial statements as of December 31, 2014:	$22,667 thousand (includes $9,162 thousand with respect to the conversion component including accrued interest).
Traded on stock exchange:	Traded on the TASE.
Value on the TASE as of March 20, 2015:	NIS 92,726 thousand (for NIS 76,255 thousand par value).
Type of interest:	Fixed interest at a rate of 8.65% per annum.
Principal payment schedule:	Principal is payable in two installments on February 28 of each year from 2017 through 2018 (inclusive).
Interest payment schedule:	Interest for these notes is payable semi-annually on February 28 and August 28 of each year from 2013 through 2018 (inclusive).
Linkage basis and linkage terms:	Not-linked.
Are the notes convertible:	Yes. NIS 1.92 par value notes for 1 ordinary share (subject to adjustments in conformity with terms and conditions of the notes).
Company right to call for early redemption or forced conversion:	None.
Guarantee of payment of Company liabilities in conformity with the Deed of Trust:	None

	Convertible notes (Series L)
Is the note series material:	Yes
The Deed of Trust includes adjustment provisions for conversion terms of the notes upon occurrence of any of the following events:	bonus share distribution; rights issuance; dividend distribution.
Payments made during or after the reported period:	During the year ended on December 31, 2014 interest in the amount of $1,872 thousand was paid and on February 28, 2015 an additional interest in the amount of $837 thousand was paid.
Additional information:	For more information about notes (Series L), including causes for demanding immediate redemption, see shelf offering report dated February 27, 2013 (reference: 2013-01-049497) which includes the Deed of Trust.

21.2. Details of the Trustee for notes:

	Convertible notes (Series L)
Name of trust company:	Reznick, Paz, Nevo Trustees Ltd.
Address for serving documents:	14 Yad Harutzim Street, Tel Aviv
Telephone:	03-6389200
Fax:	03-6389222
Email:	yossi@rpn.co.il
Person responsible for notes on behalf of the Trustee:	Mr. Yossi Reznik

21.3. Information with regard to note conversion

	Notes (Series L)
Securities into which the notes may be converted:	Company ordinary shares
Par value per share:	NIS 0.01
Price per share on the TASE on December 31, 2013:	NIS 1.909
Conversion ratio:	Each NIS 1.92 par value of notes (Series L) may be converted into one ordinary share of NIS 0.01 par value, subject to adjustments in conformity with

	Notes (Series L)
	terms and conditions of the notes.
Highlights of conversion terms and conditions:	On any trading day at the TASE from the listing date for trading on the stock exchange through February 12, 2018 (the "**final conversion date**"), in conformity with stock exchange guidelines, except for the following dates: (1) between February 13, 2017 and February 28, 2017[1], but if the final conversion date prior to the partial redemption occur on a non-trading day, the conversion date would postponed to the next trading day; and except for (2) on the effective date for bonus share distribution, for offering by way of rights, for dividend distribution, for share capital split / reverse split / reduction (each of these, hereinafter: "a **corporate event**") (hereinafter: "the **conversion period**"). Moreover, should the Ex-day for a corporate event occur prior to the effective date for a corporate event, no conversion would be made on said Ex-day.
Adjustments for dividend distribution:	Should the Company distribute any dividends during existence of the conversion right of convertible notes (Series L), the conversion rate would be multiplied by the ratio of the base ex-dividend price and the closing price per share on the stock exchange on the most recent trading day prior to the ex-dividend date. The would disclose in an Immediate Report the adjusted exercise rate prior to start of trading on the day when shares are to be traded ex-dividend.

21.4. Information about the Company's right to call for early redemption

	Notes (Series L)
In case of de-listing from the stock exchange:	None
At the Company's discretion:	None

21.5. Notes (Series L) stipulate a list of events which, should they occur, would constitute cause for demanding immediate repayment of the notes, including the following events (which are listed in summary, where the full text is listed in the shelf offering report issued by the Company on February 27, 2013 (reference: 2013-01-049497) with the enclosed Deed of Trust).

a. Should the Company fail to publish any financial statements it is liable to publish by law, within 30 days from the deadline for such mandatory publication.

[1] The three days prior to the effective date for partial redemption through the partial redemption date.

b. Should another note series issued by the Company, or a loan extended to the Company by any lender, exceeding 30 million or 10% of the Company's financial debt, whichever is lower, be called for immediate repayment by a noteholder and/or by the trustee for said note series and/or by the lender, and the demand for immediate repayment has not been rescinded within 30 days from the said date of demand for immediate repayment.

c. In case of change to the Company's operations, such that the Company would cease to operate in the field of medical devices based on technology for monitoring the PAT signal developed by the Company, without prior consent of the General Meeting of the noteholders (by a simple majority).

d. Should the Company sell to a third party (other than a company controlled by the Company) most of its assets within six consecutive months, without prior consent of the General Meeting of noteholders (by a simple majority).

e. Should the Company distribute dividends to its shareholders in excess of 50% of the Company's earnings which are distributable by law, based on the Company's audited or reviewed consolidated financial statements, as the case may be, accumulated as from October 1, 2012, net of previous dividend distributions made as from the first issuance of the notes (Series L) on March 3, 2013.

f. Should any of the three major shareholders of the Company: Medtronic International Technology, Inc.("**Medtronic**"), Dr. Giora Yaron and Mr. Martin Grestel, sell or transfer to a third party (other than an entity controlled thereby) all or part of the Company's shares they hold as of the publication date of the shelf offering report used in the first offering of the notes (Series L), i.e. March 3, 2013, subject to exceptions set forth in the Deed of Trust for the notes (Series L), as follows:

   - Each of Medtronic, Dr. Giora Yaron and Martin Grestel may sell and/or transfer Company shares among themselves.

   - Each of Medtronic, Dr. Giora Yaron and Martin Grestel may sell and/or transfer Company shares acquired after publication of the shelf offering report used in the first offering of the notes (Series L).

   Medtronic, Dr. Giora Yaron and Martin Grestel committed to the Company not to sell their Company's shares other than subject to the aforementioned restriction.

g. Should any of the three major shareholders of the Company: Medtronic, Dr. Giora Yaron and Mr. Martin Grestel, sell or transfer to a third party (other than an entity controlled thereby) all or part of the notes (Series L) they acquired by public tender in the first offering of the notes (Series L), i.e. March 3, 2013 - subject to exceptions set forth in the Deed of Trust for the notes (Series L), as follows:

- Each of Medtronic, Dr. Giora Yaron and Martin Grestel may convert into shares (in this section: the "**Conversion Shares**") those notes they acquired by public tender in the first offering of the notes (Series L), if the closing price per Company share on the TASE exceeded (over a period of 10 consecutive trading days prior to the conversion date, but not more than 30 days prior there to) 150% of the note conversion rate.

- Each of Medtronic, Dr. Giora Yaron and Mr. Martin Grestel may sell and/or transfer the Conversion Shares at any time.

Medtronic, Dr. Giora Yaron and Mr. Martin Grestel committed to the Company not to sell their notes (Series L) acquired in the public offering.

21.6. Compliance with terms and conditions pursuant to the Deeds of Trust:

To the best of the Company's knowledge, as of the report date, the Company is in compliance with all terms and conditions of Deed of Trust for the notes (Series L) and no conditions give cause to demanding immediate redemption of the notes (Series L).

The Company's Board of Directors wishes to thank Group's management and employees for their diligent work and contribution to the Company's success.

Dr. Giora Yaron **Co-Chairman of the Board of Directors**	**Gilad Glick** **President and CEO**

Date: March 23, 2015

ITAMAR MEDICAL LTD.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014

ITAMAR MEDICAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2014

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ITAMAR MEDICAL LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	2013
		U.S. dollars in thousands	
Assets			
Current assets:			
Cash and cash equivalents		**9,417**	11,950
Investments in marketable securities available-for-sale		**8,919**	6,931
Trade receivables	15	**3,195**	2,048
Other receivable	15	**606**	629
Inventories	14	**1,432**	1,090
Total Current Assets		**23,569**	22,648
Non-current assets:			
Restricted deposits	26C	**131**	314
Prepaid expenses		**109**	111
Fixed assets	12	**550**	481
Intangible assets	13	**206**	341
Total non-current assets		**996**	1,136
Total assets		**24,565**	23,784

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

ITAMAR MEDICAL LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	2013
		U.S. dollars in thousands	
Liabilities			
Current liabilities:			
Trade payables		**1,083**	704
Short-term employee benefits	18	**149**	172
Current maturities of convertible notes	19	**-**	7,198
Derivative instruments	20	**-**	8
Provisions	22	**350**	271
Accrued expenses		**1,177**	1,133
Other accounts payable	23	**1,953**	1,930
Total current liabilities		**4,712**	11,416
Non-current liabilities:			
Convertible notes, net of current maturities	19	**12,929**	12,740
Loans from shareholders	27c	**1,634**	-
Derivative instruments	20	**9,162**	13,031
Long-term employee benefits	18	**76**	90
Other long-term payables	26a,b	**822**	1,150
Total non-current liabilities		**24,623**	27,011
Total liabilities		**29,335**	38,427
Capital deficiency:	16		
Ordinary shares		**467**	385
Additional paid-in capital		**80,242**	68,238
Capital reserve in respect of transactions with shareholders		**1,151**	935
Capital reserve in respect of currency translation adjustments		**(9)**	(55)
Capital reserve in respect of securities available-for-sale		**(454)**	242
Accumulated deficit		**(86,167)**	(84,388)
Total capital deficiency		**(4,770)**	(14,643)
Total liabilities, net of capital deficiency		**24,565**	23,784

Dr. Giora Yaron	Gilad Glick	Shaul Sharoni
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Approval date of the financial statements: March 23, 2015

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

ITAMAR MEDICAL LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Year Ended December 31, 2014	2013	2012
		U.S. dollars in thousands (except per share data)		
Revenues	5	**16,387**	13,337	13,426
Cost of revenues	6	**(4,798)**	(4,258)	(3,802)
Gross profit		**11,589**	9,079	9,624
Operating expenses:				
Selling and marketing expenses	7	**8,436**	7,396	5,685
Research and development expenses	8	**2,01**7	1,893	1,692
General and administrative expenses	9	**4,**745	4,997	2,762
Operating loss		**(3,6**09)	(5,207)	(515)
Financial income (expenses)	10	**(468)**	829	275
Financial expenses	10	**(2,817)**	(5,235)	(2,436)
Gain (loss) from change in fair value of derivatives instruments, net		**3,743**	(3,350)	2,992
Financial income (expenses), net		**458**	(7,756)	831
Income (loss) before income taxes		(**3,151**)	(12,963)	316
Income taxes	11	(**124**)	44	201
Net income (loss)		(**3,275**	(12,919)	517
Earnings (loss) per share:				
Basic (in U.S. dollars)	17	**(0.02)**	(0.09)	0.01
Diluted (in U.S. dollars)	17	**(0.0**2)	(0.09)	0.00

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

ITAMAR MEDICAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Note	Year Ended December 31, 2014	2013	2012
		U.S. dollars in thousands		
Net income (loss)		**(3,275)**	(12,919)	517
Other comprehensive income (loss):				
Items that will never be reclassified to the Statement of operations:				
Remeasurement of defined benefit plan, net of tax	18	**21**	(35)	(7)
Total		**21**	(35)	(7)
Other comprehensive income (loss) items that are or may be reclassified to the statement of operations				
Currency translation differences		**46**	(55)	-
Net changes in fair value of marketable Securities available-for-sale, net of tax		**(696)**	242	-
Net changes in fair value of marketable securities available-for-sale, net of tax classified to the statement of operations		-	-	83
Total		**(650)**	187	83
Total other comprehensive income (loss), net of tax		**(629)**	152	76
Total comprehensive income (loss)		**(3,904)**	(12,767)	593

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

ITAMAR MEDICAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for-sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the year ended December 31, 2014:							
Balance as of January 1, 2014	**385**	**68,238**	**935**	**(55)**	**242**	**(84,388)**	**(14,643)**
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	**(3,275)**	**(3,275)**
Other comprehensive income for the year, net of tax	-	-	-	**46**	**(696)**	**21**	**(629)**
Total comprehensive loss for the year	-	-	-	**46**	**(696)**	**(3,254)**	**(3,904)**
Transactions recognized directly in equity:							
Exercise of options	**5**	**300**	-	-	-	-	**305**
Private issuance of ordinary shares	**77**	**11,704**		-	-	-	**11,781**
Share-based payment	-	-		-	-	**1,475**	**1,475**
Capital reserve from transactions with shareholders	-	-	**216**	-	-	-	**216**
Balance as of December 31, 2014	**467**	**80,242**	**1,151**	**(9)**	**(454)**	**(86,167)**	**(4,770)**

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

ITAMAR MEDICAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for-sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the year ended December 31, 2013:							
Balance as of January 1, 2013	**338**	**63,704**	**650**	**-**	**-**	**(71,112)**	**(6,420)**
Total comprehensive loss for the year:							
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(12,919)**	**(12,919)**
Other comprehensive income for the year, net of tax	**-**	**-**	**-**	**(55)**	**242**	**(35)**	**152**
Total comprehensive loss for the year	**-**	**-**	**-**	**(55)**	**242**	**(12,954)**	**(12,767)**
Transactions recognized directly in equity:							
Exercise of options	**15**	**386**	**-**	**-**	**-**	**-**	**401**
Private issuance of ordinary shares	**32**	**4,148**		**-**	**-**	**-**	**4,180**
Share-based payment	**-**	**-**		**-**	**-**	**143**	**143**
Capital reserve from transactions with shareholders	**-**	**-**	**285**	**-**	**-**	**-**	**285**
Early repayment of loan from shareholders	**-**	**-**	**-**	**-**	**-**	**(465)**	**(465)**
Balance as of December 31, 2013	**385**	**68,238**	**935**	**(55)**	**242**	**(84,388)**	**(14,643)**

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

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for-sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the year ended December 31, 2012:							
Balance as of January 1, 2012	**332**	**63,563**	**331**	**-**	**(83)**	**(72,030)**	**(7,887)**
Total comprehensive loss for the year:							
Income for the year	**-**	**-**	**-**	**-**	**-**	**517**	**517**
Other comprehensive income for the year, net of tax	**-**	**-**	**-**	**-**	**83**	**(7)**	**76**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**83**	**510**	**593**
Transactions recognized directly in equity:							
Exercise of options	**6**	**135**	**-**	**-**	**-**	**-**	**141**
Share-based payment	**-**	**-**		**-**	**-**	**408**	**408**
Capital reserve from transactions with shareholders	**-**	**-**	**319**	**-**	**-**	**-**	**319**
Notes converted into shares	**-**	**6**	**-**	**-**	**-**	**-**	**6**
Balance as of December 31, 2012	**338**	**63,704**	**650**	**-**	**-**	**(71,112)**	**(6,420)**

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

ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	**2013**	**2012**
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	**(3,275)**	(12,919)	517
Adjustments for:			
Depreciation and amortization	**324**	400	330
Gain from sale or disposition of property, plant and equipment	**-**	13	-
Change in provision for doubtful and bad debt	**46**	117	115
Net financial expenses	**2,598**	3,763	2,157
Gain (loss) from change in fair value of derivatives instruments, net	(**3,743**)	3,350	(2,992)
Changes in capital reserve from transactions with shareholders	**33**	11	-
Share-based payment	**1,475**	143	408
Changes in:			
Trade receivables	**(1,175)**	609	(83)
Other receivables	**25**	(297)	(52)
Inventories	**(445)**	526	(484)
Trade payables	**432**	(155)	52
Other long-term payable	**(328)**	723	(45)
Employee benefits	(**16**)	(2)	(56)
Provisions	**79**	(14)	(176)
Other accounts payable and accrued expenses	**250**	645	(28)
Income tax expenses (tax credit)	**204**	(20)	(105)
Taxes (paid) received	**(80)**	(24)	(96)
Interest received	**40**	104	56
Interest paid	**(2,247)**	(1,735)	(1,240)
Net cash used in operating activities	**(5,443)**	(4,762)	(1,722)
Cash flows from investing activities			
Purchase of available-for-sale securities	**(2,897)**	(6,602)	-
Proceeds from writing options	**(134)**	10	-
Proceeds from sale of available-for-sale securities	-	-	2,294
Investment in deposits and pledged deposits	**-**	(2,504)	(620)
Proceeds from deposits and pledged deposits	**57**	2,790	710
Purchase of fixed assets and intangible assets	(**202**)	(104)	(102)
Proceeds from settlement of derivatives	**-**	190	-
Development costs recognized as intangible assets	-	-	(28)
Net cash provided by (used in) investing activities	**(3,176)**	(6,220)	2,254
Cash flows from financing activities			
Proceeds from issuance of share capital	**12,031**	4,282	-
Proceeds from issuance of warrants	**-**	9,143	-
Repayment of notes	**(5,156)**	(4,856)	(6,507)
Loans received from shareholders	-	-	1,757
Proceeds from issuance of convertible notes	**-**	10,784	-
Repayment of shareholders' loan	**-**	(3,620)	-
Proceeds from exercise of stock options	**305**	401	141
Net cash provided by (used in) financing activities	**6,930**	16,032	(4,609)
Net increase (decrease) in cash and cash equivalents	**(1,689)**	5,050	(4,077)
Cash and cash equivalents at beginning of year	**11,950**	6,262	10,197
Effect of exchange rate changes fluctuations on cash and cash-equivalents	**(844)**	638	142
Cash and cash equivalent at end of year	**9,417**	11,950	6,262

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

NOTE 1 - GENERAL

a. Reporting entity

Itamar Medical Ltd. (the "Company") is domiciled and was incorporated in Israel on January 15, 1997. The Company's registered office is at 9 Halamish Street, Caesarea, Israel. The Company's securities are registered for trade on the Tel Aviv Stock Exchange Ltd. ("TASE").

The Company, together with its subsidiaries, is engaged in research and development, marketing, selling and leasing of non-invasive medical devices and associated support services for the diagnosis and assessment of various medical conditions, including cardiology desease and sleep breathing disorders. The unique proprietary technology developed by the Company is capable of non-invasively recording, measuring and analyzing the Peripheral Arterial Tonometry; PAT™ ("PAT") signal.

The PAT signal accurately measures the changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. The peripheral arterial volume is measured, using the PAT technology, by way of a thimble-shaped probe, which fits over the patient's finger and transmits information to a computer-based processing system, which monitors the PAT® signal and diagnoses the patient's medical condition.

The Company develops and markets two medical devices that are based on our PAT technology: WatchPAT™ ("WatchPATca and EndoPAT™ ("EndoPAT"). The WatchPAT device diagnoses sleep breathing disorders, which are proven to be a major contributor to heart disease, and if treated, improve success rates of cardiac procedures. The EndoPAT device diagnoses endothelial dysfunction, which is a proven predictive marker of cardiovascular disease.
The Company has two wholly-owned subsidiaries, a U.S. subsidiary and a Japanese subsidiary. The U.S. subsidiary, Itamar Medical Inc., provides distribution, marketing and sales promotion services for Company products in North America. The Japanese subsidiary, Itamar Medical Japan Co. Ltd., was incorporated in Japan in 2013 to provide distribution, marketing and sales promotion services for Company products in Japan. The balance of the Company's investment in the U.S. subsidiary and in the Japanese subsidiary as of December 31, 2014 amounted to debit balances of $148 thousand and debit balance of$108 thousand, respectively. The Group's consolidated financial statements include the accounts of the Company and its subsidiaries.

b. The Company's operational status

As of December 31, 2014, the Company had a capital deficiency of $4,770 thousand and negative cash flows from operating activities of $5,443for the year ended December 31, 2014.

The Company's management and Board of Directors are of the opinion that based on the continuation of the positive trend in the Company's results of operations, the irrecoverable undertaking from January 2015 to provide a credit facility from three of its shareholders (as described below) and the ability to adjust the Company's budget to changes in its business, the Company has enough funds to continue its business operation in the foreseeable future.

During the years ended December 31, 2013 and 2014, the Company was able to raise capital by way of issuance of convertible notes and shares to the public and to institutional investors in Israeli in the total amount of approximately $37 million.

In addition, on January 2015, the Company received an irrecoverable undertaking to provide a credit facility from three of its shareholders in the total amount of approximately $2.3 million (see Note 28).

NOTE 1 - GENERAL

In the first quarter of 2017, the Company will have to repay principal and interest of convertible notes which were issued in a public offering and a private placement. The repayment is estimated by the Company to be approximately $10. 6 million, as well as principal and interest in the total amount of $1.1 million relating to a loan received in February 2014 from four major shareholders.

The Company reviews regularly the sources of funds available to finance its operations and servicing its debt, including options to raise capital. In addition, management reviews regularly its operating results, compared to its budget and is prepared to respond to a shortage in funds by reducing its operating expenses in case it does not meet its goals.

c. Definitions

In these financial statements:

The Company	-	Itamar Medical Ltd.
Subsidiary/investee	-	Companies whose financial statements are consolidated, directly or indirectly, with the financial statements of the Company.
The Group	-	Itamar Medical Ltd. and its subsidiaries
Related parties	-	Within its meaning in IAS 24 (2009), "Related Party Disclosures".
Interested parties	-	Within their meaning in paragraph (1) of the definition of "interested party" in section 1 of the Securities Law-1968.
NIS.	-	New Israeli shekel
Israeli CPI	-	The consumer price index as published by the Central Bureau of Statistics in Israel

NOTE 2 - BASIS OF PREPARATION

a. **International accounting standards**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which include standards and interpretations as issued by the International Accounting Standards Board ("IASB") and include additional disclosures required by the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 23, 2015.

b. **Functional currency and presentation currency**

These consolidated financial statements are presented in U.S. dollar ("dollar"), which is the Company's functional currency, and have been rounded to the nearest thousand unless otherwise indicated.

NOTE 2 - BASIS OF PREPARATION (CONTINUED)

The dollar is the currency that represents the principal economic environment in which the Company operates.

c. **Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis, except for the assets and liabilities listed below:

- Derivative and other financial instruments measured at fair value through profit or loss.
- Financial instruments classified as available-for-sale.
- Provisions.
- Assets and liabilities for of employee benefits;
- Share-based payments for which the grant date have not yet been determined;
- Deferred tax assets and liabilities.

For further information regarding the measurement of these assets and liabilities, see Note 3.

The value of non-monetary assets and equity items that were measured on the historical cost basis was adjusted to changes in the Israeli CPI until December 31, 2003, since until that date the Israeli economy was considered hyperinflationary.

d. **Operating cycle**

The Group's operating cycle is one year. As a result, current assets and current liabilities include also items the realization of which is intended and anticipated to take place within the operating cycle of these operations of up to three years.

e. **Use of judgments and estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Group's financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions made by the Group with respect to the future, and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in material adjustment of carrying amounts of assets and liabilities during the next financial year are included in the following notes:

NOTE 2 - BASIS OF PREPARATION (CONTINUED)

- *Note 3j - Provision for warranties* – the Group estimates the amounts it will be required to pay with respect to basic warranty for sale of its products.
- *Note 3k - Revenue recognition* – for determination of separate sale prices for components, in conjunction with revenue recognition for multi-component transactions, see Note 3k.
- *Note 25 – fair value of non-trading derivatives* – as to the computation of the fair value of the warrants embedded in convertible notes, see Note 4b.
- *Note 26 a - Liability to pay royalties to the Office of the Chief Scientist of the Israeli Ministry of Economy (the "OCS")* – in estimating its liability to the OCS, the Group forecasts the amount payable based on future sales.

f. **Capital management - objectives, procedures and processes**

It is management policy to maintain capital base in order to preserve the ability of the Company to further invest resources in development and expansion of the Company's marketing and distribution channels, in order to develop and market additional applications of the PAT® signal and the PAT® technology, to meet its obligations - including to holders of its convertible notes - and to provide returns to its shareholders and benefits to other stakeholders in the Company, such as lenders and the Company's employees.

g. **Change in estimates**

On November 25, 2014, the Israeli Securities Authority published Accounting Staff Position Paper No. 21-1 according to which a financial market for high quality corporate bonds exists in Israel (the "Position Paper"), for the purpose of determining the discount rate of an NIS-denominated defined benefit obligation and other long-term benefits in accordance with IAS 19, "Employee Benefits". According to the Position Paper, the transition from using the yield rate of government bonds to using the yield rate of high quality corporate bonds should be applied prospectively.

The effect of the change in the discount rate as aforesaid is a decrease in the defined benefit obligation in the amount of $62 thousand.

h. **Changes in accounting policies**

As from January 1, 2014, the Group applies the new standards and amendments described below:

(1) Amendment to IAS 32, "Financial Instruments: Presentation"

The amendment clarifies that an entity currently has a legally enforceable right to offset the amounts recognized if such right is not contingent on a future event, and it is enforceable in the normal course of business and, in the event of default, insolvency or bankruptcy of the entity and of all counter-parties.

The amendment was applied on a retrospective basis. Application of the amendment did not have an effect on the consolidated financial statements.

NOTE 2 - BASIS OF PREPARATION (CONTINUED)

(2) Amendment to IAS 36, "Impairment of Assets": Recoverable Amount Disclosures for Non-Financial Assets

The amendment includes new disclosure requirements for situations in which impairment is recognized and the recoverable amount is based on fair value less costs of disposal. The amendment also eliminated the requirement to disclose the recoverable amount of significant cash-generating units when there has been no impairment or reversal of impairment.

The amendment was applied on a retrospective basis. Application of the amendment did not have an effect on the consolidated financial statements.

(3) Amendment to IFRS 2, "Share-based Payment": Definition of "Vesting Condition"

IFRS 2 was amended in order to clarify the term "vesting condition" by defining two separate terms "performance condition" and "service condition". The amendment also clarifies how to distinguish between a market-based condition and a non-market performance condition and the principles for distinguishing between a performance condition and a condition that is not a vesting condition.

The amendment was applied on a prospective basis for plans having a grant date of July 1, 2014 or later. Application of the amendment did not have an effect on the consolidated financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied for all years presented in these consolidated financial statements by the Group's entities.

a. Basis of consolidation:

(1) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries, which are wholly owned, are included in the consolidated financial statements from the date of their incorporation.

(2) Transactions eliminated on consolidation

Intercompany transactions, balances, and unrealized gains on transactions between Group companies are eliminated in consolidation.

b. Cash equivalents:

Cash equivalents include short-term highly liquid investments and $3 million of deposits, which are not restricted and their original maturities is three months or less.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Foreign currency:

(1) Foreign currency transactions and balances

Transactions in currency which is different from the functional currency ("foreign currency") are translated to the respective functional currency of the Group at exchange rates as of the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at reporting date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency, translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising from translation into the functional currency are recognized in the statement of operations.

(2) Foreign operations

The assets and liabilities of foreign operations are translated into dollars at exchange rates at the reporting date. Income and expenses of foreign operations are translated to dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in "Other Comprehensive Income" and are presented in equity under Reserve from Translation of Foreign Operations ("Translation Reserve").

d. Financial instruments:

(1) Non-derivative financial instruments

Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit and loss, are initially recognized on the trade date, at which the Group becomes party to the contractual terms of the instrument, i.e. the date on which the Group committed to buy or sell the asset. Non-derivative financial assets include trade receivables and other receivable, including cash and cash equivalents.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial instruments

Financial assets are de-recognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards associated with ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the group is recognized as a separate assets or liability.

Sale of financial assets made in the regular way is recognized on the trade date, i.e. on the date the Group undertook to sell the asset.

As to offset of financial assets and financial liabilities, see (2) below.

Classification of financial assets into categories and the accounting treatment of each category

The Group classifies its financial assets as follows:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at fair value with any directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, net of any impairment loss.

Loans and receivable include trade and other receivables, and cash and cash equivalents.

Cash and cash and cash equivalents include cash balances available for immediate use and on-demand deposits. Cash equivalents include short-term, highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

(b) Available-for-sale Financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified under any of the previous categories. Group investments in certain debt instruments are classified as available-for-sale financial assets. Upon initial recognition, and in subsequent periods, these investments are measured at fair value and changes, other than impairment loss, foreign currency differences and the accrual of effective interest on debt instruments classified as available-for-sale, are recognized directly in "Other Comprehensive Income," and are presented within equity in a reserve for financial assets classified as available-for-sale. When the investment is de-recognized, the gain or loss accumulated in the reserve for available-for-sale financial assets is transferred to the statement of operations.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables, loans from shareholders and convertible notes.

Initial recognition of financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are initially recognized on the trade date, on which the Group becomes party to the contractual terms of the instrument.

Financial liabilities are initially recognized at fair value plus all attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are de-recognized upon expiration of the Group's liability, as set forth in the agreement, or when it is discharged or cancelled.

Offset of financial instruments

Financial assets and liabilities are offset and presented net in the statement of financial position, only when the Group has an existing legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(3) Derivative financial instruments

The Group holds both derivative financial instruments to economically hedge its currency risk exposures and derivatives that do not serve hedging purposes, including separable embedded derivatives.

Measurement of derivative financial instruments

Derivatives are initially recognized at fair value. Attributable transaction costs are recognized in the statement of operations when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge financial liabilities denominated in foreign currency. Changes in the fair value of such derivatives are recognized in the statement of operations under financial income or expenses.

(b) Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are recognized immediately in the statement of operations as financial income or expenses. The Group also applies the aforementioned accounting treatment to changes in fair value of the conversion component of Israeli CPI-linked convertible notes and option that do not have a fixed exercise price.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Separated embedded derivatives and which are not used for hedging

Embedded derivatives are separated from the host contract and accounted for separately if: (i) the economic characteristics and risks of the host contract and the embedded derivative are not closely related; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of operations as financial income or expenses.

(4) Hybrid financial instruments

Liabilities, which are convertible into shares, denominated in foreign currency or linked to the Israeli CPI or to foreign currency, constitute a hybrid instrument presented in full as a financial liability.

For measurement, the instrument is separated into two components: a liability component with no conversion feature, which is measured at amortized cost according to the effective interest method, and a conversion option, which constitutes an embedded derivative, measured at fair value upon each reporting date.

(5) Assets and liabilities linked to the Israeli CPI which are not measured at fair value

Financial assets and liabilities linked to the Israeli CPI, which are not measured at fair value, are remeasured in each period based on the actual change in the Israeli CPI.

(6) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or are amortized as financial expenses in the statement of income when the issuance is no longer expected to take place.

(7) Issuance of parcel of securities

The consideration received from the issuance of a parcel of securities is attributed initially to financial liabilities measured each period at fair value, and then to financial liabilities measured only upon initial recognition at fair value. The remaining amount is the value of the equity component. Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described above.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Property, plant and equipment

Recognition and measurement

Property, plant and equipment items are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Any gain or loss on disposal of property, plant and equipment is determined by comparing the net proceeds from asset disposition to its carrying amount, and is recognized net in the statement of operations under general and administrative expenses.

Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value. An asset is depreciated from the date it is ready for use, i.e. the date it reaches the location and condition required for it to operate in the manner intended by management. Depreciation is recognized in the statement of operations, using the straight-line method over the estimated useful life of each part of the property, plant and equipment item since this most closely reflects the expected consumption pattern of future economic benefits embodied in the asset.

Annual rates of depreciation are as follows:

	%
Office furniture and equipment	7-15
Research and development equipment and computers	7-33
Computers	33

Leasehold improvements are amortized over the shorter of the lease term and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of operations when incurred.

Development activities are related to a plan to produce new products or processes, or to significantly improve existing products or processes. Development expenditure is capitalized only if: (i) the expenditure can be measured reliably; (ii) the product or process is technically and commercially feasible; and (iii) future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of operations as incurred.

In subsequent periods, capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases future economic benefit embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the statement of operations as incurred.

Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in the statement of operations, using the straight-line method, over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

The estimated useful lives are as follows:

Computer software	3 years
Capitalized development cost	3 years
Marketing rights for medical product in Japan	7 years*

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

* In the fourth quarter of 2013, the estimated useful life was revised from 5 to 7 years.

Amortization methods, useful lives and residual s are reviewed at the end of each reporting year and adjusted if appropriate.

g. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving average method, including expenditure incurred in acquiring the inventories and the costs incurred in bringing it to its existing location and condition. In the case of inventories in process and inventories of finished goods, cost includes an appropriate share of production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and sell the inventories.

h. Impairment

Non-derivative financial assets

Impairment of a financial asset not carried at fair value through profit or loss is reviewed when there is objective evidence that a loss event has occurred after initial recognition of the asset, and this loss event has negatively impacted the estimated future cash flows of the asset that can be estimated reliably.
Objective evidence of impairment of financial assets may include a breach of contract by the debtor, restructuring of the amount due to the Group based on terms and conditions which the Group would not otherwise consider, existence of indications that a debtor or debt issuer would go bankrupt, adverse changes in the payment status of the borrower, changes in the economic environment which indicate insolvency of debt issuers, or the disappearance of an active market for a security, observable data indicating that there is a measurable decrease in expected cash flows from a group of financial assets.

Evidence of impairment of available-for-sale financial assets

When testing for impairment of available-for-sale financial assets that are equity instruments, the Group also reviews the difference between the fair value of the asset and its original cost while taking into consideration the expected volatility of the instrument's price, the length of time the fair value of the asset is lower than its original cost, changes in the technological, economic or legal environment, or in the market environment in which the issuer of the instrument operates. Furthermore, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. According to the 's policy, a decline of more than 10% below the original cost of the instrument, or a decline to below the original cost for more than nine months, is considered significant or prolonged, respectively.

Evidence of impairment of debt instruments

The Group considers evidence of impairment of trade receivables and other accounts receivable at the individual asset level. Balances of trade receivables and other accounts receivable are specifically reviewed for impairment.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for impairment loss of financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Loss is charged to the statement of operations and presented as provision for loss against the balance of the financial asset measured at amortized cost. Interest income with respect to assets whose value is impaired, is recognized using the interest rate used to discount future cash flows for measurement of impairment loss.

Accounting for impairment losses of available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is classified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected in the item of financial income.

Reversal of impairment loss

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

Non- financial assets

Timing of impairment testing

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Determination of cash-generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit").

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of impairment loss

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognized in the statement of operations.

i. Employee benefits:

(1) Post-employment benefits

The group has several post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by others and are classified as defined contribution plans or as defined benefit plans.

(a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

The Group's obligations for contributions to a defined contribution plan are charged to the statement of operations in periods in which the employees rendered their services. Commitments to make contributions to a defined contribution plan which are payable 12 months or longer after the end of the period in which the employees rendered their services are recognized at their present value.

(b) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's net obligation in respect of post-employment defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is presented at its present value, net of the fair value of plan assets.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability.

The discount rate is the yield as of the reporting date on high quality NIS-denominated corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.
When calculations indicate that a net asset has been created for the Group, an asset is recognized up to the net present value of economic benefits available as refunds from the plan or by way of reduction of future contributions to the plan. An economic benefit in the form of refunds from the plan or by way of reduction of future contributions would be deemed available to the Group when it may be exercised during the plan term or after disposition of the obligation.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognized immediately directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligation, interest income on plan assets and interest from the effect of the asset ceiling that were recognized in the statement of operations are presented in financial income and expenses, respectively.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in the statement of operations when the plan improvement or curtailment occurs.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. Such gains or losses comprise the difference between the portion of the present value of the defined benefit obligation that is settled on the date of settlement, and the settlement price, including transferred plan assets.

The Group has insurance policies that were issued before 2004 according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of such policies, plan assets include both the balance of the severance pay component and the balance of the profit in real terms (if any) on the severance pay deposits that accumulated until the reporting date, and are presented at fair value.

These plan assets are for a defined benefit plan that includes two liability components: a defined benefit plan component for severance pay, which is calculated on an actuarial basis as aforementioned, and another component that is the obligation to pay the accumulated profit in real terms (if any) upon the retirement of the employee. This component is measured at the balance of the actual profit in real terms that accumulated at the reporting date.

The Group offsets an asset relating to one benefit plan from the liability relating to another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of other plans, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

(2) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If the benefits are payable more than 12 months after the end of the reported period, they are discounted to their present value. The discount rate is the yield at the reporting date on high quality NIS-denominated corporate bonds that have maturity dates approximating the terms of the Group’s obligations.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than post-employment plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The amount of such benefit is discounted to its present value and the fair value of assets pertaining to this obligation is deducted therefrom. The discount rate is the yield at the reporting date on high quality NIS-denominated corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in statement of operations in the period in which they arise.

(4) Short-term employee benefits

Obligations with respect to short-term benefits to employees are measured on non-discounted basis, and expensed when the referring service is provided or, in case of non-cumulative absence (such as maternity leave), upon the actual absence.

A liability is recognized, for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be fully settled.

j. Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees and directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest. For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.
Consulting expenses relating to issuance of equity instruments paid by grant of stock options to consultants are recognized over the consultants' period of service against an increase in equity. The Group measures the services rendered and the corresponding increase in equity, indirectly, with regard to the fair value of the equity instruments granted, which is measured when the consultant renders the service, since it is not possible to estimate the fair value of services rendered.

In cases where the employees started working before the grant date, the fair value remeasured at each reporting date until the grant date.

The Group elected to record the increase in equity against salary expense directly to retained earnings.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

1) Provision for warranties

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

2) Provision for returns

The Group recognizes a provision for returns, based on past experience of returns by customers.

3) Provision for legal claims

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be reasonably estimated. When the value of time is material, the provision is measured at its present value.

l. Revenue recognition

The Group recognizes revenue in accordance with IAS 18, "Revenue Recognition," including provisions related to recognition of revenue from multiple-element transactions.

(1) Sale and rent of products

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns and discounts.

In cases where the credit term exceeds the customary credit in the industry, the sale is recognized at its present value using the risk rate of the customer, such that the difference between the present value of the transaction and the nominal amount of the future consideration is recognized in the statement of operations as interest income over the term of the excess credit period.

Revenue is recognized, net of provision for returns, when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from revenues in the consolidated statements of operation.

When the Group contracts with customers the sale of products along with commitment of training and/or installation services, the Group treats such transactions as multi-component transactions, where the training / installation components constitute separable components. In such cases, the Group defers revenues attributed to components yet to be delivered, based on the fair value of the undelivered item. The revenue allocated to the delivered item is based on the difference between the total arrangement consideration and the fair value of the undelivered item.

The Group recognizes revenue from leasing its products over the lease term, in conformity with the agreement with the customer; revenue from commitment of training and/or installation services is recognized when the service is rendered.

The transfer of risks and rewards typically occurs when the products are loaded on the shipping company's transport.

(2) Multi-element sale agreements

Revenues from sales agreements consisting of multiple elements, such as devices, consumables and support agreements, are separated into different accounting units and are separately recognized for each accounting unit. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit (except for commitment of training and/or installation services, as described in (1) above). If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

A component constitutes a separate accounting unit if and only if it has value, separately, for the customer and there if reliable objective evidence as to the fair value of components yet to be delivered. Components not separated into an accounting unit due to non-compliance with the aforementioned conditions, are grouped together in a single accounting unit. The revenue from each such accounting unit is recognized upon fulfillment of the conditions for recognition of revenue from the components included therein, according to their type.

m. Government grants

Government grants are recognized initially at fair value when there is reasonable assurance that they will be received and that the Group would comply with the conditions associated with the grant. Unconditional government grants are recognized when the Group is entitled to receive them. Grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expense in the periods in which the expenses are recognized.

Grants from the OCS in respect of research and development projects are accounted for as forgivable loans according to IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance." Grants received from the OCS are recognized as a liability at the fair value upon receipt of the grants, unless on that date it is reasonably certain, that the amount received would not be repaid. The liability amount is reviewed in each reporting date and any changes to the present value of cash flows, discounted using the original interest rate of the grant, are recognized in

the statement of operations. The difference between the amount received and the fair value upon receiving the grant is recognized as a deductions of research and development expenses.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Leases

Payments made under an operating lease, other than contingent lease payments, are recognized in the statement of operations on a straight-line basis over the term of the lease.

o. Financial income and expenses and change in fair value of derivative instruments

Financial income comprises interest income on funds invested (including in respect of available-for-sale financial assets), gain from sale of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit and exchange differences i in respect of the above assets, and gains (losses) from hedging instruments that are recognized in the statement of operations. Interest income is recognized as it accrues, using the effective interest method.

Financial expenses include: interest expenses and revaluation of loans received, changes in the liability to the OCS, changes in time value of provisions, changes to fair value of financial assets at fair value through profit and loss, exchange differences in respect of the above liabilities impairment loss from financial assets (except for impairment loss in respect of trade receivables, that are presented under general and administrative expenses) and losses from hedging instruments that are recognized in the statement of operations.

Gain or loss from exchange rate differentials are recognized, net, as financial income or expenses, depending on exchange rate fluctuations and based on their position (net gain or loss) in the statement of operations.

In the statements of cash flow, interest received and interest paid are presented under “cash flows from operating activities.”

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Income taxes

Income tax expense comprises current and deferred taxes. It is recognized in the statement of operations except to the extent it relates to items recognized directly in equity or in other comprehensive income or loss.

Current taxes

Current taxes comprise the expected tax payable or receivable on the taxable income or loss for the year. It is measured using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Offset of current tax assets and liabilities

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

Offset of deferred tax assets and liabilities

The Group offsets deferred tax assets and liabilities if it has a legal, enforceable right to offset current tax assets and liabilities, and if these are attributed to the same tax authority on the same taxable company, or on different tax companies, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be settled simultaneously.

q. Earnings (loss) per share

The Group presents basic and diluted earnings (loss) per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the net income or loss attributable to holders of ordinary shares of the Company, by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the net income or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which include convertible notes and stock options granted to employees, directors and consultants.

r. Transactions with controlling shareholder

Assets and liabilities, which are subject to a transaction with a controlling shareholder, are measured at fair value upon the transaction date.

As the transaction is on the equity level, the Company recognized the difference between fair value and the consideration from the transaction in its equity (capital deficiency).

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. New standards and interpretations not yet adopted:

(1) IFRS 9 (2014), "Financial Instruments"

The final version of IFRS 9 (2014) includes revised provisions with regard to classification and measurement of financial instruments, as well as a new model for measurement of financial asset impairment. These provisions are added to the chapter on "Hedge Accounting – General", issued in 2013.

Classification and measurement

Pursuant to IFRS 9 (2014), there are three main categories for measurement of financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis for classification of debt instruments is based on the entity's business model for management of financial assets and on contractual cash flow attributes of the financial asset. Investment in equity instruments shall be measured at fair value through profit and loss (unless the company should elect, upon initial recognition, to present changes in fair value through other comprehensive income).

IFRS 9 (2014) stipulates that changes in fair value of financial liabilities designated at fair value through profit and loss, attributed to change in own credit risk, should generally be recognized under other comprehensive income.

Hedge accounting – general

Under IFRS 9 (2014), additional hedging strategies applied for risk management may qualify for hedge accounting. IFRS 9 (2014) replaces the current 80%-125% test for determining the hedge effectiveness by a required economic link between the hedged instrument and the hedging instrument - without specifying any quantitative threshold. IFRS 9 (2014) also presents new models as alternatives to hedge accounting, with regard to certain credit exposures and contracts outside the scope of IFRS 9 (2014) and stipulates new guidelines for treatment of hedging instruments. IFRS 9 (2014) also stipulates new disclosure requirements.

Impairment of financial assets

IFRS 9 (2014) presents a new model for recognition of expected credit loss. For most assets, the new model introduces a dual approach for impairment measurement: If the credit risk associated with the financial asset has not significantly increased since the initial recognition, a provision for loss shall be recorded, equal to the expected credit loss upon default events which are possible during the twelve months after the reporting date. If the credit risk has significantly increased, usually the provision for impairment would be increased to the amount of expected credit loss over the entire duration of the financial asset.

IFRS 9 (2014) applies to annual reporting periods beginning on or after January 1, 2018, although early application is permitted. IFRS 9 (2014) will be applied retrospectively, with the exception of certain reliefs.

The Group has not yet commenced examining the effects of adopting IFRS 9 (2014) on its consolidated financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: (i) full retrospective application; (ii) full retrospective application with practical expedients; or (iii) application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

The Group has not yet commenced examining the effects of adopting IFRS 15 on its consolidated financial statements.

NOTE 4 - FAIR VALUE MEASUREMENT

In preparing these financial statements, the Group is required to determine the fair value of certain assets and liabilities. Additional information about assumptions used in determining the fair value is presented in the following Notes:

Note 21 – Share-based payment arrangements.

Note 25 – Financial instruments.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted priced included within Level 1 that are observable, either directly or indirectly.
- Level 3: Inputs that are not based on observable market data (unobservable inputs).

As part of its accounting policies and disclosure requirements, the Group is required to determine the fair value of financial and non-financial assets and liabilities. The fair value is determined for measurement and/or disclosure, based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

a. Investments in equity and debt securities

The fair value of financial assets measured at fair value through profit and loss, investments held-to-maturity and financial assets classified as available-for-sale is determined with reference to their quoted closing bid price upon close of trading, as of the reporting date. If no quoted price exists, fair value is measured with due consideration to observed market data (such as using an interest rate curve), using a valuation technique which includes the discounted cash flow method, using expected future cash flows and a discount rate commonly used in the market.

b. Derivatives

The fair value of marketable warrants is based on a quoted price on an active market.

The fair value of warrants which are embedded in the convertible notes is measured based on directly or indirectly observed market data, using the binomial model, based on the following relevant measurement inputs regarding the notes, which have been identified for determining the fair value of the warrant component: (i) the underlying asset (the market price of the share); (ii) the price of the warrant; (iii) conversion rate; (iv) conversion price; (v) expected term; (vi) expected volatility of the underlying asset (the share price); (vii) the risk-free interest rate; and (viii) the yield to maturity of the notes.

c. Non-derivative financial liabilities

The fair value determined for providing disclosure, is calculated based on the present value of future cash flows with respect to the principal and interest component, and discounted using the market interest rate as of the reporting date. Market interest rate with respect to the liabilities component of convertible notes is determined with reference to market terms of similar obligations, which are not optionally convertible into shares.

d. Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, the exercise price of the option, expected volatility (based on weighted average historic volatility of Company shares over the expected term of the options and adjusted for changes expected due to publicly available information): (i) expected term of the options (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

NOTE 5 - REVENUES

Through the third quarter of 2014, the Group has two reportable segments.

- Sleep breathing disorders – development, manufacturing and sale of devices for diagnosis of sleep breathing disorders.

- Cardiology – development, manufacturing and sale of devices for cardiological diagnosis, used for testing of Endothelial function.

NOTE 5 - REVENUES (CONTINUED)

Towards the end of the year ended December 31, 2013, following changes in the Company's senior management which occurred at the end of 2013 and during 2014, the Company changed its strategic plan in order to focus on marketing its products (WatchPAT and EndoPAT) in the cardiology field (in parallel with continuing its operation in the sleep breathing disorder using its WatchPAT device), as well as focusing on the U.S. and Japanese markets, which the Company determined to be the main markets for its products, with a potential to increase its revenues. As a result, the Company changed the format of its financial statements (starting with the financial statements for the yeatr ended December 31, 2014) and reports one operating segments, the Cardiology Segment.

As a result, the Company does not provide segment information for all reported years.

Information about product revenues

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
WatchPAT	9,173	7,660	6,923
EndoPAT	7,214	5,677	6,503
	16,387	13,337	13,426

Information about geographic regions

The Company is domiciled in Israel and Group-marketing operations are primarily focused on Europe, the United States and Canada as well as Asia Pacific (primarily Japan).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers.

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
United States and Canada	8,212	8,012	7,488
Europe	2,744	2,244	3,377
Israel	977	337	368
Asia Pacific (excluding Japan)	1,670	917	797
Japan	2,617	1,304	580
Others	168	523	816
	16,387	13,337	13,426

Major customers

In the years ended December 31, 2014, 2013 and 2012, revenues from a customer in the sleep breathing disorder segment amounted to $2,654 thousand, $2,047 thousand and $1,920 thousand, respectively.

NOTE 6 - COST OF REVENUES

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Raw materials, auxiliary materials, consumables and sub-contractors	2,050	1,657	1,270
Payroll and related expenses	1,727	1,692	1,829
Impairment of inventories	50	37	100
Shipping	417	327	380
Warranties	139	86	(78)
Depreciation and amortization	138	169	81
Other	277	290	220
	4,978	4,258	3,802

NOTE 7 - SELLING AND MARKETING EXPENSES

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Payroll and related expenses	4,304	3,417	2,949
Sales commissions	1,719	1,176	986
Rent and maintenance	223	261	191
Travel abroad and in the U.S.	717	603	456
Consultants	303	534	244
Advertising, public relations and sales promotion	130	381	67
Conferences and trade shows	345	388	284
Tax on medical devices in the U.S.	59	67	-
Other	636	569	508
	8,436	7,396	5,685

NOTE 8 - RESEARCH AND DEVELOPMENT EXPENSES

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Payroll and related expenses	1,354	1,168	1,081
Rent and maintenance	113	183	160
Travel abroad	26	14	13
Patents and regulation	158	182	112
Subcontractors and consultants	93	101	138
Depreciation	30	46	50
Other	243	199	138
	2,017	1,893	1,692

NOTE 9 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Payroll and related expenses	2,874	1,797	1,298
Rent and maintenance	136	135	116
Travel abroad	206	89	55
Depreciation	67	94	100
Legal expenses and cost of settlement agreement (see Note 26b)	180	1,692	260
Accounting and audit fees	311	430	384
Doubtful and bad debt	46	117	117
Remuneration of directors	390	336	182
Other	535	307	250
	4,745	4,997	2,762

NOTE 10 - FINANCIAL INCOME AND EXPENSES

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Financial income (expenses):			
Interest and exchange rate differences in respect of bank deposits	(571)	714	121
Other financial income	103	115	45
Exchange rate differentials in respect of other monetary balances	-	-	109
Financial incomes recognized in the statement of operations	(468)	829	275
Financial expenses:			
Financial expenses in respect of convertible Notes	1,943	4,834	2,116
Loss from Derivatives	-	-	6
Loss on money market funds	-	-	110
Financial expenses in respect of long-term loans from shareholders	41	89	190
Other financial expenses (income)	294	(17)	20
Exchange rate differentials in respect of other monetary balances	539	329	-
Financial expenses recognized in the statement of operation	2,817	5,235	2,436

NOTE 11 - INCOME TAXES

a. Corporate tax rates

(1) Presented hereunder are the tax rates relevant to the Company in the years 2012-2014:
2012 – 25%
2013 – 25%
2014 – 26.5%

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(2) On February 4, 2010, Amendment 174 to the Income Tax Ordinance (New version), 1961 (the "Tax Ordinance") was published. The amendment added Section 87a to the Tax Ordinance, which provides a temporary order whereby Israeli Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)," that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (the "Temporary Order"). On January 12, 2012, Amendment 188 to the Tax Ordinance was published, by which the Temporary Order was amended so that Standard No. 29 shall not apply also when determining the taxable income for 2010 and 2011. On July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years, effective retroactively as from January 1, 2012.

The aforementioned amendments have no impact on the Company's financial statements.

b. Benefits under the Law for the Encouragement of Capital Investments, 1959

Approved Enterprise and Benefited Enterprise

Most of the production facilities of the Company have been granted "Approved Enterprise" and "Benefited Enterprise" status under the Law for the Encouragement of Capital Investments, 1959 (the "**Investment Law**"). The main benefits arising from such status is the reduction in tax rates on income derived from "Approved Enterprises" or "Benefiting Enterprise".

Since the Company is a "Foreign Investors' Company" as defined by the Investment Law, it is entitled to a ten-year period of benefits (instead of a seven-year period).

A company having an approved enterprise that distributes a dividend from exempt income, will be required in the tax year of the dividend distribution to pay company tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the

company tax rate that would have been applicable to it in the year the income was produced if it had not been exempt from tax.

NOTE 11 - INCOME TAXES (CONTINUED)

Amendment to the Investments Law

The Investment Law was further amended as part of the Economic Policy Law for the years 2011 – 2012 (the "2011Amendment"), which became effective on January 1, 2011.

The 2011Amendment sets alternative benefit tracks to the ones that were in place under the provisions of the Investment Law, including a reduced corporate tax rate for companies located in Development Region "A" of 10% in 2011 - 2012, 7% in 2013 and 2014 and 6% at 2015 and thereafter.

The benefits are granted to preferred companies that qualify under criteria set forth in the Investment Law; for the most part, those criteria are similar to the criteria that have existed in the Investment Law prior to its amendment and the benefit period is unlimited in time.

The 2011 Amendment stipulated that only companies in Development Region "A" will be entitled to the grant track and may benefit both from this track and from the tax benefit track, concurrently. Furthermore, the existing tax benefit tracks were eliminated ("Tax Exempt Track", "Ireland Track" and "Strategic Track"), replaced by two new tax tracks - Preferred Enterprise and Special Preferred Enterprise, which primarily include a uniform, reduced tax rate for all company income eligible for benefits, as follows: for Preferred Enterprise - in 2011 - 2012 tax years: 10% in Development Region "A" and 15% elsewhere in Israel; in 2013 - 2014 tax years: 7% in Development Region "A" and 12.5% elsewhere in Israel; and as from 2015 tax year: 6% in Development Region "A" and 12% elsewhere in Israel.

Under the transitional provisions of the Investment Law, a company is allowed to continue to enjoy the tax benefits available under the Investment Law prior to its amendment until the end of the period of benefits, as defined in the Investment Law. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010. In December 2013, the Company informed the Israeli Tax Authority of its election of 2012 as the elected year.

In each year during the period of benefits of its "Approved Enterprise" or "Benefitted Enterprises", the Company will be able to opt for application of the 2011 Amendment, thereby making available to itself the tax rates as above. The Company's election to apply the 2011 Amendment is irrevocable.

As of December 31, 2014, the Company's management decided not to adopt the application of the 2011 Amendment.

On August 5, 2013 the Law for Changes in National Priorities (Legislative Amendments for Achieving Budgetary Goals for 2013 - 2014), 2013 (the "2013-2014 Budget Legislation") was published. This law cancelled the planned tax reduction so that as of the 2014 tax year, the tax rate for Preferred Enterprise will be 9% in Development Region "A" and 16% elsewhere in Israel. Furthermore, an enterprise that meets the definition of a "Special Preferred Enterprise" is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Region "A" or a reduced tax rate of 8% if it is located elsewhere in Israel.

NOTE 11 - INCOME TAXES (CONTINUED)

The 2011 Amendment also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. The 2013-2014 Budget Legislation raised to 20% the tax rate on a dividend distributed to an individual and foreign resident out of preferred income as from January 1, 2014.

Furthermore, the 2011 Amendment provides a relief with regard to no tax imposed on dividends received by an Israeli company from earnings of an Approved/Alternative/Beneficiary Enterprise earned during the benefit period in conformity with the Investment Law prior to its amendment, provided that the company distributing the dividend shall inform the Israeli Tax Authority by June 30, 2015, that it was applying provisions of the Amendment and the dividend would be distributed after the date of such notice (the "Relief"). Furthermore, any distribution out of earnings of the Exempt Enterprise would be taxable for the company making the distribution.

c. Benefits under the Law for the Encouragement of Industry (Taxes)

The Company qualify as "Industrial Companies" as defined in the Law for the Encouragement of Industry (Taxes) – 1969 and accordingly they are entitled to benefits of which the most significant ones are as follows:

1) Higher rates of depreciation.
2) Amortization in three equal annual portions of issuance expenses when registering shares for trading as from the date the shares of the company were registered.
3) An 8-year period of amortization for patents and know-how serving in the development of the enterprise.

d. Taxation of Non-Israeli subsidiaries

Subsidiaries incorporated outside of Israel are taxable pursuant to tax statutes in their country of residence. The primary tax rates applicable to the Non-Israeli subsidiaries are:

Subsidiary incorporated in the U.S. – 40%.

Subsidiary incorporated in Japan – 25.5%.

e. Carryforward tax losses

The Company has carryforward tax losses (including research and development expenses, which may be deductible) as of December 31, 2014 and 2013, amounting to $82 million (NIS 320 million) and $86 million (NIS 297 million), respectively.

No deferred tax asset was recognized in respect of those carryforward tax losses, in the absence of expected utilization thereof in the foreseeable future.

f. Tax Assessments

The Company has not received final tax assessments since its incorporation. The company has self-assessments deemed to be final through the 2009 tax year.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	Computers and accessories	Equipment for leasing and for internal use	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost:					
Balance as of January 1, 2014	1,500	559	200	201	2,460
Additions	48	140	21	10	219
Disposals	-	(56)	-	-	(56)
Balance as of December 31, 2014	1,548	643	221	211	2,623
Accumulated depreciation:					
Balance as of January 1, 2014	1,419	356	105	99	1,979
Depreciation for the year	34	109	15	20	178
Disposals	-	(84)	-	-	(84)
Balance as of December 31, 2014	1,453	381	120	119	2,073
Depreciated balance as of December 31, 2014	95	262	101	92	550
Cost:					
Balance as of January 1, 2013	1,455	421	195	199	2,270
Additions	45	178	5	2	230
Disposals	-	(40)	-	-	(40)
Balance as of December 31, 2013	1,500	559	200	201	2,460
Accumulated depreciation:					
Balance as of January 1, 2013	1,353	291	90	80	1,814
Depreciation for the year	66	92	15	19	192
Disposals	-	(27)	-	-	(27)
Balance as of December 31, 2013	1,419	356	105	99	1,979
Depreciated balance as of December 31, 2013	81	203	95	102	481

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a. Acquisition of property, plant and equipment on suppliers' credit

In the years ended December 31, 2014, 2013 and 2012, the Company purchased property, plant and equipment on suppliers' credit, in the amount of $14 thousand, $27 thousand, and $24 thousand, respectively. As of the reporting dates, the cost of acquisition in fourth quarter has yet to be paid.

b. Additional information

The Group has assets that have been fully depreciated and are still in use. As of December 31, 2014 and 2013, the original cost of such assets is $1,863 thousand and $1, 636 thousand, respectively.

NOTE 13 - INTANGIBLE ASSETS

	Computer software	Capitalized development cost	Marketing rights for medical product	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2014	509	436	375	1,320
Additions	11	-	-	11
Balance as of December 31, 2014	520	436	375	1,331
Accumulated amortization:				
Balance as of January 1, 2014	426	348	205	979
Additions	46	62	38	146
Balance as of December 31, 2014	472	410	243	1,125
Amortized balance as of December 31, 2014	48	26	132	206
Cost:				
Balance as of January 1, 2013	439	436	375	1,250
Additions	70	-	-	70
Balance as of December 31, 2013	509	436	375	1,320
Accumulated amortization:				
Balance as of January 1, 2013	355	274	142	771
Additions	71	74	63	208
Balance as of December 31, 2013	426	348	205	979
Amortized balance as of				

December 31, 2013	83	88	170	341

Amortization expenses of Capitalized development cost are carried to cost of revenues in the statement of operations.

NOTE 14 - INVENTORIES

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Raw materials and auxiliary materials	592	457
Goods in process	299	75
Finished goods	541	558
	1,432	1,090

NOTE 15 - TRADE AND OTHER RECEIVABLES

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Trade receivables:		
Open accounts	3,394	2,227
Checks receivable	33	46
	3,427	2,273
Less -		
Allowance for doubtful accounts	(232)	(225)
	3,195	2,048
Other receivables:		
Institutions	197	129
Advances to Suppliers	43	163
Employees	85	71
Prepaid expenses	171	197
Sundry	110	69
	606	629

The Group’s exposure to credit risk, currency risk and impairment loss in respect of trade and other receivables is described in Note 25.

NOTE 16 – SHARE CAPITAL AND RESERVES

a. Shelf prospectus in Israel

On February 12, 2013, the Company issued in Israel a shelf prospectus for future issuance of securities on the TASE. On February 26 2015 the company received a permission from the Israeli Securities Authority under its authority according to Section 23a (b) to the Israeli Securities Law – 1968 to extend the period under which the company can offer securities under the shelf prospectus by additional 12 months until February 12, 2016. For more information, see Note 18.

b. Private placement

On December 7, 2013, the Company's Board of Directors approved the issuance in a material private placement of 11,111,111 ordinary shares of NIS 0.01 par value to Migdal Insurance Company Ltd., which is a qualified investor of a type listed in Addendum I to the Israeli Securities Law, 1968 at a price of NIS 1.35 per share. The private placement was concluded on December 23, 2013 and the net proceeds to the Company amounted to $4.3 million.

On December 19, 2013, the Company Board of Directors approved the issuance in material private placement of 13,703,703 ordinary shares of NIS 0.01 par value to HaPhoenix Investment and Finance Ltd. and to HaPhoenix Insurance Company (Elementary Nostro) Ltd. (collectively, "HaPhoenix"), which is a qualified investor of a type listed in Addendum I to the Israeli Securities Law, 1968 at a price of NIS 1.35 per share. The private placement was concluded on January 5, 2014 (after the reporting date) and the net proceeds to the Company amounted to $5.3 million.

On May 7, 2014, the Company's Board of Directors approved the issuance in material private placement of 10,333,333 and 2,777,778 ordinary shares of NIS 0.01 par value to Yelin Lapidot Investment House Ltd. and to Migdal Insurance Company Ltd., respectively, which are qualified investors of a type listed in Addendum I to the Israeli Securities Law, 1968 at a price of NIS 1.80 per share. The private placement was concluded on May 20, 2014 and the net proceeds to the Company amounted to $6.8 million.

c. Ordinary shares and additional paid-in capital

	Year Ended December 31,		
	2014	2013	2012
	Number of shares in thousands		
Ordinary shares of NIS 0.01 par value:			
Issued and outstanding:			
Outstanding at the beginning of the year	152,119	135,808	133,400
Private placements	26,815	11,111	-
Exercise of stock options	1,828	5,200	2,397
Conversion of notes (Series A) into shares	-*	-	11
Outstanding at the end of the year	180,762	152,119	135,808
Authorized	500,000	250,000	250,000

* Less than 1 thousand shares.

NOTE 16 - SHARE CAPITAL AND RESERVES (CONTINUED)

Rights conferred by ordinary shares include voting rights at shareholders meetings, rights to dividends and rights upon dissolution.

(1) On June 13, 2012, NIS 28,173 par value of convertible notes were converted into 10,836 ordinary shares of NIS 0.01 par value in a cash-less transaction (see also Note 18).
(2) As to grant of options to employees during the year, see note 21.

d. Capital reserve in respect of available-for-sale assets

The capital reserve in respect of available-for-sale assets includes the net accumulated change in fair value of available-for-sale assets through derecognition or impairment of the investment.

e. Capital reserve in respect of transactions with shareholders

The capital reserve in respect of transactions with shareholders includes the amount waived by the Company's shareholders in respect of services rendered to the Company, as well as interest differentials in respect of loans extended by the Company's four major shareholders, compared to market interest rates upon obtaining the loans.

f. Capital reserve in respect of translation differences of foreign operations

The capital reserve in respect of translation differences of foreign operations includes all foreign currency differentials due to translation of financial statements of foreign operations denominated in a currency which is not the functional currency of the Company into dollars.

NOTE 17 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

The computation of basic earnings (loss) per share was based on the net income divided by the weighted average number of ordinary shares outstanding.

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Net income (loss)	(3,275)	(12,919)	517

NOTE 17 - EARNINGS (LOSS) PER SHARE (CONTINUED)

Weighted average number of ordinary shares

	Year Ended December 31,		
	2014	2013	2012
	Number of shares in thousands		
Balance at the beginning of the year	152,119	135,808	133,400
Private placement	21,419	183	-
Conversion of convertible notes (Series A) into shares and exercise of options	- 1,314	- 1,378	6 641
Weighted average number of ordinary shares used in computation of basic earnings (loss) per share	174,852	137,369	134,047

Diluted earnings (loss) per share

The computation of diluted earnings (loss) per share was based on the net income (loss) divided by the weighted average number of ordinary shares outstanding, after adjustment for all potentially dilutive ordinary shares, as follows:

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Net income (loss) used in computation of basic earnings (loss) per share	(3,275)	(12,919)	517
Interest expenses in respect of convertible notes	(1,656)	-	(424)
Net income (loss) used in computation of diluted earnings (loss) per share	(4,931)	(12,919)	93

NOTE 17 - EARNINGS (LOSS) PER SHARE (CONTINUED)

Weighted average number of ordinary shares (diluted)

	Year Ended December 31,		
	2014	2013	2012
	Number of shares in thousands		
Weighted average number of ordinary shares used in computation of basic earnings (loss) per share	174,852	137,369	134,047
Effect of conversion of convertible notes	39,717	-	15,991
Effect of exercise of stock options	-	-	893
Weighted average number of ordinary shares used in computation of diluted earnings (loss) per share	214,569	137,369	150,931

In the year ended December 31, 2014, the computation of weighted average number of ordinary shares (diluted) excluded 7,968,175 and 39,716,667 embedded warrants in respect of convertible notes (Series A and L), respectively, since they had an anti-dilutive effect.

In the year ended December 31, 2013, the computation of weighted average number of ordinary shares (diluted) excluded 7,968,175 and 39,716,667 embedded warrants in respect of convertible notes (Series A and L), respectively, as well as 2,002,375 warrants (Series 3), since they had an anti-dilutive effect.

In the year ended December 2012, the computation of weighted average number of ordinary shares (diluted) excluded 7,973,570 embedded warrants in respect of convertible notes (Series A).

The average market value of Company's shares, for calculation of the dilutive effect of warrants and stock options, is based on market prices quoted during the period in which the options were outstanding.

NOTE 18 - EMPLOYEE BENEFITS

Employee benefits include post-employment benefits, short-term benefits and share-based payments.

As for post-employment benefits, the Group has defined benefit plans for which it contributes to insurance policies.

As for share-based payments, see Note 21.
As for benefits to key executives, see Note 27.

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Presented in the statement of financial position as follows:		
Short-term employee benefits – as part of current liabilities	149	172
Long-term employee benefits – as part of non-current liabilities	76	90

NOTE 18 - EMPLOYEE BENEFITS (CONTINUED)

Composition of long term employee benefits:

Present value of financed commitments	1,892	1,976
Net of fair value of plan assets	(1,816)	(1,886)
Total net liabilities recognized with respect to defined benefit plan	76	90

a. Post-employment benefit plans - defined benefit plan

(1) Movement, at present value, in obligation with respect to defined benefit plans:

	Year Ended December 31,	
	2014	2013
	U.S. dollars in thousands	
Obligation with respect to defined benefit plan at the beginning of the year	1,722	1,722
Benefits paid	(85)	(239)
Cost of current service and interest cost	231	288
Changes with respect to exchange rate differentials	(222)	140
Actuarial gain charged to other comprehensive income	(8)	65
Obligation with respect to defined benefit plans at the end of the year	1,892	1,976

(2) Movement in plan assets:

	Year Ended December 31,	
	2014	2013
	U.S. dollars in thousands	
Fair value of plan assets at the beginning of the year	1,886	1,650
Amounts deposited	154	257
Benefits paid	(85)	(239)
Changes with respect to exchange rate differentials	(214)	128
Interest income with respect to plan assets	62	60
Actuarial loss charged to other comprehensive income	13	30
Fair value of plan assets at the end of the year	1,816	1,886

(3) Expenses recognized in the statement of operations:

	Year Ended December 31,	
	2014	2013
	U.S. dollars in thousands	
Cost of current service	161	223
Cost of interest	1	(2)
Gain transferred to benefits	10	9
	172	230

NOTE 18 - EMPLOYEE BENEFITS (CONTINUED)

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Cost of revenues	40	66	68
Research and development expenses	43	73	67
Selling and marketing expenses	63	59	58
General and administrative expenses	26	32	50
	172	230	243

(4) Actuarial assumptions

Major actuarial assumptions as of the report date (based on weighted average):

	December 31,		
	2014	2013	2012
	%	%	%
Discount rate at the reporting date	3.58	3.82	3.99
Future salary growth	3.71	3.41	3.66

(5) Historical data

	December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Present value of obligation with respect to defined benefit plan	1,892	1,976	1,722
Fair value of plan assets	(1,816)	(1,886)	(1,650)
Plan shortfall	76	90	72
Adjustments to liabilities, based on past experience	(27)	75	23
Adjustments to assets, based on past experience	13	30	-

NOTE 19 - CONVERTIBLE NOTES

Convertible Notes (Series A)

In March 2007, the Company issued NIS 83 million par value convertible notes (Series A), listed for trading on the TASE and registered in the owner's name. The notes (Series A) bear interest of 7.5% per annum, with principal and interest linked to the Israeli CPI. Interest is payable semi-annually, from August 2007 through 2014. Principal is payable in three installments on February 10 of each year from 2012 through February 2014. The notes (Series A) are convertible, such that each NIS 2.6 par value notes (Series A) may be converted into one ordinary share of NIS 0.01 par value.

NOTE 19 - CONVERTIBLE NOTES (CONTINUED)

As of December 31, 2013, the Group bought back NIS 18,872,160 par value notes (Series A) for total consideration of $1.8 million. The notes (Series A) bought back were delisted from trading on the TASE. The buy-back resulted in a gain of $3.0 million ($1.8 million was recognized in 2008 and $1.2 million recognized in 2009).

In October 2009, holders of notes (Series A) converted NIS 1,882,255 par value notes into ordinary shares. The carrying amount of the notes (Series A), which amounted to $785 thousand as of the conversion date, was charged to equity. In June 2012, holders of notes (Series A) converted NIS 28,173 par value notes (Series A) into ordinary shares. The carrying amount of the notes (Series A), which amounted to $6 thousand as of the conversion date, was charged to equity.

Convertible Notes (Series L)

As discussed in note 16, on February 12, 2013, the Company issued a shelf prospectus for future issuance of securities on the TASE. In March 2013, the Company issued to the public NIS 62,556 thousand par value convertible notes (Series L), negotiable and registered in the owner's name and also issued, by non-material private placement, a further NIS 13,700 par value convertible notes (Series L), negotiable and registered in the owner's name - for total net proceeds of $19.5 million. The notes (Series L) are convertible on any trading day, from the date of listing for trading through February 12, 2018 - such that each NIS 1.92 par value notes (Series L) may be converted into one Company ordinary share of NIS 0.01 par value, subject to the aforementioned adjustments. The notes mature in two principal repayments on February 28, 2017 and on February 28, 2018. The notes (Series L) bear fixed interest at 8.65% per annum (principal and interest are not linked), payable semi-annually: on August 28 and on February 28 of each year from August 2013 through February 2018. The effective interest rate is 27.7%.

NOTE 20 - DERIVATIVES

The conversion component of notes

The net proceeds from the issuance of the convertible notes was bifurcated for measurement purposes, into a conversion component, accounted for as an embedded derivative measured at fair value on the statement of operations and is accordingly measured based on its fair value on each reporting, with changes to fair value regularly charged to the statement of operations, and a liability component, which is initially recognized based on its fair value net of attributed transaction expenses (the balance of consideration not attributed to the conversion component), accounted for at amortized cost, using the effective interest inherent therein, calculated as of the issuance date as noted above. The attributed transaction costs were separated to the different components pro-rata to the amounts of their initial recognition before attribution of said costs.

The fair value of the conversion component of the convertible notes as of December 31, 2014 and December 31, 2013 amounted to $9,162 thousand and $13,031 thousand, respectively. The fair value is calculated using the binomial model with the following parameters:

	December 31,			
	2014		2013	
Discount rate for convertible notes (Series L)		16.78%		13.86%
Share price	NIS	1.910	NIS	2.040
Volatility of share price		62.14%		62.96%

NOTE 21 - SHARE-BASED PAYMENTS

Option award to the Company employees, directors and consultants

a. As of December 31, 2014, there were 26,935,899 stock options outstanding which were granted to employees, directors and consultants. The granted options may be exercised within five years at a share price ranging from less than $0.03 and $0.64. As of December 31, 2014, 14,801,901 options have been exercised.

b. Due to the grant of said stock options, the Group incurred a non-cash expense amounting to $1,475 thousand, $143 thousand and $408 thousand, respectively, in the years ended December 31, 2014, 2013 and 2012. The remaining expense, amounting to $1,857 thousand, will be recognized by the group over the vesting period of the options.

c. The stock option plan with respect to Israeli employees is governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. In accordance with the capital gain track chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as payroll benefits in the Company's accounts, in respect of options granted to employees under the plan. Under the capital gain track the options will be deposited with a Trustee for at least two years after the end of the year in which the options were granted. The grantees will pay the tax due to the benefit upon exercise of the options, but any expenses incurred to the Company in respect to of the options granted would not be tax deductible for the Company. Options granted to consultants, who could not be governed by the terms stipulated by Section 102 of the Income Tax Ordinance as noted above, will be taxable by the grantees upon exercise of the option, in conformity with section 3(i) of the Israeli Income Tax Ordinance.

NOTE 21 - SHARE-BASED PAYMENTS (CONTINUED)

d. The following table lists the grant terms of stock options granted by the Company since 2004:

Contractual duration of options (years)	Fair value on the grant date U.S. dollars in thousands	Terms and conditions	Number of options (in thousands)	Grant date/ Grantees
10	46	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 73.1% and exercise price of $0.57.	125	Options granted to consultants on January 26, 2012
10	19	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 73.1% and exercise price of $0.53.	50	Options granted to consultants on January 26, 2012
10	26	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 68.59% and exercise price of $0.40.	140	Options granted to employees on July 23, 2012
10	13	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 64.4% and exercise price of $0.41.	50	Options granted to consultants on May 28, 2013
10	32	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.91% and exercise price of $0.42.	130	Options granted to employees on May 28, 2013
10	32	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.91% and exercise price of $0.41.	130	Options granted to employees of US subsidiary on May 28, 2013
10	169	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.71% and exercise price of $0.41.	690	Options granted to directors on June 17, 2013
10	486	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.26% and exercise price of $0.47.	2,000	Options granted to the CEO on June 27, 2013
10	1,421	Vesting based on achievement of sales targets for 2014-2017. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.26% and exercise price of $0.43.	5,300	Performance options granted to the CEO on June 27, 2013
10	90	Vesting period of 2 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.26% and exercise price of $0.03.	224	Relocation options granted to the CEO on June 27, 2013
10	112	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant t. Calculated using the Black-Scholes formula with the following parameters: expected volatility of 65.34% and exercise price of $0.51.	330	Options granted to a director on January 14, 2014
10	116	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 65.34% and exercise price of $0.45.	330	Options granted to a director on January 14, 2014

10	2,314	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.10% and exercise price of $0.5, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 64.99% and exercise price of $0.45.	5,498	Options granted to employees on March 25, 2014
10	93	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 64.97% and exercise price of $0.57, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 64.99% and exercise price of $0.52.	230	Options granted to employees on March 25, 2014
10	68	Vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 62.35% and exercise price of $0.71.	150	Options granted to consultants on March 27, 2014
10	35	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.62% and exercise price of $0.63, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.27% and exercise price of $0.59.	99	Options granted to employees on May 27, 2014
10	42	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.62% and exercise price of $0.63, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.27% and exercise price of $0.59.	120	Options granted to employees on May 27, 2014
10	233	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 63.08% and exercise price of $0.65, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 60.73% and exercise price of $0.59.	700	Options granted to employees on September 1, 2014
10	249	28.5% vesting period of 4 years, on annual basis, with 1 year lock-up period upon initial grant. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 61.37% and exercise price of $0.47, 71.5% vesting based on meeting goals and objectives. Calculated using the Black- Scholes formula with the following parameters: expected volatility of 60.63% and exercise price of $0.42.	970	Options granted to employees on December 22, 2014

NOTE 21 - SHARE-BASED PAYMENTS (CONTINUED)

e. Number of options and weighted average exercise price:

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Number of options	Range of exercise price (NIS)	Number of options	Range of exercise price
Outstanding at beginning of year	**20,842,348**	0.10- 2.01	18,362,370	0.01- 2.20
Granted during the year	**8,245,277**	1.57-2.50	8,524,181	1.78-1.96
Forfeited and expired during the year	**(503,726)**	-	(844,750)	-
Exercised during the year	**(1,828,000)**	0.23-1.47	(5,199,453)	0.10-0.83
Outstanding at end of year	**26,935,899**	0.10-2.50	20,842,348	0.10-2.01
Exercisable at end of year	**12,069,760**	0.10-2.19	11,886,799	0.10-2.01

	Year Ended December 31, 2012	
	Number of options	Range of exercise price
Outstanding at beginning of year	20,645,782	0.01- 2.07
Granted during the year	315,000	0.01-1.58
Forfeited and expired during the year	(200,720)	-
Exercised during the year	(2,397,692)	0.01-0.77
Outstanding at end of year	18,362,370	0.10-2.20
Exercisable at end of year	16,625,774	0.10-2.20

The weighted average share price upon exercise of the options, for options exercised in the year ended December 31, 2014 and 2013 and 2012 was $0.58, $0.39 and $0.48, respectively.

The exercise price for outstanding options as of December 31, 2014 ranged between less than $0.03 and $0.64; the weighted average remaining contractual duration was 6.72 years. The exercise price for outstanding option warrants as of December 31, 2013 ranged between less than $0.03 and $0.58; the weighted average remaining contractual duration was 5.49 years.

NOTE 21 - SHARE-BASED PAYMENTS (CONTINUED)

f. Additional information in respect of share-based payments discharged using equity instruments

The fair value of services rendered in return for option warrants granted is based on the fair value of option warrants granted, measured using the Black-Scholes formula based on the following parameters:

	Consultants, CEO Employees and directors	Employees and consultants
	Year Ended December 31,	
	2014	2013
Grant date fair value, (dollars in thousands)	3,304	2,243
Parameters used in calculating the fair value:		
Share price (on grant date)	$0.43-0.70	$0.41-0.43
Exercise price	$0.42-0.65	$0.03-0.47
Expected volatility (weighted average)	61%-65%	64%-66%
Expected duration of option warrant (weighted average)	7	7
Expected dividend yield	-	-
Risk-free interest rate	1.64%-3.40%	2.68%-3.75%
Additional information:		
Share price on the date of allotment of the securities	$0.43-0.70	$0.41-0.43

g. Payroll expenses with respect to share-based payments

	Year Ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Payroll expenses with respect to share-based payments discharged using equity instruments of the Group	1,475	143	408

As to options granted to related parties, see also Note 27.

h. Options based on achievements

Options which vest based on achievement of two cumulative threshold conditions which include target sales and minimum operating income or loss, as specified by the Company's Compensation Committee and Board of Directors - in line with the work plan approved by the Company's Board of Directors. With regard to measurement of said operating income or loss to be used by the Board of Directors for review of the threshold conditions, the operating income or loss to be used would exclude depreciation and amortization, changes in provision for doubtful accounts and bad debt, expenses with respect to share-based payment and the effect of non-recurring events ("**Adjusted operating income (loss)**"). The adjusted operating loss for the year ended December 31 2014 was calculated as follows:

NOTE 21 - SHARE-BASED PAYMENTS (CONTINUED)

	U.S. dollars in thousands
Operating loss, as presented in the statements of operations	(3,609)
Adjustments:	
Depreciation and amortization	324
Changes in provision for doubtful accounts and bad debt	46
Share-based payment	1,475
Adjusted operating loss	(1,764)

NOTE 22 – PROVISIONS

	Warranties	Returns	Total
	U.S. dollars in thousands		
Balance as of January 1, 2014	143	128	271
Provisions made during the year	149	143	292
Provisions reversed during the year	(7)	-	(7)
Provisions realized during the year	(65)	(141)	(206)
Balance as of December 31, 2014	220	130	350
Balance as of January 1, 2013	171	114	285
Provisions made during the year	159	14	173
Provisions reversed during the year	(50)	-	(50)
Provisions realized during the year	(137)	-	(137)
Balance as of December 31, 2013	143	128	271

a. Warranties

The provision is based on estimates relying on cumulative past experience with regard to similar products and services. The Group estimates that most of this liability would be realized within 12 months.

b. Returns

The provision for goods returned by customers is calculated based on estimates made by management, relying on the Group's past experience.

NOTE 23 - OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Employees and payroll related institutions	1,178	905
Interest payable	639	858
Advance payments from customers	95	84
Other	41	83
	1,953	1,930

For the Group's exposure to Israeli CPI, currency and liquidity risk in respect of certain accounts payable, see Note 25.

NOTE 24 - FINANCIAL RISK MANAGEMENT

a. Overview

The Group is exposed to the following risk factors due to use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency risk, interest risk and other price risk)

This note provides qualitative information regarding the exposure to each of the aforementioned risk factors, Group objectives, policy and processes relating to risk measurement and management. Quantitative disclosure is provided throughout these consolidated financial statements.

b. Risk management framework

The Company's Board of Directors has overall responsibility to establish and supervise the Group's risk management framework. The Board of Directors appointed an Investment Committee, consisting of four members, to review exposure to market risk and to set policy on hedging such risk.

c. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to any financial instrument fails to meet its contractual obligations. It primarily arises from trade and other receivables and from investments in securities. Most of the Company's cash and cash equivalents is deposited with some of Israel's largest banks and invested in government bonds.

Trade and other receivables

The Group's exposure to credit risk is primarily affected by each customer's individual attributes. However, geographic attributes of the Group's customer base, including risk of insolvency in the sector and country in which the customer operates, have some effect on credit risk. Approximately 16%, 15% and 14%, respectively, of the Group's revenues in the years ended December 31, 2014, 2013 and 2012 arise from sales to a single customer. Other than this, there are no other concentrations of credit risk.

NOTE 24 - FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group does not require collateral from customers, but in some cases, customers are required to make advance payments or transactions are conducted through letters of credit.

The Group's revenues are primarily derived from sales to customers in the U.S. and in the European Union. Management regularly monitors trade receivables and the financial statements include specific provisions for doubtful debt, which properly reflect, in the opinion of management, the inherent loss in debt whose collection is in doubtful.

Investments

The Group limits its exposure to credit risk by investing exclusively in NIS-denominated money market funds and in bank deposits.

d. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures sufficient cash on hand for payment of expected operating expenses, including any amounts required to fulfill financial obligations. The foregoing does not account for potential impact of extreme scenarios, which may not be reasonably anticipated.

e. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, consumer price index, interest rates and prices of equity instruments would impact the Group's revenues or the value of its holding in financial instruments. The objective of market risk management is to manage and supervise exposure to market risk within common parameters, while maximizing returns.

Currency risk

The Group is exposed to foreign currency risk with respect to sales, purchases and loans denominated in currencies (primarily NIS, but also Euro and Japanese yen ("JPY")) other than the respective functional currency of the companies in the Group. The currencies in which most transactions are denominated are the dollar, NIS, Euro and JPY.

Most of the Group's revenues are denominated in its functional currency (the dollar) and some in Euro and JPY. Payroll expenses in Israel are denominated in NIS. Therefore, the Group is exposed to dollar/NIS and dollar/Euro exchange rates (as well as dollar/JPY) and strives to mitigate currency risk by maintaining liquid investments and cash positions in short-term NIS-denominated deposits, in NIS and in Euro.

Interest rate risk

The Group has no material exposure as of December 31, 2014.

NOTE 25 - FINANCIAL INSTRUMENTS

a. Credit risk

1) Exposure to credit risk

The carrying amount of financial assets reflects the maximum credit exposure. Maximum credit risk exposure as of the report date was as follows:

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Cash and cash equivalents	9,417	11,950
Trade receivables	3,195	2,048
Investments in securities	8,919	6,931
Bank deposits	131	203
Other accounts receivable	238	303
	21,900	21,435

The maximum exposure to credit risk in respect of cash and cash and cash equivalents, trade receivables, other accounts receivable and other investments, as of the report date, by geographic locations was as follows:

	December 31,	
	2014	2013
	U.S. dollars in thousands	
Israel	17,800	18,180
U.S. and Canada	2,173	1,730
Asia Pacific	1,176	1,052
Western Europe	655	324
Eastern Europe	22	60
Other	74	89
	21,900	21,435

2) Aging of debt and allowance for doubtful accounts

Debt aging for trade receivables:

	December 31, 2014		December 31, 2013	
	Gross amount	Allowance for doubtful accounts	Gross amount	Allowance for doubtful accounts
	U.S. dollars in thousands		U.S. dollars in thousands	
Not in arrears	2,481	-	1,788	1
In arrears up to 3 months	622	-	167	103
In arrears up to 6 months	74	23	161	72
In arrears up to 12 months	92	51	88	21
In arrears over 12 months	158	158	69	28
	3,427	232	2,273	225

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

Movements in the allowance for doubtful accounts:

	Year Ended December 31,	
	2014	2013
	U.S. dollars in thousands	
Balance at beginning of year	225	191
Recognized impairment loss	46	116
Bad debt	(39)	(82)
Balance at end of year	232	225

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk

Below is an analysis of contractual maturities of financial liabilities including estimated interest payments:

	December 31, 2014						
	Carrying Amount	Contractual Cash flow	Up to6 months	6-12 months	1-2 years	2-5 years	Over 5 years
	U.S. dollars in thousands						
Non-derivative financial liabilities							
Loan from Shareholders	1,696	2,317	93	91	184	1,949	-
Convertible notes, including current maturities	13,505	24,696	848	848	1,696	21,304	-
Trade payables	1,083	1,083	1,083	-	-	-	-
Other long-term accounts payable*	822	886	-	-	330	556	-
Other accounts payable**	2,491	2,491	1,698	793	-	-	-
Total	19,598	31,473	3,722	1,732	2,210	23,809	-

	December 31, 2013						
	Carrying Amount	Contractual Cash flow	Up to6 months	6-12 months	1-2 years	2-5 years	Over 5 years
	U.S. dollars in thousands						
Non-derivative financial liabilities							
Convertible notes, including current maturities	20,796	37,082	8,462	950	23,869	3,326	475
Trade payables	704	704	704	-	-	-	-
Other long-term accounts payable*	1,150	1,354	-	-	400	703	251
Other accounts payable**	1,881	1,881	1,645	236	-	-	-
Total	24,531	41,021	11,811	1,186	24,269	4,029	706

* Composition is based on expected future sales of the product developed with grants from the OCS.

** Includes the following items: accrued expenses and other accounts payable.

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk

1) Exposure to the Israeli CPI and foreign currency risk

The Group's exposure to the Israeli CPI and foreign currency risk is as follows:

	December 31, 2014						
	Foreign currency						
	U.S. dollar	NIS Unlinked	NIS CPI-linked	Euro	Other currencies	Non-monetary items	Total
	U.S. dollars in thousands						
Assets							
Cash and cash equivalents	4,988	3,429	-	661	339	-	9,417
Securities available for sale	-	8,919	-	-	-	-	8,919
Trade receivables	2,496	49	-	650	-	-	3,195
Inventories	-	-	-	-	-	1,432	1,432
Other accounts receivable	233	-	-	5	-	368	606
Long-term pre-paid expenses	-	-	-	-	-	109	109
Property, plant and equipment and intangible assets	-	-	-	-	-	756	756
Long-term pledged deposit	-	131	-	-	-	-	131
	7,717	12,528	-	1,316	339	2,665	24,565
Liabilities							
Trade payables	562	562	-	-	-	-	1,083
Employee benefits	-	-	-	-	-	225	225
Provisions	-	-	-	-	-	350	350
Other accounts payable	1,661	1,092	-	67	59	251	3,130
Loan from Shareholders	-	1,634	-	-	-	-	1,634
Financial derivatives	-	9,162	-	-	-	-	9,162
Convertible notes	-	12,929	-	-	-	-	12,929
Other long-term accounts payable	822	-	-	-	-	-	822
	3,045	25,338	-	67	59	826	29,335
Total exposure in statement of financial position in respect of financial assets and financial liabilities	4,673	(12,810)	-	1,249	280	1,839	(4,770)

	December 31, 2013						
	Foreign currency						
	U.S. dollar	NIS Unlinked	NIS CPI-linked	Euro	Other currencies	Non-monetary items	Total
	U.S. dollars in thousands						
Assets							
Cash and cash equivalents	2,584	8,385	-	294	687	-	11,950
Securities available for sale	-	6,931	-	-	-	-	
Trade receivables	1,261	176	-	442	169	-	6,931
Inventories	-	-	-	-	-	1,090	2,048
Other accounts receivable	188	110	-	5	-	326	1,090
Long-term pre-paid expenses	-	-	-	-	-	111	111
Property, plant and equipment and intangible assets	-	-	-	-	-	822	822
Long-term pledged deposit	-	203	-	-	-	-	203
	4,033	15,805	-	741	856	2,349	23,784
Liabilities							
Trade payables	573	131	-	-	-	-	704
Employee benefits	-	-	-	-	-	262	262
Provisions	-	-	-	-	-	271	271
Other accounts payable	1,390	1,079	212	34	35	313	3,063
Financial derivatives	-	13,039	-	-	-	-	13,039
Convertible notes	-	12,740	7,198	-	-	-	19,938
Other long-term accounts payable	1,150	-	-	-	-	-	1,150
	3,113	26,989	7,410	34	35	846	38,427
Total exposure in statement of financial position in respect of financial assets and financial liabilities	920	(11,184)	(7,410)	707	821	1,503	(14,643)

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

Total financial liabilities, net as of December 31, 2014 and 2013 amounted to $6,697 thousand and $16,146 thousand, respectively.

Below is information about the Israeli CPI and exchange rates of significant currencies against the NIS:

	December 31,	
	2014	2013
Israeli CPI (points)	119.77	120.01
ILS exchange rate	0.2571	0.2881
Euro exchange rate	1.2149	1.3777
100 JPY exchange rate	0.8369	0.9525

	Year Ended December 31,	
	2014	2013
	Change in %	Change in %
Increase (decrease) during the year:		
Israeli CPI	(0.20)	1.82
ILS exchange rate	(10.75)	7.55
Euro exchange rate	(11.82)	4.52
100 JPY exchange rate	(12.14)	(17.90)

2) Sensitivity analysis

A stronger dollar against the following currencies, as of December 31, 2014 and 2013, and an increase in the Israeli CPI would have increased (decreased) equity and net income/loss by the following amounts (after-tax). The following analysis is based on changes to exchange rates and to the Israeli CPI, which the Group believes to be reasonably possible as of the end of the reported year. This analysis assumes all other variables, especially interest rates, remain constant. The analysis for December 31, 2014 and 2013 was done on the same basis.

	December 31, 2014	
	Capital deficiency	Net income (loss)
	U.S. dollars in thousands	
5% increase in the exchange rate of:		
NIS	(641)	(641)
Euro	63	63
100 JPY	11	11

A stronger USD, against the other currencies and a increase in the Israeli CPI, by a similar percentage, as of December 31, 2014 would have had a similar effect in the opposite direction, assuming all other variables remain constant.

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

	December 31, 2013	
	Capital deficiency	Net income (loss)
	U.S. dollars in thousands	
1% increase in the Israeli CPI	(74)	(74)
5% increase in the exchange rate of:		
NIS	(955)	(955)
Euro	35	35
5% decrease in the exchange rate of:		
NIS	937	937

A weaken other currencies, by a similar percentage, against the dollar and a decrease in the Israeli CPI, by a similar percentage, as of December 31, 2013 would have had a similar effect in the opposite direction, assuming all other variables remain constant.

d. Interest rate risk

All of the Group's interest-bearing instruments bear fixed interest.

The Group's assets and liabilities bearing fixed interest are not measured at fair value in the statement of operations. Therefore, the change in interest rates as of the reporting dates should not have any effect on net income/loss.

e. Fair value of financial instruments measured at fair value, for disclosure purposes only

Fair value versus carrying amount

The fair value of the financial instruments included in the working capital of the Group (such as cash and cash equivalents, trade receivables, other accounts receivable, bank deposits, pledged deposits, trade payables, and other accounts payable) is usually identical or close to their carrying amount.

The fair value of other financial assets and liabilities and their carrying amounts, as presented in the statement of financial position, are as follows:

	December 31,			
	2014		2013	
	Carrying Amount	Fair value	Carrying amount	Fair value
	U.S. dollars in thousands			
	Level 1			
Liabilities:				
Convertible notes (series A)	-	-	7,198	7,354
Convertible notes (series L)	22,667	23,726	26,403	25,682
Chief scientist liability	556	244	624	276
Loan from shareholders	1,696	1,594	-	-
	24,919	25,564	34,450	33,036

Fair value hierarchy

The following table provides analysis of financial instruments measured at fair value using valuation methodology.

NOTE 25 - FINANCIAL INSTRUMENTS (CONTINUED)

For details of the fair value hierarchy, see Note 4.

	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
Financial assets - securities available-for-sale	8,919	-	-	8,919
Financial liabilities - derivatives	-	9,162	-	9,162

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
Financial assets - securities available-for-sale	6,931	-	-	6,931
Financial liabilities - derivatives	-	13,039	-	13,039

NOTE 26 – COMMITMENETS AND CONTINGENCIES

a. Obligation to pay royalties to the OCS

The Group's liability to pay royalties to the OCS is presented in the consolidated statement of financial position under non-current liabilities and under accrued expenses and is relating to future sales of the EndoPAT™ 300 device and/or technology specific thereto. The non-current liability is discounted to the date of the relevant reporting date. The development of the said product was discontinued before completion and the Group has no sales with respect thereto. Therefore, for the purpose of calculating this liability, the Company prepares, upon each reporting date, a future sales forecast for the EndoPAT™ 300 device and/or specific technology thereof, with sales amounts discounted at a 1.5% discount rate. From time to time, the Group reviews these forecasts and updates the amount of discounted non-current liability carried on its financial statements accordingly. The liability to the OCS is calculated by the Company's assistant controller based on a DCF model and is reviewed by the Company's controller. As of December 31, 2014, management expects it would complete the development of the EndoPAT™ 3000 product and/or specific technology thereof by early 2016; however, management reviews from time to time the viability of completing development of the EndoPAT™ 3000. Royalties with respect to sales of the EndoPAT™ 300 product and/or specific technology thereof between 2015 and 2017 should fully cover, according to management's estimates, its liability to the OCS. It should be noted that the gross liability (before discounting) which may be due to royalty payments to the OCS was estimated as of December 31, 2014 at $986 thousand, based on a balance confirmation from the OCS as of December 31, 2014. The fair value of the obligation in the statement of financial position is $556 thousand.

b. Litigation

The Company records a provision for lawsuits only if it is likely to incur a liability arising from past events and if the amount of the liability can be reasonably estimated. The Company's assessment of the risk associated with such lawsuits is based on assessments made by management and its legal counsel.

NOTE 26 - COMMITMENETS AND CONTINGENT LIABILITIES (CONTINUED))

In December 2010, the Company's U.S. subsidiary, Itamar Medical Inc., entered into an exclusive distribution agreement with American Cardio, LLC ("ACL") for specific operating activities in the U.S. in respect of the Company's EndoPAT™ product, subject to achievement of certain targets for sales, market development and introduction of this product to the clinical market. In November 2011, after ACL had failed to achieve the targets specified in the distribution agreement, the subsidiary notified ACL of the termination of the distribution agreement. On March 14, 2012, ACL filed a lawsuit against the subsidiary in a Court in Oregon, U.S. (the "Lawsuit"), asking for a compensation to be determined by the Court, plus interest and legal expenses. In the lawsuit, ACL alleged, among other things, that the Company's subsidiary was in breach of the distribution agreement. The Company's subsidiary fully rejected all claims made by ACL. In July 2012, the Court in Oregon, U.S. accepted the Company's subsidiary's motion to have the case referred to an arbitration proceeding by both parties.

In December 2013, the Company's subsidiary reached a settlement agreement in the arbitration proceeding between American Cardio, LLC and American Medical Concepts, Inc. (collectively, "AMC"). The settlement agreement stipulates that by July 1, 2014, AMC would deliver to the Company's subsidiary's offices its inventories of EndoPAT™ products. The parties further agreed that the Company's subsidiary would pay AMC a total of $1.13 million in four installments as follows: $0.1 million in January 2014; $0.3 million in July 2014; $0.4 million in July 2015; and $ 0.33 million in July 2016. The present value of the aforementioned cash flows, net of the value of EndoPAT™ products to be delivered to the Company's subsidiary as noted above, amounts to $ 0.8 million.

In the settlement agreement, the parties waived any claim and/or demand of any kind against each other.

As of December 31, 2014, the Company recognized $363 thousand under "long-term accounts payables" in respect of the settlement agreement.

c. Commitments

The Company is a party to a lease agreement, whereby the Company leases a total area of 1,701 square meters (including warehouses). The lease term is for five years, with an option to extend it for additional five years. The monthly rent and management fee payable by the Company to the lessor in the year ended December 31, 2014 was $36 thousand.

To secure the lease, the Company has provided to the lessor an autonomous bank guarantee amounting to $101 thousand.

The Company holds non-linked NIS-denominated deposits, bearing interest at prime minus 1.67% per annum, pledged to a bank as collateral to secure the leased buildings.

The Company's subsidiary in Japan is a party to a lease agreement for leasing office space for a two-year term. To secure the lease, the Company has provided a guarantee to the lessor amounting to $300 thousand, as well as a deposit amounting to $26 thousand pledged to a Japanese bank.

The Company's subsidiary in the U.S. is a party to a lease agreement for leasing office space for a two-year term. The Company holds a dollar-denominated deposit amounting to $5 thousand, pledged to a U.S. bank, as collateral to secure the lease.

The Company is also a party to operating lease agreements for leasing vehicles for 36-month terms.

NOTE 26 - COMMITMENETS AND CONTINGENT LIABILITIES (CONTINUED)

Minimum lease commitments of the Company and its subsidiaries under operating leases which may not be terminated, at rates in effect on December 31, 2014, were as follows:

Year Ending December 31,	U.S. dollars in thousands
2015	426
2016	367
2017	304
	1,097

NOTE 27 - RELATED PARTIES AND INTERESTED PARTIES

a. Compensation to key executives (including directors)

Company's directors

The Company entered into agreements with two of its shareholders for provision of services of Co-Chairmen, in consideration for which the Company pays each of the two shareholders $6,250 per month; the Company signed an agreement with a third shareholder for provision of services of sleep medical expert, in the amount of $3,125 per month; the Company also signed an agreement with an employee of said third shareholder, who is also an interested party, for provision of services a manager of the sleep medicine discipline of the Company, in the amount of $3,125 per month. The Company also committed to reimburse expenses incurred by one of the aforementioned shareholders incurred with respect to promoting the Company's business, at amounts to be approved from time to time by the Company's Board of Directors.

In October 2013, the two shareholders who serve as Co-Chairmen agreed to waive one half of the amounts payable to them for their service as Co-Chairmen of the Board of Directors, for a period of one year. The amount waived in the year ended December 31, 2014 and 2013 was $33 thousand and $11 thousand, respectively.

b. Transactions with related parties and interested parties

Compensation to key executives (including directors) includes:

	Year Ended December 31,					
	2014		2013		2012	
	Number of persons	Amount U.S. dollars in thousands	Number of persons	Amount U.S. dollars in thousands	Number of persons	Amount U.S. dollars in thousands
Short-term employee compensation	7	1,312	8	1,536	7	1,210
Share-based payment	7	988	8	44	7	217
		2,300		1,580		1,427

NOTE 27 - RELATED PARTIES AND INTERESTED PARTIES (CONTINUED)

Compensation to key executives (including directors) not employed by the Company:

	Year Ended December 31,					
	2014		2013		2011	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		U.S. dollars in thousands		U.S. dollars in thousands		U.S. dollars in thousands
Total benefits to a board member not employed by the Company	7	356	8	329	6	185

	Year Ended December 31,			December 31,	
	2014	2013	2012	2014	2013
	Transaction amounts			Carrying amount	
	U.S. dollars in thousands			U.S. dollars in thousands	
Key executives (including board members) of the Company	2,656	1,909	1,612	3,260	2,241

c. Credit line agreement with shareholders

On March 11, 2011, the Company entered into a credit line agreement, which was approved by its Board of Directors on March 1, 2011, with four of its major shareholders: Medtronic International Technology, Inc., Dr. Giora Yaron (including through a company wholly owned by him), Mr. Martin Gerstel and Caremi Partners Ltd. (collectively, the "Major Shareholders" or the "Lenders"), under which the Major Shareholders agreed to extend a credit line to the Company in the aggregate amount of up to $6 million, subject to certain conditions (the "Credit Line Agreement").

Under the Credit Line Agreement, the Company may utilize the credit line by making three withdrawals of up to $2 million each in January of each of the years from 2012 through 2014 in writing. Any amount not withdrawn in a given year may be withdrawn as part of the subsequent year's withdrawal. However, any amount which will not be claimed by the Company by January 31, 2014 would be expired and the Company may no longer claim it.

Each withdrawal would bear interest at a rate to be determined by the Company's Audit Committee and Board of Directors, in conformity with criteria set forth in the Israeli Companies Regulations (Reliefs in Certain Interested Parties' Transactions), 2000. The interest rate would not exceed the average interest rate bid to the Company by two or more commercial banks or other financing providers for a withdrawal of similar terms and conditions upon the actual withdrawal date.

In February 2013, the Company obtained the Lenders' consent to extend the repayment of the third withdrawal, from repayment in a single installment on January 31, 2015 (the original date) to repayment in two equal installments on February 28 of 2017 and 2018, in line with the repayment days of the Company's convertible notes (Series L).

Should the Company complete a public offering or a private placement of equity (including rights issuance) in which the Company would raise at least $10 million, the Company would repay the major shareholders all the amounts withdrawn, with accrued interest through the said date.

NOTE 27 - RELATED PARTIES AND INTERESTED PARTIES (CONTINUED)

Any amount payable by the Company on account of repayment of the said withdrawals, which would not be paid when contractually due, would be subject to arrears interest.

The withdrawals (principal and interest) would be immediately repayable upon occurrence of any events listed in the agreement, which events are causing immediate repayment, as is customary for such agreements.

In January 2014, the Company requested the Lenders to offset the outstanding principal balance payable to the Lenders in respect of convertible notes (Series A) they held against a third withdrawal amounting to NIS 6.9 million (approximately $1.94) on account of the credit line.

On March 2, 2014 the Company's Board of Directors approved a further withdrawal amounting to $1.94 million on account of the credit line.

Following the March 2014 withdrawal, the Company may not withdraw additional funds on account of this Credit Line Agreement.

As to irrecoverable undertaking to place a credit facility from certain Company's shareholders, see Note 28.

In January 2015, the Company received an irrevocable undertaking to place a credit facility of up to NIS 9,058,131 (the "credit amount"), subject to certain conditions, from certain Company's shareholders: (i) Medtronic International Technology, Inc.; (ii) Itamar Technologies and Investments (1994) Ltd., a company controlled by Dr. Giora Yaron; and (iii) Mr. Martin Grestel, (jointly: the "three shareholders"). The credit facility may be utilized in a single withdrawing from January 2017 to February 28, 2017. Should the credit amount or a portion thereof remain unutilized after February 28, 2017, the facility will expire and the Company will no longer be entitled thereto. The credit, if utilized, will bear interest at the annual rate of 10.4% (unlinked). The principal of any amount drawn will mature in one payment on February 28, 2018. The Company is not obligated to utilize the credit amount and that the resolution to utilize the credit must be adopted subject to any binding legal provisions. For additional details, see immediate report by the Company dated January 25, 2015 (reference: 2015-01-017752).

d. Private placement

1. On December 19, 2013, the Company's Board of Directors approved the issuance in material private placement of 13,703,703 ordinary shares of NIS 0.01 par value to HaPhoenix Investments and Finance Ltd. and with HaPhoenix Insurance Company Ltd. (Elementary Nostro), which are qualified investors of a type listed in Addendum I to the Israeli Securities Act, 1968 at a price of NIS 1.35 per share. The private placement was concluded on January 1, 2014 and the net proceeds to the Company amounted to NIS18.5 million (approximately $5.3 million).

2. On May 7, 2014, the Company's Board of Directors approved the issuance in material private placement of 10,333,333 and 2,777,778 ordinary shares of NIS 0.01 par value to Yelin Lapidot Investment House Ltd. ("**Yelin Lapidot**") and to Migdal Insurance Company Ltd., respectively, which are qualified investors of a type listed in Addendum I to the Israeli Securities Act, 1968 at a price of NIS 1.80 per share. The private placement was concluded on May 20, 2014 and the net proceeds to the Company amounted to NIS23.6 million (approximately $6.8 million).

NOTE 27 - RELATED PARTIES AND INTERESTED PARTIES (CONTINUED)

On May 19, 2014, the Company entered into an Investment Management Agreement with Yelin Lapidot. Through December 31 2014, the company transferred to Yelin Lapidot an amount of approximately $3 million under the agreement. Management fees paid to Yelin Lapidot in the year ended December 31 2014 amounted to $5 thousand.

e. Officer and directors liability insurance

The Company purchased an insurance policy for its officer and directors, both for the Company's use and its subsidiary, providing coverage up to $20 million per case and for the insurance period on aggregate, from April 1, 2014 to April 30, 2015. This insurance policy also covers directors considered to be related parties. The annual premium for the insurance policy, for the period starting on April 1, 2014 and ending on April 30, 2015 is approximately $23 thousand.

On October 7, 2014, the Company's Board of Directors approved the Company's commitment to indemnify the Company's officers for any liability or expense imposed due to any action taken in the course of their work with the Company. The commitment to indemnify is limited to such events as approved by the Board of Directors. The indemnification amount is limited, for a single set of events, to 25% of the Company's shareholders equity, based on the Company's most recent annual financial statements published prior to the indemnification date. The annual premium for the insurance policy, for the period starting on April 1, 2014, is $23 thousand and for the period starting on April 1, 2013 is also $23 thousand.

f. Marketing agreement with Medtronic, Inc. ("Medtronic")

in March 2014, the Company entered into a marketing agreement (the "**Agreement**") with Medtronic (a controlling shareholder). As part of the Agreement, Medtronic and the Company are to market WatchPAT as part of a comprehensive solution to be offered by Medtronic to physicians specializing in cardiological electro-physiology in the U.S. The Agreement includes a commitment by Medtronic to make a specified investment in marketing as well as minimum sales quotas.

The Agreement term is 43 months. In September 2014, the Company announced agreement would be extended for six months to enable the parties to complete the process of building and entrenching the overall solution.

In the year ended December 31, 2014, the Company recognized revenues from sales to third parties under the Agreement in the amount of approximately $208 thousand. Total sales commissions to Medtronic in the year ended December 31, 2014 under the Agreement totaled approximately $67 thousand.

NOTE 28 - SUBSEQUENT EVENT

Irrevocable undertaking to place a credit facility to the Company

In January 2015, the Company received an irrevocable undertaking to place a credit facility of up to NIS 9,058,131 (the "**credit amount**"), subject to certain conditions, from certain Company's shareholders: (i) Medtronic International Technology, Inc.; (ii) Itamar Technologies and Investments (1994) Ltd., a company controlled by Dr. Giora Yaron; and (iii) Mr. Martin Grestel, (jointly: the "three shareholders"). The credit facility may be utilized in a single withdrawing from January 2017 to February 28, 2017. Should the credit amount or a portion thereof remain unutilized after February 28, 2017, the facility will expire and the Company will no longer be entitled thereto. The credit, if utilized, will bear interest at the annual rate of 10.4% (unlinked). The principal of any amount drawn will mature in one payment on February 28, 2018. The Company is not obligated to utilize the credit amount and that the resolution to utilize the credit must be adopted subject to any binding legal provisions.

ITAMAR MEDICAL LTD.

CONDENSED FINANCIAL INFORMATION FROM CONSOLIDATED FINANCIAL STATEMENT ATTRIBUTED TO THE COMPANY SOLO AS OF DECEMBER 31, 2014

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

AS OF DECEMBER 31, 2014

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ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
STATEMENTS OF FINANCIAL POSITION DATA

	December 31	
	2014	**2013**
	U.S. dollars in thousands	
Assets		
Current assets:		
Cash and cash equivalents	**8,532**	10,677
Investments in marketable securities available- for-sale	**8,919**	6,931
Trade receivables	**1,123**	827
Subsidiaries – current accounts	**2,793**	2,407
Other receivables	**455**	453
Inventories	**1,050**	706
Total Current Assets	**22,872**	22,001
Non-current assets:		
Restricted deposits	**131**	203
Prepaid expenses	**43**	42
Investment in subsidiaries	**148**	-
Fixed assets	**308**	287
Intangible assets	**196**	341
Total non-current assets	**826**	873
Total assets	**23,698**	22,874

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
STATEMENTS OF FINANCIAL POSITION DATA

	December 31	
	2014	**2013**
	U.S. dollars in thousands	
Liabilities		
Current liabilities:		
Trade payables	**972**	632
Short-term employee benefits	**128**	154
Current maturities of convertible notes	**-**	7,198
Derivative instruments	**-**	8
Provisions	**106**	80
Accrued expenses	**1,076**	934
Other accounts payable	**1,455**	1,451
Total current liabilities	**3,737**	10,457
Non-current liabilities:		
Convertible notes, net of current maturities	**12,929**	12,740
Loans from shareholders	**1,634**	-
Derivative instruments	**9,162**	13,031
Long-term employees benefits	**76**	90
Provision for loss of subsidiaries	**108**	49
Other long-term payables	**822**	1,150
Total non-current liabilities	**24,731**	27,060
Total liabilities	**28,468**	37,517
Capital deficiency		
Ordinary shares	**467**	385
Additional paid-in capital	**80,242**	68,238
Capital reserve in respect of securities available-for-sale	**(454)**	242
Capital reserve in respect of currency translation adjustments	**(9)**	(55)
Capital reserve in respect of transactions with shareholders	**1,151**	935
Accumulated deficit	**(86,167)**	(84,388)
Total capital deficiency	**(4,770)**	(14,643)
Total liabilities, net of capital deficiency	**23,698**	22,874

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
STATEMENTS OF OPERATION DATA

	Year Ended December 31		
	2014	**2013**	**2012**
	U.S. dollars in thousands		
Revenues from external parties	**6,348**	4,164	5,953
Revenues from inter-company sales	**4,798**	4,167	4,168
Total revenues	**11,146**	8,331	10,121
Cost of revenues	**(4,393)**	(3,844)	(3,868)
Gross profit	**6,753**	4,487	6,253
Selling and marketing expenses	**2,904**	2,941	2,501
Transfer pricing adjustments	**1,888**	1,105	(103)
Research and development expenses	**2,017**	1,893	1,692
General and administrative expenses	**3,592**	4,235	2,289
Operating loss	**(3,648)**	(5,687)	(126)
Financial income (expenses)	**(560)**	715	230
Financial expenses	**(2,618)**	(5,160)	(2,362)
Gain (loss) from change in fair value of derivatives instruments, net	**3,743**	(3,350)	2,992
Financial income (expenses), net	**565**	(7,795)	860
Income (loss) before income taxes	**(3,083)**	(13,482)	734
Income taxes	**(87)**	87	27
Income (loss) from investees	**(105)**	476	(244)
Net loss attributable to equity holders of the Company	**(3,275)**	(12,919)	517

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
STATEMENTS OF COMPREHENSIVE LOSS DATA

	Year Ended December 31		
	2014	**2013**	**2012**
	U.S. dollars in thousands		
Net income (loss)	**(3,275)**	(12,919)	517
Items that will never be reclassified to the statement of operations			
Remeasurement of defined benefit plan, net of tax	**21**	(35)	(7)
Total	**21**	(35)	(7)
Other comprehensive income (loss) items that are or may be reclassified to the statement of operations			
Currency translation differences	**46**	(55)	-
Net change in fair value of securities available-for-sale, net of tax	**(696)**	242	-
Net change in fair value of securities available-for-sale, net of tax transferred to the statement of operations	**-**	-	83
Total	**(650)**	187	83
Total other comprehensive income (loss), net of tax	**(629)**	152	76
Total comprehensive income (loss)	**(3,904)**	(12,767)	593

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
STATEMENTS OF CASH FLOWS DATA

	Year Ended December 31		
	2014	**2013**	**2012**
	U.S. dollars in thousands		
Cash flows from operating activities			
Net income (loss)	**(3,275)**	(12,919)	517
Adjustments for:			
Depreciation and amortization	**228**	315	260
Change in provision for doubtful debt and bad debt	**(12)**	63	105
Net finance cost	**2,957**	3,765	2,154
Loss (gain) from revaluation of derivatives	**(3,743)**	3,350	(2,989)
Income (loss) from investees	**107**	(476)	244
Changes in capital reserve in respect of transactions with shareholders	**33**	11	-
Share-based payment	**1,325**	305	236
Changes in:			
Trade receivables	**(284)**	436	(20)
Other receivables	**(3)**	(178)	6
Current balances with investees	**(2,458)**	(3,647)	(4,336)
Inventories	**(340)**	579	(220)
Trade payables	**393**	(174)	62
Other long-term accounts payable	**(328)**	723	(45)
Decrease in employee benefits	**(19)**	(12)	(57)
Provisions	**26**	(68)	(197)
Accounts payable and accrued expenses	**365**	426	(70)
Income tax expenses (tax credit)	**88**	(87)	(27)
Interest received	**40**	104	56
Interest paid	**(2,247)**	(1,735)	(1,240)
Net cash provided by operating activities in respect of transactions with investee	**2,072**	3,556	3,697
Net cash used in operating activities	**(7,148)**	(9,219)	(5,561)
Cash flow from investing activities			
Purchase of available-for-sale securities	**(2,897)**	(6,602)	-
Proceeds from writing options	**(134)**	10	-
Proceeds from sale of available-for-sale securities	**-**	-	2,294
Investment in deposits and pledged deposits	**-**	(2,504)	(620)
Proceeds from deposits and pledged deposits	**57**	2,790	710
Purchase of fixed assets and intangible assets	**(160)**	(86)	(84)
Proceeds from settlement of derivatives	**-**	190	-
Development costs recognized as intangible assets	**-**	-	(28)
Net cash provided by (used in) investing activities	**(3,134)**	(6,202)	2,272
Cash flow for financing operations			
Proceeds from issuance of share capital	**12,031**	4,282	-
Proceeds from issuance of warrants	**-**	9,143	-
Repayment of notes	**(5,156)**	(4,856)	(6,507)
Loans received from shareholders	**-**	-	1,757
Proceeds from issuance of convertible notes, net	**-**	10,784	-
Issuance expenses	**(250)**	(102)	-
Repayment of shareholders' loans	**-**	(3,620)	-
Proceeds from exercise of stock options	**305**	401	141
Net cash provided by (used in) financing activities	**6,930**	16,032	(4,609)
Net increase (decrease) in cash and cash equivalents	**(1,280)**	4,167	(4,201)
Cash and cash equivalents at beginning of year	**10,677**	5,851	9,910
Effect of exchange rate fluctuations on balances of cash and cash-equivalents	**(865)**	659	142
Cash and cash equivalent at end of year	**8,532**	10,677	5,851

The accompanying notes are an integral part of these condensed financial data.

NOTE 1 - GENERAL

The following financial information derived from the Group's consolidated financial statements as of December 31, 2014 (the "**consolidated financial statements**") are published as part of the periodic reports relating to the Company solo (the "**separate financial information**"), presented in conformity with Regulation 9c (the "**Regulation**") and Addendum X to the Securities Regulations (Periodic and Immediate Reports), 1970 ("**Addendum X**") with regard to separate financial information of the corporation.

The separate financial information should be read in conjunction with the consolidated financial statements.

In this separate financial information -

(1) The Company - Itamar Medical Ltd.

(2) Subsidiary - As defined in the consolidated financial statements

(3) The Group - As defined in the consolidated financial statements

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES APPLIED TO THE SEPARATE FINANCIAL INFORMATION

The accounting policies listed in the consolidated financial statements were consistently applied to all years presented by the Company in the separate financial information, including classification of financial data in the consolidated financial statements, with required changes due to the following:

a. Presentation of the financial information

(1) Statement of financial position data

This data includes information about amounts of assets and liabilities included on the consolidated financial statements and attributed to the Company solo (excluding with respect to subsidiaries), with details by type of asset / liability. This data also includes information about the net amount, based on the consolidated financial statements, attributed to equity holders of the Company, for total assets, net of total liabilities with respect to subsidiaries, including goodwill.

(2) Statement of operations data

This data includes information about amounts of revenues and expenses included in the consolidated financial statements, for net income or loss and for other comprehensive income or loss, attributed to the Company solo (excluding with respect to subsidiaries), with details by type of revenues / expenses. This data also includes information about the net amount, based on the consolidated financial statements, attributed to equity holders of the Company solo, for total revenues net of total expenses with respect to operating results of subsidiaries.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES APPLIED TO THE SEPARATE FINANCIAL INFORMATION (CONTINUED)

(3) Statement of cash flow data

This data includes details of cash flow amounts included in the consolidated financial statements attributed to the Company solo (excluding with respect to subsidiaries), taken from the consolidated statement of cash flow, with composition for cash flows from operating activities, investing activities and financing activities. The cash flows from operating activities, investing activities and financing activities with respect to transactions with subsidiaries are presented separately on net basis, under the relevant operations based on the nature of the transaction.

b. Transactions between the Company and its subsidiaries

(1) Presentation

Intercompany balances as well as revenues and expenses arising from intercompany transactions, which were reversed in preparing the consolidated financial statements, are presented separately from the balance with respect to subsidiaries and income with respect to subsidiaries, together with similar balances with third parties.

(2) Measurement

Transactions between the Company and its subsidiaries were measured in conformity with recognition and measurement principles set forth in International Financial Reporting Standards ("**IFRS**"), which stipulate the accounting treatment of such transactions conducted with third parties.

NOTE 3 – FINANCIAL INSTRUMENTS

a. Loans and borrowings

This section provides information about contractual conditions of the Company's interest-bearing borrowings measured at depreciated cost.

Information about interest and linkage basis:

			As of December 31			
			2014		2013	
	Currency	Coupon Interest rate	Par value	Carrying amount	Par value	Carrying amount
		%	U.S. dollars in thousands			
Debentures (Series A) convertible into shares	NIS, CPI-linked	7.50%	-	-	7,235	7,423
Debentures (Series L) convertible into shares	NIS, non-linked	8.65%	**19,608**	**22,667**	21,969	26,403

NOTE 3 – FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk

Below is analysis of contractual maturities of financial liabilities including estimated interest payments:

	As of December 31, 2014						
	Carrying amount	**Contractual cash flow**	**Up to 6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**Over 5 Years**
	U.S. dollars in thousands						
Financial liabilities other than derivatives							
Loan from shareholders	**1,634**	**2,317**	**93**	**91**	**184**	**1,949**	**-**
Notes convertible into shares (including current maturities)	**12,929**	**24,696**	**848**	**848**	**1,696**	**21,304**	**-**
Trade payables	**972**	**972**	**972**	**-**	**-**	**-**	**-**
Other long-term accounts payable*	**822**	**1,252**	**-**	**-**	**330**	**986**	**-**
Provisions	**106**	**106**	**106**	**-**	**-**	**-**	**-**
Other accounts payable**	**2,482**	**2,482**	**2,119**	**363**	**-**	**-**	**-**
Total	**18,945**	**31,825**	**4,138**	**1,302**	**2,210**	**24,239**	**-**

* The composition of liabilities to the Office of the Chief Scientist in the Ministry of Economy is based on expected future sales of the product developed with grants from the Chief Scientist and the composition of liabilities with respect to the settlement agreement is based on the payment schedule set forth in the agreement.

** Includes the following items: accrued expenses, shareholders and other accounts payable

NOTE 3 – FINANCIAL INSTRUMENTS (CONTINUED)

	As of December 31, 2013						
	Carrying amount	**Contractual cash flow**	**Up to 6 months**	**6-12 months**	**1-2 Years**	**2-5 Years**	**Over 5 Years**
	U.S. dollars in thousands						
Financial liabilities other than derivatives							
Notes convertible into shares (including current maturities)	20,796	37,082	8,462	950	23,869	3,326	475
Trade payables	632	632	632	-	-	-	-
Other long-term accounts payable*	1,150	1,497	-	-	297	969	231
Other accounts payable**	2,176	2,176	1,940	236	-	-	-
Total	24,754	41,387	11,034	1,186	24,166	4,295	706

* The composition of liabilities to the Office of the Chief Scientist in the Ministry of Economy is based on expected future sales of the product developed with grants from the Chief Scientist and the composition of liabilities with respect to the settlement agreement is based on the payment schedule set forth in the agreement.

** Includes the following items: accrued expenses, shareholders and other accounts payable

NOTE 3 – FINANCIAL INSTRUMENTS (CONTINUED)

b. CPI and currency risk

Exposure to CPI and foreign currency risk

Group exposure to CPI and foreign currency risk, based on par value, is as follows:

	As of December 31, 2014				
		Foreign currency			
	U.S. dollars	NIS, non-linked	NIS, CPI-linked	Euro	Total
	U.S. dollars in thousands				
Assets					
Cash and cash equivalents	**4,389**	**3,429**	**-**	**714**	**8,532**
Securities available-for-sale	**-**	**8,919**	**-**	**-**	**8,919**
Trade receivables	**424**	**49**	**-**	**650**	**1,123**
Other accounts receivable	**135**	**5**	**-**	**5**	**145**
Long-term pledged deposit	**-**	**131**	**-**	**-**	**131**
	4,948	**12,533**	**-**	**1,369**	**18,850**
Liabilities					
Trade payables	**351**	**614**	**-**	**7**	**972**
Other accounts payable	**1,075**	**1,389**	**-**	**67**	**2,531**
Financial derivatives	**-**	**-**	**-**	**-**	**-**
Convertible notes, including current maturities	**-**	**12,929**	**-**	**-**	**12,929**
Other long-term accounts payable	**822**	**-**	**-**	**-**	**822**
	2,248	**14,932**	**-**	**74**	**17,254**

NOTE 3 – FINANCIAL INSTRUMENTS (CONTINUED)

f. CPI and currency risk (continued)

	As of December 31, 2013				
		Foreign currency			
	U.S. dollars	NIS, non-linked	NIS, CPI-linked	Euro	Total
	U.S. dollars in thousands				
Assets					
Cash and cash equivalents	1,998	8,385	-	294	10,677
Securities available-for-sale	-	6,931	-	-	6,931
Trade receivables	209	176	-	442	827
Other accounts receivable	108	91	-	7	206
Long-term pledged deposit	-	203	-	-	203
	2,315	15,786	-	743	18,844
Liabilities					
Trade payables	278	354	-	-	632
Other accounts payable	869	1,061	212	34	2,176
Financial derivatives	-	8	-	-	8
Convertible notes, including current maturities	-	12,740	7,198	-	19,938
Other long-term accounts payable	1,150	-	-	-	1,150
	2,297	14,163	7,410	34	23,904

NOTE 4 - ADDITIONAL MATERIAL INFORMATION REQUIRED FOR UNDERSTANDING THE SEPARATE FINANCIAL INFORMATION

Private placement with institutional investors

For information about private placement of Company shares with institutional investors in December 2013, January 2014 and May 2014, see Note 16 to the consolidated financial statements.

Credit facility from Shareholders

For information about Credit line facility from Company's shareholders see Notes 27 and 28 to the consolidated financial statements.

ITAMAR MEDICAL LTD.

PART D

ADDITIONAL INFORMATION REGARDING THE CORPORATION

AS OF DECEMBER 31, 2014

Regulation 25a – Additional Information Regarding the Corporation

Company name	-	**Itamar Medical Ltd.**
Company ID	-	**512434218**
Address of record	-	**9 Halamish Street, Caesarea 3088900**
Email address	-	**info@itamar-medical.com**
Telephone	-	**04-6177000**
Fax	-	**04-6275598**
Date of statement of financial position	-	**December 31, 2014**
Report date	-	**March 23, 2015**

1. Regulation 8b – Very significant valuation

A very significant valuation made in the reported period, with regard to valuation of the warrant component of convertible Series L Notes, is enclosed as appendix to the financial statements enclosed as Part C of this Annual Report.

2. Regulation 9d – Liabilities by maturity

The Company issues a report of its obligations as a separate immediate report, soon after publication of this periodic report.

3. Regulation 10a – Condensed quarterly statements of operations

The following table includes the Company's condensed statements of operations for the four quarters of 2014 (U.S. dollars ("**dollars**") in thousands).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	3,620	4,085	4,206	4,476	16,387
Cost of revenues	(1,071)	(1,340)	(1,208)	(1,179)	(4,798)
Gross profit	**2,549**	**2,745**	**2,998**	**3,297**	**11,589**
Selling and marketing expenses	1,888	2,081	1,951	2,516	8,436
Research and development expenses	429	540	552	496	2,017
General and administrative expenses	1,267	1,109	1,163	1,206	4,745
Operating loss	**(1,035)**	**(985)**	**(668)**	**(921)**	**(3,609)**
Financial income (expenses)	124	41	(498)	(135)	(468)
Financial expenses	(1,121)	(1,117)	(26)	(553)	(2,817)
Gain (loss) from change in fair value of derivatives instruments, net	(4,610)	1,979	7,365	(991)	3,743
Financial income (expenses), net	**(5,607)**	**903**	**6,841**	**(1,679)**	**458**
Pre-tax income (loss)	(6,642)	(82)	6,173	(2,600)	(3,151)
Taxes on income	(30)	14	(201)	93	(124)
Income (loss) for the period	**(6,672)**	**(68)**	**5,972**	**(2,**507**)**	**(**3,275**)**
Remeasurement of defined benefit plan, net of tax	-	-	-	21	21
Currency translation differences	49	(9)	6	-	46
Net changes in fair value of marketable securities available-for-sale, net of tax classified to statement of operations	(13)	96	(436)	(343)	(696)
Comprehensive income (loss) for the period	**(6,636)**	**19**	**5,542**	**(2,829)**	**(3,904)**

4. Regulation 10c – Use of proceeds from securities that were offered in the Prospectus recently published

In February 2013, the Company issued a revised shelf prospectus for issuance of shares, notes, option warrants and commercial securities (the "**Shelf Prospectus**""). On February 27, 2013, the Company issued a first shelf offering report pursuant to the shelf prospectus (the "**Shelf Offering Report**"), whereby it issued to the public NIS 62,556,000 par value Series L Notes convertible into the Company's ordinary shares (In this Section: the "**Notes**") for total gross consideration (before issuance expenses) of NIS 61,881 thousand (the "**issuance proceeds**"). It should be noted that in addition to the public issuance, the Company issued on March 12, 2013 an additional NIS 13,700,000 par value Series L Notes, convertible into the Company's ordinary shares, by way of a non-material private placement with three investors, for total consideration of NIS 13,494 thousand. For more information see Section 3 of Part A of this Annual Report "Investments in corporate capital and transactions in corporate shares".

In accordance with the Shelf Offering Report, the proceeds from the offering would serve the Company as follows: (i) for its current business operations, including: recruiting and supporting new partners/distributors, expanding sales infrastructure, marketing operations, penetrating new geographies and market segments, developing new indications for existing products, in line with decisions by Company management to be made from time to time; and (ii) out of total issuance proceeds, $3.6 million received from four of the Company's shareholders: Medtronic International Technology, Inc. ("**Medtronic**"), Dr. Giora Yaron, Mr. Martin Grestel and Caremi Partners Ltd. ("**Caremi**") would serve the Company for early repayment of the private loan provided by these four shareholders to the Company prior to issuance of notes (the "**private loan**")[1].

Actual use of the issuance proceeds is in conformity with the designation set forth in the Shelf Offering Report; for this matter, see also Section 31 in Part A of this Annual Report - on the Company's strategic plan and focus on the US market.

[1] According to terms of the private loan agreement, the Company may effect prepayment of the private loan. For information regarding the private loan and repayment thereof by way of the proceeds of the issuance of the (Series L) Notes, see Section 24.3 of Part A of this Annual Report.

5. Regulation 11 - List of investments in subsidiaries and associated companies

The following table lists information about material holdings of the Company in subsidiaries and associated companies:

Name of subsidiary	Country of incorporation	Authorized share capital	Issued share capital	Company holding share in capital, voting rights and right to appoint directors	Par value of shares held by the Company	Carrying amount on the Company's solo financial statements in thousands of dollars	Inter-company balance in thousands of dollars
Itamar Medical Inc.	U.S.	$200, consisting of 20,000 ordinary shares of $0.01 par value each	10,000 ordinary shares	100%	$100	148	1,923
Itamar Medical Japan Kabushiki Kaisha	Japan	JPY 1,000,000, consisting of 100 ordinary shares of JPY 10,000 par value each	100 ordinary shares	100%	JPY 1,000,000	(108)	870

Balances of the subsidiaries in the U.S. and in Japan are primarily due to inter-company sales (including transfer pricing) and payments made by the Company to suppliers of these subsidiaries.

The carrying amount of investment in the U.S. subsidiary in the Company's financial statements as of December 31, 2014 amounted to $148 thousand.

The provision for loss of the Japanese subsidiary in the Company's financial statements as of December 31, 2014 amounted to $108 thousand.

6. Regulation 12 - Changes in investments in the subsidiaries and associated companies

No material change in the Company's investments in the U.S. and Japanese subsidiaries occurred during the reported year.

7. Regulation 13 – income (loss) of subsidiaries and associated companies and revenues therefrom

Below is information about income/loss of each subsidiary in the reported year, adjusted for the date of the statement of financial position; other information included: dividends, management fee and interest paid by subsidiaries/associated companies to the Company in the reported year (dollars in thousands):

Name of subsidiary	Income (loss)		Income (loss) for 2014	Dividends distributed to the Company in 2014	Interest paid to the Company in 2014	Management fee paid to the Company in 2014
	Before the 2014 tax year	After the 2014 tax year				
Itamar Medical Inc.	164	127	127	-	-	-
Itamar Medical Japan Co. Ltd.	(34)	(34)	(34)	-	-	-

In the reported year and thereafter, the Company received no dividends, management fee or interest from subsidiaries with respect to the reported period - and is not eligible to receive any such payment.

8. Regulation 20 - Trading on stock exchange

In 2014, the Company listed for trading on the Tel Aviv Stock Exchange Ltd. ("**TASE**"):

8.1. 1,828,000 ordinary shares of NIS 0.01 par value of the Company, following exercise of 1,828,000 options granted to employees, officers and consultants.

8.2. 385 ordinary shares of NIS 0.01 par value of the Company, following a conversion of NIS 740 par value of Series L Notes, convertible into shares.

8.3. In January 2014, 13,703,703 ordinary shares were listed for trading on the TASE following a private placement of the Company shares with HaPhoenix Investments and Finance Ltd and HaPhoenix Insurance Company Ltd. (nostro account- elementary).

8.4. In May 2014, 13,111,111 ordinary shares were listed for trading on the TASE following a private placement of the Company's shares to Yellin Lapidot Investments Ltd and Migdal Insurance Company Ltd.

During 2014 there were no suspensions in trading in the Company's securities.

9. Regulation 21 – Compensation of interested parties and senior officers

9.1. Compensation provided in the reported year to each of the top five compensated senior officers of the Company or its subsidiary, provided in conjunction with their office with the Company or its subsidiary, whether provided by the Company or by another party; also compensation provided in the reported year to each of the top three compensated senior officers of the Company, provided in conjunction with their office with the Company, if not included in the former group.

					Compensation for services rendered (NIS in thousands)[1]							Other compensation[1]			Total
Name	**Position**	**Office during the reported period**	**Full-time position equivalent**	**Holding share in corporation's capital[2]**	**Salary[3]**	**Bonus**	**Share-based payment[4]**	**Management fee**	**Consulting fee**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	
Gilad Glick (a)	**President and CEO**	Full year	100%	-	1,124	365	2,135	-	-	-	-	-	-	-	3,624
Eldad Singer (d)	**VP**	Full year	100%	-	388	60	159	-	-	670	-	-	-	-	1,277
Dr. Jacob Sheffi (c)	**Senior VP**	Full year	100%	-	692	-	395	-	-	-	-	-	-	-	1,087
Chris Hallett (d)	**VP of Subsidiary**	Full year	100%	-	415	-	154	-	-	486	-	-	-	-	1,055
Arnon Tuval (e)	**VP of Subsidiary**	Full year	100%	-	473	-	116	-	-	380	--	-	-	-	969

(1) Compensation amounts are in terms of cost to the Company.

(2) As of the publication date of this report.

(3) Annual salary includes social benefits, company car and expense reimbursement (in NIS, in terms of cost to the Company).

(4) The amount under "Share-based payment" reflects the expense recognized by the Company in 2014, in conformity with IFRS 2, with respect to grant of options. For information about terms and conditions of the Company's employee compensation plans, see section 20 of chapter "Description of Corporate Business" in Part A of this Annual Report.

(5) The Company does not include in this table any interest payments in respect of the Series A and Series L Notes that were repaid on February 10, 2014) held by officers (if any).

(a) <u>President and CEO - Gilad Glick</u>

Mr. Gilad Glick has been serving as the Company's President and CEO since July 1, 2013.

Through December 31, 2013, Mr. Gilad Glick was employed by the Company under an employment term whose highlights were described in the immediate reports issued by the Company on June 24, 2013 (reference number: 2013-01-071610) dated March 29, 2014 (reference number: 2014-01-028128), on August 14, 2014 (reference number: 2014-01-134136) and on August 31, 2014 (reference number: 2014-01-146286) (the "**employment agreement**").

On March 31, 2014, a service agreement entered into effect between Mr. Gilad Glick and the Company by which Gilad Glick will provide to the Company the services of the Company's President and CEO as an independent contractor (rather than as salaried employee) as from January 1, 2014 against tax invoices, in conformity with the service agreement entered with him (the "**service agreement**") .

The transition to the service agreement was made at Mr. Gilad Glick's request at no additional cost to the Company, compared to the cost of his employment agreement; the major change is that the cost to the Company of his monthly salary, social benefits and cost of car maintenance for Mr. Gilad Glick were grossed-up to the fixed amount payable monthly to Mr. Gilad Glick in conformity with the service agreement. In addition, following the approval of the Company's budget for 2014, it was decided, according to section 272(d) of the Companies Law, that the targets used to determine Mr. Gilad Glick's entitlement to a bonus and the vesting of options in respect of 2014 would be adjusted to those that had been set for the purpose of the vesting of the performance options to the Company's employees, according to the outline published on March 2, 2014.

Below is a summary of the service agreement highlights:

1. The monthly amount payable to Mr. Gilad Glick for his services as the Company's President and CEO is $28,606 plus VAT. Mr. Gilad Glick is not entitled to any retirement insurance, disability insurance and study fund contributions. Mr. Gilad Glick is entitled to payment for absence due to vacation of up to 20 days per year as well as for absence due to sickness of up to 18 days per year.

2. According to the service agreement, either party may terminate the service agreement at any time, subject to advance written notice of 120 days, or immediately under circumstances set forth in the agreement.

3. Mr. Gilad Glick may choose between a company car, in conformity with the Company's policy, or payment by the Company equal to the cost to the Company of such company car (the estimated cost is approximately $1,800 a month). It should be noted that the aforementioned amount includes payment in lieu of a vehicle so that Mr. Gilad Glick, according to such alternative, is not entitled to a company car.

4. Mr. Gilad Glick is entitled to a cell phone, laptop computer and expense reimbursement in conformity with the Company's procedures.

5. Mr. Gilad Glick is also entitled to an annual cash bonus of up to $187,500 for each year from 2014 through 2017, subject to the Company achieving sales revenue targets. In respect of 2014, the Company's CEO will receive a bonus in the sum of $93,750 since the minimum target of the Company's sales revenue was achieved in respect of that year.[2]

Since his employment start date through the date of this report, Mr. Gilad Glick was granted, in conformity with terms of his employment terms and in accordance with the Company's stock option plan for employees, consultants and service providers, 7,524,181 options, some of which vest over time and some are based on achievement of sales targets, exercisable into 7,524,181 ordinary shares, as follows:

Grant date	No. of options	Type of option	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
August 12, 2013	7,524,181	Performance options	NIS 1.56	5,300,000	220,833[3]	NIS 5,097,028
August 12, 2013	2,000,000	Service options	NIS 1.71	2,000,000	833,333	NIS 1,757,401
August 12, 2013	224,181	Service options	NIS 0.10	224,181	186,817	NIS 326,990

(b) VP Sales - Mr. Eldad Singer

Mr. Eldad Singer has been employed by the Company as VP sales since February 9, 2011. According to his employment agreement, his employment will be terminated one month after either party giving written notice to the other party of their wish to terminate the agreement, or immediately under circumstances set forth in the agreement.

The salary component includes all of the following: base monthly salary of NIS 30,000 (updated in line with national pay increase agreements)[4], study fund, managers' insurance, disability insurance, annual vacation, cell phone, company car and expense reimbursement in conformity with the Company's procedures.

In addition to the aforementioned base salary, Mr. Eldad Singer is eligible to receive sales commissions. The sales commissions with respect to 2014 were determined as follows: the commission rate for the Company's sales, net of sales to pharmaceutical companies, ranges between 0% for sales of up to $2.9 million per calendar year and 7% for sales of up to $8 million per calendar year (the average commission rate in case of achievement of the annual sales target is 2.35%). The following sales commissions were actually paid to Mr. Eldad Singer over the past three years:

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[2] The bonus to the CEO in respect of 2014 was increased by 50% since 'he started his employment in the Company in the middle of 2013 and it was decided that a bonus in respect of half a year in 2013 would be granted in accordance with the performance in 2014.

[3] Vesting of the initial portion of performance options (in respect of 2014) is after the minimum target of Company sales was achieved in respect of 2014.

[4] As of the report date, the base salary amounts to NIS 31,200.

Year	Sales actually collected (dollars in millions)	Commissions (dollars in thousands)
2012	5.0	76
2013	4.7	62
2014	5.6	46

Since his employment start date through the date of this report, Mr. Eldad Singer was granted, in conformity with terms of his employment terms and in accordance with the Company's stock option plan for employees, consultants and service providers, 700,000 options exercisable into 700,000 Company ordinary shares, as follows:

Grant date	No. of options	Class of options	Exercise price per option	Options held as of the report date	Of which: options vested as of the report date	Fair value
March 25, 2009	22,400	Service options	NIS 0.23	22,400	22,400	NIS 6,346
March 26, 2009	27,600	Service options	NIS 0.48	27,600	27,600	NIS 7,119
January 26, 2010	50,000	Service options	NIS 2.19	50,000	50,000	NIS 51,279
April 13, 2011	300,000	Service options	NIS 1.98	300,000	300,000	NIS 334,438
December 24, 2013	85,500	Service options	NIS 1.73	85,500	26,719	NIS 138,274
December 24, 2013	214,500	Performance options	NIS 1.57	214,500	14,658	NIS 300,805

(c)

(d) Chief Technology Officer - Dr. Jacob Sheffy

Dr. Jacob Sheffy has been employed by the Company as Chief Technology Officer since January 1, 1997. According to his employment agreement, his employment will be terminated one month after either party giving written notice to the other party of their wish to terminate the agreement

The salary component includes all of the following: base monthly salary of NIS 46,791 (updated in line with national pay increase agreements)[5], study fund, managers' insurance, annual vacation, company car, cell phone and expense reimbursement in accordance with the Company's procedures.

Since his employment start date through the date of this report, Dr. Jacob Sheffy was granted, in conformity with terms of his employment terms and in accordance with the Company's stock option plan for employees, consultants and service providers, 2,740,800 options exercisable into 2,740,800 Company ordinary shares, as follows:

[5] As of the report date, the base salary amounts to NIS 49,598.

Grant date	No. of options	Class of options	Exercise price per option	Options held as of the report date	Of which: options vested as of the report date	Fair value
April 9, 1997	100,000	Service options	NIS 0.01	-	-	NIS 2,399
January 4, 2000	18,000	Service options	NIS 0.01	-	-	NIS 34,254
January 1, 2001	20,000	Service options	NIS 0.01	-	-	NIS 37,177
December 9, 2003	250,000	Service options	NIS 0.23	-	-	NIS 172,621
December 19, 2005	400,000	Service options	NIS 0.23	400,000	400,000	NIS 63,491
May 1, 2007	300,000	Service options	NIS 0.23	300,000	300,000	NIS 224,417
March 25, 2009	652,800	Service options	NIS 0.23	652,800	652,800	NIS 81,645
December 24, 2013	285,000	Service options	NIS 1.73	285,000	89,063	NIS 1,002,683
December 24, 2013	715,000	Performance options	NIS 1.57	715,000	23,171	NIS 1.—2.683

(e) VP Sales of the U.S. Subsidiary - Mr. Chris Hallett

Mr. Chris Hallett has been employed as VP Sales of the U.S. Subsidiary since October 1, 2013. Each of the parties may give notice of the termination of the engagement immediately, without reason or cause.

According to the agreement with him, Mr. Chris Hallett is entitled to compensation as set out below: base monthly salary of $8,750[6], medical and dental insurance, annual vacation, cell phone, company car (including financing of the car expenses) and expense reimbursement in conformity with the Company's procedures. In addition, on the date of the commencement of Mr. Hallett's employment, the Company paid Mr. Hallett a one-time advance in the sum of $37,500 on account of the compensation due to Mr. Hallett, which will be returned to the Company on the last working day or on such other date as the Company shall exclusively determine.

In addition, bonuses were paid to Mr. Chris Hallett in respect of sales in the last two years, as follows:

Year	Actual Sales (dollars in millions)	Bonus (dollars in thousands')
2013*		28
2014	8.2	141

* Assured commission.

[6] As of the report date, the base salary amounts to $ 9,188.

Since his employment start date through the date of this report, Mr. Chris Hallett was granted, in conformity with terms of his employment terms and in accordance with the Company's stock option plan for employees, consultants and service providers, 400,000 options exercisable into 400,000 Company ordinary shares, as follows:

Grant date	No. of options	Class of options	Exercise price per option	Options held as of the report date	Of which: options vested as of the report date	Fair value
December 24, 2013	114,000	Service Options	NIS 1.73	114,000	35,625	NIS 184,365
December 24, 2013	286,000	Performance Options	NIS 1.68	286,000	7,150	NIS 401,073

(f) VP Operations of the U.S. Subsidiary – Mr. Arnon Tuval

Mr. Arnon Tuval has been employed as VP Operations of the U.S. Subsidiary since July 28, 2013. Each of the parties may give notice of the termination of the engagement immediately, without reason or cause.

According to the agreement with him, Mr. Tuval is entitled to the compensation set out below: base monthly salary of $10,000[7], medical and dental insurance, annual vacation, cell phone, company car (including financing the car expenses) and expense reimbursement in conformity with the Company's procedures.

In addition to the base salary detailed above, Mr. Arnon Tuval is entitled to sales commissions. The sales commissions in respect of 2014 was set as follows: The sales commissions on the Company's sales to a material customer of the Company is progressive and fluctuates between 0% for sales of up to $1.1 million per calendar year and 4.55% for sales of up to $2.2 million per calendar year and at the rate of 9% for sales exceeding $2.2 million (the average commission rate to the extent he meets the annual sales target, aggregates 2.28%), and in addition, Mr. Arnon Tuval is entitled to bonuses for complying with additional sale targets as well as in respect of operational targets. Actually, bonuses for sale and operational targets in the last two years were paid to Mr. Arnon Tuval, as follows:

Year	Actual Sales (dollars in millions)	Bonus (dollars in thousands)‘
2013*		33
2014	2.5	121

* Assured commission.
** Sales to a material customer.

[7] As of the report date, the base salary amounts to US$ 10,500.

Since his employment start date through the date of this report, Mr. Chris Hallett was granted, in conformity with terms of his employment terms and in accordance with the Company's stock option plan for employees, consultants and service providers, 400,000 options exercisable into 300,000 Company ordinary shares, as follows:

Grant date	No. of options	Class of options	Exercise price per option	Options held as of the report date	Of which: options vested as of the report date	Fair value
December 24, 2013	85,500	Service Options	NIS 1.73	85,500	26,719	NIS 138,274
December 24, 2013	214,500	Performance Options	NIS 1.68	214,500	5,363	NIS 300,805

(g) Vesting conditions and expiration dates of options warrants

Unless otherwise expressly stipulated in the aforementioned description, the vesting and exercise terms of options granted to the aforementioned officers are as follows:

Grants other than grants dated December 24, 2013:

One quarter of option warrants granted to the grantee shall vest upon the first anniversary of the grant date. The remaining three quarters of options granted shall vest monthly, at the end of each calendar month, over 36 calendar months following the first anniversary of the grant date. Options granted in or after the second grant, would vest in 48 equal monthly lots at the end of each calendar month after the grant date.

Grants dated December 24, 2013:

For options granted by approval of the Company's Board of Directors dated December 24, 2013: 30% would vest over time as described above, and 70% would vest based on achievement of targets (at Company and department levels) and based on evaluation by the CEO in each year from 2014 through 2017 (the "**relevant years**").

Threshold conditions - options which vest based on target achievement are subject to two cumulative threshold conditions to be approved in advance, in each calendar year for the subsequent year: minimum annual growth rate of Company revenues and minimum operating income/loss. If both threshold conditions are fulfilled, the options would vest as follows:

Company-level targets (40% of all performance options, 10% per year) - for each relevant year, three growth targets would be set for the Company's revenues, which would govern eligibility for up to 10%: minimum target (eligibility for 3.33%), intermediate target (eligibility for 6.66%) and maximum eligibility target (eligibility for 10%). Options not vested in any relevant year may vest in subsequent relevant years if in said relevant year, both the revenue target for that year and the cumulative revenue target for that year and preceding year(s) are achieved (the sales target for the relevant year shall not be lower than the revenue target for previous relevant years). Since company-wide targets are based on revenue growth over the previous year, the previous years' data is irrelevant for determining the number of options vested in the relevant year.

Department-level targets (40% of all performance option warrants, 10% per year) - for each relevant year, multiple department-level targets would be set, reflecting the department's targets from the point of view of the Company Board of Directors. These targets comprise of monetary targets, quantitative targets and event-dependent targets. Each target would be assigned a weighting as percentage of total options allocated to department-level targets and the degree of achievement: minimum, intermediate and maximum - for eligibility for 3.33%, 6.66% and 10% of performance option warrants.

Individual targets (20% of all performance option warrants, 5% per year) - for each relevant year, an evaluation by the CEO would determine eligibility for up to 5% of performance options.

Of all performance options thus vested, 50% would vest immediately and 50% would vest one year later.

For more information, see option outline issued by the Company on March 2, 2014 (reference number: 2014-01-003498).

After the tenth anniversary of the grant date, all unexercised options shall expire and shall not confer on the grantee any right whatsoever.

On August 6, 2014, the Company's Board of Directors approved the adjustment of the performance options for the years 2015 to 2017 (no change having occurred in the vesting terms for 2014), in a manner whereby the same will vest only subject to compliance with the revenue targets (so that the revenue targets changed from 40% to 100% in respect of the years 2015, 2016 and 2017), provided that the threshold conditions will have been achieved. Options that were granted after that date were also granted with revenue targets only. For further details, see immediate reports issued by the Company on August 14, 2014 and on August 31, 2014 (reference numbers: 2014-01-134136 and 2014-01-146286, respectively).

9.2. Below is information concerning compensation provided by the Company or an entity controlled there by to any interested party in the Company, other than those listed in section 9.1 above, with respect to the reported year for services rendered as officer of the Company or an entity controlled there by, whether or not employed and even if such interested party is a senior officer:

As of the report date, the Company Board of Directors consists of seven directors (including two external directors) eligible for compensation as follows: (i) the Company is party to Consulting Agreements with two directors, Dr. Giora Yaron and Mr. Martin Grestel as described below; (ii0 the two external directors and another director (Mr. Ilan Biran) receive compensation equal to the maximum compensation allowed to expert external director by Regulations 4, 5 and 7 of the Corporate Regulations (Rules for Compensation and Expense Reimbursement for External Directors), 2000 ("**External Directors Compensation Regulations**"); (c) another director (Dr. Samuel Morry Blumenfeld) receives compensation equal to the maximum compensation by Regulations 4,5,7 of the External Directors Compensation Regulations; and (d) another director, Mr. Garry Ellis, is not compensated by the Company.

Total compensation paid to all directors with respect to 2014 amounted to NIS 648 thousand in terms of cost to the Company. The table below provides details of compensation paid to directors:

Below are details of compensation to directors in the reported year, which is not in conformity with the maximum amount pursuant to the External Directors Compensation Regulations:

Compensated party				Compensation for services rendered (NIS in thousands)[1]							Other compensation (NIS in thousands)[1]			
Name	Position	Scope of position	Holding share in corporation's capital[4]	Payroll	Bonus	Share-based payment[2]	Management fee	Consulting fee	Commission	Other	Interest[3]	Rent	Other	Total
Dr. Giora Yaron (a)	**Co-Chairman of the Board of Directors**	-	14.05%	-	-	205	-	171	-	-	119	-	-	495
Mr. Martin Grestel (b)	**Co-Chairman of the Board of Directors**	-	7.45%	-	-	-	-	34	-	-	94	-	-	128
Dr. Samuel Morry Blumenfeld (c)	**Director**	-	0.00%	-	-	18	-	-	-	-	-	-	-	18
Ms. Miri Katz (d)	**External Director**	-	0.00%	-	-	79	-	-	-	-	-	-	-	79
Ms. Regina Ungar (e)	**External Director**	-	0.00%	-	-	116	-	-	-	-	-	-	-	116
Mr. Ilan Biran (f)	**Director**	-	0.00%	-	-	213	-	-	-	-	-	-	-	213
Medtronic International Technology, Inc.	**Controlling shareholder**	-	19.93%	-	-	-	-	-	-	-	137	-	-	137

(1) Compensation amounts are in terms of cost to the Company.
(2) The amount under "Share-based payment" reflects the expense recognized by the Company in its financial statements as of December 31, 2014, in conformity with IFRS 2, with respect to grant of options.
(3) The Company only lists in this table interest payments with respect to a credit facility provided to the Company by its four major shareholders, as set forth in section 24.4 of Part A of this Annual Report (this table does not include any interest payments with respect to Series A notes (redeemed on February 10, 2014) and in respect of Series L Notes held by directors and interested parties).
(4) As of the publication date of this report.

(a) Co-chairman of the Board of Directors - Dr. Giora Yaron

Dr. Giora Yaron provides consulting services to the Company (In this Section: the "**Consulting Services**") pursuant to an agreement dated May 14, 2001, as amended (In this Section: the "**Consulting Agreement**") between the Company and Itamar Technologies and Investments (1994) Ltd. ("**Itamar Technologies**"), a company controlled by Dr. Giora Yaron. The Consulting Services rendered by Dr. Giora Yaron include: services as Co-chairman of the Board of Directors and business-related Consulting Services, including fund-raising activities for financing of the Company's operations, with a scope of at least two days per week.

On October 7, 2014, the general meeting of the Company's shareholders approved extension of the Consulting Agreement by a further three years, i.e. through October 23, 2017, unless either party should announce their wish to terminate the agreement subject to 30 days' advance notice. The agreement would terminate in any case where Consulting Services may not be provided by Dr. Giora Yaron for any of the causes listed in the agreement. In such case, Itamar Technologies would nominate to the Company a candidate for providing the services; should the nominee be accepted by the Company, the agreement would continue under the same terms and conditions.

The monthly consideration payable for the services pursuant to the Consulting Agreement amounts to $6,250. In addition, the Company reimburses Dr. Giora Yaron for any reasonable expenses incurred in conjunction with promoting the Company's business subject to the Company's policy on expense reimbursement in Israel and overseas. As part of the Consulting Agreement, Itamar Technologies and Dr. Giora Yaron committed to maintain confidentiality and to not compete with the Company for the term of the agreement and a further two years thereafter.

As part of the update to the Company's strategic plan for the coming years and the decision to downsize the number of the Company's employees, Dr. Giora Yaron announced his voluntary decision to reduce by 50% the consideration payable to him for his office as Co-Chairman, for a period of one year. The aforementioned reduction became effective on October 1, 2013 and was ended on September 30, 2014. It should be noted that no other changes were made to his terms of office and scope of work as Co-Chairman of the Board of Directors.

From the start date of providing Consulting Services to the Company through the date of this report, Dr. Giora Yaron was granted, in conformity with the Company's stock option plan for employees, consultants and service providers, 863,000 options exercisable into 863,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
December 19, 2005	200,000	$0.10	200,000	200,000	NIS 30,294
May 1, 2007	333,000	NIS 1.47	333,000	333,000	NIS 240,619
January 14, 2014	330,000	NIS 1.78	330,000	96,250	NIS 389,152

Dr. Giora Yaron is also eligible to receive interest payments with respect to the Company's Series A and Series L notes which he holds, in conformity with terms and conditions of these notes.

(b) Co-chairman of the Board of Directors - Mr. Martin Grestel

Mr. Martin Grestel provides Consulting Services to the Company (In this Section: the "**Consulting Services**") pursuant to an agreement between him and the Company, dated September 2005 (In this Section: the "**Consulting Agreement**"). The Consulting Services rendered by Mr. Martin Grestel include: services as Co-chairman of the Board of Directors and business-related Consulting Services, including fund-raising activities for financing of the Company's operations.

On October 7, 2014, the general meeting of the Company's shareholders approved extension of the Consulting Agreement by a further three years, i.e. through October 23, 2017, unless either party should announce their wish to terminate the agreement subject to 30 days' advance notice. The terms and conditions of this agreement are essentially similar to those of the Consulting Agreement with Dr. Giora Yaron, as listed in sub-section (g) above.

The monthly consideration payable for services pursuant to the Consulting Agreement amounted to $6,250 (for Consulting Services provided two days per week); this amount was reduced as part of streamlining measures previously adopted by the Company - and even after pay levels at the Company were restored, Mr. Martin Grestel informed the Company that he would continue to waive 80% of the consulting fee payable to him while concurrently reducing the scope of services provided by him - down to two days per month. Accordingly, the general meeting of the Company's shareholders approved, on October 24, 2011 and on October 7, 2014, entering into the contract with Mr. Martin Grestel for the scope of 1-2 days per month for monthly consideration amounting to $1,250.
As part of the update to the Company's strategic plan for coming years and the decision to reduce the Company's head count, Mr. Martin Grestel announced his voluntary decision to reduce by 50% the compensation payable to him for his office as Co-Chairman, for a period of one year. The aforementioned reduction became effective on October 1, 2013 and was ended on September 30, 2014. Note that no other changes were made to his terms of office and scope of work as Co-Chairman of the Board of Directors.

From the start date of providing Consulting Services to the Company through the date of this report, Mr. Martin Grestel was granted, in conformity with the Company's stock option plan for employees, consultants and service providers and in conjunction with his fees, 533,000 option warrants exercisable into 533,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
December 19, 2005	200,000	$0.10	200,000	200,000	NIS 30,294
May 1, 2007	333,000	NIS 1.47	333,000	333,000	NIS 240,619

Mr. Martin Grestel is also eligible to receive interest payments with respect to the Company's Series A and Series L Notes which he holds, in conformity with terms and conditions of these notes.

(c) Director- Dr. Samuel Morry Blumenfeld

Dr. Samuel Morry Blumenfeld has been serving as a director of the Company since 2010, for compensation equal to maximum compensation payable to external director as allowed by regulations 4, 5, and 7 of the External Directors Compensation Regulations. In addition, Dr. Samuel Morry Blumenfeld was granted, in conformity with the Company's stock option plan for employees, consultants and service providers, 330,000 options exercisable into 330,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
July 13, 2010	300,000	NIS 2.09	300,000	275,000	NIS 421,507
June 17, 2013	30,000	NIS 1.55	30,000	13,125	NIS 27,915

(d) External director - Ms. Miri Katz

Ms. Miri Katz has been serving the Company as external director since 2007, for compensation equal to maximum compensation payable to expert external director as allowed by regulations 4, 5 and 7 of the External Directors Compensation Regulations. In addition, Ms. Miri Katz was granted, in conformity with the Company's stock option plan for employees, consultants and service providers, 633,000 option warrants exercisable into 633,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
June 19, 2007	333,000	NIS 1.47	333,000	333,000	NIS 240,859
June 17, 2013	330,000	NIS 1.55	330,000	144,375	NIS 307,068

(e) External director - Ms. Regina Ungar

Ms. Regina Ungar has been serving the Company as external director since June 17, 2013, for compensation equal to maximum compensation payable to external directors as allowed by regulations 4, 5, and 7 of the External Directors Compensation Regulations. In addition, Ms. Regina Ungar was granted, in conformity with the Company's stock option plan for employees, consultants and service providers, 330,000 option warrants exercisable into 330,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
June 17, 2013	330,000	NIS 1.55	330,000	144,375	NIS 307,068

(f) Director - Mr. Ilan Biran

Mr. Ilan Biran has been serving the Company as director since January 14, 2014, for compensation equal to maximum compensation payable to external directors as allowed by regulations 4, 5, and 7 of the External Directors Compensation Regulations. In addition, Mr. Ilan Biran was granted, in conformity with the Company's stock option plan for employees, consultants and service providers, 330,000 options exercisable into 330,000 Company ordinary shares, as follows:

Grant date	No. of options	Exercise price per option warrant	Options held as of the report date	Of which: options vested as of the report date	Fair value
January 14, 2014	330,000	NIS 1.58	330,000	96,250	NIS 404,166

(g) Vesting conditions and expiration dates of option warrants

Unless otherwise expressly stipulated in the aforementioned description, the vesting and exercise terms of options granted to directors since the Company became a reporting public company are as follows: one quarter of options granted to the grantee shall vest upon the first anniversary of the grant date (the "**first portion**"). The remaining three quarters of options granted to the grantee shall vest in 36 equal monthly portions over the 36 months following the vesting date of the first portion. After the tenth anniversary of the grant date, all unexercised options shall expire and shall not confer on the grantee any right whatsoever.

9.3. Compensation provided to each of the top five compensated persons listed in Section 9.1 above, from the end of the reported year through the filing date of this report, in conjunction with their office and employment during the reported year, which was not recognized in the financial statements for the reported year:

All compensations provided to the top five compensated parties listed in Section 9.1 above after the reported year were recognized on the financial statements for the reported year.

9.4. Interest payments to interested parties of the Company

For information about credit facility and loans from interested parties of the Company, see Sections 11.1 below.

9.5. Waiver, indemnification and insurance

For details of waiver, indemnification and insurance arrangements for Company officers, see Section 21 below.

10. Regulation 21A - controlling shareholder of the corporation

As of March 23, 2014, and following an amendment to the Company's articles of association in a manner which provides that a majority of the directors in the Company will be external or independent, Medtronic International Technology, Inc. ("**Medtronic**" or the "**Controlling**

Shareholder") owns 19.93% of the Company's issued and outstanding share capital. Medtronic is considered, for reasons of caution, the sole Controlling Shareholder of the Company for all intents and purposes.

For further details, see Paragraph 6 of the immediate report convening the general meeting of the Company's shareholders, dated September 11, 2014 (reference number: 2014-01-155808)

For more information about holding shares of Medtronic, Dr. Giora Yaron and Mr. Martin Grestel in the Company's issued share capital and voting rights, see Section 17 below.

11. Regulation 22 – Transactions with the Controlling Shareholder or entity in which the Controlling Shareholder has a personal interest in approving

Below is information about transactions with Controlling Shareholders, to the best of the Company's knowledge:

11.1. Credit facility from interested parties dated 2011 and actual withdrawals made under this credit facility

For details of the credit facility agreement from interested parties (including the Controlling Shareholder of the Company) dated 2011 and actual withdrawals made under this credit facility, see Section 24.4 in Part A of this Annual Report.

11.2. Irrevocable undertaking to place a credit facility to the Company – January 2015

For details regarding an irrevocable undertaking to place a credit facility from interested parties (including the Controlling Shareholder) from January 2015, see Section 24.5 of Part A of this Annual Report.

11.3. Consulting Agreements with Dr. Giora Yaron and Mr. Martin Grestel

On October 7, 2014, the general meeting of the Company's shareholders approved, in conformity with provisions of Section 270(4) of the Companies Law, after approval by the Board of Directors and by the Audit Committee, the extension of consulting agreements with Dr. Giora Yaron and Mr. Martin Grestel, Co-chairmen of the Company's Board of Directors for a term of three years commencing on October 24, 2014 through October 23, 2017. For more information about the consulting agreements with Dr. Giora Yaron and Mr. Martin Grestel, see Sections 9.2(a) and 9.2(b) above, respectively. Medtronic was deemed until October 7, 2014, to have had a personal interest in the agreements with Dr. Giora Yaron and Mr. Martin Grestel.

11.4. Directors and officers ("**D&O**") liability insurance policy for the Company

On March 18, 2014, the Company Board of Directors approved, in conformity with Section 1b(5) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000, to include in the Company's D&O liability insurance policy for 2014: (i) Mr. Garry Ellis, a director who is also an officer of Medtronic, which is considered, for the sake of caution, to be the Controlling Shareholder of the Company; (ii) Co-chairmen of the Board of Directors, Dr. Giora Yaron and Mr. Martin Grestel, Medtronic having been considered (on the date of the approval) to have had a personal interest in contracts with them. For more information, see immediate report issued by the Company on March 19, 2014 (reference number: 2014-01-018870), included in this report by way of

reference. For more information about terms and conditions of the Company's D&O liability insurance policy, see details under Regulation 29A below.

11.5. Letters of waiver and indemnification for officers and directors

On October 24, 2011, the general meeting of the Company's shareholders approved a change to the Company's Bylaws and an update to the Company's letters of waiver and indemnification, so as to adjust them for Amendment No. 16 to the Companies Law and to new arrangements due to the provisions of the Israeli Securities Authority Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011 (the "**Administrative Enforcement Law**") (including the indirect amendment to the Companies Law, as listed in Section 4(11) of the Administrative Enforcement Law).

The general meeting of the Company's shareholders amended on October 7, 2014, a further amendment in the form of the Company's letters of waiver and indemnification, as detailed in Section 21.2 below.

11.6. Marketing agreement with Medtronic

On February 27, 2014, the Board of Directors of the Company, after having received approval from the Company's Audit Committee, approved the Company's engagement under a marketing agreement with Medtronic, Inc. (In this Section: "**Medtronic Inc.**"), which is the parent company of Medtronic, which is considered, for the sake of caution, to be the Controlling Shareholder of the Company, whereby Medtronic Inc. would be the exclusive marketer of the WatchPAT^{TM} product to physicians in the U.S. who specialize in Arrhythmia. For more information, see immediate report issued by the Company on March 5, 2014 (reference number: 2014-01-005622).

12. Regulation 24 - Interested parties' holdings

For information about holding shares of interested parties in the Company, to the best of the Company's knowledge, in the Company's shares, Series L convertible notes and listed warrants, see immediate report issued by the Company on March 8, 2015 (reference number: 2015-01-045709), included in this report by way of reference.

The Company did not commit to sell any shares to any interested party and no interested party committed to purchase any shares from the Company.

To the best of the Company's knowledge, as of the report date, interested parties in the Company hold no shares or other securities of the Company's subsidiaries.

13. Regulation 24A - Authorized share capital, issued share capital and convertible securities as of March 23, 2015

Securities	Quantity
Authorized share capital (ordinary shares of NIS 0.01 par value each)	500,000,000
Issued and outstanding share capital (ordinary shares of NIS 0.01 par value each)	180,836,038
Series L Notes of NIS 1 par value each, convertible into the Company's ordinary shares (conversion rate: NIS 1.92 par value notes	NIS 76,255,261 par

to one ordinary share of NIS 0.01 par value, subject to adjustments in conformity with terms and conditions of the notes)	value
Employee stock options (not listed for trading) exercisable into the Company's ordinary shares	27,463,753

14. Regulation 24B - Registry of shareholders

For more information about the registry of shareholders, see immediate report issued by the Company on March 9, 2015 (reference number: 2015-01-046822), incorporated herein by reference.

15. Regulation 26 – Directors of the corporation

As of the report date, the Company's Board of Directors consists of the following directors:

Name:	**Dr. Giora Yaron**[8]
ID:	001707819
Date of Birth:	August 22, 1948
Formal address:	11 Leshem Street, Caesarea 3088900, Israel
Citizenship:	Israel
Membership of Board committees	Member of the Executive Committee
External director (with accounting and financial expertise or professional qualifications):	No
Independent director:	No
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	Co-Chairman of the Board of Directors[9], business advisor to the Company and director of the subsidiary, Itamar Medical Inc.
Start of term as director	1997
Education:	Bachelor's degree in Mathematics and Physics, master's degree in Physics and PhD in Physics all from the Hebrew University of Jerusalem.

[8] Dr. Giora Yaron has served as director and member of the Compensation Committee of Mercury Interactive Corp. ("**Mercury**"), a company previously traded on NASDAQ and acquired by HP. Upon said acquisition, Dr. Yaron concluded his term in office with Mercury. Multiple lawsuits have been filed in courts in the USA against Mercury and executives thereof, including Dr. Giora Yaron, with regard to options granted by Mercury in the past. The proceedings on all these lawsuits have yet to be concluded. The implications of these proceedings, should the Court find in favor of the plaintiffs, are monetary only and cannot be estimated at this stage.
Furthermore, on September 17, 2008, the SEC (US Securities and Exchange Commission) announced an agreement reached with Mr. Yigal Kochavi, Mr. Yair Shamir and Dr. Giora Yaron - all three previously directors of Mercury. This agreement refers to a complaint by the SEC which alleged that these three directors carelessly approved back-dated option grants and also reviewed and signed off on public reporting which included erroneous, misleading information with regard to option grant by the company and expenses of the company. With no admission or denial of the claims alleged by the SEC, the three directors agreed to pay a monetary fine of $100,000 each in return for dropping the aforementioned charges. For more information see SEC publication at: http://www.sec.gov/litigation/litreleases/2008/lr20724.htm.

[9] Dr. Giora Yaron and Mr. Martin Grestel, who serve as Co-chairmen of the Board, have no pre-defined delineation of authority. This is determined on ad-hoc basis.

Occupation during previous five years and other corporations served as director:	Chairman of the Board of Directors of Accent Inc., of Qumranet Inc. and of Yisum Development Company of the Hebrew University of Jerusalem Ltd., Chairman of the Executive Board of the Tel Aviv University; Chairman of the Board of Directors Ramot of Tel Aviv University Ltd. (a company wholly-owned by the Tel Aviv University), member of Board of Trustees, Hebrew University of Jerusalem, director of Amdocs Israel Ltd., Qwilt Inc., Excelero Storage Ltd. and Hyperwise Security and advisor to the Board of Directors of Rafael Advanced Defense Systems Ltd. and to the Israeli Ministry of Defense.
Family relation to another interested party of the Company (if any):	None
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	No

Name:	**Mr. Martin Grestel**
ID:	015425325
Date of Birth:	June 26, 1941
Formal address:	7 Ethiopia Street, Jerusalem 9514909, Israel
Citizenship:	U.S. and Israel
Membership of Board committees	Member of the Investment Committee and the Executive Committee.
External director (with accounting and financial expertise or professional qualifications):	No
Independent director:	No
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	Co-Chairman of the Board of Directors[2], business advisor to the Company and director of the subsidiary, Itamar Medical Inc.
Start of term as director	1997
Education:	BSc in Science from Yale University, U.S. MBA from Stanford University, U.S.
Occupation during previous five years and other corporations served as director:	Chairman of the Board of Directors of Compugen Ltd, Evogene Ltd. and Keddem Bioscience Ltd. Director of Yeda Ltd. and Yisum Development Company of the Hebrew University of Jerusalem Ltd.
Family relation to another interested party of the Company (if any):	None
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	No

Name:	Mr. Gary L. Ellis
U.S. passport number:	217730582
Date of Birth:	August 15, 1956
Formal address:	10082 Powers Lake Trail, Woodbury, MN 55129, USA
Citizenship:	U.S.
Membership of Board committees	Member of Investment Committee
External director (with accounting and financial expertise or professional qualifications):	No
Independent director:	No
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	Director of the Company. President and CEO of Medtronic International Technologies, Inc. Executive Vice president and CFO of Medtronic, Inc.
Start of term as director	2007
Education:	BSc in Accounting from University of South Dakota.
Occupation during previous five years and other corporations served as director:	CEO and President of Medtronic International Technologies, Inc. Executive Vice President and CFO of Medtronic, Inc. Director of the Toro Company.
Family relation to another interested party of the Company (if any):	None
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	No

Name:	Ms. Miri Katz
ID:	050568070
Date of Birth:	March 5, 1951
Formal address:	18/32 Michael Ne'eman Avenue, Tel Aviv 6958103, Israel
Citizenship:	Israel
Membership of Board committees	Chairperson of the Compensation Committee; member of the Audit Committee, Financial Reporting Committee and Executive Committee.
External director (with accounting and financial expertise or professional qualifications):	Yes. She has accounting and financial expertise and professional qualifications?
Independent director:	Yes
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	Yes
Start of term as director	External director of the Company
Education:	2007

Occupation during previous five years and other corporations served as director:	LLB degree from the Hebrew University of Jerusalem.
Family relation to another interested party of the Company (if any):	CEO, IMA Foundation, since 2003. From 2008 to July 2014, director of Bank Leumi Le-Israel B.M. Since 2003, CEO of Miri Katz Projects Ltd. Director of Caesarea Development Corporation Edmond Binyamin De Rothschild Ltd. and of Edmond and Nadine De Rothschild Foundation Israel (through 2009) and director of Edmond Binyamin De Rothschild Caesarea Foundation (through 2010). Chairperson of the Israeli Securities Authority (through 2002).
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	None
External director (with accounting and financial expertise or professional qualifications):	Yes

Name:	**Dr. Samuel Morry Blumenfeld**
ID:	326904661
Date of Birth:	December 18, 1937
Formal address:	8 Yair street, Jerusalem 9350338, Israel
Citizenship:	U.S., Canada and Israel
Membership of Board committees	Member of Compensation Committee.
External director (with accounting and financial expertise or professional qualifications):	No
Independent director:	Yes. He has professional qualifications.
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	Director of the Company
Start of term as director	2010
Education:	Bachelor's degree in Physics Engineering, master's degree in Physics Engineering and PhD in Molecular Physics, all from the University of Toronto, Canada.
Occupation during previous five years and other corporations served as director:	Partner in Meditech Advisors, LLC, Chief Investment Officer in Ziegler Meditech Equity Partners, LP (a VC Fund), President of Quescon Consultants, Ltd. Director in Mako Surgical Corp., Dune Medical Devices Ltd. and Aposense Ltd.
Family relation to another interested party of the Company (if any):	None
Has accounting and financial expertise	No

with regard to Section 92(a)(12) of the Companies Law:	

Name:	**Ms. Regina Ungar**
ID:	058099656
Date of Birth:	February 26, 1963
Formal address:	82 Marganit Street, Ramat Gan 5258484, Israel
Citizenship:	Israeli
Board committees serving on:	Chairperson of the Audit Committee and of the Financial Reporting Committee, member of the Compensation Committee and the Investment Committee.
External director (with accounting and financial expertise or professional qualifications):	Yes. She has accounting and financial expertise and professional qualifications.
Independent director:	Yes
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	External director of the Company
Start of term as director	2013
Education:	Bachelor's degree in Economics and Accounting and MBA both from the Tel Aviv University. Certified Public Accountant (Isr.).
Occupation during previous five years and other corporations served as director:	2010 to 2012: CEO of Kaman Holdings Ltd. and of Isal Amlat Investments (1993) Ltd. 2001 to 2010: Deputy CEO and CFO, Shrem Fudim Group Ltd. Through 2010: Senior Finance Executive, Leader Holdings and Investments Ltd. Lecturer in Accounting Audit in the Tel Aviv University. Serves as director of the following corporations: Rafael Advanced Defense Systems Ltd and ZIM Integrated Shipping Services Ltd.
Family relation to another interested party of the Company (if any):	None
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	Yes

Name:	**Mr. Ilan Biran**
ID:	006900997
Date of Birth:	October 3, 1946
Formal address:	40/14 Shai Agnon Street, Tel Aviv 6936236, Israel
Citizenship:	Israel
Board committees serving on:	Member of Audit Committee, Balance Sheet Committee and Investment Committee Member of the Audit Committee, of the Financial Reporting Committee and the Investment Committee.
External director (with accounting and financial expertise or professional qualifications):	No
Independent director:	Yes. He has accounting and financial expertise.
Position with the Company, subsidiary or associated company of the Company or of an interested party thereof:	No
Start of term as director	May 29, 2013
Education:	Bachelor's degree in Economics and Business Administration from the Bar Ilan University. Master's degree in Strategic and Economic Studies, Georgetown University, Washington, DC, U.S.
Occupation during previous five years and other corporations served as director:	June 2007 – May 2013: Chairman, Rafael Advanced Defense Systems Ltd. Since October 2008: director, Israel Discount Bank Ltd. From July 2003 to 2014: Chairman of Centrition Ltd. Since 2009: Chairman, Executive Board of Kinneret Academic College, Jordan Valley (Registered NGO) January 2011 – October 2012: Chairman, Sync-RX Ltd. 2004 – November 2008: director, Delta Three Israel Ltd. 2005 – December 2009: Venture Partner advisor, Etgar Venture Capital Fund, Limited Partnership
Family relation to another interested party of the Company (if any):	No
Has accounting and financial expertise with regard to Section 92(a)(12) of the Companies Law:	No

16. Regulation 26a - Senior officers

Senior officers of the Company are:

Name:	**Mr. Gilad Glick**
ID:	025041807
Date of Birth:	January 3, 1973
Start of term in office:	July 1, 2013
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	President and CEO
Education:	MBA from Maastricht School of Management, Netherlands.
Occupation during previous five years:	February 2012 - June 2013: VP, Sales and International Marketing with Johnson & Johnson, Cardiovascular Division. 2009-2012 - Johnson & Johnson, Cardiovascular Division. 2008-2009 - Project Manager, Navigation system, Johnson & Johnson, Cardiovascular Division.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	Company's President and CEO
Independent signatory for the Company:	No

Name:	**Mr. Shaul Sharoni**
ID:	028466712
Date of Birth:	March 25, 1971
Start of term in office:	July 4, 2004
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	CFO Director of Itamar Medical Inc.
Education:	Bachelor's degree in Economics and Accounting from the Rupin College, Israel. MBA (Finance) from the Bar Ilan University. Certified Public Accountant (Isr. And U.S.).
Occupation during previous five years:	Company's CFO
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	Mr. Shlomo Ayanot
ID:	053915518
Date of Birth:	January 12, 1956
Start of term in office:	July 1, 1999
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	VP, Engineering and Operations
Education:	BSc in Industrial and Economic Management from the Technion, Israel Institute of Technology.
Occupation during previous five years:	VP, Engineering and Operations of the Company.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	Dr. Koby Sheffy
ID:	051243426
Date of Birth:	August 29, 1952
Start of term in office:	January 15, 1997
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	EVP and CTO
Education:	BSc in Electronics Engineering from the Technion, Israel Institute of Technology. PhD in Bio-Medical Engineering and Breathing Physiology from Oxford University, UK.
Occupation during previous five years:	EVP, R&D and CTO with the Company.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

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Name:	Mr. Eldad Singer
ID:	023907538
Date of Birth:	September 28, 1968
Start of term in office:	February 9, 2011
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	VP, Sales

Education:	Bachelor's degree in Business Administration (Marketing and Financing) from the College of Management Academic Studies, Tel Aviv, Israel. Master's degree in International Business Administration from the College of Management Academic Studies, Rishon LeZion, Israel.
Occupation during previous five years:	Since 2011, the Company's VP, Sales. From 2003 to 2007 - Partner, Startwise Capital.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	**Ms. Efrat Litman**
ID:	025412024
Date of Birth:	July 26, 1973
Start of term in office:	March 22, 2011
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	VP, R&D
Education:	BSc in Physics and Mathematics from the Hebrew University of Jerusalem (Talpiot Program).
Occupation during previous five years:	Since 2011, the Company's VP, R&D From 2009 to 2011, Manager of R&D in the Company. From 2008 to 2009, EndoPAT Project Manager in the Company.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	**Mr. Ira Prigat**
ID:	024143430
Date of Birth:	July 31, 1969
Start of term in office:	November 15, 2014
Position with the Company, subsidiary or associated company of the Company	President of Itamar Medical Japan Co. Ltd.

or of an interested party there of:	
Education:	Bachelor's degree in Social Sciences and bachelor's degree from the faculty of East Asian Studies both from the Hebrew University of Jerusalem
Occupation during previous five years:	From November 2009 to November 2014, President and CEO of Light Instruments Ltd. (Syneron Dental Laser)
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	**Ms. Dafna Katz**
ID:	013357165
Date of Birth:	March 12, 1966
Start of term in office:	March 1, 2015
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	VP, Global Marketing
Education:	Bachelor's and master's degrees in Chemistry from the Technion, Israel Institute of Technology
Occupation during previous five years:	VP Marketing at Syneron Medical Ltd.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

Name:	**Mr. Shahar Cohen**
ID:	033472929
Date of Birth:	November 13, 1976
Start of term in office:	May 6, 2007
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	Controller
Education:	Bachelor's degree in Economics and Accounting and MBA (Finance) both from the Tel Aviv University. Certified Public Accountant (Isr.).
Occupation during previous five years:	Since 2007: Company Comptroller.
Interested party of the Company or family member of another senior officer	No

or interested party of the Company (if any):	
Independent signatory for the Company:	No

Name:	**Mr. Doron Cohen**
ID:	028015592
Date of Birth:	October 10, 1970
Start of term in office:	July 6, 2007
Position with the Company, subsidiary or associated company of the Company or of an interested party there of:	Internal Auditor of the Company.
Education:	Certified Public Accountant (Isr.)., Licensed Internal Auditor. Bachelor's degree in Business Administration (Accounting) from the College of Management Academic Studies, Rishon LeZion, Isreal.
Occupation during previous five years:	Partner, Fahn Kanne Control Management Ltd. Internal Auditor of multiple companies.
Interested party of the Company or family member of another senior officer or interested party of the Company (if any):	No
Independent signatory for the Company:	No

17. Regulation 26b - Authorized signatories of the corporation

The Company has no independent authorized signatories as defined in Section 37(d) of the Securities Law, 1968.

18. Regulation 27 – Independent Auditor of the corporation

Somekh Chaikin, CPAs of 17 Ha'Arbaa Street, Millennium Tower, Tel Aviv.

19. Regulation 28 - Changes to Articles of Incorporation or to Bylaws

The shareholders' general meeting of the Company approved on October 7, 2014, an amendment to the Company's articles of association (bylaws) whereby: (a) it will determine that a majority of the directors holding office in the Company at any given time will be external and independent directors; (b) the staggered board mechanism will be cancelled for selecting other than external or independent directors; (c) increase of the Company's registered share capital from 250,000,000 shares of NIS 0.01 par value each to 500,000,000 shares of NIS 0.01 par value each. For further details, see the Company's report of September 1, 2014 (ref. no. 2014-01-149151).

20. Regulation 29 - Recommendations and decisions by directors

20.1. Directors' recommendations to the general meeting and resolutions not requiring approval by the shareholders 'general meeting

The recommendations of the Board of Directors to the general meeting of the Company's shareholders were adopted in full at the meeting that took place on October 7, 2014. For further details, see the notice convening the annual and special general meeting that was

published by the Company on September 1, 2014, as well as the Company's immediate report in respect of the results of the meeting dated October 7, 2014 (reference numbers 2014-01-149151 and 2014-01-173547, respectively).

20.2. Resolutions by the general meeting made other than in accordance with the recommendations by the directors on the issues set forth in section 20.1 above

None.

20.3. Resolutions adopted by a special general meeting in the year of the report

A meeting of the Company's shareholders was convened on October 7, 2014 (the "**Meeting**"). The following business was approved by the Meeting: (a) approval of the extension of the engagement under a consulting agreement with Dr. Giora Yaron (Co-chairman of the Board of Directors), for a term of three years; (b) approval of the extension of the engagement under a consulting agreement with Mr. Martin Grestel (Co-chairman of the Board of Directors), for a term of three years; (c) approving the amended form of the indemnification letters to directors and officers of the Company, not being deemed to be controlling shareholders or controlling shareholders of the Company having a personal interest in the grant thereof; (d) approval of the amendment of the form of the indemnification letters to directors in whom the controlling shareholders of the Company have a personal interest in entering into an agreement with them; (e) approval of the review of the indemnification letters to directors with whom the Controlling Shareholder of the Company has a personal interest in contracting; (f) approving the amendment of the articles of association of the Company in relation to the composition of the Board of Directors; (g) approving the reappointment of two of the current directors of the Company, Mr. Ilan Biran and Dr. Samuel Morry Blumenfeld, as independent directors of the Company for a term of office of three years; (h) approving the amendment of the articles of association of the Company in connection with the increase of the registered share capital so that the registered share capital of the Company increased from 250,000,000 ordinary shares of NIS 0.01 each to 500,000,000 ordinary shares of NIS 0.01 each; (i) approving the re-appointment of two of the currentdirectors of the Company, not being external or independent directors, Mr. Gary Ellis and Mr. Martin Grestel as directors of the Company; (j) approving the reappointment of the Somekh Chaikin, Certified Public Accountants (Isr.) as the Company's indepemdednt auditors for the year ended December 31, 2014 and authorizing the Board of Directors to determine their compensation.

For further details, see the report convening the annual and special general meeting that was published by the Company on September 1, 2014 as well as the immediate report of the Company in respect of the results of the meeting, dated October 7, 2014 (reference numbers 2014-01-149151 and 2014-01-173547, respectively).

21. Regulation 29A- Corporate resolutions

21.1. Waiver

In accordance with the resolution of the Company's Board of Directors dated February 21, 2007 and the resolution of the general meeting of Company's shareholders dated October 24, 2011, the Company provides to its officers, as they may be from time to time, an advance waiver, subject to provisions of the Israeli Companies Law, waiving any liability towards the Company for any damage incurred by the Company as a result of

breach of the due care duty by an officer towards the Company, in the course of discharging their office as an officer of the Company, provided they have acted in good faith. Such waiver would not apply to the liability of an officer who serves the Company as director due to any breach of the duty of care partitioned, as defined in the Companies Law. For more information, see immediate report convening the general meeting of the Company's shareholders, dated September 15, 2011 (reference number: 2011-01-276255).

Pursuant to the resolution of the Company's Board of Directors of July 14, 2014, and the resolution of the general meeting of the Company's shareholders of October 7, 2014, the indemnity letters for the officers of the Company were amended in a manner whereby no advance waiver from liability will be included for officers by reason of breach of the duty of care to the Company. For further details, see the report convening the annual and special general meeting that was published by the Company on September 1, 2014, as well as the immediate report of the Company in respect of the results of the meeting of October 7, 2014 (reference numbers: 2014-01-149151 and 2014-01-173547, respectively).

21.2. Indemnification

Form of the indemnification letters until October 7, 2014

21.2.1. In conformity with the resolution by the Company's Board of Directors dated February 21, 2007 and the resolution by the general meeting of the Company's shareholders dated October 24, 2011, the Company provides to its directors and officers (In this Section "**officers**"), as they may be from time to time, a commitment to indemnify the Company officers for any indebtedness or expense, as described below, incurred by them as a result of any action taken in the course of discharging their office as an officer with the Company or with another company, at the Company's request:

21.2.1.1. Financial liability imposed upon the officer to benefit another person by Court verdict, including a verdict handed down by compromise or by arbitration and ratified by a Court of Law, provided that the commitment to indemnify such financial liability would be limited to the amount specified in Section 21.2.2 and as revised in Section 21.2.8 below and to events listed in Section 21.2.6 below.

21.2.1.2. Reasonable litigation expenses, including attorney fees, incurred by the officer or imposed on him by a Court of Law, in a proceedings filed against him by the Company or by the other company or on its behalf or by another person or by criminal indictment of which he is found not guilty or by criminal indictment of which he is found guilty of a felony not requiring proof of criminal intent or in conjunction with any monetary sanction.

21.2.1.3. Reasonable litigation expenses, including legal fees, incurred by the officer subsequent to investigation or proceeding conducted against him by an authorized entity to conduct such investigation or proceedings, and which has ended with no indictment against him (as defined in the Companies Law) and with no financial liability imposed on him in lieu of criminal proceedings (as defined in the Companies

Law), or which has ended with no indictment against him but with financial liability imposed on him in lieu of criminal proceedings in a felony not requiring proof of criminal intent.

21.2.1.4. Payment to parties impacted by a breach, pursuant to section 52.54(a)(1)(a) of the Israeli Securities Law, 1968 (In this Section: the "**Securities Law**").

"**Administrative proceeding**" - a proceeding pursuant to Chapter H3 (Monetary Sanction Imposed by the Israeli Securities Authority), Chapter H4 (Administrative Enforcement Imposed by the Administrative Enforcement Committee) or Chapter I1 (Arrangement for Avoidance or Discontinuation of Proceedings, Contingent on Terms) of the Securities Law.

21.2.1.5. Expenses, including reasonable litigation expenses and legal fees, incurred by the officer with regard to an administrative proceeding (as defined above) concerning them.

21.2.2. The indemnification amount is limited, for a single set of events, to 25% of the Company's shareholders equity based on the Company's most recent consolidated financial statements published prior to the indemnification date.

21.2.3. Should the total amounts of financial indebtedness imposed on officers and/or of legal expenses incurred by officers, at any given time, for which they are entitled to indemnification pursuant to the letter of indemnification, on any matter subject to indemnification, exceed the total indemnification amount or the balance of the total indemnification amount available at that time, then the total indemnification amount (or the balance there of, as the case may be) would be divided among the relevant officers, such that the indemnification amount actually payable to each of them would be calculated pro-rata to the amount each officer is eligible to receive divided by total amounts all officers are eligible to receive with respect to said matter.

21.2.4. The commitment to indemnify shall be valid for proceedings brought against the officer in the course of his term in office, as well as for proceedings brought against him after conclusion of its term in office, provided they refer to actions taken by the officer in the course of his term in office, directly or indirectly, in the course of or as a result of its being an officer of the Company.

21.2.5. Should the officers be indemnified by the insurer, under a D&O liability insurance policy obtained by the Company, with respect to the matter at hand subject to indemnification, the Company shall provide indemnification equal to the difference between the amount of the financial liability imposed on the officers, including legal expenses, and the amount received from the insurer with respect to said matter, provided that the indemnification amount charged to the Company shall not exceed the total indemnification amount.

21.2.6. The officer shall be eligible for indemnification for any deed or omission with regard to any of the following: issuance of securities to private investors including, notwithstanding the generality of the foregoing, offering of securities to the public pursuant to a prospectus; any transaction as defined in Section 1 of

the Companies Law, including negotiations of any transaction, transfer, sale, acquisition or pledging of assets or liabilities (including securities), or the granting or receiving of any rights thereto, borrowing and providing collateral and any other action involved, directly or indirectly, in such a transaction; any report or notice issued pursuant to the Companies Law or the Securities Law, including regulations based thereupon, or pursuant to rules or regulations in effect on the stock exchange in Israel or overseas, or the laws of any other country governing such matters and/or avoidance of issuing such a report of notice; any decision with regard to any distribution, as defined in the Companies Law; any restructuring or reorganization of the Company or any decision with regard thereto, including, notwithstanding the generality of the foregoing, any merger, spin-off, arrangement between the Company and shareholders thereof, incorporation, dissolution or sale of any subsidiaries; allocation or distribution; any expression, including statement of position or opinion made in good faith by the officer in the course of his office and pursuant thereto, including at meetings of the Board of Directors or any committee thereof; Any action in contravention of the Company Bylaws or Articles of Association; any decision or action with regard to employment relations, including negotiations, contracting and implementation of individual employment agreements or collective bargaining agreements, employee benefits, terms of employment and work, including allotment of securities to employees; any action taken (or allegedly taken) in conjunction with the Company's policy, whether or not made public; obtaining or receiving any loan and any other agreement or transaction; participation in tenders; any action taken in conjunction with the Company's licenses; formulation of work plans including pricing, marketing, distribution, instructions to employees, customers and suppliers and any cooperation with any third party; any report or notice issued on behalf of the Company pursuant to the Companies Law and/or any other statutory provisions, in Israel or overseas; any action involved in obtaining permits and licenses from any authority; any inquiry conducted by any authority; class action lawsuits, including lawsuits concerning violation of environmental protection laws, consumer protection laws or any other lawsuit in conjunction with discharging his office; any other claim expected by companies of the same type as the Company, which the Board of Directors would deem appropriate; events related to work safety and work-related injury; negotiation, signing and execution of insurance policies; any claim or demand made by any customer, supplier, party to any agreement or any third party, arising from an agreement with the Company, in the normal course of business; any act which may be considered a breach of intellectual property rights of any third party; any claim or demand made by any third party who received bodily injury or damage to business or personal property, including loss of use thereof, in the course of any deed or omission attributed to the Company or, respectively, to its employees, agents or others who act or claim to act on behalf of the Company; any demand or claim pursuant to Securities Laws with regard to disclosure of information or how information is disclosed, or disclosure of incomplete information to shareholders or to holders of securities, including any action involved in allotment of securities to the public or by way of private placement, in Israel or overseas, including all details included on documents related to such allotment; any type of event listed above, with regard to the officer's term in office on behalf of the Company as officer of subsidiaries / associated companies of the Company; as

well as any event or action which may be indemnified pursuant to the Administrative Enforcement Law.

21.2.7. For more information, see immediate report convening the general meeting of the Company's shareholders, dated September 15, 2011 (reference number: 2011-01-276255).

Form of the indemnification letters from October 7, 2014 onwards

21.2.8. In conformity with the decision of the Company's Board of Directors of July 14, 2014 and the decision of the general meeting of the Company's shareholders of October 7, 2014, the indemnification letters for officers of the Company, not deemed to be controlling shareholders of the Company and/or those in whom the controlling shareholder has no personal interest in granting the same, were amended as set out below: (i) adjusting the maximum amount of the indemnification in a manner whereby the liability to indemnify in advance will be the sum of NIS 15 million; (ii) liability towards any officer to whom an indemnification letter will be granted, that for the seven years following the termination of his office, the Company will continue to acquire on his behalf a D&O liability insurance policy in order not to leave the officers exposed to claims after the conclusion of their term of office in the Company; and (iii) cancellation of the waiver clause of officers in advance from their responsibility by reason of breach of the duty of care towards the Company.

For further details, see the report convening the annual and special general meeting dated September 1, 2014, and the immediate report of the Company in respect of the results of the meeting of October 7, 2014 (reference numbers: 2014-01-149151 and 2014-01-173547, respectively).

21.3. Insurance

An extraordinary general meeting of the Company's shareholders, held on January 14, 2014, resolved, amongst others, to approve the Company's compensation policy. The Company's compensation policy includes, amongst others, provisions with regard to terms and conditions for renewal of D&O liability insurance policy, as follows: (i) maximum insurance coverage of the insurance policy not to exceed $50 million per claim and on aggregate for the insurance period; (ii) annual insurance premium not to exceed $100,000 (the "**maximum insurance premium**"); (iii) the Company's Compensation Committee and Board of Directors will approve annually the Company's contracting of a new insurance policy in compliance with the aforementioned terms and conditions; (iv) the insurance policy shall also cover the liability of directors and officers considered to be controlling shareholders of the Company or relatives thereof, from time to time, provided that terms of their coverage shall not exceed those of all other directors or officers of the Company. For more information, see immediate report issued by the Company on January 8, 2014 (reference number: 2014-01-009652).

On March 18, 2014, the Company's Board of Directors approved, as required in conformity with the compensation policy, after accepting the recommendations made by the Company's Compensation Committee, renewal by the Company of the existing directors' and officers' liability insurance policy, for the Company and subsidiaries thereof, in conformity with sections 1A1, 1B and 1B1 of the Companies Regulations (Relief for Transactions with Interested Parties), 2000. It should be noted that the terms

and conditions of the insurance policy are in conformity with those set forth in the compensation policy, as follows: (i) liability limit of up to $20 million per insurance case and on aggregate for the insurance period; (ii) the insurance policy covers the Company's CEO as well as directors considered to be controlling shareholders or those where the controlling shareholders have a personal interest in contracting there with; (iii) the insurance period is through April 30, 2015; (iv) the annual premium payable for the insurance policy does not exceed the maximum insurance premium. For more information, see immediate report issued by the Company on March 19, 2014 (reference number: 2014-01-018870), included in this report by way of reference.

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ITAMAR MEDICAL LTD.

PART E

Chief Executive Officer's Certification according to Regulation 9b(d)(1)

I, Gilad Glick, certify that:

(1) I have reviewed the periodic report of Itamar Medical Ltd. (the "**Company**") for the year ended December 31, 2014 (the "**Reports**");

(2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the periods covered by the Reports;

(3) Based on my knowledge, the financial statements and other financial information included in the Reports fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports;

(4) I have disclosed, to the Company's Independent Auditor, the Board of Directors and the Audit Committee of the Board of Directors of the Company any fraud, whether or not material, that involves the Chief executive Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company's internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

March 23, 2015

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Gilad Glick
Chief Executive Officer

Chief Financial Officer's Certification according to Regulation 9b(d) (2)

I, Shaul Sharoni, certify that:

(1) I have reviewed the periodic report of Itamar Medical Ltd. (the "**Company**") for the year ended December 31, 2014 (the "**Reports**");

(2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the periods covered by the Reports;

(3) Based on my knowledge, the financial statements and other financial information included in the Reports fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports;

(4) I have disclosed, to the Company's Independent Auditor, the Board of Directors and the Audit Committee of the Board of Directors of the Company any fraud, whether or not material, that involves the Chief executive Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company's internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

March 23, 2015

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Shaul Sharoni
Chief Financial Officer