Translated from Hebrew

ITAMAR MEDICAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

ITAMAR MEDICAL LTD.

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ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		U.S. dollars in thousands	
Assets	26c		
Current assets			
Cash and cash equivalents		7,463	23,358
Investments in marketable securities	25c	3,173	**2,781**
Trade receivables	5	5,362	4,490
Other receivables	5	685	750
Inventories	6	2,260	1,784
Total current assets		19,123	33,163
Non-current assets			
Long-term restricted deposits		313	287
Prepaid expenses		69	173
Long-term trade receivables	5	473	659
Property and equipment	7	1,022	1,008
Intangible assets	8	277	257
Total non-current assets		2, 154	2,384
Total assets		21,277	35,547
Liabilities	26c		
Current liabilities			
Trade payables		1,262	1,324
Short-term employee benefits	9	223	198
Current maturities of convertible notes	10	10,696	9,621
Provisions	11	183	167
Accrued expenses		1,405	939
Other accounts payable	12	1,998	2,071
Total current liabilities		15,767	14,320
Non-current liabilities			
Convertible notes, net of current maturities	10	-	8,170
Derivative instruments	13	2,875	6,800
Long-term employee benefits	9	310	156
Other long-term liabilities	14a, b	948	860
Total non-current liabilities		4,133	15,986
Total liabilities		19,900	30,306
Commitments	14		
Equity	16		
Ordinary share capital		683	679
Additional paid-in capital		104,443	104,350
Capital reserve in respect of transactions with shareholders		1,151	1,151
Capital reserve in respect of currency translation adjustments		(9)	(9)
Capital reserve in respect of marketable securities available-for-sale		113	(45)
Accumulated deficit		(105,004)	(100,885)
Total equity		1,377	5,241
Total liabilities and equity		21,277	35,547

/s/ Dr. Giora Yaron	/s/ Gilad Glick	/s/ Shy Basson
Chairman of the Board of Directors	President and Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 14, 2018

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

ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Year Ended December 31,		
		2017	2016	2015
		U.S. dollars in thousands (except per share data)		
Revenues	18	20,701	18,440	16,807
Cost of revenues	19	5,002	4,979	4,401
Gross profit		15,699	13,461	12,406
Selling and marketing expenses	20	12,140	14,035	10,684
Research and development expenses	21	4,129	3,225	2,831
General and administrative expenses	22	5,278	6,213	4,350
Total operating expenses		21,547	23,473	17,865
Operating loss		(5,848)	(10,012)	(5,459)
Financial income (expenses) from cash and investments	23	1,591	716	(354)
Financial expenses from notes and loans	23	(4,884)	(4,760)	(4,229)
Gain (loss) from derivatives instruments, net	23	3,925	(216)	7,930
Financial income (expenses), net		632	(4,260)	3,347
Loss before taxes on income		(5,216)	(14,272)	(2,112)
Taxes on income	15	(85)	(131)	(135)
Loss		(5,301)	(14,403)	(2,247)
Basic loss per share (In U.S. dollars)	24	(0.02)	(0.05)	(0.01)
Diluted loss per share (In U.S. dollars)	24	(0.02)	(0.05)	(0.02)

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

ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Note	Year Ended December 31,		
		2017	2016	2015
		U.S. dollars in thousands		
Loss		(5,301)	(14,403)	(2,247)
Other comprehensive loss items that will not be carried to the statement of operations				
Actuarial losses of defined benefit plan, net of tax	9	(112)	(107)	(72)
Total other comprehensive income (loss) for the year that will not be carried to the statement of operations, net of tax		(112)	(107)	(72)
Other comprehensive income (loss) items that after preliminary recognition in comprehensive income (loss), were or will be carried to the statement of operations				
Net change in fair value of marketable securities available-for-sale, net of tax		158	9	(123)
Net change in fair value of marketable securities available-for-sale, net of tax that was carried to the statement of operations		-	-	523
Total other comprehensive income items that after preliminary recognition in comprehensive income, were or will be carried to the statement of operations, net of tax		158	9	400
Other total comprehensive income (loss) for the year		158	(98)	328
Total comprehensive loss		(5,255)	(14,501)	(1,919)

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

ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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, 2015							
Balance as of January 1, 2015	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)
Total comprehensive loss:							
Loss	-	-	-	-	-	(2,247)	(2,247)
Other comprehensive, net of tax	-	-	-	-	400	(72)	328
Total comprehensive loss	-	-	-	-	400	(2,319)	(1,919)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	5	149	-	-	-	-	154
Issuance of shares and warrants	198	22,953	-	-	-	-	23,151
Share-based payment	-	-	-	-	-	428	428
Early repayment of loan from shareholders	-	-	-	-	-	(93)	(93)
Balance as of December 31, 2015	670	103,344	1,151	(9)	(54)	(88,151)	16,951
For the year ended December 31, 2016							
Balance as of January 1, 2016	670	103,344	1,151	(9)	(54)	(88,151)	16,951
Total comprehensive loss :							
Loss	-	-	-	-	-	(14,403)	(14,403)
Other comprehensive income, net of tax	-	-	-	-	9	(107)	988
Total comprehensive loss	-	-	-	-	9	(14,510)	(14,501)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	1	16	-	-	-	-	17
Issuance of shares and warrants	8	990	-	-	-	-	998
Share-based payment	-	-	-	-	-	1,776	1,776
Balance as of December 31, 2016	679	104,350	1,151	(9)	(45)	(100,885)	5,241
For the year ended December 31, 2017							
Balance as of January 1, 2017	679	104,350	1,151	(9)	(45)	(100,885)	5,241
Total comprehensive loss :							
Loss	-	-	-	-	-	(5,301)	(5,301)
Other comprehensive income, net of tax	-	-	-	-	158	(112)	46
Total comprehensive loss	-	-	-	-	158	(5,413)	(5,255)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	4	93	-	-	-	-	97
Share-based payment	-	-	-	-	-	1,294	1,294
Balance as of December 31, 2017	683	104,443	1,151	(9)	113	(105,004)	1,377

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

ITAMAR MEDICAL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2017	**2016**	**2015**
	U.S. dollars in thousands		
Loss	(5,301)	(14,403)	(2,247)
Adjustments for:			
Depreciation and amortization	509	434	367
Share-based payment	1,294	1,776	428
Capital gain from sale of property and equipment	(8)	-	-
Change in provision for doubtful and bad debt	147	849	52
Net financial cost	3,133	4,110	4,591
Loss (gain) from reevaluation of derivatives	(3,925)	216	(7,962)
Increase in trade receivables	(833)	(1,548)	(1,307)
Decrease (increase) in other accounts receivable	169	(157)	(51)
Increase in inventories	(711)	(430)	(268)
Increase in trade payables	(66)	289	5
Increase (decrease) in other accounts payable	669	188	(412)
Increase (decrease) in employee benefits	67	(111)	61
Increase (decrease) in provisions	16	(71)	(112)
Income tax expenses	85	131	179
Taxes paid during the year	(83)	(228)	(44)
Interest received during the year	18	41	11
Interest paid during the year	(1,362)	(1,716)	(1,901)
Net cash used in operating activities	(6,182)	(10,630)	(8,610)
Cash flows for investing activities			
Sale of marketable securities available-for-sale	-	-	6,080
Purchase of property and equipment, intangible assets and capitalization of development expenses	(296)	(455)	(562)
Investment in restricted long-term deposits	(22)	(113)	(44)
Net cash provided by (used in) investing activities	(318)	(568)	5,474
Cash flow for financing activities			
Issuance of share, net	-	998	23,151
Repayment of notes	(10,421)	-	-
Issuance of warrants	-	85	5,300
Repayment of shareholders' loan	-	-	(1,765)
Issuance of shares due to the exercise of stock options	97	17	154
Net cash provided by financing activities	(10,324)	1,100	26,840
Increase (decrease) in cash and cash equivalents	(16,824)	(10,098)	23,704
Cash and cash equivalents at beginning of year	23,358	33,019	9,417
Effect of exchange rate fluctuations on balances of cash and cash equivalents	1,109	437	(102)
Cash and cash equivalent balance at end of year	7,643	23,358	33,019

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

NOTE 1 – GENERAL

a. Reporting entity and the Company's financial position

Itamar Medical Ltd. (the "Company") is an Israeli company incorporated in Israel on January 15, 1997. The Company's registered office is at 9 Halamish Street, North Industrial Zone, Caesarea, Israel. The Company's securities are listed for trade on the Tel Aviv Stock Exchange Ltd. ("TASE").

The Company, together with its subsidiaries, is engaged in the research and development, manufacturing, marketing, selling and leasing of non-invasive medical devices and associated support services mainly for the diagnosis and assessment of cardiology disease and sleep breathing disorders. The unique proprietary technology developed by the Company is capable of measuring 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™ ("WatchPAT)" and EndoPAT™ ("EndoPAT").

The WatchPAT product enables home sleep tests for various sleeping disorders, including obstructive sleep apnea, which has been proven to be a major contributor to cardiovascular disease, and if treated, improve the patient's cardiac condition.

The EndoPAT product diagnoses endothelial dysfunction that has been shown to predict cardiovascular disease.

Total equity of the Company as of December 31, 2017 amounted to $1,377 thousand and the negative cash flow from operating activities for the year ended December 31, 2017 totaled $6,182 thousand.

In February 2018, the Company repaid the balance of the principal of the notes. Of the amount repaid, a principal of NIS 6 million (approximately $1.7 million) relating to notes that were held by three interested parties in the plus the interest that was to be paid to them was not actually repaid and the interested parties informed the Company that in order to support the Company's business strategy, they intend to provide the Company with a loan of the same amount. For further details, see Note 10.

The Company's management and Board of Directors are in the opinion that, based on the positive trend of its operating results, the bank credit facility and the loans from interested parties (as described in Note 10) and the Company's ability to update its budget to business developments, the Company has enough financial resources in order to continue its business activities in the foreseeing future. In addition, the management continuously assesses its actual results, compared its approved budget and its financial covenants is able to respond by reducing its operating expenses in case it does not meet its targets.

b. Definitions

In these financial statements:

The Company	-	Itamar Medical Ltd
Subsidiary	-	A company, whose financial statements are consolidated, directly or indirectly, with the financial statements of the Company
The Group	-	The Company and its subsidiaries

Related parties	-	Within its meaning in IAS 24 (Amended), “Related Party Disclosures”
Interested parties	-	Within their meaning in the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010.
The Innovation Authority	-	The Israeli National Technological Innovation Authority of the Ministry of the Economy and Industry (formerly - the Chief Scientist)
NIS or shekel	-	New Israeli shekel
Israeli CPI		Israeli consumer price index

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International financial reporting standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issuance by the Company’s Board of Directors on March 14, 2018.

b. Reporting and functional currency

These consolidated financial statements are presented in U.S. dollars (“dollar, “$”), which is the Company’s functional currency representing the principal economic environment in which the Company operates, and have been rounded to the nearest thousand unless otherwise indicated.

c. Basis of measurement

These financial statements have been prepared on the historical cost basis, except for certain investments and derivative and other financial instruments measured at fair value through profit or loss, financial instruments classified as available-for-sale, inventories (measured at the lower of cost or net realizable value), provisions, assets and liabilities for of employee benefits, and deferred tax assets and liabilities. For further information regarding the measurement of these assets and liabilities, see Note 3 regarding significant accounting policies.

d. Operating cycle

The Group has one-year operating cycle. As a result, assets and current liabilities include also items the realization of which is intended and anticipated to take place within the Group’s operating cycle.

e. Capital management - objectives, procedures and processes

It is management policy to maintain a 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied for all years presented in these consolidated financial statements.

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 balances and transactions and unrealized gains on transactions between Group companies are eliminated in consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency transactions and balances

Transactions in foreign currency are translated to the respective functional currency of the Group entities at exchange rates as of the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that 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, except for differences arising from the translation of financial equity instruments classified as available-for-sale (except in case of impairment when the translation differences recognized in other comprehensive income are reclassified to profit or loss) recognized in other comprehensive income.

c. Financial instruments:

(1) Non-derivative financial instruments

Initial recognition of financial assets

The Group initially recognizes loans and 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 or loss, are recognized initially on the trade date, at which the Group becomes a party to the contractual provisions of the instrument (i.e., on the date the Group undertook to purchase or sell the asset). Non-derivative financial assets include investments in marketable securities, deposits, trade and other receivable, and cash and cash equivalents.

De-recognition of financial assets

Financial assets are derecognized when the Group’s contractual rights to the cash flows from the asset expire, or when 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 of 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.

Regular way sales of financial assets are recognized on the trade date, which is 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. Such assets are recognized initially at fair value plus directly attributable transaction costs. Subsequent to 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, other receivables, cash and cash equivalents and non-current restricted deposits.

Cash and cash equivalents include cash balances available for immediate use and call 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 which are not exposed to significant risk of change in value.

(b) Financial assets at fair value through profit or loss

A financial asset is classified as measured at fair value through profit and loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions in respect thereof based on fair value, in accordance with the Group's documented risk management or investment strategy, if the purpose is to prevent an accounting mismatch, or if it is a combined instrument that includes an embedded derivative. Transaction costs that can be attributed are charged to profit or loss as incurred. These financial assets are measured at fair value and the changes therein are recognized in profit or loss.

Financial assets designated at fair value through profit and loss also include capital investments that would otherwise be classified as available-for-sale.

Financial assets classified as held for trading include securities held to support the Group's short-term liquidity needs.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables 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 recognized initially on the trade date, at which the Group becomes a party to the contractual terms of the instrument.

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

De-recognition of financial liabilities

Financial liabilities are derecognized 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 immediate enforceable 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, from times to times, both derivative financial instruments to 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 charged to profit or loss 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 convertible notes and warrants that do not have a fixed exercise price.

(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) 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 operations when the issuance is no longer expected to take place.

(6) Issuance of bundle of securities

The consideration received from the issuance of a bundle 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 grant of the consideration from the issuance of the bundle, as described above.

d. Property and equipment

Recognition and measurement

Property and equipment are measured at cost, less accumulated depreciation and 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.

Gains and losses on disposal of property and equipment are determined by comparing the net proceeds from asset disposition with the carrying amount, and are recognized net in within the statement of operations under general and administrative expenses.

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 fixed asset item since this most closely reflects the expected consumption pattern of future economic benefits embodied in the asset in the best possible way.

Annual rates of depreciation for the current period and comparable periods are as follows:

	%
Office furniture and equipment	10
Production and research and development equipment and computers	15
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.

e. Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are 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 for the current period and comparable periods are as follows:

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

The estimated concerning amortization methods, useful lives and residuals are reviewed at the end of each reporting year and adjusted if appropriate.

f. 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 products, 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.

g. 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 Group's policy, a decline of more than 20% 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. The Company did not perform the group examination as it believes it has no impact on the financial statements and is not material.

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.

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.

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.

Reversal of impairment loss

As for assets for which impairment losses were recognized in previous periods, at each reporting date an examination is conducted for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the carrying amount of the asset, the impairment loss is reversed, does not exceed the carrying amount, net of depreciation or amortization, that would have been determined if an impairment loss were not recognized.

h. Retirement benefit

The Group has several retirement benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by others. Most of the employees have defined contribution plans and some of them have defined benefit plans.

i. 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.

The fair value at the time of granting of share-based payment awards to consultants and service providers are recognized over the consultants' and the service providers' period of service against an increase in equity. The fair value of the services is calculated on the basis of the fair value of the awards and not on the basis of the fair value of the services, since it is not possible to reliably estimate the fair value of the services rendered.

j. 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. The provisions are determined by discounting the future cash flows at a pre-tax interest rate, reflecting the current market estimates of the time value of the money and the specific risks of the liability without weighting the Group's credit risk. The carrying value of the provision is adjusted in every period so as to reflect the passage of time. The adjustment amount is credited to financial expenses.

k. Revenue

(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, commercial discounts and volume 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.

The Group recognizes revenue from the sale of its products, 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 of the products have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, there is no continuing management involvement with the products, 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 from the sales are recognized.

The timing of the transfer of risks and rewards varies, depending on the specific terms of the sales contract. The transfer of risks and rewards typically occurs when the products are exited from the company's warehouses.

In the event of sale to a distributor, the Group recognizes the revenue upon delivery of the product to the distributor since the distributor is the Company's end customer and as he does not have the right to return and therefore the material risks and rewards inherent to the ownership of the stock is transferred at this time.

The Group recognizes revenue from leasing its products over the lease term, in conformity with the agreement with the customer.

(2) Multi-element sale agreements

Revenues from sales agreements consisting of multiple elements, such as devices, consumables and support and service agreements, are separated into different components and are separately recognized for each component. A component constitutes a separate accounting unit if and only if it has value, separately, for the customer. Components not separated, are grouped together. The revenue from each such component is recognized upon fulfillment of the conditions for recognition of revenue based on the nature of the component, i.e. as products or as services. In general, the Group determines the fair value for each element based on selling prices when the product or service is sold separately (e.g. probes or extended warranty). In cases where the components are not sold separately, for example, in the case of installations or training, the Group establishes the value assigned to this element, based on estimated costs plus a reasonable margin.

Regarding the manner of recognition of revenue and establishing fair value for "total sleep solution" ("**TSS**") transactions, these transactions typically include the components identified below: (1) a specified number of tests (using a disposable probe), including the instruments to execute these tests; (2) optional interpretation service; and (3) standard

warranty agreements or extended warranty agreements. Establishing the fair value of each element in TSS transactions is done in a similar way to the manner of determining the value of the component sold in a regular transaction as described above. It should be noted that in some cases where there is a commitment of the purchaser of the service for a longer period, which also includes an option for the coincidental purchasing of the WatchPAT device at the end of the period, the Group handles sale transactions in these devices as a finance lease and recognizes as revenue in respect of the products supplied, based on their relative fair value compared to all the components in the transaction.

l. Financial income and expenses and changes in the fair value of derivatives

Financial income include interest income in respect of amounts invested (including available-for-sale financial assets), gains from the sale of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains (losses) from exchange rate differences in respect of the above assets and profits (losses) from hedging instruments recognized in profit or loss. Interest income is recognized when accrued, using the effective interest method.

Financial expenses include interest and revaluation expenses in respect of loans received, changes in liabilities to the Innovation Authority, changes in the value of time in respect of provisions, changes in fair value of financial assets at fair value through profit and loss, gains (losses) from exchange rate differences in respect of the aforementioned liabilities (except for losses in respect of impairment of trade receivables, which are presented as general and administrative expenses), and losses from hedging instruments recognized in profit or loss.

Gains and losses from exchange rate differences in respect of other assets and liabilities are reported in net, as financial income or expenses, depending on exchange rate fluctuations and as a result of their position (net profit or loss).

In the statements of cash flows, interest received and interest paid are presented in cash flows from operating activities.

m. 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.

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 taxes are 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 income will be available against which they can be utilized.

n. Loss per share

The Group presents basic and diluted loss per share data for its ordinary shares. Basic EPS is calculated by dividing the net loss attributable to holders of ordinary shares of the Company, by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is determined by adjusting the 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 options and warrants issued to shareholders employees, directors and consultants.

o. 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.

p. 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.

IFRS 9 (2014) applies to annual reporting periods beginning on or after January 1, 2018, although early adoption is permitted. IFRS 9 (2014) will be applied retrospectively, with the exception of certain reliefs.

The Group examined the effects of implementing the standard and the Group estimates that the implementation of the standard is not expected to have any material effect in on the financial statements.

(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, 2018 and earlier adoption is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application; full retrospective application with practical expedients; or 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 completed.

Date of initial implementation and method of implementation

The Group intends to adopt the standard, starting from January 1, 2018 with the cumulative impact approach, while adjusting retained earnings as of January 1, 2018. In addition, the Group is considering the application of the following expedients upon the date of transition:

(a) Application of the cumulative impact approach only for contracts that have not been concluded at the date of transition; as well as

(b) Examining the aggregate impact of changes in the contract that occurred before the

date of initial application, instead of an examination of each change separately.

Changes and expected effects in the revenue recognition

The incremental costs of obtaining a contract with a customer such as agent's sales commissions, which are currently recognized in the statement of operations, will be recognized in accordance with the standard as an asset if the Group expects to recover those costs. Such costs recognized as an asset shall be carried to the statement of operations on a systematic basis consistent with the transfer of the products or services to which the asset relates. The Group examined the expected impact on its financial statements and in its opinion, the impact is immaterial.

Quantitative effect

The table below presents the expected effect of the implementation of IFRS 15 on the relevant items in the statement of financial position as at December 31, 2017:

	in accordance with previous policy	Change	in accordance with IFRS 15
	U.S. dollars in thousands		
Trade receivable	5,362	333	5,695
Contract liabilities	(193)	(333)	(526)

In addition, the Group examined the expected effects of the implementation of IFRS 15 and in its assessment of the implementation of IFRS 15 is not expected to have a material effect on its operating results.

It should be noted that the information presented in this note regarding the effects of the initial implementation of IFRS 15 is an estimate of the Group and may be different from the policy and the quantitative data that will be included in the financial statements for the initial implementation period.

(3) International Financial Reporting Standard IFRS 16, "Leases"

The standard replaces IAS 17, "Leases" and the related interpretations. The standard provisions override the existing requirement for lessees to classify the leases as operational or finance. Instead, regarding lessees, the standard introduces one accounting model for all leases under which the lessee must recognize the asset and his lease liabilities in its financial statements. Furthermore, the standard establishes new more extensive disclosure requirements than those existing today.

The standard will be implemented for annual periods beginning on or after January 1, 2019, with an option for early adoption, provided that the Company implements in early adoption IFRS 15, "Income from contracts with customers". The standard includes various alternatives for the implementation of the transitional provisions, so that companies can choose one of the following options during the initial adoption: full retrospective adoption or implementation of the standard starting from the initial adoption date through retained earnings adjustment to said date.

The Group is examining the expected effects of the implementation of IFRS 16, but at this stage it cannot reliably estimate the quantitative impact on its financial statements. However, the Group believes that the implementation of IFRS 16 is not expected to have a material effect on the operating results.

(4) Interpretation of the Standing Interpretations Committee of the International Financial Reporting IFRIC 22, foreign currency transactions and foreign currency advances

The interpretation stipulates that the transaction date for determining the exchange rate for the registration of a transaction in foreign currency that includes advance payments shall be the date on which the Company initially recognizes a non-monetary asset/ liability in respect of the advance payment. When there are several advance payments or receipts, the Company will determine the transaction date in respect of every payment/ receipt separately.

The interpretation will be implemented for annual periods beginning on or after January 1, 2018, with the possibility of early adoption. The interpretation includes various alternatives for the adoption of the transitional provisions, so that companies will be able to choose between one of the following alternatives at initial adoption: retroactive adoption; prospective adoption starting on the first reporting period in which the entity first applied the interpretation; or prospective adoption starting on the first reporting period presented in comparative figures in the financial statements for the period in which the entity has first applied the interpretation.

The Group examined the implications of implementing the interpretation on its financial statements and intends to choose the alternative of a prospective adoption as of January 1, 2018.

In the past, the Group determined that the "transaction date" used to determine the exchange rate for recording a foreign currency transaction that includes advances will be the date on which the Group initially recognizes a non-monetary asset / liability in respect of the advance payment. As a result, it is not expected to have a material effect on the Group's consolidated financial statements

NOTE 4 – USE OF ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS

In preparing these financial statements, in conformity with IFRS, the Company's management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. It should be clarified that actual results may differ materially from these estimates.

When formulating the accounting estimates used in the preparation of the Company's financial statements, the Company's management is required to make assumptions regarding circumstances and events involving significant uncertainty. When determining the estimates, the Company's management relies on past experience, various facts, external factors and reasonable assumptions, based on the appropriate circumstances for each estimate. The estimates and the 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 affected future periods.

Information on assumptions made by the Group concerning the future and other key factors causing uncertainty regarding estimates that there is significant risk they will result in material adjustment to the carrying amount amounts of assets and liabilities within the next financial year is included the following Notes:

Assessment	Key assumptions	Possible consequences	Reference
Fair value of unquoted derivatives – the fair value of the embedded warrant component of convertible notes and warrants issued to Viola and of warrants (Series 4)	The fair value is measured based on observable market data (if there is an active market), based on the binomial model and based on the relevant parameters of the notes, the warrants issued to Viola and the warrants (Series 4)	Profit or loss due to a change in fair value of derivative financial instruments.	See b. below and Notes 13 and 26.

Assessment	Key assumptions	Possible consequences	Reference
	identified as required.		
Provision for warranty	The Company estimates the amounts it will be required to pay for its basic liability for the sale of its products.	Increase or decrease in the liability for amounts the Company will be required to pay for its liabilities.	See Notes 3j and 11.
Revenue recognition	Setting selling prices of individual components as part of recognition of income from transactions of multiple components.	An increase or decrease in revenue.	See Note 3k.

Determining the fair value

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 17 – Share-based payment arrangements.
- Note 13 – Derivatives.
- Note 26 – 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. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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 warrants which are embedded in the convertible notes is measured based on directly or indirectly observed market data, using the binomial model, based on relevant parameters of the conditions of the convertible notes which have been identified for determining the fair value of the warrant component. The underlying asset (the market price of the share); the price of the warrant; conversion rate; expected term; expected volatility of the underlying asset (the share price); the risk-free interest rate; and the yield to maturity of the notes.

The fair value of the warrants issued to Viola (the "**Viola Warrants**") and Warrants (Series 4) as of December 31, 2017 and 2016 (see Notes 13c and 16b) according to the binomial model and based on the relevant parameters of the terms of the Viola Warrants and the Warrants (Series 4) required for their valuation. The assumptions and parameters of the model include: the underlying asset (share market price), the exercise price of the warrant, the exercise price, duration of the warrant, expected volatility of the underlying asset (share price) and the risk-free interest rate for the period.

The fair value of the Viola Warrants and the fair value of the Warrants (Series 4) as of December 31, 2015, (see Notes 13c and 16b) were measured according to the quoted market value of the Warrants (Series 4), on the basis of the exchange rate of warrants on the first day of trading of the Warrants (Series 4), being January 3, 2016. This is due to the fact that the Viola Warrants and the Warrants (Series 4) have essentially identical terms.

The fair value of the Viola Warrants and the Warrants (Series 4) as of December 31, 2015 (see Notes [13c and 16b] were measured according to the quoted market value of the Warrants (Series 4), on the basis of the exchange rate of the warrants on the first day of trading of the Warrants (Series 4), being January 3, 2016. This is due to the fact that the Viola Warrants and the Warrants (Series 4) have essentially identical terms.

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 stock options granted to employee which are vesting over time is measured using the Black-Scholes valuation model. The model assumptions include share price on measurement date, the exercise price of the option, expected volatility (based on weighted average historic volatility of the Company's shares over the expected term of the options), expected term of the options (based on average), the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

The fair value of performance-based options and restricted share units ("RSUs") granted to officers and key employees and vesting on the basis of a rise in the Company's share price, measured by the implementation of the Monte Carlo Simulation, as well as the options granted to directors for which an exercise price has not yet been determined, were priced using the binomial model and based on relevant parameters of the terms of the grant program, and other variables that have been identified are necessary for the valuation of the grant.

e. Bad and doubtful debts

For the assessment of doubtful debts, the Group relies, among other things, on the risk assessment based on the information available to it regarding the debtors' financial position, scale and scope of their operations, evaluation of collateral received them and the assistance of the attorneys handling the debts of problem customers. The statements of the financial position as of December 31, 2017 and 2016 included a provision for doubtful debts amounting to $540 thousand and $450 thousand, respectively. The Company has not executed a collective examination of the impairment of customer balances as its impact on the financial statements is not material.

NOTE 5 - TRADE AND OTHER RECEIVABLES

	December 31,	
	2017	**2016**

	U.S. dollars in thousands	
Trade receivables:		
Open accounts	6,048	5,417
Checks receivable	327	182
	6,375	5,599
Less - allowance for doubtful accounts	540	450
	5,835	5,149
Is presented in the statement of financial position as follows:		
Under current assets	5,362	4,490
Under non-current assets	473	659
	5,835	5,149

	December 31,	
	2017	**2016**
	U.S. dollars in thousands	
Other receivables:		
Institutions	330	325
Advances to suppliers	51	74
Employees	121	154
Prepaid expenses	170	185
Sundry	13	12
	685	750

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 6 – INVENTORIES

	December 31,	
	2017	**2016**
	U.S. dollars in thousands	
Raw materials and auxiliary materials	969	753
Work in process	214	227
Finished goods	1,077	804
	2,260	1,784

NOTE 7 – PROPERTY AND EQUIPMENT

	Computers and peripheral equipment	Equipment and devices for leasing and for internal use	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost:					
Balance as of January 1, 2017	1,883	750	459	317	3,409
Additions	64	349	21	4	438
Disposals	-	(6)	(13)	(4)	(23)
Balance as of December 31, 2017	1,947	1,093	467	317	3,824
Accumulated depreciation:					
Balance as of January 1, 2017	1,570	409	255	167	2,401
Depreciation	62	240	71	37	410
Disposals	-	-	(7)	(2)	(9)
Balance as of December 31, 2017	1,632	649	319	202	2,802
Depreciated balance as of December 31, 2017	315	444	148	115	1,022

	Computers and peripheral equipment	Equipment and devices for leasing and for internal use	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost:					
Balance as of January 1, 2016	1,745	641	366	259	3,011
Additions	138	317	93	58	606
Disposals	-	(208)	-	-	(208)
Balance as of December 31, 2016	1,883	750	459	317	3,409
Accumulated depreciation:					
Balance as of January 1, 2016	1,499	414	200	143	2,256
Depreciation	71	113	55	24	263
Disposals	-	(118)	-	-	(118)
Balance as of December 31, 2016	1,570	409	255	167	2,401
Depreciated balance as of December 31, 2016	313	341	204	150	1,008

a. Acquisition of property and equipment on credit

In the years ended December 31, 2017, 2016 and 2015, the Company purchased property and equipment on credit in the amount of $8 thousand, $29 thousand and $49 thousand, respectively.

b. Additional information

The Group has assets that have been fully depreciated and are still in use. As of December 31, 2017 and 2016, the original cost of such assets is $2,614 thousand and $2,115 thousand, respectively.

NOTE 8 – INTANGIBLE ASSETS

	Computer software	Capitalized development cost	Marketing rights for medical product	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2017	704	606	375	1,685
Additions	42	110	-	152
Balance as of December 31, 2017	746	716	375	1,837
Accumulated amortization:				
Balance as of January 1, 2017	602	471	355	1,428
Amortization for the year	76	36	20	132
Balance as of December 31, 2017	678	507	375	1,560
Amortized balance as of December 31, 2017	68	209	-	277

	Computer software	Capitalized development cost	Marketing rights for medical product	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2016	659	506	375	1,540
Additions	45	100	-	145
Balance as of December 31, 2016	704	606	375	1,685
Accumulated amortization:				
Balance as of January 1, 2016	529	447	281	1,257
Amortization for the year	73	24	74	171
Balance as of December 31, 2016	602	471	355	1,428
Amortized balance as of December 31, 2016	102	135	20	257

NOTE 9 – EMPLOYEE BENEFITS

Employee benefits include retirement benefit obligations, short-term benefits and share-based payments.

As for retirement benefit obligations, the Group has defined benefit plans for which it contributes to insurance policies.

As for share-based payments, see Note 17 and as for benefits to key executives, see Note 27.

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Presented as part of current liabilities – accounts payable:		
Short-term employee benefits	223	198
Presented as part of non-current liabilities:		
Long-term employee benefits	310	156

Retirement benefit plans - defined benefit plan

1) Movement in net liabilities for defined benefit plans:

	Year Ended December 31,	
	2017	2016
	U.S. dollars in thousands	
Balance at beginning of year	156	168
Expense recognized on the statement of operations:		
Current service costs and interest costs	45	156
Changes due to exchange rate differences	16	-
Recognized loss including other:		
Actuarial losses carried to other comprehensive income	112	107
Other movements:		
Benefits paid	-	(134)
Deposits made by the Company	(19)	(141)
Balance at end of year	310	156

2) Expenses recognized in the statement of operations:

	Year Ended December 31,	
	2017	2016
	U.S. dollars in thousands	
Current service costs	21	138
Interest costs	6	1
Transfer of profits to benefits	18	16
Total	45	155

3) The principal actuarial assumptions as of the report date (based on weighted average):

	December 31,		
	2017	**2016**	**2015**
	%	**%**	**%**
Discount rate at the end of the year	**2.74**	3.35	3.58
Future salary growth	**3.27**	3.32	3.47

NOTE 10 – CRDIT FACILITY WITH ABANK AND CONVERTIBLE NOTES

a. Credit facility with a bank

On March 29, 2017, the Company and an Israeli Bank (the "**Bank**") reached an agreement (the" **Credit Agreement**") whereunder the Bank would grant the Company a credit facility in a total amount of up to $10 million. The credit facility is comprised of a $6 million long-term loan (the" **Loan**") and a $4 million credit facility against trade accounts receivable, based on specific customer invoices (the "**Credit Facility for Financing Accounts Receivable**"). The Loan may be drawn and is repayable in equal quarterly installments over three years from the date of the draw. The Loan bears annual interest of quarterly dollar LIBOR + 5.5%, payable quarterly. The Credit Facility for Financing Accounts Receivable may be drawn through March 25, 2018 and is renewable annually. The Credit Facility for Financing Accounts Receivable bears annual interest of monthly dollar LIBOR + 4.25%. The right to draw the credit facility is conditional on the Company's having cash balances of not less than $4 million in the Company's account with the Bank. In addition, the Company allotted the Bank 798,088 warrants exercisable for purchase of 798,088 of the Company's ordinary shares at an exercise price of NIS 1.36 per share.

On January 30, 2018, the Company and the Bank signed an amendment and extension of the validity of the Credit Agreement (the" **Amendment and Extension of the Credit Agreement**"). As part of the Amendment and Extension of the Credit Agreement, the following conditions were agreed upon ,inter alia:

1) The framework of the long-term loan is to be utilized as a long-term loan or as a short-term loan. The exercise period of the framework of this loan will be extended until February 28, 2019, with the manner of repayment of the principal of the short-term loans and the interest thereon will be agreed upon by the parties prior to the draw of the short-term loans.
2) The exercise period of the Credit Facility for Financing Accounts Receivable was extended until January 12, 2019.
3) The credit allocation fee will increase from 0.6% to 0.9%
4) The undertaking in the Credit Agreement to deposit $4 million in the Company's account with the Bank upon the withdrawal of the credit was changed, so that the Company undertakes that from the date of the withdrawal of credit, the balance of the cash in the Company's account with the Bank will not be less than 40% of the amount of credit actually provided to the Company.
5) The warrant exercise period was extended by one year.

To secure the repayment the Loan and the Credit Facility for Financing Accounts Receivable, the Company registered a fixed and floating charge on all of its assets in favor of the Bank.

Subsequent to the reporting date, on February 20, 2018, the company withdrew approximately $5 million from the credit facility, approximately $2.9 million as a short-term loan and $2.1 million as Credit Facility for Financing Accounts Receivable. The short-term loan is for a

period of three months.

The fair value of the warrants is $122 thousand. The model used in the calculation has taken into account the closing price of the Company's shares on the TASE on March 28, 2017 (the day preceding the date of the approval of the grant by the Board of Directors), which was NIS 1.28 per share and in accordance with the following assumptions:

Expected volatility	57.6%
Risk free interest rate	1.01%
Expected dividends rate	0%
Exercise price) in NIS(	NIS 1.36

Following the extension of the exercise period of the warrants, as described above, their fair value increased by $15 thousand.

b. Convertible notes

On March 2013, the Company issued by way of a shelf prospectus, under a shelf prospectus published by the Company in February 2013, NIS 62,556 thousand par value convertible notes (Series L), listed for trading and registered in the owner's name and also issued, by non-material private offering, a further NIS 13,700 par value convertible notes (Series L), listed for trading and registered in the owner's name for total net proceeds of $19.5 million. The notes (Series L) were convertible on any trading day, from the date of listing for trading through February 12, 2018, so that each NIS 1.92 par value notes (Series L) could have been converted into one ordinary share of NIS 0.01 par value of the Company, subject to adjustments (see below). The notes (Series L) matured in two principal repayments on February 28, 2017 and on February 28, 2018. The notes (Series L) bore fixed interest at 8.65% per annum (principal and interest are not linked), and were payable semi-annually: on August 28 and on February 28, through February 2018. The effective interest rate is 27.7%.

Following the rights offering during the year ended December 31, 2015 (as part of the Viola Investment Transaction, see Note 16b), the conversion ratio of the notes (Series L) was adjusted in accordance with the benefit element of the rights. Therefore, after said adjustment every 1.92 NIS par value of the notes (Series L) could be converted to 1.00904 ordinary shares of the Company.

On February 28, 2017, the first installment of the notes (Series L) in a total amount of NIS 38,128 thousand par value was repaid and on February 28, 2018, the second and last installment of the notes (Series L) in a total amount of NIS 38,128 thousand par value was repaid.

Out of the repayment made on February 28, 2018, a principal of NIS 6 million relating to notes (Series L) that were held by three interested parties in the Company, Medtronic International Technology Inc., Dr. Giora Yaron, who serves as Chairman of the Board of Directors ןn the Company (through Itamar Technologies and Investments (1994) Ltd., a company owned and controlled by him) and Mr. Martin Gerstel, who serves as a director of the Company (together in this section: the "Shareholders"), plus the interest that was to be paid to them were not paid. The Shareholders informed the Company that in order to support the Company's business strategy, they intend to provide the Company with a loan of the same amount. If the parties will not reach an agreement regarding the terms of the loan within 30 days (i.e., until March 23, 2018), the Company will repay the Shareholders the balance of the principal of the notes (Series L) and the interest within 60 days (i.e., until April 22, 2018).

On March 14, 2018 (after obtaining the approval of the Audit Committee), the Board of Directors approved principles for a private placement to the following shareholders: The controlling shareholder, Viola Growth II A.V. LP, a limited partnership, which holds the

Company's shares through Viola Growth II (A) L.P and Viola Growth II (B) L.P (the above three corporations will be called "Viola"), the abovementioned shareholders and an institutional investor who is an interested party in the Company. If the private placement is made, the loan money will be used to make the investment of the abovementioned shareholders in the private placement. For details, see Note 28.

NOTE 11 – PROVISIONS

	Warranties	Returns	Total
	U.S. dollars in thousands		
Balance as of January 1, 2017	93	74	167
Provisions made during the year	135	91	226
Provisions reversed during the year	(27)	-	(27)
Provisions realized during the year	(101)	(82)	(183)
Balance as of December 31, 2017	100	83	183

	Warranties	Returns	Total
	U.S. dollars in thousands		
Balance as of January 1, 2016	104	134	238
Provisions made during the year	58	2	60
Provisions reversed during the year	(26)	-	(26)
Provisions realized during the year	(43)	(62)	(105)
Balance as of December 31, 2016	93	74	167

a. Warranties

The provision is based on estimates made based on the 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 products returned by customers is calculated based on estimates made by management, relying on the Group's past experience.

NOTE 12 – OTHER ACCOUNTS PAYABLE

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Employees	1,117	963
Institutions	339	306
Interest payable	326	588
Advance payments from customers	193	158
Other	23	56
	1,998	2,071

For information about the Group's exposure to currency and liquidity risks in respect of the payables balances, see Note 25.

NOTE 13 – DERIVATIVES

a. Composition

	December 31	
	2017	2016
	U.S. dollars in thousands	
Liabilities		
The conversion component in the convertible notes, see b. below and Note 10b	96	2,237
Viola Warrants (non-traded), see c. below and Note 16b	2,315	3,827
Warrants (Series 4) (traded) issued under the rights offering, see c. below and Note 16b	464	736
	2,875	6,800

b. The conversion component of notes convertible into shares

The net proceeds from the issuance of the convertible notes was bifurcated for measurement purposes, into a conversion component, accounted for as a derivative measured at fair value in the statement of operations and is accordingly measured based on its fair value on each reporting date, 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 allocated to the different components pro-rata to the amounts of their initial recognition before allocation of the said costs.

The fair value is calculated using the binomial model with the following parameters:

	December 31,	
	2017	2016
Discount rate for notes (yield to maturity of the notes)	104.18%	46.62%
Share price (in NIS)	1.340	1.487
Standard deviation of the share price	56.13%	57.90%

c. The fair value of the Viola Warrants issued to Viola under the investment transaction and of the Warrants (Series 4) issued under the rights offering

The fair value of the Viola Warrants and the Warrants (Series 4) as of December 31, 2015 and as of the end of every one of the first three quarters of 2016 were measured according to the exchange rate of the Warrants (Series 4), on the basis of the warrants' rate every cut-off date. The fair value as of December 31, 2015 was determined on the basis of the exchange rate of the warrants on the first day of trading of the Warrants (Series 4), being January 3, 2016 This is due to the fact that the Viola warrants and the Warrants (Series 4) have essentially identical terms.

Pursuant to IFRS, the price cited in an active market must be used with no adjustment to measure fair value at any time it can be obtained, as this price provides the most reliable evidence of fair value. An "active market" is defined as a market where transactions in the asset or liability occur with sufficient frequency and volume, enough to provide information on price on an ongoing basis. When a significant decline occurs in the volume or level of activity in the asset or liability, additional analysis of the transactions or prices is needed, and

a change in the valuation technique or the use of multiple valuation techniques may be appropriate.

In connection with said provisions, the Company took the position that as of the end of 2016. there is no "active market" for the Warrants (Series 4) primarily due to an ongoing gradual decline in the frequency and volume of trading in the Warrants (Series 4), including in light that the total of such warrants traded over the fourth quarter of 2016 and the four quarters of 2017, was approximately 1.7%, 0.5%, 0.5%, 0.1% and 0.6%, respectively, of the total number of outstanding warrants with significant variance in the transactions prices of the warrants without a corresponding material change in the share price. Moreover, there was often a negative correlation between the change in the share price and the change in the trading price of the warrants.

Consequently, the fair value of the Viola Warrants and the Warrants (Series 4) that were outstanding as of December 31, 2016 and thereafter, were estimated on the basis of an accepted option pricing model, with the assistance of an independent appraiser. In addition, the Company gave the appropriate weight to market prices during the period. The fair value is measured based on observable market data, directly or indirectly, based on the binomial model and based on relevant parameters of the terms of the Viola Warrants and the Warrants (Series 4) required for their valuation. The assumptions and the parameters of the model include: the underlying asset (share market price), the exercise price of the warrants, the duration of the warrant, the expected volatility of the underlying asset (share price) and the risk-free interest rate for the period

The fair value of the Viola Warrants and the Warrants (Series 4) is calculated using the binomial model and based on the parameters listed below.

	December 31,	
	2017	**2016**
The discount rate of the Viola Warrants and the Warrants (Series 4) (risk free interest)	0.11%	0.43%
Share price (in NIS)	1.340	1.487
Standard deviation of the share price	56.13%	57.90%

NOTE 14 – COMMITMENETS AND CONTINGENCIES

a. Obligation to pay royalties to the Innovation Authority

The obligation to pay royalties to the Innovation Authority is presented as part of long-term liabilities and accrued expenses in respect of future sales of the EndoPAT3000 product and/or its unique technology. The long-term commitment is discounted to the date of the relevant reporting date. The above product development was discontinued before its completion and the Company has no sales in its respect. Therefore, for the purpose of calculating this commitment the Company carries out as of the date of each relevant financial statement a future sales forecast of the EndoPAT3000 product and/or its unique technology when the sales amounts are discounted. From time to time, the Company reexamines the forecasts and accordingly updates the amount of long-term commitment discounted in the financial statements. The valuation of the liability to the Innovation Authority is based on the discounted cash flows model (DCF).

It should be noted that the Company has a dispute with the Innovation Authority regarding the source of income for which the Company is required to pay royalties to the Innovation Authority. In accordance with the letter of undertaking signed by the Company with regard to the grants received from the Innovation Authority, the Company must pay royalties on all sales of cardiology products, namely for sales of the various EndoPAT products and not only

for sales of the EndoPAT3000 product and/or its unique technology. After consultation with experts, the Company's management believed, as it believes to this day, that it is not required to pay royalties on all sales of EndoPAT devices, but only on sales of products resulting from the unique technology, supported by the Innovation Authority's funds. The Company product, for which the Company has actual sales as of 2004, is the EndoPAT2000 product, and this product does not include technology supported by the funds from the Innovation Authority. The issue is currently in discussions with the Innovation Authority.

As of December 31, 2017, the Company has no plans to complete the development of the EndoPAT3000 product and/or its unique technology. Nevertheless, the Company periodically assesses other developments which may use the technology unique to EndoPAT3000. In the event that this technology will be used in the Company products, royalties from the sale of such products in the years 2019 to 2026 will cover, according to the Company's estimates, its entire commitment to the Innovation Authority. It should be noted that the gross obligation (before discounting) that may arise from royalty payments to the Innovation Authority was estimated in December 31, 2017 at approximately $1,030 thousand in accordance with the approval of the balance from the Tmura Fund at the Innovation Authority as of December 31, 2017, and in fact this is the amount of maximum exposure of the Company, should eventually the position of Innovation Authority will be accepted. The value of long-term commitment in the statement of financial position is $905 thousand.

b. Obligation to pay royalties to the Foreign Trade Administration of the Ministry of Economy and Industry

On December 16, 2015, the Company's request for government assistance for establishing a marketing agency in China was approved, as part of the assistance of the Ministry of Economy and Industry to establish marketing agency offices in China, India and Japan (the "**India China Plan**"). According to the approval received, the Company shall be entitled to a grant of 50% of its recognized expenses in connection with the establishment and operation of a marketing agency in China over a period of three years up to a maximum grant of NIS 1,625 thousand. The Company will be obligated to pay royalties up to the repayment of the total funding received, linked to the index. The royalties will be at a rate of 3% of the increase in sales of the Company in China with respect to the year ended December 31, 2015, which will be paid starting on the first calendar year in which the Company will not be entitled to reimbursement of expenses under the India China Plan, for five years or until the repayment of the support amount received under the India China Plan (linked to the Israeli CPI), the earlier of the two. However, it will be clarified, that in the event the Company does not increase the scope of exports during the India China Plan period and during the five years after the end of the India China Plan, it will not be required to pay royalties.

As of December 31, 2017, the Company received a grant under the India China Plan totaling $35 thousand. This amount is presented in statement of financial position under long-term liabilities.

On November 22, 2016, the Company's request for government assistance to promote the Company's marketing and distribution activities in the Netherlands was approved under the "Smart Money" program of the Ministry of Economy and Industry (the "**Smart Money Plan**"). The Company will be entitled to a grant of 50% of its recognized expenses in connection with the establishment of a marketing and distribution infrastructure in the Netherlands in a two-year period, with the possibility of extending it for an additional year (up to a maximum grant of NIS 346 thousand). In the event that the Company's export to the Netherlands is 50% higher or $250,000 (whichever is lower) relative to the year ended December 31, 2016, the Company will be liable for royalties until the full amount of the financing received is linked to the Israeli CPI. The royalties will be at a rate of 3% of the increase in the volume of its exports to the Netherlands with respect to the year ended December 31, 2016, which will be paid from the first calendar year in which the Company will not be entitled to reimbursement of expenses under the plan for five years or until the

amount of support received under the Smart Money Plan), the earlier of the two. However, it will be clarified, that in the event the Company does not increase the scope of exports during the Smart Money Plan period and during the five years after the end of the Smart Money Plan, it will not be required to pay royalties.

As of December 31, 2017, the Company received a grant under the Smart Money Plan totaling $8 thousand. This amount is presented in statement of financial position under long-term liabilities.

c. Commitments

The Company and its subsidiaries have lease agreements for buildings and vehicles. Minimum lease commitments expected under operating leases which may not be terminated are as follows:

Year Ending December 31,	U.S. dollars in thousands
2018	1,017
2019	982
2020	886
	2,885

NOTE 15 – INCOME TAXES

a. Corporate tax rates in Israel

Presented below are the tax rates relevant to the Company in the years 2015 – 2017:

2015 – 26.5%

2016 – 25%

2017 – 24%

On January 4, 2016, the Knesset (the Israeli parliament) approved the Amendment of the Income Tax Ordinance (No. 216) Law, 2016, which stipulated, inter alia, the lowering of the corporate tax rate beginning in January 1, 2016 and thereafter by 1.5% so that it stands at 25%. Furthermore, on December 22, 2016, the Knesset approved the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets for the 2017 and 2018 Budget Years), 2016, which stipulates, inter alia, the reduction of corporate tax rates from 25% to 23% in two phases. The first phase is to a rate of 24%, starting on January 2017 and the second phase is to a rate of 23% starting on January 2018 and thereafter.

b. Benefits under the Investment Encouragement Law

Approved enterprise, benefited enterprise and preferred enterprise

Most of the production facilities of the Company have been granted “Approved Enterprise”, “Benefited Enterprise” and “Preferred Enterprise” status under the Law for the Encouragement of Capital Investments, 1959 (the “**Investment Law**”). The Company is a “Foreign Investors’ Company” as defined by the Investment Law, it is entitled to tax benefits for taxable income arising from its approved, benefiting or preferred enterprise.

A company having an approved enterprise that distributes a dividend from income that was exempt, will be required in the tax year of the dividend distribution to pay corporate tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the corporate tax rate that would have been applicable to it in the year the income was generated if it had not been exempt from tax.

c. Measurement of results for tax purposes according to the Income Tax Law

(Adjustments for Inflation), 1985 (the "Adjustments Law")

The Company, as a "foreign investment company", has chosen to apply the provisions of the Income Tax Regulations (Rules for the Management of Account Books of Foreign Investment Companies and Certain Partnerships and Determination of their Compulsory Income), 1986 and reports for tax purposes in dollars, from the 2016 tax year.

d. Taxation of Non-Israeli subsidiaries

Subsidiaries incorporated outside of Israel are assessed for tax under the tax in their countries of residence.

The primary tax rates applicable to the Non-Israeli subsidiaries are:

U.S. – tax rate of 40% (federal and state taxes), see also below.

Japan – tax rate of 25.5%.

On December 22, 2017, the U.S. enacted new tax legislation, whereby the federal tax rate was reduced from 35% to 21%, effective 1 January 2018, imposing a restriction on the deduction of certain interest expenses and applying the territorial tax method. The reduction in the U.S. federal tax rate did not have a material impact on the tax expenses of the U.S. subsidiary in the year ended December 31, 2017.

e. Taxes on the income in the statement of operations

Tax expenses in the statement of operations mainly refer to operations of the subsidiaries in the U.S. and Japan. The Company does not pay taxes in Israel, as it has high tax losses carryforward to future years. In addition, as stated in e below, the Company does not recognize deferred taxes for these losses. Thus, the Company did not include a calculation of the theoretical tax due to the fact that the total tax expenses in the statement of operations are not material.

f. Carryforward tax losses

The Company has carryforward tax losses (including research and development expenses, which may be deductible) as of December 31, 2017, amounting to $112 million.

No deferred tax asset was recognized in respect of those carryforward tax losses, in the absence of expected utilization thereof in the foreseeable future.

g. Tax assessment

The Company has not received final tax assessments since its incorporation. The Company has self-assessments deemed to be final through the 2011 tax year.

NOTE 16 – EQUITY

a. Ordinary shares and additional paid-in capital

	Year Ended December 31,		
	2017	2016	2015
	Number of shares in thousands		
Issued and outstanding share capital (ordinary shares of NIS 0.01 par value):			
Outstanding at the beginning of the year	262,917	259,581	180,762
Shares issued in private placements during the year	-	2,976	76,777
Shares issued in the exercise of stock options during the year	1,578	360	2,042
Outstanding at the end of the year	264,495	262,917	259,581

Authorized	750,000	750,000	750,000

The rights of the ordinary shares include voting rights at the general meeting of shareholders, the rights to receive dividends and rights to participate in the distribution of the surplus assets of the Company in the event of liquidation.

b. Investment agreement with Viola and the rights offering to the Company's shareholders

During the fourth quarter of 2015 and the first quarter of 2016, under an agreement signed in August 2015 between the Company and a corporation of the Viola Group: Viola Growth 2 A.V. LP, a limited partnership, through Viola Growth II (A) LP and Viola Growth II (B) LP (the above three corporations will hereafter be called together: "**Viola**"), (the "**Investment Agreement**" and the "**Transaction**"), approved by a shareholders' meeting on October 12, 2015, Viola invested in the Company an amount of $25.2 million (out of which an amount of approximately $24.1 million was invested in November 2015 and an amount of $1.1 million was invested in February 2016). In total, the Company issued to Viola 66,876,907 ordinary shares at a price of NIS 1.449 per share (of which 63,900,759 ordinary shares were issued in the year ended December 31, 2015 and 2,976,148 ordinary shares were issued in the year ended December 31, 2016).

In addition, under the Investment Agreement the Company issued to Viola 33,438,454 non-traded warrants for no consideration (of which 31,950,380 warrants were issued in in the year ended December 31, 2015 and 1,488,074 warrants were issued in in the year ended December 31, 2016) at a ratio of one warrant for every two shares. The warrants are exercisable from the date of completion of the first phase. Each warrant will be exercisable into one ordinary share, at an exercise price which will be calculated as follows: For the first 21 months the exercise price of each warrant will be NIS 1.642 and for the remaining 21 months NIS 1.745, subject to adjustment in the event of a merger, the issuance of securities, distribution of cash dividend and changes in the Company's capital. Viola will be entitled to exercise the warrants by way of cash-less. The warrants will expire on the earlier of: (i) the passage of 42 months; (ii) in the event of a public offering valued at (pre-money) at least at $250 million; or (c) in the event of a merger or sale of shares which reflects a company value of at least $250 million and the result of which will be that the shareholders in the Company before said event will hold less than the majority of voting rights in the surviving/sold company.

The net consideration of the issuance of shares and warrants as part of the Viola Transaction was attributed to the equity component (shares) and the liability component (warrants). The consideration was first attributed to the liability component and then the remainder of the consideration was attributed to the equity component. The warrants are a liability component revalued at fair value through profit and loss for each cut-off date, as their exercise price is denominated in shekels, while the Company's functional currency is the dollar, namely the exercise price in effect is not permanent. See Note 13c for calculating the fair value of the warrants.

On December 29, 2015, the Company carried out a rights offering to its shareholders according to a shelf offering report published on December 2, 2015 (the "**Shelf Offering Report**"). Under the rights offering, the Company issued 12,876,603 ordinary shares at a price of NIS 1.449 per share and 6,438,152 warrants (Series 4) of the Company for no consideration. The gross consideration received by the Company in respect of the rights offering under the Shelf Offering Report amounts to approximately $4.7 million. As part of the Investment Agreement, Viola undertook that if there is no full response to the rights offering, the Company will issue it additional shares so that the total gross consideration from the Transaction and the rights offering will be $30.0 million. Since there was not a full response to the rights offering, Viola invested in February 2016 an additional amount of $1.1 million.

Each warrant (Series 4) shall be exercisable into one ordinary share, at an exercise price which will be calculated as follows: For the first 21 months will the exercise price of each warrant be NIS 1.642 and for the remaining 21 months it will be NIS 1.745, subject to adjustment in the case of the issuance of securities, distribution of cash dividend and changes in the Company's capital. The warrants (Series 4) were listed on the TASE.

Overall, in all stages of the Transaction and the rights offering, 79,759,210 ordinary shares were issued (of which 76,777,062 ordinary shares were issued in the year ended December 31, 2015 and 2,976,148 ordinary share were issued in the year ended December 31, 2016), 33,438,454 non-traded warrants (of which 31,950,380 warrants were issued in the year ended December 31, 2015 and 1,488,074 warrants were issued in the year ended December 31, 2016) and 6,438,152 warrants (Series 4) were issued in in the year ended December 31, 2015. The total consideration received as part of the Transaction and the rights offering is $30.0 million.

The net consideration of the offering from the issuance of the shares and warrants (Series 4) under the rights offering was attributed an equity component (shares) and the liability component (warrants). The consideration was attributed first to the liability component and then the remainder was attributed to the equity component. The warrants are essentially identical to the warrants issued to Viola. See Note 13c for calculating the fair value of the warrants (Series 4).

The issuance costs, in both transactions, are attributed to the shares, the warrants issued to Viola and the warrants (Series 4) according to the consideration attributed to each of the components. The issuance costs were deducted from the consideration attributed to the shares. The issuance costs attributed to the warrants issued to Viola and the warrants (Series 4) were immediately credited to the statement of operations as financial expenses.

NOTE 17 – SHARE-BASED PAYMENTS

a. The number of options and RSUs and the weighted average exercise price for every option or RSU:

	Year Ended December 31,					
	2017		2016		2015	
	Number of options	Range of exercise price (NIS)	Number of options	Range of exercise price (NIS)	Number of options	Range of exercise price (NIS)
Outstanding at beginning of year	40,178,148	0.00 – 2.50	24,316,648	0.10 – 2.50	26,935,899	0.10 – 2.50
Granted during the year [1][2]	4,105, 076	0.00 – 1.68	28,180,067	0.00 – 1.55	1,602,250	1.77 - 1.98
Forfeited and expired during the year [1]	(6,826,690)	-	(11,962,761)	-	(2,179,232)	-
Exercised during the year	1,565,050)	0.23	(355,806)	0.10 - 0.48	(2,042,269)	0.23 – 1.73
Outstanding at end of year	* 35,892,484	0.00 - 2.50	40,178,148	0.00 - 2.50	24,316,648	0.10 - 2.50
Exercisable at end of year	9,716,559	0.23 - 2.50	12,319,881	0.23 - 2.50	12,078,958	0.10 - 2.50

* Including:	
Options with service conditions only	16,753,449
Options with service conditions and market conditions	15,896,403
RSUs	3,242,632
Total	35,892,484

[1] In the year ended December 31, 2016, including the new options in lieu of all the options

granted in the past that have not yet vested, as detailed in e(2) below.

(2) In the year ended December 31, 2017, including the second tranche in the total amount of 330,000 options that were granted to four directors on May 25, 2016 and were actually allotted in the year ended December 31, 2017, and not t including the second tranche in the total amount of 220,000 options that were granted to two directors on May 16, 2017 and not yet been actually allotted. In the year ended December 31, 2016, not including the second and third tranches in the total amount of 880,000 options that were granted to four directors on May 25, 2016 and not yet actually allotted (see e(2) below).

As a result of the grant of such options and RSUs the Group recorded for the years ended December 31, 2017, 2016 and 2015, a non-cash expense of $1,294 thousand, $1,776 thousand and $428 thousand, respectively. The balance of expenditure amounting to $1,865 thousand will be recorded by the Company over the vesting period of the options.

The weighted average share price upon exercise of the options, for options exercised in the year ended December 31, 2017 and 2016 and 2015 was $0.35, $0.34 and $0.42, respectively.

The exercise price of the options outstanding as of December 31, 2017 ranges from approximately $0.07 to $0.72 and the weighted average of the remaining contractual duration is 6.23 years. The exercise price for outstanding options as of December 31, 2016 ranged between $0.00 and $0.65; the weighted average remaining contractual duration was 4.22 years. The exercise price for outstanding options as of December 31, 2015 ranged between $0.03 and $0.64; the weighted average remaining contractual duration was 6.47 years.

According to their original terms, the RSUs, in whole or in part, will become ordinary shares on January 21, 2020, if the Company meets the share price target specified in e below. The exercise price of the RSUs ranges from $0.00 to $0.09. On March 14, 2018, the Company's Board of Directors resolved to change the above date to December 20, 2020, see Note 28.

b. Additional information in respect of share-based payments discharged using equity instruments

The fair value of the options granted to the President and Chief Executive Officer, employees, directors and consultants is measured according to the Black-Scholes pricing model. The fair value of stock options and performance-based RSUs, granted to officers and key employees who are vesting on the basis of a rise in the Company’s shares, is measured by implementing the Monte Carlo Simulation; furthermore, the options granted to directors and which have not yet been set an exercise price, were priced using the binomial model.

Following are the parameters used to measure the fair value on the date of grant of share-based payment programs:

	Options with service conditions only	**Options with service conditions and market conditions**	**RSUs**
The fair value at grant date (in thousands of dollars)*	322	142	40
The number of shares arising from the exercise of the options (in thousands)	2,097	1,645	363
The parameters included when calculating fair value:			
The share price (at the grant date) (in NIS)	1.13 – 1.61	1.13	1.13
The exercise price (in NIS)	1.28 – 1.68	1.17	0.00
Expected volatility (weighted average)	56.9% - 58.9%	56.9%	56.9%
Expected lifetime (weighted average)	3– 6 years	5.5 years	-
Risk-free interest rate	0.4% - 1.43%	0.9%	0.9%

Expected dividend rate	0%	0%	0%

* Not including the fair value of the Extension of the exercise period of options granted to the President and Chief Executive Officer and to officers and key employees of the Company and its subsidiaries, see e(3) below.

The expected volatility was determined based on the historical volatility of the share price. The expected lifetime of the options is determined in accordance with management's estimation of the duration of the employees' holdings in them, given their position in the Company and the Company's past experience with respect to employee attrition. The risk-free interest rate is based on government shekel bonds, whose remaining period is equal to the expected lifetime of the options.

As to grant of stock options and RSUs subsequent to the reporting date and to the change subsequent to the reporting date of the terms of the options and RSUs having service conditions and market conditions, see Note 28.

c. Performance-based options

The vesting of options granted to employees, officers and consultants as of December 2013 was partially (28.5%) contingent upon the continued employment of the grantees (vesting period over 4 years) and in part (71.5%) on the grantees' meeting business and professional goals on the organization unit and on the personal level (in respect of 2014 only) and on meeting overall Company objectives.

The overall Company objectives include two cumulative threshold conditions which include target revenues 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. In the year ended December 31, 2015, the Company did not meet the overall Company objectives.

Unvested options as of December 31, 2015 were cancelled against the grant of options and RSUs or replaced with options with service conditions only, see e below.

d. Options and RSUs with service conditions and market conditions

The abovementioned options and RSUs will vest on January 21, 2020 (or earlier in case of an acceleration event), if the share price is at least NIS 2.13, at which time a quantity of 50% will vest and if the share price is NIS 4.24, the whole quantity will vest. In the range between these two share prices, a relative quantity will vest. An acceleration event is an event in which all the issued and outstanding share capital of the Company (including by way of a merger in which the Company's shareholders prior to the merger will hold less than 10% of the issued and outstanding share capital and voting rights in the company surviving the merger) is sold for consideration reflecting a share price that is not lower than the price of NIS 2.13.

On March 14, 2018, the Company's Board of Directors decided to change the price of NIS 2.13 to NIS 1.70 and the above date to December 20, 2020, see Note 28.

e. Grant of options and RSUs to officers, employees and directors

1) *Grants in the year ended December 31, 2017:*

In February 2017, the Company granted 711,000 options to employees

In May 2017, the Company granted 440,000 options to directors and 100,000 options were granted to a consultant.

In September 2017, the Company granted 2,281,218 options and 362,858 RSUs to employees. In addition, 100,000 options were granted to a consultant.

The grants during the year ended December 31, 2017, are detailed below:

The date of grant and the entitled grantees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of options to15 employees on February 28, 2017(with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.68	711,000	2/3 will vest and become exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on March 31, 2019.	5 years from the date of grant
Grant of options to Viola Growth Management 2 Ltd. ("Viola Management") in respect of the service of the directors Jonathan Kolber and Sami Totah (the "directors") (with service conditions only) on March 21, 2017 (the grant was approved by the Company's shareholders on May 14, 2017)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of which will be determined on the beginning of the vesting period. The exercise price of the options relating to the first tranche is NIS 1.54*	440,000	The options granted to directors will be divided into two equal portions of 220,000 options each. The vesting period for the first tranche for the first term will begin on May 14, 2017 (the date of the Company's 2017 shareholders' meeting); the vesting period for the second tranche for the second term will begin on the date of the Company's 2018 shareholders' meeting; each tranche will vest in four equal portions (55,000 options each) annually over four years, subject to extension of the term of the directors.	5 years from the start of vesting of each tranche
Grant of options to a consultant on March 29, 2017 (with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value	100,000	25% will vest and become exercisable on May 15, 2017. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., August 15, November 15, February 15 and May 15). The first quarterly tranche will vest on August 15, 2017.	5 years from the date of grant

The date of grant and the entitled grantees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
	with an exercise price of NIS 1.36			
Grant of options to an office holder (with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.28	367,548	25% will vest and become exercisable on April 30, 2018. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2018.	10 years from January 21, 2016
Grant of options to a key employee (with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.28	27,566	25% will vest and become exercisable on February 28, 2017. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on March 31, 2017.	10 years from January 21, 2016
Grant of options to an office holder (with service conditions and market conditions)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.17	1,529,864	The options will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to a key employee (with service conditions and market	Each option is exercisable into an ordinary share of	114,740	The options will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock	10 years from January 21, 2016

The date of grant and the entitled grantees	**The instrument conditions**	**The number of instruments**	**Vesting conditions**	**Contractual duration of the options (years)**
conditions)	NIS 0.01 par value with an exercise price of NIS 1.17		prices, the relative quantity will vest.	
Grant of options to employees (with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.28	241,500	2/3 will vest and become exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2019.	5 years from the date of grant
Grant of options to a consultant (with service conditions only)	Each option is exercisable into an ordinary share of NIS 0.01 par value with an exercise price of NIS 1.28	100,000	25% will vest and become exercisable after one year from the date of grant. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on September 30, 2018.	5 years from the date of grant
Total options		**3,632,218**		
Grant of RSUs to an office holder (with service conditions and market conditions)	Each RSU is exercisable into an ordinary share of NIS 0.01 par value without any exercise price.	337,542	The RSUs will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016

The date of grant and the entitled grantees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of RSUs to a key employee on October 13, 2016 (with service conditions and market conditions)	Each RSU is exercisable into an ordinary share of NIS 0.01 par value without any exercise price.	25,316	The RSUs will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total RSUs		**362,858**		

2) *Grants in the year ended December 31, 2016:*

In March 2016, the Company granted 3,620,834 new options to the President and Chief Executive Officer in lieu of all the options granted in the past that have not yet vested. In addition, the Company granted 3,755,847 new options in lieu of all the options granted in the past that have not yet vested to 16 key employees of the Company (including 6 officers), and the terms of 741,314 options granted in in the year ended December 31, 2014 onwards to 65 offerees were updated, so that the conditions of their exercise were cancelled and the their vesting period has changed. The said replacement was handled as a change in the conditions in accordance with IFRS 2. The incremental value measured at the date of replacement is not significant.

In addition, in March 2016, the Company granted to employees and officers of the Company 15,270,957 options and 3,465,761 RSUs.

In May 2016, the Company granted 1,759,999 options to directors.

In September 2016, the Company granted to employees 1,114,129 options and 72,545 RSUs.

The new grants and the replacements made during the year ended December 31, 2016, are detailed below:

The grant date and the entitled employees	The instrument conditions	The number of instruments (In thousands)	Vesting conditions	Contractual duration of the options (years)
Grant of options to the Company's President and Chief Executive Officer and key	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS	4,183,792 (1,869,467 options in lieu of options granted in the past and 2,314,325 new options)	25% will vest and become exercisable after one year from the date of grant. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of the first tranche vesting date (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on March 31, 2017.	5 years from date of grant*

The grant date and the entitled employees	The instrument conditions	The number of instruments (In thousands)	Vesting conditions	Contractual duration of the options (years)
employees on January 21, 2016 with service conditions only	1.55	to key employees.		
Grant of options to the Company's President and Chief Executive Officer and key employees on January 21, 2016 (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.40	17,177,846 (5,507,214 options in lieu of options granted in the past and 11,670,632 new options)	The options will vest at the end of four years if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	5 years from date of grant*
Grant of options to employees on January 21, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.55	656,000	2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on March 31, 2018.	5 years from date of grant
Grant of options to consultants on January 21, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.55	300,000	25% will vest and become exercisable after one year from the date of grant. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on March 31, 2017.	5 years from date of grant
Grant of options to 3 directors on March 16, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise	330,000	The options will vest in four equal portions on January 21 of each year from 2017 through 2020.	5 years from date of grant

The grant date and the entitled employees	The instrument conditions	The number of instruments (In thousands)	Vesting conditions	Contractual duration of the options (years)
	price of NIS 1.55			
Grant of options to 4 directors on May 25, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.48 (for the first tranche of 219,999 options). The exercise price for 880,000 options that will be granted for the second and third term will be determined on the date of the vesting.	1,099,999	The options granted to directors shall be distributed as follows: first tranche in the amount of 219,999 options; Second and third tranche in the amount of 440,000 each. The vesting period for the first tranche for the first term began on May 25, 2016; the vesting period for the second term will begin on May 25 2017; the vesting period for the third tranche for the third term in office will begin on May 25, 2018, each tranche will vest in four equal portions annually over four years.	5 years from the start of vesting of each tranche
Grant of options to 2 external directors on June 17, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.48 (for the first tranche of 220,000 options). The exercise price for 440,000 options that will be granted for the second and third term will be determined on the date of the	660,000	The options granted to a director will be divided into 3 equal portions of 220,000 options each. The vesting period for the first tranche for the first term began on June 17, 2016; the vesting period for the second term will begin on June 17, 2017; the vesting period for the third term in office will begin on 17 June 2018, each tranche will vest in four equal portions (55,000 options each) annually over four years.	5 years from the start of vesting of each tranche

The grant date and the entitled employees	The instrument conditions	The number of instruments (In thousands)	Vesting conditions	Contractual duration of the options (years)
	vesting.			
Grant of options to a key employee on October 13, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.41	81,447	25% will vest and become exercisable after one year from the date of grant. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on September 30, 2017.	5 years from date of grant*
Grant of options to a key employee on October 13, 2016 (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.33	337,682	The options will vest at the end of four years if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	5 years from date of grant*
Grant of options to employees on October 13, 2016 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.41	695,000	2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on September 30, 2018.	5 years from date of grant
Total options		25,521,766 (7,376,681 in lieu of options granted in the past and 18,145,085 new options)		
Grant of RSUs to the Company's President and Chief Executive Officer on January 21, 2016 (with service conditions and market	Each RSU is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 0.30.	1,692,312	The RSUs will vest at the end of four years if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	5 years from date of grant

The grant date and the entitled employees	The instrument conditions	The number of instruments (In thousands)	Vesting conditions	Contractual duration of the options (years)
conditions)				
Grant of RSUs to key employees on January 21, 2016 (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	1,773,449	The RSUs will vest at the end of four years if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	5 years from date of grant
Grant of RSUs to a key employee on October 13, 2016 (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	72,545	The RSUs will vest at the end of four years if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	5 years from date of grant
Total RSUs		3,538,306		
Changing the terms of the options				
Changing the terms of employee options with performance conditions granted in in the years ended December 31, 2014 and 2015	Each option is exercisable into a share of NIS 0.01 par value with an exercise price as determined on the date of the original grant (ranging from NIS 1.57 to NIS 2.13)	741,314	2/3 will vest and become exercisable two years after the date of the change, which is January 21, 2016. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first tranche will vest on March 31, 2018.	10 years from original date of grant

3) *Extension of the exercise period of options granted to the Company's President and Chief Executive Officer and to officers and key employees of the Company and its subsidiaries*

On March 21, 2017, the Company's Board of Directors resolved to extend by five years till January 20, 2026, the exercise period of the options granted to the President and Chief Executive Officer and to officers and key employees of the Company and its subsidiaries. There will be no change in the other terms of the options, including the exercise price and the vesting terms. The new exercise period is in line with the Company's compensation policy which allows an exercise period of up to ten years. The extension of the exercise period of the options granted to the President and Chief Executive Officer were approved by the Company's shareholders on May 14, 2017)

The fair value of the extension of the exercise period of the options is $475 thousand. The assessment of the fair value of the service options has been executed using Black-Scholes pricing model. The model took into account the closing price of the Company's shares on the TASE on March 20, 2017, which was NIS 1.40 per share and in accordance with the assumptions that are detailed below. The assessment of the fair value of the performance options having market terms was using a Monte-Carlo Simulation, taking into account the closing price of the Company's shares on the TASE on March 20, 2017, which was NIS 1.40 per share and in accordance with the assumptions that are detailed below:

	Service options	**Performance options**
Expected volatility	57.6%	57.6%
Average lifetime (in years)	4.8 – 5.9	8.8
Risk free interest rate	0.91% - 1.36%	2.0%
Expected dividends rate	0%	0%

4) The exercise price in respect of 330,000 options for three directors, which constitutes the second tranche of three tranches, the awarding of which was approved by the Company's shareholders on May 25, 2016, was actually determined on May 14, 2017, upon the renewal of their term by the Company's shareholders at that time, at NIS 1.39 (the average closing price for the Company's shares on the TASE in the 30 trading days preceding that time, plus 10%). An additional director left the Board of Directors and accordingly he was not granted the second tranche.

5) The exercise price in respect of 220,000 options for two external directors, which constitutes the second tranche of three tranches, the awarding of which was approved by the Company's shareholders on May 25, 2016, was actually determined on June 17, 2017, at the end of one year for their election, at NIS 1.29 (the average closing price for the Company's shares on the TASE in the 30 trading days preceding that time, plus 10%).

NOTE 18 – REVENUES

The Company operates in one business sector. Following is a detailing of revenues according to product groups:

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
WatchPAT and related products	18,105	15,697	12,414
EndoPAT	2,596	2,743	4,393
	20,701	18,440	16,807

Separating revenue on the basis of geographical segments, based on the geographical location of the customers.

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
United States and Canada	14,764	13,343	10,485
Europe	1,746	1,542	2,155
Israel	260	268	301
Asia Pacific (excluding Japan)	759	1,017	1,511
Japan	2,965	2,161	2,045
Others	207	109	310
	20,701	18,440	16,807

Revenue from major customers

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Customer A	3,622	3,549	2,927
Customer B	2,621	2,119	1,567
Customer C	2,510	2,096	924
	8,753	7,764	5,418

NOTE 19– COST OF REVENUES

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Raw materials, auxiliary materials, subcontractors (including changes in inventories)	1,767	2,173	1,803
Payroll and related expenses (including share-based payment)	1,956	1,749	1,698
Shipping	500	386	377
Depreciation and amortization	190	124	134
Other	589	547	389
	5,002	4,979	4,401

NOTE 20 – SELLING AND MARKETING EXPENSES

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	6,051	7,159	5,475
Share-based payment	336	429	146
Sales commissions	2,487	2,733	2,096
Travel	907	1,294	987
Consultants	661	543	536
Advertising, public relations and sales promotion	215	269	211
Conferences and trade shows	413	535	229
Other	1,070	1,073	1,004
	12,140	14,035	10,684

NOTE 21 – RESEARCH AND DEVELOPMENT EXPENSES

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	2,136	1,703	1,542
Share-based payment	87	257	119
Patents and regulation	167	343	311
Subcontractors and consultants	484	361	165
Clinical studies	695	168	316
Other	560	393	378
	4,129	3,225	2,831

NOTE 22 – GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Payroll and related expenses	2,695	2,427	2,066
Share-based payment	740	1,060	151
Travel	208	182	201
Legal expenses and cost of settlement agreement	218	308	194
Accounting and audit fees	273	330	350
Doubtful and bad debt (see Note 26a)	148	849	52
Directors fee and related expenses	195	201	188
Expenses relating to aborted share issuance	-	28	368
Other	801	828	780
	5,278	6,213	4,350

NOTE 23 – FINANCIAL INCOME AND EXPENSES

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Financial income (expenses) from of cash and investments:			
In respect of investments in bank deposits and marketable securities *	1,389	547	(530)
Other financial income	202	169	176
	1,591	716	(354)
Financial expenses from notes and loans:			
Convertible notes*	4,427	4,610	3,657
Long-term loans from shareholders*	-	-	199
Other financial expenses	427	185	282
Exchange rate differences	30	(35)	91
	4,884	4,760	4,229
Profit (loss) on derivative financial instruments:			
Loss on revaluation to fair value of the warrants embedded in the convertible notes	(2,141)	(1,567)	(5,358)
Gain (loss) on revaluation to fair value of warrants	(1,784)	1,783	(2,572)
	(3,925)	216	(7,930)

* Including the effect of changes in the exchange rate of the shekel against the dollar.

NOTE 24 – LOSS PER SHARE

a. Basic loss per share

The computation of basic loss per share was based on the loss attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding.

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Loss attributed to the ordinary shareholders	(5,301)	(14,403)	(2,247)

Weighted average number of ordinary shares

	Year Ended December 31,		
	2017	2016	2015
	Number of shares in thousands		
Balance at the beginning of the year	262,917	259,581	*181,626
The effect of private placement and issue of rights	-	2,716	9,915
The effect of exercise of options into shares	1,192	245	268
Weighted average number of ordinary shares used in computation of basic loss per share	264,109	262,543	191,808

* Including the benefit component embedded in the rights offering from December 2015 which is presented retroactively.

b. Diluted loss per share

The computation of diluted loss per share was based on the loss attributed to the ordinary shareholders divided by the weighted average number of ordinary shares outstanding, after adjustment for all potentially dilutive ordinary shares, as follows:

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Loss used in computation of basic earnings per share	(5,301)	(14,403)	(2,247)
Changes in the fair value of the Viola warrants and warrants (Series 4), which are classified as a liability	(1,785)	-	-
Financial expenses in respect of convertible notes	-	-	(1,711)
Loss attributed to the ordinary shareholders (diluted)	(7,086)	(14,403)	(3,958)

Weighted average number of ordinary shares (diluted)

	Year Ended December 31,		
	2017	2016	2015
	Number of shares in thousands		
Weighted average number of ordinary shares used in computation of basic loss per share	264,109	262,543	191,808
Effect of conversion of convertible notes	-	-	40,075
Effect of the exercise of the Viola warrants and warrants (Series 4)	39,877	-	-
Weighted average number of ordinary shares used in computation of diluted loss per share per share	303,986	262,543	231,883

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2017, 23,588,582 shares in respect of convertible notes, 32,719,056 shares in respect of options and 3,242,632 shares in respect of RSUs granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2016, 40,075,289 shares in respect of convertible notes, 33,438,454 shares in respect of non-traded warrants issued to Viola, 6,438,152 shares in respect of warrants (Series 4) and 36,779,259 shares in respect of options and 3,398,889 shares in respect of RSUs granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2015, 31,950,380 shares in respect of non-traded warrants issued to Viola, 6,438,152 shares in respect of warrants (Series 4) and 24,316,648 shares in respect of options granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

NOTE 25 – 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, the 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

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 42%, 42% and 27%, respectively, of the Group's revenues in the years ended December 31, 2017, 2016 and 2015, respectively, arise from sales to single customers. Other than this, there are no other concentrations of credit risk.

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., Japan and Europe. The Group's 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.

Cash

Most of the Group's cash and cash equivalents are deposited in banks, which are among the largest in Israel.

Investments

The Group limits its exposure to credit risk by investing exclusively in NIS-denominated money market funds, bank deposits, government and corporate bonds with rating of no less than rating A (there may be investments in corporate bonds rating BBB through portfolio managers of up to 10% of the investment portfolio managed by them).

The Company's investments are in securities at fair value. As of December 31, 2017 and 2016 the investment includes investment in corporate and government NIS-denominated bonds. The Company realized these investments in January and February 2018, close to the date of repayment of the notes.

Following is the composition of investments in marketable securities:

	December 31	
	2017	2016
	U.S. dollars in thousands	
Government bonds - linked to the Israeli CPI	368	382
Government bonds – unlinked	838	720
Corporate bonds- linked to the Israeli CP	1,008	940
Corporate bonds –unlinked	777	587
Current account	182	152
	3,173	2,781

The Company's investments in bonds through mutual funds (and not in direct holding) amounted to $1,574 thousand and 1,380 as of December 31, 2017 and 2016, respectively.

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, payroll and services expenses and loans denominated in currencies (primarily NIS, but also Euro and Japanese yen) used by the companies in the Group. The currencies in which most transactions are denominated are the dollar, NIS, Euro and Japanese yen.

Most of the Group's revenues are denominated in its functional currency (the dollar) and some in Euro and Japanese yen (as from July 2014 there are no sales in Japanese yen). The Group's 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/ Japanese yen) and strives to mitigate currency risk by maintaining liquid investments and cash positions in short-term NIS-denominated deposits, in NIS, in Euro and in Japanese yen.

Interest rate risk

The Group has no material exposure as of December 31, 2017.

NOTE 26 – 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,	
	2017	2016
	U.S. dollars in thousands	
Cash and cash equivalents	7,643	23,358
Trade receivables (including long-term trade receivables)	5,835	5,149
Investments in securities	3,173	2,781
Pledged deposits in banks	313	287
Other accounts receivable	185	240
	17,149	31,815

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,	
	2017	2016
	U.S. dollars in thousands	
Israel	9,581	25,977
U.S. and Canada	5,815	4,577
Asia Pacific	817	791
Europe	909	426
Other	27	44

	17,149	31,815

2) Aging of receivables and impairment

Aging of trade receivables:

	December 31, 2017		December 31, 2016	
	Gross Amount	Impairment	Gross amount	Impairment
	U.S. dollars in thousands		U.S. dollars in thousands	
Not in arrears	4,503	-	4,607	151
In arrears up to three months	1,160	-	312	-
In arrears up to six months	200	35	285	13
In arrears up to 12 months	71	64	142	73
In arrears over 12 months	442	442	253	213
	6,376	541	5,599	450

Movements in the allowance for impairment of receivables and loans granted during the year were as follows:

	Year Ended December 31,	
	2017	2016
	U.S. dollars in thousands	
Balance at beginning of year	450	256
Recognized impairment loss	148	849
Bad debt	(57)	(655)
Balance at end of year	541	450

b. Liquidity risk

Below is an analysis of contractual maturities of financial liabilities including estimated interest payments:

	December 31, 2017						
	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						
Non-derivative financial liabilities							
Convertible notes, including current maturities	11,022	11,473	11,473	-	-	-	-
Trade payables	1,262	1,262	1,262	-	-	-	-
Other long-term accounts payable*	948	948	-	-	-	-	948
Other accounts payable**	2,714	2,714	2,536	178	-	-	-
Total	15,946	16,397	15,271	178	-	-	948

	December 31, 2016						
	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						
Non-derivative financial liabilities							
Convertible notes, including current maturities	18,378	21,548	10,774	429	10,345	-	-
Trade payables	1,324	1,324	1,324	-	-	-	-
Other long-term accounts payable*	860	860	-	-	-	860	-
Other accounts payable**	2,086	2,086	1,908	178	-	-	-
Total	22,648	25,818	14,006	607	10,345	860	-

* Composition is based on expected future sales of the product developed for which grants were received (see Note 14).

** Includes the accrued expenses and other accounts payable.

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, 2017						
		Currency different from dollar					
	Dollars	NIS unlinked	NIS linked to the Israeli CPI	Euro	Other currencies	Non-monetary items	Total
	U.S. dollars in thousands						
Assets							
Cash and cash equivalents	2,337	5,124	-	160	22	-	7,643
Marketable securities	-	1,797	1,376	-	-	-	3,173
Trade receivables (including long-term trade receivables)	4,952	194	-	689	-	-	5,835
Accounts receivable	137	45	-	3	-	500	685
Inventories	-	-	-	-	-	2,260	2,260
Long-term restricted deposits	108	205	-	-	-	-	313
Long-term prepaid expenses	-	-	-	-	-	69	69
Property and equipment and intangible assets	-	-	-	-	-	1,299	1,299
	7,534	7,365	1.376	852	22	4,128	21,277
Liabilities							
Trade payables	382	833	-	47	-	-	1262
Employee benefits	-	-	-	-	-	533	533
Provisions	-	-	-	-	-	183	183
Other accounts payable (including accrued expenses)	1,877	1,117	-	70	-	339	3,403
Convertible notes	-	10,696	-	-	-	-	10,696
Financial derivatives	-	2,875	-	-	-	-	2,875
Other long-term accounts payable	905	-	43	-	-	-	948
	3,164	15,521	43	117	-	1,055	19,900
Total exposure in the statement of financial position in respect of financial assets and financial liabilities	4,370	(8,156)	1,333	735	22	3,073	1,377

	December 31, 2016						
		Currency different from dollar					
	Dollars	NIS unlinked	NIS linked to the Israeli CPI	Euro	Other currencies	Non-monetary items	Total
	U.S. dollars in thousands						
Assets							
Cash and cash equivalents	4,266	18,371	-	680	41	-	23,358
Marketable securities	-	1,460	1,321	-	-	-	2,781
Trade receivables (including long-term trade receivables)	4,687	104	-	358	-	-	5,149
Accounts receivable	193	40	-	2	5	510	750
Inventories	-	-	-	-	-	1,784	1,784
Long-term restricted deposits	108	179	-	-	-	-	287
Long-term prepaid expenses	-	-	-	-	-	173	173
Property and equipment and intangible assets	-	-	-	-	-	1,265	1,265
	9,254	20,154	1.321	1,040	46	3,732	35,547
Liabilities							
Trade payables	803	501	-	20	-	-	1,324
Employee benefits	-	-	-	-	-	354	354
Provisions	-	-	-	-	-	167	167
Other accounts payable (including accrued expenses)	1,538	1,069	-	47	19	337	3,010
Convertible notes	-	17,791	-	-	-	-	17,791
Financial derivatives	-	6,800	-	-	-	-	6,800
Other long-term accounts payable	836	-	24	-	-	-	860
	3,177	26,161	24	67	19	858	30,306
Total exposure in the statement of financial position in respect of financial assets and financial liabilities	6,077	(6,007)	1,297	973	27	2,874	5,241

Below is data on consumer price indices and significant exchange rate against the dollar:

	December 31	
	2017	2016
The Israeli CPI (In points)	118.69	118.34
The NIS exchange rate	0.2884	0.2601
The Euro exchange rate	1.1978	1.0517
The exchange rate of 100 Japanese Yen	0.8885	0.8547

	Year Ended December 31	
	2017	2016
	% of change	
The Israeli CPI	0.30	(0.30)
The NIS exchange rate	10.90	1.48
The Euro exchange rate	13.89	(3.37)
The exchange rate of 100 Japanese Yen	3.95	2.92

2) Sensitivity analysis

A stronger dollar against the following currencies at the end of each reporting period, 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.

	December 31 2017	
	Equity	**Profit (loss)**
	U.S. dollars in thousands	
An increase in the exchange rate of:		
NIS by 5%	(340)	(340)
Euro by 5%	37	37
Yen by 5%	1	1

The weakening of these currencies against the dollar and the decrease in the Israeli CPI at a similar rate as of December 31, 2017 had a similar effect, albeit in the opposite direction, assuming that all other variables remain constant.

	December 31 2016	
	Equity	**Profit (loss)**
	U.S. dollars in thousands	
An increase in the exchange rate of:		
NIS by 5%	(236)	(236)
Euro by 5%	49	49

The weakening of these currencies against the dollar and the decrease in the Israeli CPI at a similar rate as of December 31, 2016 had a similar effect, albeit in the opposite direction, assuming that all other variables remain constant.

d. Interest rate risk

All of the Group’s interest-bearing instruments bear fixed interest excluding the liability to the Innovation Authority and to the Foreign Trade Administration of the Ministry of the Economy and Industry bearing semi-annual LIBOR interest rate.

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

The carrying amount of the cash and cash equivalents, trade receivables, other accounts receivable, bank deposits, pledged deposits, trade payables, and other accounts payable and derivatives is identical or approximate to their fair values due to the lifetime of these items.

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 2017		December 31 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	U.S. dollars in thousands			
Liabilities:				
Convertible notes **	11,118	11,283	20,616	21,062
Liability in respect of royalties to the Innovation Authority and the Foreign Trade Administration at the Ministry of the Economy and Industry	948	430	860	276
	12,066	11,713	21,476	21,338

* Including interest payable and the conversion component.

As for the basis for determining the fair value, see Note 4.

f. Fair value hierarchy of financial instruments measured at fair value

The following table shows an analysis of the financial instruments measured at fair value using the valuation method.

For details of the fair value hierarchy, see Note 4.

	December 31, 2017		
	Level 1	Level 3	Total
	U.S. dollars in thousands		
Financial instruments - securities	3,173	-	3,173
Financial instruments – derivative instruments	-	2,875	2,875

	December 31, 2017		
	Level 1	Level 3	Total
	U.S. dollars in thousands		
Financial instruments - securities	2,781	-	2,781
Financial instruments – derivative instruments	-	6,800	6,800

NOTE 27 – RELATED PARTIES

a. Compensation to key executives (including directors)

Chairmen of the Board of Directors and former Co-Chairman of the Board of Directors

The Company entered into agreements with two of its shareholders for provision of services of Co-Chairmen. The Company pays the Chairman of the Board of Directors $6,250 per month. The Company also committed to reimburse the expenses incurred by the Chairman of the Board of Directors 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.

The former Co-Chairman of the Board of Directors received $1,250 a month up to and including March 31, 2016. As of the said date, upon the termination of his term as Co-Chairman of the Board of Directors, he began receiving directors’ compensation according to the Companies Regulations (Rules Regarding Compensation and Expenses of an External Director), 2000.

b. Transactions with related parties

Compensation to key executives (including directors) includes:

	Year Ended December 31,					
	2017		2016		2015	
	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
Short-term employee compensation	7	1,384	6	1,590	7	1,373
Share-based payment	7	1,083	6	1,168	7	128
		2,467		2,758		1,501

Compensation to key executives (including directors) not employed by the Company:

	Year Ended December 31,					
	2017		2016		2015	
	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 directors not employed by the Company	9	306	9	278	9	263

	Year Ended December 31,			December 31,	
	2017	2016	2015	2017	2016
	Transaction amounts			Carrying amount	
	U.S. dollars in thousands			U.S. dollars in thousands	
Key executives (including directors) of the Company	2,773	3,035	1,764	1,147	2,042

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c. Private placement

As for the private placement to Viola in the year ended December 31, 2015 and 2016, see Note 16b.

d. Capital reserve for transactions with shareholders

The capital reserve from transactions with shareholders includes the waiver of the Company's shareholders of any amounts due to them for the services provided to the Company, as well as the interest rate differentials in respect of loans extended to the Company by its four major shareholders and the market interest rate at the time of receipt of the loans.

e. Officer and directors liability insurance

On November 27, 2017, the Company's Board of Directors, after receiving the recommendations of the Compensation Committee, approved the purchase of an insurance policy for its officer and directors, both for the Company and its subsidiary, providing coverage

of up to $20 million per case and for the insurance period on aggregate, from January 6, 2018 to February 6, 2019. This insurance policy also covers directors considered to be related parties. The annual premium for the insurance policy, for said period is approximately $25 thousand.

In addition, on November 30, 2015, following the Viola Investment Transaction in the Company and Viola becoming a controlling shareholder, the Company's Board of Directors, in accordance with Article 1b(1) of the Companies Regulations (Reliefs in Certain Interested Parties' Transactions), 2000 and the compensation policy and after receiving the recommendations of the Compensation Committee, approved the purchase of the run-off policy for the officers' liability insurance. The Company's agreement regarding the run-off policy is consistent with the conditions set out in the compensation policy in that the run-off policy covers the exposure of the Company and its directors and officers in the amount of up to $20 million, for the period beginning on January 1, 1997 and ending on the date of completion of the first phase of the Viola Transaction, November 5, 2015 and will be valid for a period of 84 months starting from November 5, 2015 and the one-time premium paid in its respect does not exceed the maximum premium specified in the compensation policy. With the entry into force of the run-off policy the existing policy was automatically canceled, and therefore the Company's Board of Directors approved, on the same date and in accordance with the recommendations of the Compensation Committee, the acquisition of a new policy insuring the liability of directors and officers of the Company and its subsidiaries, under the same conditions of the existing policy.

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 15 million NIS (linked to the Israeli CPI for August 2014). Furthermore, the shareholders approved that subject to the provisions of any law, the Company shall undertake in respect of each officer to grant him a letter of indemnity whereby for seven years following the completion of his term of officer it will continue to purchase an officers' liability insurance policy also covering the liability of the officer ending his term with the Company so as not to leave the officers exposed to claims after the completion of their office in the Company.

f. Marketing agreement with a former controlling shareholder in the Company

In March 2014, the Company entered into a marketing agreement (in this Section: the "**Agreement**") with Medtronic (which at the time was a controlling shareholder) to market WatchPAT as part of a total sleep solution to be offered by the companies to physicians specializing in cardiological electro-physiology exclusively 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 that the Agreement would be extended for six months to enable the parties to complete the process of building and entrenching the overall solution.

On April 1, 2015, the Company reported that the pilot period of the agreement has ended and that the parties are in negotiations to continue the contract, including the terms set out in the reports referred to above, subject to a number of changes in light of the lessons learned during the pilot.

On 19 April 2015, the Company reported that it and Medtronic decided to continue the contract between them and move on to the full format of the marketing agreement (i.e., the end of the pilot that was limited to one geographic area and a move to national distribution throughout the U.S.), subject to a number of updates to the agreement (the "**Amendment to the Agreement**"), as follows:

1) According to the Amendment to the Agreement, Medtronic will focus on raising

awareness to the WatchPAT product amongst customers as a tool for diagnosing sleep-disordered breathing in order to bring about sales of the WatchPAT product.

2) It was decided to cancel Medtronic's commitment to a specific investment in marketing and achieving minimum goals and instead Medtronic will support the activities stated in (1) above in using Medtronic's resources. It was therefore decided that the agreement will be for a period of 13 months (rather than 36 months) starting on March 2015 to April 2016 (inclusive).

In April 2016, the amended agreement was extended until April 28, 2017 and in April 2017, the agreement was extended for an additional period ending on June 30, 2017, after which the agreement will be renewed for periods of 30 days each.

In the years ended on December 31 2017, 2016 and 2015, the Company recognized revenues from sales to customers (third parties) under the Agreement in the amount of approximately $307 thousand, $177 thousand and $222 thousand, respectively. The total sales commissions to Medtronic in these years under the Agreement totaled approximately $61 thousand, $35 thousand and $44 thousand, respectively.

g. Special bonus to the President and Chief Executive Officer

On May 14, 2017, the Company's shareholders approved the recommendation of the Board of Directors from March 29, 2017 to grant a special bonus to the Company's President and Chief Executive Officer in the amount of NIS 250,000.

h. Loans from related parties

As to the intentions of interested parties who held the notes to give loans to the Company out of the amounts that they were supposed to repay in respect of the notes they held, see Note 10b.

NOTE 28 – SUBSEQUENT EVENTS

a. Grant of options and RSUs

On March 14, 2018, the Company's Board of Directors approved a grant of 2,066,193 options and 278,566 RSUs to 21 grantees, as follows:

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of options to two office holders (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	118,374	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016
Grant of options to three key employees (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	118,375	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of options to two office holders (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02**	496,882	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to a key employee (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02**	212,949	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to two key employee of the U.S. subsidiary (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.10***	283,932	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to 15 employees (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	572,000	2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in four equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2020.	5 years from date of grant
Grant of options to a consultant (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	50,732	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016
Grant of options to a consultant (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.10***	212,949	The options will on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total options		**2,066,193**		
Grant of RSUs to two office holders	Each RSU is exercisable into a	115,036	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70	10 years from January 21,

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
(with service conditions and market conditions)	share of NIS 0.01 par value without any exercise price.		per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	2016
Grant of RSUs to three key employees (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	114,498	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of RSUs to a consultant (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	49,032	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total RSUs		278,566		

* The exercise price of each option is NIS 1.12 (determined according to the average closing price of the Company's share on the TASE in the 30 trading days prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018, plus 10%).

** The exercise price of each option is NIS 1.02 (determined according to the average closing price of the Company's share on the TASE in the 30 trading days prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018).

*** The exercise price of each option is NIS 1.10 (determined according to the closing price of the Company's share on the TASE prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018).

b. A change of the vesting terms of the options and RSUs granted to the CEO, officers and key employees of the Company and the subsidiaries

On March 14, 2018, the Company's Board of Directors resolved to change the vesting terms of the options and RSUs with service terms and market conditions granted to the CEO and officers and key employees of the Company and its subsidiaries, such that the minimum share price will be NIS 1.70 instead of NIS 2.14 and the exercise period will be December 20, 2020 instead of January 20 2020. There shall be no change in the other terms of the options and the RSUs, including the exercise price and the other vesting conditions. The change in the aforesaid conditions regarding the CEO is subject to the approval of the Company's shareholders.

c. As to the amendment of the credit agreement with a bank in January 2018 and the withdrawal of loans from it in February 2018, see Note 10a.

d. As to the repayment of the notes and the intention of interested parties who held the notes to grant a loan to the Company or to participate in a private placement out of the amounts that were due to be paid to them in respect of the notes, see Note 10b.

e. On March 14, 2018 (after obtaining the approval of the Audit Committee), the Board of Directors approved principles for a private placement to the following shareholders: the controlling shareholder, Viola Growth II A.V. LP, a limited partnership, which holds the Company's shares through Viola Growth II (A) L.P and Viola Growth II (B) L.P (the above three corporations will be called "**Viola**"), the shareholders mentioned in Note 10b, and an institutional investor who is also an interested party in the Company (the "**Interested Parties**' Investors"). Under the principles formulated by the parties, the offer will be for ordinary shares that will constitute approximately 6.59% (including the shares offered in this private placement) of the Company's issued and outstanding share capital, for a total consideration of NIS 17.2 million (a consideration reflecting the average price of the Company's share in 15 trading days preceding the date of publication of the Company's annual financial statements for 2017, less a discount of 7%). It should be clarified that as of the date of this report, the final agreements with the shareholders have not yet been signed, and that execution of the private placement is subject to final approval by the Company's Board of Directors for the agreements, approval of the general meeting of the Company's shareholders and approval for listing of the shares by the TASE.