
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: **001-37381**

Medigus Ltd.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

Omer Industrial Park No. 7A, P.O. Box 3030, 8496500, Israel

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
American Depositary Shares, each representing twenty (20) Ordinary Shares ⁽¹⁾	Nasdaq Capital Market
Ordinary shares, par value NIS 1.00 per share ⁽²⁾	Nasdaq Capital Market

(1) Evidenced by American Depositary Receipts.

(2) Not for trading, but only in connection with the registration of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2018: **75,932,058 ordinary shares, par value NIS 1.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer and large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark the basis of accounting the registrant has used to prepare the financial statements included in this filing:

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board
- Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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INTRODUCTION

Certain Definitions

In this annual report, unless the context otherwise requires:

- references to “Medigus,” the “Company,” “us,” “we” and “our” refer to Medigus Ltd. (the “Registrant”), an Israeli company, and its consolidated subsidiaries.
- references to “ordinary shares,” “our shares” and similar expressions refer to the Registrant’s Ordinary Shares, NIS 1.00 nominal (par) value per share.
- references to “ADS” refer to American Depositary Shares.
- references to “dollars,” “U.S. dollars,” “USD” and “\$” refer to United States Dollars.
- references to “NIS” refer to New Israeli Shekels, the Israeli currency.
- references to the “Companies Law” refer to Israel’s Companies Law, 5759-1999, as amended.
- references to the “SEC” refer to the United States Securities and Exchange Commission.
- references to MUSE™ refer to the trade name of an endoscopy system developed by the Company which is intended as a minimally invasive treatment for Gastroesophageal Reflux Disease, or GERD.
- references to “endoscopy” refer to a medical procedure which is used to diagnose or treat various diseases using an endoscope (a flexible tube which contains lighting features, imaging features and a system used to direct the endoscope within bodily systems).

All share data information in this annual report on Form 20-F reflects:

- a 1-for-10 reverse share split of our ordinary shares effected on November 6, 2015;
- a change in the ratio of ordinary shares per ADS from five ordinary shares per ADS to 50 ordinary shares per ADS effected on March 15, 2017; and
- a 1-for-10 reverse share split of our ordinary shares effected on July 13, 2018, together with a change in the ratio of ordinary shares per ADSs, such that after the reverse share split was implemented each ADS represents 20 post- reverse share split ordinary shares, instead of 50 pre- reverse share split ordinary shares.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this annual report on Form 20-F may be deemed to be “forward-looking statements”. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified.

These forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, statements that contain projections of results of operations or of financial condition, statements relating to the research, development and use of our products, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future.

Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We have based these forward-looking statements on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

Important factors that could cause actual results, developments and business decisions to differ materially from those anticipated in these forward-looking statements include, among other things:

- recent material changes in our strategy;
- our ability to sell or license our MUSE™ technology;
- the commercial success of the ScoutCam™ system;
- projected capital expenditures and liquidity;
- the overall global economic environment;
- the impact of competition and new technologies;
- general market, political, reimbursement and economic conditions in the countries in which we operate;
- government regulations and approvals;
- litigation and regulatory proceedings; and
- those factors referred to in “Item 3. Key Information – D. Risk Factors,” “Item 4. Information on the Company,” and “Item 5. Operating and Financial Review and Prospects”, as well as in this annual report on Form 20-F generally.

Readers are urged to carefully review and consider the various disclosures made throughout this annual report on Form 20-F, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

In addition, the section of this annual report on Form 20-F entitled “Item 4. Information on the Company” contains information obtained from independent industry and other sources that we have not independently verified. You should not put undue reliance on any forward-looking statements. Any forward-looking statements in this annual report are made as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following consolidated statement of operations data for the years ended December 31, 2018, 2017, and 2016, and the consolidated balance sheet data as of December 31, 2018 and 2017, is derived from our audited consolidated financial statements included elsewhere in this annual report on Form 20-F. These audited financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as set forth by the International Accounting Standard Board. The consolidated statement of operations data for the years ended December 31, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016, 2015, and 2014 is derived from other consolidated financial statements not included in this Form 20-F. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and notes thereto and other financial information included elsewhere in this annual report on Form 20-F.

Until December 31, 2015, our consolidated financial statements were recorded in NIS, which was the Company’s functional and presentation currency as of such date. Effective January 1, 2016, the Company changed its functional currency to U.S. Dollar. The December 31, 2015, and 2014, financial data presented in this annual report on Form 20-F was translated from NIS to USD as follows: (1) all assets and liabilities of the Company were translated using the dollar exchange rate as of December 31 of each year, as applicable; (2) equity items were translated using historical exchange rates at the relevant transaction dates; (3) the statement of comprehensive loss items has been translated at the average exchange rates for the respective year; and (4) the resulting translation differences have been reported as “currency translation differences” within other comprehensive loss.

Consolidated Statements of Operations Data

	Year ended December 31,				
	2018	2017	2016	2015	2014
	U.S. Dollars, in thousands, except per share and weighted average shares data				
Revenues:					
Products	219	467	192	330	476
Services	217	-	357	261	114
Other	-	-	-	33	154
	<u>436</u>	<u>467</u>	<u>549</u>	<u>624</u>	<u>744</u>
Cost of revenues:					
Products	164	219	81	153	324
Services	115	-	95	124	27
Inventory impairment	328	297	-	-	-
	<u>607</u>	<u>516</u>	<u>176</u>	<u>277</u>	<u>351</u>
Gross Profit (Loss)	(171)	(49)	373	347	393
Research and development expenses	1,809	2,208	3,655	4,384	4,025
Sales and marketing expenses	1,354	846	2,125	2,680	2,341
General and administrative expenses	3,338	3,005	3,684	2,842	2,280
Other income, net	-	-	-	3	269
Operating loss	(6,672)	(6,108)	(9,091)	(9,556)	(7,984)
Profit from changes in fair value of warrants issued to investors	148	3,502	25	106	980
Finance income (expenses), net	(54)	54	87	(14)	650
Loss before taxes on income	(6,578)	(2,552)	(8,979)	(9,464)	(6,354)
Taxes benefit (Taxes on income)	(20)	7	(28)	(68)	(4)
Loss for the year	(6,598)	(2,545)	(9,007)	(9,532)	(6,358)
Other comprehensive loss for the year, net of tax	-	-	-	(211)	(1,573)
Total comprehensive loss for the year	(6,598)	(2,545)	(9,007)	(9,743)	(7,931)
USD					
Basic loss per ordinary share ⁽¹⁾	(0.16)	(0.20)	(2.62)	(3.35)	(3.26)
Diluted loss per ordinary share ⁽¹⁾	(0.16)	(0.23)	(2.62)	(3.35)	(3.26)
Weighted average number of ordinary shares outstanding used to compute (in thousands)⁽¹⁾:					
Basic loss per share	41,988	12,569	3,440	2,842	1,950
Diluted loss per share	41,988	12,969	3,440	2,842	1,950

(1) Adjusted to reflect

- a 1-for-10 reverse share split of our ordinary shares effected on November 6, 2015;
- a change in the ratio of ordinary shares per ADS from five ordinary shares per ADS to 50 ordinary shares per ADS effected on March 15, 2017; and
- a 1-for-10 reverse share split of our ordinary shares effected on July 13, 2018, together with a change in the ratio of ordinary shares per ADSs, such that after the reverse share split was implemented each ADS represents 20 post- reverse share split ordinary shares, instead of 50 pre- reverse share split ordinary shares.

For more information see “Item 4. Information on the Company A. History and Development of the Company.”

	As of December 31,				
	2018	2017	2016	2015	2014
	U.S. Dollars (in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	10,625	2,828	3,001	10,312	10,817
Short-term deposit	-	3,498	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	2,105
Total assets	11,239	7,210	4,724	12,141	14,291
Total non-current liabilities	1,798	742	463	107	208
Accumulated deficit	(62,479)	(55,881)	(53,336)	(44,329)	(34,797)
Total shareholders' equity	8,079	5,511	2,927	10,181	13,050

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks described below, together with all of the other information in this annual report on Form 20-F. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of these risks actually occurs, our business and financial condition could suffer, and the price of our shares could decline.

Risks related to our Business

We made material changes to our business strategy during 2018. We cannot guarantee that any of these changes will result in any value to our shareholders.

In the recent months, we have materially changed our business model, adjusted our exclusive focus on the medical device industry to include other industries, abandoned our strategy to commercialize the MUSE™ system, transferred our ScoutCam™ activity into our subsidiary, and we are assessing several new ventures. We cannot guarantee that these strategic decisions will derive the anticipated value to us and to our shareholders, or any value at all.

We have a history of operating losses and expect to incur additional losses in the future.

We have sustained losses in recent years, which as of December 31, 2018, accumulated to \$62.5 million, including an operating net loss of \$6.7 million and \$6.1 million for the year ended December 31, 2018 and 2017, respectively. We are likely to continue to incur significant net losses for at least the next several years as we continue to pursue our strategy. Our losses have had, and will continue to have, an adverse effect on our shareholders' equity and working capital. Any failure to achieve and maintain profitability would continue to have an adverse effect on our shareholders' equity and working capital and could result in a decline in our share price or cause us to cease operations.

We will need additional funding. If we are unable to raise capital, we will be forced to reduce or eliminate our operations.

As of December 31, 2018, we had a total cash and cash equivalents balance of approximately \$10.6 million. Based on our projected cash flows and our cash balances as of the date of this annual report on Form 20-F, our management is of the opinion that our cash and cash equivalents as of December 31, 2018, will allow us to fund our operating plan through at least the next 12 months. However, we anticipate that we are likely to continue to incur significant net losses for at least the next several years as we continue the development of our products and expand our sales and marketing capabilities required to sell and market our products. There is no assurance however, that we will be successful in obtaining the level of financing needed for our operations. If we are unable to obtain additional sufficient financing our business and results of operations will be materially harmed.

Even if we are able to continue to finance our business, the sale of additional equity or debt securities could result in dilution to our current shareholders and could require us to grant a security interest in our assets. If we raise additional funds through the issuance of debt securities, these securities may have rights senior to those of our ordinary shares and could contain covenants that could restrict our operations. In addition, we may require additional capital beyond our currently forecasted amounts to achieve profitability. Any such required additional capital may not be available on reasonable terms, or at all.

We may not be able to complete the contemplated transaction in Algomizer group or derive the expected value from the transaction.

On March 14, 2019, we have provided Algomizer Ltd. (TASE: ALMO), or Algomizer, with a letter of intent for an investment of approximately \$5 million in Algomizer group. As part of the investment, we offered Algomizer to invest (i) NIS 5.4 million directly in Algomizer, which is engaged in field of internet advertising and whose shares are traded on Tel Aviv Stock Exchange Ltd., or TASE. The investment will be made at a price per Algomizer share of NIS 4.15; (ii) NIS 9 million through the acquisition of the shares of Linkury Ltd., Algomizer subsidiary, from Algomizer, at a company valuation of Linkury of approximately NIS 96 million; and (iii) \$1 million in Algomizer through share exchange by issuing Algomizer ADSs at a price of \$3 per ADS in consideration for Algomizer shares at a price per Algomizer share of NIS 4.15. In addition, we will issue Algomizer warrants to purchase ADSs in an amount equal to the ADSs to be issued to Algomizer at an exercise price of \$4 per ADS, which will be in effect for three years from the date of issue. As part of the investment, Algomizer will issue us warrants to purchase Algomizer shares in an amount equal to the shares issued to us in the transaction at an exercise price of NIS 5.25 per share, which will be in effect for three years from the date of issue.

Our board of directors estimates that the investment in Algomizer could yield significant value for us and for our shareholders.

The Algomizer group specializes in internet marketing, with annual sales of approximately NIS 160 million for 2018, indicating a consistent upward trend. The Algomizer group currently serves customers and partners including the world's leading organizations such as Google, Microsoft, Apple, Yahoo, Ask, Infosys, Avaya, Dell, Instagram, and more. Further, the Algomizer group has unique technologies and expertise in various fields of the Internet, including: Internet video, Internet sales, Internet advertising, website monetization, search engines and more. These technologies include developments and algorithms in the field of artificial intelligence and business intelligence developed by the Algomizer group.

We cannot guarantee that the contemplated transaction with the Algomizer group will close and if closed, that it will derive the anticipated value to us and to our shareholders. If the transaction will not close, or such value will not be obtained, our results of operations may be adversely affected.

Our ability to freely operate our business is limited as a result of certain covenants included in our Series C Warrants.

The Series C Warrant Agreement, or the Series C Warrant, contains a number of covenants that limit our operating activities, and may prevent our acquisition by a third party, including a provision setting forth that in the event of a fundamental transaction (other than a fundamental transaction not approved by the our board of directors), we or any successor entity may at the Series C Warrant holder's option, exercisable at any time concurrently with, or within 30 days after, the consummation of the fundamental transaction, purchase the Series C Warrants from the holder by paying to the Series C Warrant holder an amount of cash equal to the Black Scholes value of the remaining unexercised portion of the Series C Warrants on the date of the consummation of such fundamental transaction. These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

Risks related to our ScoutCam™ Business

Because of our limited operating history, we may not be able to successfully operate our business or execute our business plan.

In 2019, we transferred our ScoutCam™ activity, which has limited operation activity, into a wholly-owned subsidiary. Given the limited operating history, it is hard to evaluate our proposed business and prospects. Our proposed business operations will be subject to numerous risks, uncertainties, expenses and difficulties associated with early-stage enterprises. Such risks include, but are not limited to, the following:

- the absence of a lengthy operating history;

- insufficient capital to fully realize our operating plan;
- expected continual losses for the foreseeable future;
- operating in multiple currencies;
- our ability to anticipate and adapt to a developing market(s);
- acceptance of our ScoutCam™ by the medical community and consumers;
- acceptance of our ScoutCam™ by the non-medical community and consumers;
- limited marketing experience;
- a competitive environment characterized by well-established and well-capitalized competitors;
- the ability to identify, attract and retain qualified personnel; and
- operating in an environment that is highly regulated by a number of agencies.

Because we are subject to these risks, evaluating our business may be difficult, our business strategy may be unsuccessful and we may be unable to address such risks in a cost-effective manner, if at all. If we are unable to successfully address these risks our business could be harmed.

The commercial success of the ScoutCam™ system or any future product, depends upon the degree of market acceptance by the medical community as well as by other prospect markets and industries.

Any product that we bring to the market may or may not gain market acceptance by prospect customers. The commercial success of the ScoutCam™ system and any future product depends in part on the medical community as well as other industries for various use cases, depending on the acceptance by such industries of ScoutCam™ as a useful and cost-effective solution compared to current technologies. To date, we have experienced slower than expected market penetration in the medical field for the ScoutCam™ and we have not yet started the commercialization and market penetration in other industries. If the ScoutCam™ system or any future product does not achieve an adequate level of acceptance, we may not generate significant product revenue and may not become profitable. The degree of market acceptance of our products will depend on a number of factors, including:

- the cost, safety, efficacy, and convenience of the ScoutCam™ and any future product in relation to alternative products;
- the ScoutCam™ acceptance as a superior solution in industries other than for the medical industry;
- the ability of third parties to enter into relationships with us without violating their existing agreements;
- the effectiveness of our sales and marketing efforts;
- the prevalence and severity of any side effects resulting from the procedure, relating to the use of ScoutCam™ in the medical segments;
- the strength of marketing and distribution support for, and timing of market introduction of, competing products; and
- publicity concerning our products or competing products.

Our efforts to penetrate industries and educate the marketplace on the benefits of our products may require significant resources and may never be successful. Such efforts to educate the marketplace may require more resources than are required by conventional technologies.

We expect to face significant competition. If we cannot successfully compete with new or existing products, our marketing and sales will suffer and we may never be profitable.

We expect to compete against existing technologies and proven products in different industries. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs than we do, and have substantially greater financial resources than we do, as well as significantly greater experience in obtaining applicable regulatory approvals applicable to the commercialization of our products.

If we are unable to establish sales, marketing and distribution capabilities or enter into successful relationships with third parties to perform these services, we may not be successful in commercializing our ScoutCam™.

We have a limited sales and marketing infrastructure and have limited experience in the sale, marketing or distribution of products. To achieve commercial success for any product for which we have obtained marketing approval, we will need to establish a sales and marketing infrastructure or to out-license our products.

In the future, we may consider building a focused sales and marketing infrastructure to market ScoutCam™ and potentially other product in the United States or elsewhere in the world. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force could be expensive and time consuming and could delay any product launch. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to potential customers;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unable to establish our own sales, marketing and distribution capabilities or enter into successful arrangements with third parties to perform these services, our revenues and our profitability may be materially adversely affected.

In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our ScoutCam™ or other products inside or outside of the United States or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

We depend on the success of ScoutCam™ for our revenue, which could impair our ability to achieve profitability.

We plan to derive most of our future revenue from product sales and development services of our imaging equipment and our flagship ScoutCam™ and its future applications. Our future growth and success is dependent on the successful commercialization of the ScoutCam™ system. If we are unable to achieve increased commercial acceptance of the ScoutCam™ system, or experience a decrease in the utilization of our product line or procedure volume, our revenue would be adversely affected.

Our reliance on third-party suppliers for most of the components of our products could harm our ability to meet demand for our products in a timely and cost-effective manner.

Though we attempt to ensure the availability of more than one supplier for each important component in our products, the number of suppliers engaged in the provision of miniature video sensors which are suitable for our Complementary Metal Oxide Semiconductor (“CMOS”) technology products is very limited, and therefore in some cases we engage with a single supplier, which may result in dependency on such supplier. This is the case regarding sensors for the CMOS type technology that is produced by a single supplier in the United States. As we do not have a contract in place with this supplier, there is no contractual commitment on the part of such supplier for any set quantity of such sensors. The loss of our sole supplier in providing us with miniature sensors for our CMOS technology products, and our inability or delay in finding a suitable replacement supplier, could significantly affect our business, financial condition, results of operations and reputation.

We may be subject to product liability claims, product actions, including product recalls, and other field or regulatory actions that could be expensive, divert management’s attention and harm our business.

Our business exposes us to potential liability risks, product actions and other field or regulatory actions that are inherent in the manufacturing, marketing and sale of medical device products. We may be held liable if our products cause injury or death or is found otherwise unsuitable or defective during usage. Our products incorporate mechanical and electrical parts, complex computer software and other sophisticated components, any of which can contain errors or failures. Complex computer software is particularly vulnerable to errors and failures, especially when first introduced. In addition, new products or enhancements to our existing products may contain undetected errors or performance problems that, despite testing, are discovered only after installation.

If any of our products are defective, whether due to design or manufacturing defects, improper use of the product, or other reasons, we may voluntarily or involuntarily undertake an action to remove, repair, or replace the product at our expense. In some circumstances we will be required to notify regulatory authorities of an action pursuant to a product failure.

Risks related to our MUSE™ Technology

We are currently proposing our MUSE™ system business for sale. If we are unable to sell our MUSE™ business or unable to sell it in terms acceptable to us, we will have to write off our investment in the MUSE™ system, which will adversely affect our business.

We are currently proposing our MUSE™ system business for sale. If we are unable to sell our MUSE™ business or unable to sell it in terms acceptable to us, we could not derive any value from the sale and will lose significant cash flow, which, in turn, will adversely affect our financial results.

Several factors may delay or prevent us from selling our MUSE™ system business:

- potential purchasers’ perception on the cost, safety, efficacy, and convenience of the MUSE™ system in relation to alternative treatments and products;
- publicity concerning our products, including MUSE™, or competing products and treatments;
- patients suffering from adverse events while using the MUSE™ system; and
- competition from the pharmaceutical sector, which could harm the ability to market and commercialize the MUSE™ system and, as a result, impact the attractiveness of the MUSE™ system in the eyes of potential purchasers.

Further, we have only limited clinical data to support the value of the MUSE™ system, which may make patients, physicians and hospitals reluctant to accept or purchase our products, and as such a potential purchaser may be reluctant to purchase our MUSE™ business or such lack of data will be reflected in the purchase price.

Moreover, various modifications to our MUSE™ system regulator-cleared products may require new regulatory clearances or approvals or require a recall or cease marketing of the MUSE™ system until clearances or approvals are obtained. Clearances and approvals by the applicable regulator are subject to continual review, and the later discovery of previously unknown problems can result in product labeling restrictions or withdrawal of the product from the market. The potential loss of previously received approvals or clearances, or the failure to comply with existing or future regulatory requirements could reduce the potential sales, profitability and future growth prospects of the MUSE™.

Risks Related to Our Intellectual Property

If we are unable to secure and maintain patent or other intellectual property protection for the intellectual property used in our products, our ability to compete will be harmed.

Our commercial success depends, in part, on obtaining and maintaining patent and other intellectual property protection for the technologies used in our products. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. Furthermore, we might in the future opt to license intellectual property from other parties. If we, or the other parties from whom we may license intellectual property, fail to obtain and maintain adequate patent or other intellectual property protection for intellectual property used in our products, or if any protection is reduced or eliminated, others could use the intellectual property used in our products, resulting in harm to our competitive business position. In addition, patent and other intellectual property protection may not provide us with a competitive advantage against competitors that devise ways of making competitive products without infringing any patents that we own or have rights to.

U.S. patents and patent applications may be subject to interference proceedings, and U.S. patents may be subject to re-examination proceedings in the U.S. Patent and Trademark Office. Foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent offices. Any of these proceedings could result in loss of the patent or denial of the patent application, or loss or reduction in the scope of one or more of the claims of the patent or patent application. Changes in either patent laws or in interpretations of patent laws may also diminish the value of our intellectual property or narrow the scope of our protection. Interference, re-examination and opposition proceedings may be costly and time consuming, and we, or the other parties from whom we might potentially license intellectual property, may be unsuccessful in defending against such proceedings. Thus, any patents that we own or might license may provide limited or no protection against competitors. In addition, our pending patent applications and those we may file in the future may have claims narrowed during prosecution or may not result in patents being issued. Even if any of our pending or future applications are issued, they may not provide us with adequate protection or any competitive advantages. Our ability to develop additional patentable technology is also uncertain.

Non-payment or delay in payment of patent fees or annuities, whether intentional or unintentional, may also result in the loss of patents or patent rights important to our business. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to other parties. In addition, many countries limit the enforceability of patents against other parties, including government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States, particularly in the field of medical products and procedures.

If we are unable to prevent unauthorized use or disclosure of our proprietary trade secrets and unpatented know-how, our ability to compete will be harmed.

Proprietary trade secrets, copyrights, trademarks and unpatented know-how are also very important to our business. We rely on a combination of trade secrets, copyrights, trademarks, confidentiality agreements and other contractual provisions and technical security measures to protect certain aspects of our technology, especially where we do not believe that patent protection is appropriate or obtainable. We require our office holders, employees, consultants and distributors of our products and most third parties (such as contractors or clinical collaborators) to execute confidentiality agreements in connection with their relationships with us. However, these measures may not be adequate to safeguard our proprietary intellectual property and conflicts may, nonetheless, arise regarding ownership of inventions. Such conflicts may lead to the loss or impairment of our intellectual property or to expensive litigation to defend our rights against competitors who may be better funded and have superior resources. Our office holders, employees, consultants and other advisors may unintentionally or willfully disclose our confidential information to competitors. In addition, confidentiality agreements may be unenforceable or may not provide an adequate remedy in the event of unauthorized disclosure. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Unauthorized parties may also attempt to copy or reverse engineer certain aspects of our products that we consider proprietary. As a result, other parties may be able to use our proprietary technology or information, and our ability to compete in the market would be harmed.

We could become subject to patent and other intellectual property litigation that could be costly, result in the diversion of management's attention, require us to pay damages and force us to discontinue selling our products.

Our industry is characterized by competing intellectual property and a substantial amount of litigation over patent and other intellectual property rights. Determining whether a product infringes a patent involves complex legal and factual issues, and the outcome of a patent litigation action is often uncertain. No assurance can be given that patents containing claims covering our products, parts of our products, technology or methods do not exist, have not been filed or could not be filed or issued. Furthermore, our competitors or other parties may assert that our products and the methods we employ in the use of our products are covered by U.S. or foreign patents held by them. In addition, because patent applications can take many years to issue and because publication schedules for pending applications vary by jurisdiction, there may be applications now pending of which we are unaware and which may result in issued patents which our current or future products infringe. Also, because the claims of published patent applications can change between publication and patent grant, there may be published patent applications with claims that we infringe. There could also be existing patents that one or more of our products or parts may infringe and of which we are unaware. As the number of competitors in the endoscopic procedure market grows, and as the number of patents issued in this area grows, the possibility of patent infringement claims against us increases.

Infringement actions and other intellectual property claims and proceedings brought against or by us, whether with or without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management from our business and harm our reputation. Some of our competitors may be able to sustain the costs of complex patent or intellectual property litigation more effectively than we can because they have substantially greater resources.

We cannot be certain that we will successfully defend against allegations of infringement of patents and intellectual property rights of others. In the event that we become subject to a patent infringement or other intellectual property lawsuit and if the other party's patents or other intellectual property were upheld as valid and enforceable and we were found to infringe the other party's patents or violate the terms of a license to which we are a party, we could be required to pay damages. We could also be prevented from selling our products unless we could obtain a license to use technology or processes covered by such patents or will be able to redesign the product to avoid infringement. A license may not be available at all or on commercially reasonable terms or we may not be able to redesign our products to avoid infringement. Modification of our products or development of new products could require us to conduct clinical trials and to revise our filings with the applicable regulatory bodies, which would be time consuming and expensive. In these circumstances, we may be unable to sell our products at competitive prices or at all, our business and operating results could be harmed.

We may be subject to claims that our employees, consultants, or independent contractors have wrongfully used or disclosed confidential information of third parties or, that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Certain of our employees and personnel were previously employed at universities, medical institutions, or other biotechnology or pharmaceutical companies. Although we try to ensure that our employees, consultants, and independent contractors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, consultants, or independent contractors have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of any of our employee's former employer or other third parties. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees. Furthermore, universities or medical institutions who employ some of our key employees and personnel in parallel to their engagement by us may claim that intellectual property developed by such person is owned by the respective academic or medical institution under the respective institution intellectual property policy or applicable law.

We may be subject to claims challenging the inventorship or ownership of our patents and other intellectual property.

We may be subject to claims that former employees, collaborators, or other third parties have an ownership interest in our patents or other intellectual property. Ownership disputes may arise in the future, for example, from conflicting obligations of consultants or others who are involved in developing our product candidates. Litigation may be necessary to defend against these and other claims challenging inventorship or ownership. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

Disruptions to our information technology systems due to cyber-attacks or our failure to upgrade and adjust our information technology systems, may materially impair our operations, hinder our growth and materially and adversely affect our business and results of operations.

We believe that an appropriate information technology, or IT, infrastructure is important in order to support our daily operations and the growth of our business. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our business, and we may fail to meet our reporting obligations. Additionally, if our current back-up storage arrangements and our disaster recovery plan are not operated as planned, we may not be able to effectively recover our information system in the event of a crisis, which may materially and adversely affect our business and results of operations.

In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting businesses such as ours. Computer hackers and others routinely attempt to breach the security of technology products, services and systems, and to fraudulently induce employees, customers, or others to disclose information or unwittingly provide access to systems or data. We can provide no assurance that our current IT system or any updates or upgrades thereto and the current or future IT systems of our distributors use or may use in the future, are fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. Legislative or regulatory action in these areas is also evolving, and we may be unable to adapt our IT systems or to manage the IT systems of third parties to accommodate these changes. We have experienced and expect to continue to experience actual or attempted cyber-attacks of our IT networks. Although none of these actual or attempted cyber-attacks has had a material adverse impact on our operations or financial condition, we cannot guarantee that any such incidents will not have such an impact in the future.

Risks related to Regulatory Compliance

If we or our contractors or service providers fail to comply with regulatory laws and regulations, we or they could be subject to regulatory actions, which could affect our ability to develop, market and sell our products in the medical field and any other or future products that we may develop and may harm our reputation in the medical field.

If we or our manufacturers or other third-party contractors fail to comply with applicable federal, state or foreign laws or regulations, including with respect to healthcare and data privacy, we could be subject to regulatory actions, which could affect our ability to develop, market and sell our current products or any future products which we may develop in the future and could harm our reputation and lead to reduced demand for or non-acceptance of our proposed products by the market.

Regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, legislation is drafted and introduced in the United States, European Union or other countries in which we operate, that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of our products, including in the medical devices industry. In addition, regulations and guidance may often be revised or reinterpreted by the regulatory authorities in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or interpretations changed, and what the impact of such changes, if any, may be.

If we fail to comply with the extensive government regulations relating to our business, we may be subject to fines, injunctions and other penalties that could harm our business.

The application of our MUSE™ system as a medical device is subject to extensive regulation by the FDA, pursuant to the Federal Food, Drug, and Cosmetic Act, or FDCA, and various other federal, state and foreign governmental authorities. Government regulations and requirements specific to medical devices are wide ranging and govern, among other things:

- design, development and manufacturing;
- testing, labeling and storage;
- clinical trials;
- product safety;
- marketing, sales and distribution;
- premarket clearance or approval;
- record keeping procedures;
- advertising and promotions; and
- product recalls and field corrective actions.

We are subject to annual regulatory audits in order to maintain our quality system certifications, CE mark permissions, FDA Clearance and Canadian medical device license. We do not know whether we will be able to continue to affix the CE mark for new or modified products or that we will continue to meet the quality and safety standards required to maintain the permissions and license we have already received. If we are unable to maintain our quality system certifications and permission to affix the CE mark to our products, we will no longer be able to sell our products in member countries of the European Union or other areas of the world that require CE's or FDA's approval of medical devices. If we are unable to maintain our quality system certifications and Canadian medical device license, we will not be able to sell our products in Canada.

Our medical device products and operations are also subject to regulation by the Medical Devices and Accessories Division in the Israeli Ministry of Health, or AMAR, which is responsible for the registration of medical devices in Israel, issuance of import licenses and monitoring marketing of medical equipment. We have received an AMAR approval in Israel. If we fail to comply with the extensive government regulations relating to our business, we may be subject to fines, injunctions and other penalties that could harm our business.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from expanding the commercialization of our products.

To be able to market and sell our products in most other countries, we must obtain regulatory approvals and comply with the regulations of those countries. These regulations, including the requirements for approvals and the time required for regulatory review, vary from country to country. Obtaining and maintaining foreign regulatory approvals are expensive and time consuming, and we cannot be certain that we will receive regulatory approvals in the various countries in which we plan to market our products. Failure to obtain or maintain regulatory approval in such countries could have an adverse effect on our financial condition and results of operations.

The disclosure rules regarding the use of conflict minerals may affect our relationships with suppliers and customers.

The Securities and Exchange Commission adopted disclosure rules in August 2012 for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements may impose additional costs on us and on our suppliers, and limit the sources or increase the prices of materials used in our products. Among other things, this new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of components that are incorporated into our products. In addition, the number of suppliers who provide conflict-free minerals may be limited, and there may be material costs associated with complying with the disclosure requirements, such as costs related to the process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. We may not be able to sufficiently verify the origins of the relevant minerals used in components manufactured by third parties through the procedures that we implement, and we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so. If we are unable to certify that our products are conflict free, we may face challenges with our customers, which could place us at a competitive disadvantage, and our reputation may be harmed.

Risks Related to our Operations in Israel

Our headquarters, manufacturing facilities, and administrative offices are located in Israel and, therefore, our results may be adversely affected by military instability in Israel.

Our offices are located in Israel. In addition, our officers and directors are residents of Israel. Accordingly, geopolitical or military conditions in Israel and its region may directly or indirectly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. During July and August 2014, Hamas and Israel were engaged in a military conflict that caused damage and disrupted economic activities in Israel. During November 2012, Hamas and Israel were engaged in an armed conflict and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas in which our employees and consultants are located, and negatively affected business conditions in Israel. Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions and could harm our results of operations and could make it more difficult for us to raise capital. The conflict situation in Israel could cause situations where medical product certifying or auditing bodies could not be able to visit our manufacturing facilities in order to review our certifications or clearances, thus possibly leading to temporary suspensions or even cancellations of our clearances or manufacturing certifications. The conflict situation in Israel could also result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements. Furthermore, several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in the region continue or intensify. Such restrictions may seriously limit our ability to sell our products to customers in those countries.

Although the Israeli government is currently committed to covering the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts would likely negatively affect business conditions generally and could harm our results of operations.

Exchange rate fluctuations between foreign currencies and the U.S. Dollar may negatively affect our earnings.

Our reporting and functional currency is the U.S. dollar. Our revenues are currently primarily payable in U.S. dollars and Euros and we expect our future revenues to be denominated primarily in U.S. dollars and Euros. However, certain amount of our expenses are in NIS and as a result, we are exposed to the currency fluctuation risks relating to the recording of our expenses in U.S. dollars. We may, in the future, decide to enter into currency hedging transactions. These measures, however, may not adequately protect us from material adverse effects.

The government tax benefits that we currently are entitled to receive require us to meet several conditions and may be terminated or reduced in the future.

Some of our operations in Israel may entitle us to certain tax benefits under the Law for the Encouragement of Capital Investments, 5719-1959, or the Investments Law, once we begin to produce taxable income. From time to time, the government of Israel has considered reducing or eliminating the tax benefits available to Benefitted Enterprise programs such as ours. If we do not meet the requirements for maintaining these benefits, they may be reduced or cancelled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which was set at 23% in 2018 and thereafter. In addition to being subject to the standard corporate tax rate, we could be required to refund any tax benefits that we have already received, plus interest and penalties thereon. Even if we continue to meet the relevant requirements, the tax benefits that our current "Benefitted Enterprise" is entitled to may not be continued in the future at their current levels, or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we would have to pay if we produce revenues would likely increase, as all of our operations would consequently be subject to corporate tax at the standard rate, which could adversely affect our results of operations. Additionally, if we increase our activities outside of Israel, for example, by way of acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefits programs. See "Item 10. Additional Information - E. Taxation."

In the past, we received Israeli government grants for certain of our research and development activities. The terms of those grants may require us, in addition to payment of royalties, to satisfy specified conditions in order to manufacture products and transfer technologies outside of Israel, including increase of the amount of our liabilities in connection with such grants. If we fail to comply with the requirements of the Innovation Law (as defined below), we may be required to pay penalties in addition to repayment of the grants, and may impair our ability to sell our technology outside of Israel.

Some of our research and development efforts were financed in part through royalty-bearing grants, in an amount of \$0.2 million that we received from the Israeli Innovation Authority of the Israeli Ministry of Economy and Industry, or IIA. When know-how is developed using IIA grants, the Encouragement of Research, Development and Technological Innovation in the Industry Law 5744-1984 (formerly known as the Law for the Encouragement of Research and Development in Industry 5744-1984), or the Innovation Law and the regulations thereunder, restricts our ability to manufacture products and transfer technology and know-how, developed as a result of IIA funding, outside of Israel.

Under the Innovation Law and the regulations thereunder, a recipient of IIA grants is required to return the grants by the payment of royalties of 3% to 6% on the revenues generated from the sale of products (and related services) developed (in whole or in part) under IIA program up to the total amount of the grants received from IIA, linked to the U.S. dollar and bearing interest at an annual rate of LIBOR applicable to U.S. dollar deposits, as published on the first business day of each calendar year.

Transfer of IIA funded know-how and related intellectual property rights outside of Israel, including by way of license for research and development purpose requires pre-approval by IIA and imposes certain conditions, including, requirement of payment of a redemption fee calculated according to the formula provided in the Innovation Law which takes into account, among others, the consideration for such know-how paid to us in the transaction in which the technology is transferred, research and development expenses, the amount of IIA support, the time of completion of IIA supported research project and other factors, while the redemption fee will not exceed 600% of the grants amount plus interest. No assurance can be given that approval to any such transfer, if requested, will be granted and what will be the amount of the redemption fee payable.

Transfer of IIA funded know-how and related intellectual property rights to an Israeli company requires a pre-approval by IIA and may be granted if the recipient undertakes to fulfil all the liabilities to IIA and undertakes to abide by the provisions of Innovation Law, including the restrictions on the transfer of know-how and the manufacturing rights outside of Israel and the obligation to pay royalties (note that there will be an obligation to pay royalties to IIA from the income received by us in connection with such transfer transaction as part of the royalty payment obligation). No assurance can be given that approval to any such transfer, if requested, will be granted.

In addition, the products may be manufactured outside Israel by us or by another entity only if prior approval is received from IIA (such approval is not required for the transfer outside of Israel of less than 10% of the manufacturing capacity in the aggregate, and in such event only a notice to IIA is required). As a condition for obtaining approval to manufacture outside Israel, we would be required to pay increased royalties, which usually amount to 1% in addition to the standard royalties rate, and also the total amount of our liability to IIA will be increased to between 120% and 300% of the grants we received from IIA, depending on the manufacturing volume that is performed outside Israel (less royalties already paid to IIA). This restriction may impair our ability to outsource manufacturing rights abroad, however, does not restrict export of our products that incorporate IIA funded know-how.

A company also has the option of declaring in its IIA grant application its intention to exercise a portion of the manufacturing capacity abroad, thus avoiding the need to obtain additional approval. Such declaration may affect the increased royalties cap.

The restrictions under the Innovation Law (such as with respect to transfer of manufacturing rights abroad or the transfer of IIA funded know-how and related intellectual property rights abroad) will continue to apply even our liabilities to IIA in full and will cease to exist only upon payment of the redemption fee described above.

Furthermore, in the event that we undertake a transaction involving the transfer to a non-Israeli entity of technology developed with IIA funding pursuant to a merger or similar transaction, the consideration available to our shareholders may be reduced by the amounts we are required to pay to IIA. Any approval, if given, will generally be subject to additional financial obligations. Failure to comply with the requirements under the Innovation Law may subject us to mandatory repayment of grants received by us (together with interest and penalties), as well as expose us to criminal proceedings.

In May 2017, IIA issued new rules for licensing know how developed with IIA funding outside of Israel, or the Licensing Rules, allowing us to enter into licensing arrangements or grant other rights in know-how developed under IIA programs outside of Israel, subject to the prior consent of IIA and payment of license fees to IIA, calculated in accordance with the Licensing Rules. The payment of the license fees will not discharge us from the obligations to pay royalties or other payments to IIA.

We were members of an IIA-related consortium, in which certain of our technologies were developed. We are required to provide licenses to the other members of the consortium to use such technologies for no consideration, which could reduce our profitability.

Certain of our miniaturized imaging equipment may be based on technological models developed as part of the Bio Medical Photonic Consortium in the framework of Magnet program of the IIA. We received \$2.3 million from IIA in the framework of the Consortium. The property rights in and to “new information” (as such term is defined therein) which has been developed by a member of the Consortium, in the framework of a research and development program conducted as part of the Consortium, belongs solely to the Consortium member that developed it. The developing member is obligated to provide the other members in the Consortium a non-sublicensable license to use of the “new information” developed by such member, without consideration, provided that the other members do not transfer such “new information” to any entity which is not a member of the Consortium, without the consent of such member. No royalties from this funding are payable to the Israeli government, however, the provisions of the Innovation Law and related regulations regarding, inter alia, the restrictions on the transfer of know-how outside of Israel do apply, mutatis mutandis.

Provisions of Israeli law and our articles of association may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company's issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital. Completion of the tender offer also requires approval of a majority of the offerees that do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the Company's outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, claim that the consideration for the acquisition of the shares does not reflect their fair market value, and petition an Israeli court to alter the consideration for the acquisition accordingly, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights, and the acquirer or the company published all required information with respect to the tender offer prior to the tender offer's response date.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax.

These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

It may be difficult to enforce a judgment of a U.S. court against us and our officers and directors and the Israeli experts named in this annual report on Form 20-F in Israel or the U.S., to assert United States securities laws claims in Israel or to serve process on our officers and directors and these experts.

We are incorporated in Israel. Certain of our executive officers and directors reside in Israel and most of our assets and most of the assets of these persons are located outside of the United States. Therefore, a judgment obtained against us, or any of these persons in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not necessarily be enforced by an Israeli court. It may also be difficult to affect service of process on these persons in the United States or to assert United States securities law claims in original actions instituted in Israel.

Even if an Israeli court agrees to hear such claim, it may determine that Israeli law, and not U.S. law is applicable to the claim. Under Israeli law, if U.S. law is found to be applicable to such claim, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process, and certain matters of procedure would also be governed by Israeli law. There is little binding case law in Israel that addresses the matters.

The rights and responsibilities of a shareholder will be governed by Israeli law which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our ordinary shares are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in typical U.S.-registered corporations. In particular, a shareholder of an Israeli company has certain duties to act in good faith and fairness towards the company and other shareholders, and to refrain from abusing its power in the company. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

The ability of any Israeli company to pay dividends is subject to Israeli law and the amount of cash dividends payable may be subject to devaluation in the Israeli currency.

The ability of an Israeli company to pay dividends is governed by Israeli law, which provides that cash dividends may be paid only out of retained earnings or earnings derived over the two most recent fiscal years, whichever is higher, as determined for statutory purposes in Israeli currency, provided that there is no reasonable concern that payment of a dividend will prevent a company from satisfying its existing and foreseeable obligations as they become due. In the event of a devaluation of the Israeli currency against the U.S. dollar, the amount in U.S. dollars available for payment of cash dividends out of prior years' earnings will decrease.

The termination or reduction of tax and other incentives that the Israeli Government provides to domestic companies may increase the costs involved in operating a company in Israel.

The Israeli government currently provides major tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. In recent years, the Israeli Government has reduced the benefits available under these programs and the Israeli Governmental authorities have indicated that the government may in the future further reduce or eliminate the benefits of those programs. We currently take advantage of these programs. There is no assurance that such benefits and programs would continue to be available in the future to us. If such benefits and programs were terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee in the course and as a result of or arising from his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, will determine whether the employee is entitled to remuneration for his inventions. Recent case law clarifies that the right to receive consideration for "service inventions" can be waived by the employee and that in certain circumstances, such waiver does not necessarily have to be explicit. The Committee will examine, on a case-by-case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration (but rather uses the criteria specified in the Patent Law). Although we generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and/or former employees, or be forced to litigate such claims, which could negatively affect our business.

Risks Related to an Investment in the Securities

We may be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes in 2018 or in any subsequent year. This may result in adverse U.S. federal income tax consequences for U.S. taxpayers that are holders of our securities.

We will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which either (1) at least 75% of our gross income is “passive income” or (2) on average at least 50% of our assets by value produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. Passive income also includes amounts derived by reason of the temporary investment of funds, including those raised in a public offering. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account. We do not believe we were a PFIC for 2018 or 2017 but there can be no assurance that we were not a PFIC in those years and will not be a PFIC in subsequent years, as our operating results for any such years may cause us to be a PFIC. If we are a PFIC in 2018, or any subsequent year, and a U.S. shareholder does not make an election to treat us as a “qualified electing fund,” or QEF, or make a “mark-to-market” election, then “excess distributions” to a U.S. shareholder, and any gain realized on the sale or other disposition of our securities will be subject to special rules. Under these rules: (1) the excess distribution or gain would be allocated ratably over the U.S. shareholder’s holding period for the securities; (2) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (3) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. In addition, if the U.S. Internal Revenue Service, or the IRS, determines that we are a PFIC for a year with respect to which we have determined that we were not a PFIC, it may be too late for a U.S. shareholder to make a timely QEF or mark-to-market election. U.S. shareholders who hold or have held our securities during a period when we were or are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC in subsequent years, subject to exceptions for U.S. shareholders who made a timely QEF or mark-to-market election. A U.S. shareholder can make a QEF election by completing the relevant portions of and filing IRS Form 8621 in accordance with the instructions thereto.

The market prices of our securities are subject to fluctuation, which could result in substantial losses by our investors.

The stock market in general and the market prices of our ordinary shares on TASE, and the ADSs on Nasdaq, in particular, are or will be subject to fluctuation, and changes in these prices may be unrelated to our operating performance. We anticipate that the market prices of our securities will continue to be subject to wide fluctuations. The market price of our securities is, and will be, subject to a number of factors, including:

- announcements of technological innovations or new products by us or others;
- announcements by us of significant acquisitions, strategic partnerships, in-licensing, out-licensing, joint ventures or capital commitments;
- expiration or terminations of licenses, research contracts or other collaboration agreements;
- public concern as to the safety of our equipment we sell;
- the volatility of market prices for shares of medical devices companies generally;
- developments concerning intellectual property rights or regulatory approvals;
- variations in our and our competitors’ results of operations;
- changes in revenues, gross profits and earnings announced by the company;
- changes in estimates or recommendations by securities analysts, if our ordinary shares or the ADSs are covered by analysts;

- changes in government regulations or patent decisions; and
- general market conditions and other factors, including factors unrelated to our operating performance.

These factors may materially and adversely affect the market price of our securities and result in substantial losses by our investors.

Raising additional capital by issuing securities may cause dilution to existing shareholders.

We may seek additional capital through a combination of private and public equity offerings, debt financings and collaborations and strategic and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest will be diluted, and the terms of any such offerings may include liquidation or other preferences that may adversely affect the then existing shareholders rights. Debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring debt or making capital expenditures. If we raise additional funds through collaboration, strategic alliance or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates, or grant licenses on terms that are not favorable to us.

We do not know whether a market for the ADSs and ordinary shares will be sustained or what the trading price of the ADSs and ordinary shares will be and as a result it may be difficult for you to sell your ADSs or ordinary shares.

Although our ADSs trade on Nasdaq and our ordinary shares trade on TASE, an active trading market for the ADSs or ordinary shares may not be sustained. It may be difficult for you to sell your ADSs or ordinary shares without depressing the market price for the ADSs or ordinary shares. As a result of these and other factors, you may not be able to sell your ADSs or ordinary shares. Further, an inactive market may also impair our ability to raise capital by selling ADSs and ordinary Shares and may impair our ability to enter into strategic partnerships or acquire companies or products by using our ordinary shares as consideration.

We do not know whether a market for our Series C Warrants will be sustained or what the trading price of the Series C Warrants will be and as a result it may be difficult for you to sell your Series C Warrants.

Even though our Series C Warrant are listed on Nasdaq, there is no assurance that a market will be sustained or maintain a high enough per warrant trading price to maintain the national exchange listing requirements in the future. Without an active market, the liquidity of the Series C Warrants will be limited.

Our Series C Warrants are speculative in nature.

The Series C Warrants do not confer any rights of ownership of ordinary shares or ADSs on their holders, such as voting rights or the right to receive dividends, but only represent the right to acquire ADSs at a fixed price for a limited period of time. Holders of the Series C Warrants may exercise their right to acquire ADSs and pay the exercise price per ADS of \$3.50, subject to adjustment upon certain events, prior to five years from the date of issuance, after which date any unexercised warrants will expire and have no further value.

Future sales of our securities could reduce their market price.

Substantial sales of our securities, either on the TASE or on Nasdaq, may cause the market price of our securities to decline. All of our outstanding ordinary shares are registered and available for sale in Israel. Sales by us or our security holders of substantial amounts of our securities, or the perception that these sales may occur in the future, could cause a reduction in the market price of our securities.

The issuance of any additional ordinary shares, ADSs, warrants or any securities that are exercisable for or convertible into our ordinary shares or ADSs, may have an adverse effect on the market price of our securities and will have a dilutive effect on our existing shareholders and holders of ADSs.

Holders of ADSs may not receive the same distributions or dividends as those we make to the holders of our ordinary shares, and, in some limited circumstances, you may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary for the ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act of 1933, as amended, or the Securities Act, but that are not properly registered or distributed under an applicable exemption from registration. In addition, conversion into U.S. dollars from foreign currency that was part of a dividend made in respect of deposited ordinary shares may require the approval or license of, or a filing with, any government or agency thereof, which may be unobtainable. In these cases, the depositary may determine not to distribute such property and hold it as “deposited securities” or may seek to effect a substitute dividend or distribution, including net cash proceeds from the sale of the dividends that the depositary deems an equitable and practicable substitute. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. In addition, the depositary may withhold from such dividends or distributions its fees and an amount on account of taxes or other governmental charges to the extent the depositary believes it is required to make such withholding. This means that you may not receive the same distributions or dividends as those we make to the holders of our ordinary shares, and, in some limited circumstances, you may not receive any value for such distributions or dividends if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the ADSs.

Holders of ADSs must act through the depositary to exercise their rights as shareholders of our company.

Holders of our ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the Deposit Agreement. Under Israeli law and our articles of association, the minimum notice period required to convene a shareholders meeting is no less than 21 or 35 calendar days, depending on the proposals on the agenda for the shareholders meeting. When a shareholder meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders’ meeting to permit them to withdraw their ordinary shares to allow them to cast their vote with respect to any specific matter. In addition, the Depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the Depositary to extend voting rights to holders of the ADSs in a timely manner, but we cannot assure holders that they will receive the voting materials in time to ensure that they can instruct the Depositary to vote their ordinary shares underlying the ADSs. Furthermore, the Depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and they may lack recourse if their ordinary shares underlying the ADSs are not voted as they requested. In addition, in the capacity as a holder of ADSs, they will not be able to call a shareholders’ meeting.

We do not intend to pay any cash dividends on our ordinary shares in the foreseeable future and, therefore, any return on your investment in our securities must come from increases in the value and trading price of our securities.

We have never declared or paid cash dividends on our securities and do not anticipate that we will pay any cash dividends on our securities in the foreseeable future, therefore, any return on your investment in our securities must come from increases in the value and trading price of our securities.

We intend to retain our earnings to finance the development and expenses of our business. Any future determination relating to our dividend policy will be at the discretion of our board of directors and will depend on a number of factors, including future earnings, our financial condition, operating results, contractual restrictions, capital requirements, business prospects, applicable Israeli law and other factors our board of directors may deem relevant.

We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our securities less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and may remain an emerging growth company for up to five years. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements. We cannot predict whether investors will find our securities less attractive if we rely on these exemptions. If some investors find our securities less attractive as a result, there may be a less active trading market for our securities and the price of our securities may be more volatile.

In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are choosing to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period is irrevocable.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our securities will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. There can be no assurance that analysts will cover us, or provide favorable coverage. If one or more analysts downgrade our share or change their opinion of our securities, the price of our securities would likely decline. In addition, if one or more analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our securities are traded on different markets and this may result in price variations.

Our ordinary shares have been traded on TASE since February 2006 and our ADSs have been traded on Nasdaq since August 5, 2015. Trading in our securities on these markets takes place in different currencies (U.S. dollars on the Nasdaq and NIS on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of these securities on these two markets may differ due to these and other factors. Any decrease in the price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

We incur additional increased costs as a result of the listing of the ADSs for trading on Nasdaq, and our management is required to devote substantial time to new compliance initiatives and reporting requirements.

As a public company in the United States, we incur significant accounting, legal and other expenses as a result of the listing of the ADSs on Nasdaq. These include costs associated with corporate governance requirements of the SEC and the Marketplace Rules of the Nasdaq, as well as requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These rules and regulations increase our legal and financial compliance costs, introduce costs such as investor relations, stock exchange listing fees and shareholder reporting, and make some activities more time consuming and costly. Any future changes in the laws and regulations affecting public companies in the United States and Israel, including Section 404 and other provisions of the Sarbanes-Oxley Act, the rules and regulations adopted by the SEC and the rules of the Nasdaq Stock Market, as well as compliance with the applicable full Israeli reporting requirements which currently apply to us as a company listed on the TASE (for so long as they apply to us, pending shareholder approval by special majority of a change to our TASE reporting requirements to allow us to report to the TASE in the same manner in which we report to the SEC), may result in increased costs to us as we respond to such changes. These laws, rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of applicable SEC and Nasdaq requirements, which may result in less protection than is accorded to investors under rules applicable to domestic issuers.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the rules of the Nasdaq for domestic issuers. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq, may provide less protection than is accorded to investors under the rules of the Nasdaq applicable to domestic issuers. For more information, see “Item 16G. Corporate Governance - Nasdaq Stock Market Listing Rules and Home Country Practices.”

In addition, as a foreign private issuer, we are exempt from the rules and regulations under the Securities Exchange Act of 1934, as amended, or the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

We are a foreign private issuer, as such term is defined in Rule 405 under the Securities Act, and therefore, we are not required to comply with all the periodic disclosure and current reporting requirements of the Exchange Act and related rules and regulations. Under Rule 405, the determination of foreign private issuer status is made annually on the last business day of an issuer’s most recently completed second fiscal quarter and, accordingly, the next determination will be made with respect to us on June 30, 2019.

In the future, we would lose our foreign private issuer status if a majority of our shareholders, directors or management are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the U.S. Securities and Exchange Commission, or the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. For example, the annual report on Form 10-K requires domestic issuers to disclose executive compensation information on an individual basis with specific disclosure regarding the domestic compensation philosophy, objectives, annual total compensation (base salary, bonus, equity compensation) and potential payments in connection with change in control, retirement, death or disability, while the SEC forms applicable to foreign private issuers permit them to disclose compensation information on an aggregate basis if executive compensation disclosure on an individual basis is not required or otherwise has not been provided in the issuer’s home jurisdiction. We disclose individual compensation information, but this disclosure is not as comprehensive as that required of U.S. domestic issuers since we are not required to disclose more detailed information in Israel. We intend to continue this practice as long as it is permitted under the SEC’s rules and Israel’s rules do not require more detailed disclosure. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. We may also be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we may lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 as they apply to a foreign private issuer that is listing on a U.S. exchange for the first time, or our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned, and our securities price may suffer.

Section 404 of the Sarbanes-Oxley Act requires a company subject to the reporting requirements of the U.S. securities laws to do a comprehensive evaluation of its and its subsidiaries' internal control over financial reporting. As such, we are required to document and test our internal control procedures and our management is required to assess and issue a report concerning our internal control over financial reporting. In addition, when applicable to comply with this statute, our independent registered public accounting firm may be required to issue an opinion on the effectiveness of our internal control over financial reporting at a later date.

The continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. Furthermore, as our business continues to grow both domestically and internationally, our internal controls will become more complex and will require significantly more resources and attention to ensure our internal controls remain effective overall. During the course of its testing, our management may identify weaknesses or deficiencies, which may not be remedied in a timely manner. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting, or if our independent registered public accounting firm identifies material weaknesses in our internal control, investor confidence in our financial results may weaken, and the market price of our securities may suffer.

We may not satisfy Nasdaq's requirements for continued listing. If we cannot satisfy these requirements, Nasdaq could delist our securities.

Our ADSs are listed on Nasdaq under the symbol "MDGS". To continue to be listed on Nasdaq, we are required to satisfy a number of conditions, including a minimum bid price of at least \$1.00 per share, a market value of our publicly held shares of at least \$1 million and shareholders' equity of at least \$2.5 million.

If we are delisted from Nasdaq, trading in our securities may be conducted, if available, on the OTC Markets or, if available, via another market. In the event of such delisting, our shareholders would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of our securities, and our ability to raise future capital through the sale of our securities could be severely limited. In addition, if our securities were delisted from Nasdaq, our ADSs could be considered a "penny stock" under the U.S. federal securities laws. Additional regulatory requirements apply to trading by broker-dealers of penny stocks that could result in the loss of an effective trading market for our securities. Moreover, if our securities were delisted from Nasdaq, we will no longer be exempt from certain provision of the Israeli Securities Law, and therefore will have increased disclosure requirements.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Medigus Ltd. We were incorporated in the State of Israel on December 9, 1999, as a private company pursuant to the Israeli Companies Ordinance (New Version), 1983. In February 2006, we completed our initial public offering in Israel, and our ordinary shares have since traded on TASE, under the symbol "MDGS". In May 2015, we listed the ADSs on Nasdaq, and since August 2015 the ADSs have been traded on Nasdaq under the symbol "MDGS". Our Series C Warrants have been trading on Nasdaq under the symbol "MDGSW" since July 2018. Each Series C Warrant is exercisable into one ADS for an exercise price of \$3.50 and will expire five years from the date of issuance. Each ADS represents 20 ordinary shares.

We are a public limited liability company and operate under the provisions of the Companies Law. Our registered office and principal place of business are located at Omer Industrial Park, No. 7A, P.O. Box 3030, Omer 8496500, Israel and our telephone number in Israel is + 972-72-260-2200. Our website address is www.medigus.com. The information contained on our website or available through our website is not incorporated by reference into and should not be considered a part of this annual report on Form 20-F.

On July 22, 2007, we formed a wholly owned subsidiary in the State of Delaware under the name Medigus USA LLC, or the U.S. Subsidiary. On October 1, 2013, a service agreement was executed between the Company and the U.S. Subsidiary whereby the U.S. Subsidiary would render services to the Company against reimbursement of its direct expenses as well as a premium at a reasonable rate.

On January 3, 2019, we formed a wholly owned subsidiary in Israel under the name ScoutCam Ltd., or ScoutCam. ScoutCam was incorporated as part of a reorganization of the Company intended to distinguish the Company's miniaturized imaging business, or the micro ScoutCam™ portfolio, from the other operations of the Company and to enable the Company to form a separate business unit with dedicated resources focused on the promotion of such technology. As such, the Company is in the process of completing the transfer of all of the Company's assets and intellectual property related to the Company's miniaturized imaging business into ScoutCam.

To date, substantially material portion of our revenues have derived from our micro ScoutCam™ portfolio for use within the medical and industrial fields. Together with the technology transfer, we have begun examining additional applications for our micro ScoutCam™ portfolio outside of the medical device industry, among others, the defense, aerospace, automotive, and industrial non-destructing-testing industries. We plan to further expand the activity in these non-medical spaces. In addition, we are considering the introduction of investors to invest directly in ScoutCam.

In addition, we have been engaged in the development, production and marketing of innovative endoscopic surgical devices for the treatment of Gastroesophageal Reflux Disease, or GERD, a common ailment which is predominantly treated by medical therapy (e.g., proton pump inhibitors) or in more chronic cases, conventional open or laparoscopic surgery. Our FDA-cleared and CE-marked product, known as the MUSE™ System, enables a trans-orifice procedure, or scar less procedure through a natural opening in the body, that requires no incision for the treatment of GERD by reconstruction of the esophageal valve where the stomach and the esophagus meet.

Recently, our board of directors has determined to examine potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology.

On March 4, 2019 we have entered into a binding memorandum of understanding with Linkury Ltd., pursuant to which we intended to establish a commercial technological platform for the manufacturing, marketing and distribution of cannabidiol (CBD) based products. We are currently reevaluating this transaction, including its potential termination.

On March 14, 2019, we have provided Algomizer Ltd. (TASE: ALMO), or Algomizer, with a letter of intent for an investment of an aggregate of approximately \$5 million in Algomizer group. As part of the investment, we offered Algomizer to invest (i) NIS 5.4 million directly in Algomizer, which is engaged in field of internet advertising and whose shares are traded on TASE. The investment will be made at a price per Algomizer share of NIS 4.15; (ii) NIS 9 million through the acquisition of the shares of Linkury Ltd., Algomizer subsidiary, from Algomizer, at a company valuation of Linkury of approximately NIS 96 million; and (iii) \$1 million in Algomizer through share exchange by issuing Algomizer ADSs at a price of \$3 per ADS in consideration for Algomizer shares at a price per Algomizer share of NIS 4.15. In addition, we will issue Algomizer warrants to purchase ADSs in an amount equal to the ADSs to be issued to Algomizer at an exercise price of \$4 per ADS, which will be in effect for three years from the date of issue. As part of the investment, Algomizer will issue us warrants to purchase Algomizer shares in an amount equal to the shares issued to us in the transaction at an exercise price of NIS 5.25 per share, which will be in effect for three years from the date of issue.

Principal Capital Expenditures

We had capital expenditures of approximately \$11,000, \$9,000 and \$38,000 in the years ended on December 31, 2018, 2017 and 2016, respectively. Our capital expenditures are primarily for network infrastructure, computer hardware, purchase of machinery and software and leasehold improvements of our facilities. We have financed our capital expenditures from our available cash. We expect to maintain our capital expenditures in 2019 with a consistent volume.

There are no significant capital expenditures or divestitures currently in progress by the Company.

B. Business Overview

Overview

We are engaged in the development, production and marketing of innovative miniaturized imaging equipment known as our micro ScoutCam™ portfolio for use in medical procedures as well as various industrial applications, through our Israeli subsidiary, ScoutCam. ScoutCam was incorporated as part of a reorganization of the Company intended to distinguish the Company's micro ScoutCam™ portfolio from the other operations of the Company and to enable the Company to form a separate business unit with dedicated resources focused on the promotion of our miniaturized imaging technology. The Company is currently in the process of completing the transfer of all of the Company's assets and intellectual property related to the Company's miniature video cameras business into ScoutCam.

To date, substantially material portion of our revenues have derived from our micro ScoutCam™ portfolio for use within the medical and industrial fields. Together with the technology transfer, we have begun examining additional applications for our micro ScoutCam™ portfolio outside of the medical device industry, among others, the defense, aerospace, automotive, and industrial non-destructing-testing industries. We plan to further expand the activity in these non-medical spaces.

In addition, we have been engaged in the development, production and marketing of innovative surgical devices with direct visualization capabilities for the treatment of Gastroesophageal Reflux Disease, or GERD, a common ailment, which is predominantly treated by medical therapy (e.g. proton pump inhibitors) or in chronic cases, conventional open or laparoscopic surgery. Our FDA-cleared and CE-marked endosurgical system, known as the Medigus Ultrasonic Surgical Endostapler, or MUSE™ (Medigus Ultrasonic Surgical Endostapler) system, enables minimally-invasive and incisionless procedures for the treatment of GERD by reconstruction of the esophageal valve via the mouth and esophagus, eliminating the need for surgery in eligible patients. We believe that this procedure offers a safe, effective and economical alternative to the current modes of GERD treatment for certain GERD patients, and has the ability to provide results which are equivalent to those of standard surgical procedures while reducing pain and trauma, minimizing hospital stays, and delivering economic value to hospitals and payors. The key elements of the MUSE™ system include a single-use endostapler containing several sophisticated innovative technologies such as flexible stapling technology, a miniature camera and ultrasound sensor, as well as a control console offering a video image transmitted from the tip of the endostapler.

Our Micro ScoutCam™ Portfolio

We have developed several models of miniaturized digital video cameras and video processing equipment, for use in medical endoscopy products as well as industrial uses. Our cameras range between 8.0mm to 0.99 mm in diameter, and are based on single-use Complementary Metal Oxide Semiconductor, or CMOS, image sensors. In some cases, our cameras are relatively inexpensive, allowing them to be used in single-use devices.

Our miniature cameras are intended for use in medical applications in which it has not yet been feasible to use miniature video cameras, and may be integrated into devices developed by the company, or by third parties who source the camera from us. We expect that the growing demand for single-use medical devices will increase demand for the CMOS cameras in particular, in fields such as gastroenterology, orthopedics, gynecology, ears nose throat, urology, cardio-vascular, and other fields in which diagnostic and surgical procedures may be performed endoscopically. Small-diameter video cameras permit not only smaller camera-based endoscopes which are able to penetrate previously inaccessible organs or visualize them in improved image quality, but also allows for the addition of working channels and other features in the valuable space freed by the reduction in camera size. In addition to the medical applications, we expanded recently our activity in non-medical applications such as defense, aerospace, automotive, and industrial non-destructing-testing industries. We plan to further expand the activity in these non-medical spaces.

Our most advanced camera is a prototype CMOS-based camera measuring only 0.99 mm in diameter transmitting 45,000 pixels in HDMI format, which we believe to be the smallest video camera ever produced. This camera is based on "through-silicon-via" technology whereby the electronics pass vertically through the sensor, permitting smaller diameter devices. This prototype camera will not be commercially available in the foreseeable future.

To date, substantially material portion of our revenues have derived from our micro ScoutCam™ portfolio for use within the medical and industrial fields.

Our MUSE™ System

Prevalence of GERD

GERD, is a worldwide disorder, with evidence suggesting an increase in GERD disease prevalence since 1995. The sample size weighted mean for the GERD population in the United States and Europe is 19.8% and 15.2% respectively. In the United States alone, over 49 million adults are affected by GERD, with over 29 million adults suffering daily from GERD symptoms. Proton pump inhibitors, or PPIs, are a class of effective and generally safe medication to treat GERD, but not everyone who experiences heartburn needs a PPI. Several PPIs have been widely advertised to consumers and heavily promoted by physicians. This has led to an overuse of the drug. PPIs are the third highest selling class of drugs in the U.S. and Nexium has the second highest retail sales among all drugs at \$4.8 billion in 2008. This figure does not include sales of other brands of PPIs.

After being swallowed, food descends through the esophagus to the stomach, which contains acids and enzymes intended to digest and break down food. GERD is caused by the defective operation of the lower esophageal sphincter, or LES, a valve which controls the flow of ingested food from the esophagus into the stomach. While eating and between eating periods, a properly operating LES prevents stomach contents from entering the esophagus. Among GERD sufferers, the valve opens spontaneously or is unable to close properly. This results in acidic stomach contents rising into the esophagus, causing irritation, acid reflux and heartburn, as well as other potentially dangerous conditions.

Beyond painful symptoms, GERD may also increase sufferers' susceptibility to cancer. Whereas the stomach is lined by the "gastric mucosal barrier" which allows acidic material to be contained harmlessly, the surface of the esophagus consists of flat, thin cells called squamous cells, which are not resistant to acid. Repeated episodes of acid reflux can cause inflammation of the esophagus, a condition called esophagitis. The flat cells lining the esophagus can also undergo genetic changes due to exposure to acid, causing these cells to resemble those found in the stomach lining.

Treatment of GERD

Treatment of GERD involves a stepwise approach. The goals are to control symptoms, to heal esophagitis and to prevent recurrent esophagitis. The treatment is based on lifestyle modification and control of gastric acid through medical treatment (antacids, PPI's, H2 blockers or other reflux inhibitors) or antireflux surgery. Mild GERD may be defined as intermittent reflux symptoms that can be managed with lifestyle changes or over-the-counter medications. Moderate to severe GERD represents more chronic symptoms that may require stronger drugs, long term medication or surgical intervention.

Drug Treatment - Proton pump inhibitors (PPI)

For moderate to severe GERD, physicians usually prescribe PPIs. This class of drugs reduces acid production by the stomach, and thereby relieves the patients of their symptoms. Drugs of this class are among the most commonly prescribed medications in the world. There are several brands on the market, best known are Prilosec (omeprazole), Prevacid (lansoprazole) and Nexium (esomeprazole). Certain PPI drugs are available over the counter in the United States and in other countries, but the over the counter dosage may be inadequate to control GERD symptoms, except in mild cases.

Interventional Treatment

The most common operation for GERD is called a surgical fundoplication, a procedure that prevents reflux by wrapping or attaching the upper part of the stomach around the lower esophagus and securing it with sutures. Due to the presence of the wrap or attachment, increasing pressure in the stomach compresses the portion of the esophagus which is wrapped or attached by the stomach, and prevents acidic gastric content from flowing up into the esophagus. Today, the operation is usually performed laparoscopically: instead of a single large incision into the chest or abdomen, four or five smaller incisions are made in the abdomen, and the operator uses a number of specially designed tools to operate under video control.

The operation does not completely eliminate the use of PPIs, and up to approximately 60% of the patients who undergo this surgery still use some in long term follow up. Nevertheless, the dose is usually lower – in the over the counter range – and the response rate is excellent. Since the majority of patients referred to surgeons are incomplete responders, or require a high dose of PPI, the patients are generally satisfied with the operation, and the overall costs of treatment are lower in the long run.

In spite of clinical outcome of surgery, relatively few patients undergo surgery. We estimate that large numbers of patients who are candidates for operative treatment are either not referred by their treating physician or decline it. We believe that many patients decline to undergo operations to avoid even minute scars or violation of the abdominal cavity.

Given the current environment in which the vast majority of GERD sufferers in North America and Europe must choose between long-term pharmaceutical therapy and surgery, leading to what is known in our industry as the “treatment gap”, we believe there is a demand for a minimally-invasive, incision-less procedure which treats the root cause of the disease. We believe that the MUSE™ system is positioned to fill this need.

Our Solution

Our product, the MUSE™ system for transoral fundoplication, is a single use innovative device for the incisionless treatment of GERD. The MUSE™ technology is based on our proprietary platform technology, experience and know-how. Transoral means the procedure is performed through the mouth, rather than through incisions in the abdomen. The MUSE™ system is used to perform a procedure as an alternative to a surgical fundoplication. The MUSE™ system offers an endoscopic, incisionless alternative to surgery. A single surgeon or gastroenterologist can perform the MUSE™ procedure in a transoral way, unlike in a laparoscopic fundoplication which requires incisions.

The system consists of the MUSE™ console controller, the MUSE™ endostapler and several accessories, including an overtube, irrigation bottle, tubing supplies and staple cartridges. The MUSE™ endostapler incorporates a video camera, a flexible surgical stapler and an ultrasonic guidance system that is used to measure the distance between the anvil and the cartridge of the stapler, to ensure their proper alignment and tissue thickness. The device also contains an alignment pin, which is used for initial positioning of the anvil against the cartridge, two anvil screws, which are used to reduce the thickness of the tissue that needs to be stapled and to fix the position of the anvil and the MUSE™ endostapler during stapling. The system allows the operator to staple the fundus of the stomach to the esophagus, in two or more locations, typically around the circumference, thereby creating a fundoplication, without any incisions.

Endoscopic procedures generally involve less recovery time and patient discomfort than conventional open or laparoscopic surgery. These procedures are also typically performed in the outpatient hospital setting as opposed to an inpatient setting. Typically, outpatient procedures cost the hospital or the insurer less money since there is no overnight stay in the hospital.

The clearance by the FDA, or ‘Indications for Use’, of the MUSE™ system is “for endoscopic placement of surgical staples in the soft tissue of the esophagus and stomach in order to create anterior partial fundoplication for treatment of symptomatic chronic Gastro-Esophageal Reflux Disease in patients who require and respond to pharmacological therapy”. As such, the FDA clearance covers the use by an operator of the MUSE™ endostapler as described in the above paragraph. In addition, in the pivotal study that was presented to the FDA in order to gain clearance, only patients who were currently taking GERD medications (i.e. pharmacological therapy) were allowed in the study. In addition, all patients had to have a significant decrease in their symptoms when they were taking medication compared to when they were off the medication. As such, the FDA clearance included the indication that MUSE™ system is intended for patients who require and respond to pharmacological therapy. The MUSE™ system indication does not restrict its use with respect to GERD severity from a regulatory point of view. However, clinicians typically only consider interventional treatment options for moderate to severe GERD. Therefore, it is reasonable to expect the MUSE™ system would be primarily used to treat moderate and severe GERD in practice. The system has received 510(k) marketing clearance from the FDA in the United States, as well as a CE mark in Europe and a license from Health Canada. It is also cleared for use in Turkey and in Israel.

Recently, our board of directors has determined to examine potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology.

Our Strategy

Our primary goal is to generate recurring revenues by driving sales of our micro ScoutCam™ portfolio and to pursue potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology. Our strategy includes the following key elements:

Driving our micro ScoutCam™ portfolio sales. We intend to continue to focus on commercializing our micro ScoutCam™ portfolio in key geographies and markets. Our distribution network continues to expand for further commercialization.

Developing additional visualization products. Additionally, we intend to develop other products which will be based on our miniature camera technology and our ability to integrate therapy with the need for visualization. Products could include a fully integrated, endoscopic platform designed for endoscopic surgical tissue dissection or for endoscopic sleeve gastrectomy. Other opportunities may include leveraging the miniature camera design for orthopedic markets, cardio and peripheral interventional procedures or biliary visualization. We also intend to look for applications for our micro ScoutCam™ portfolio outside of the medical device industry, among others, the defense industry, the aviation industry and the automotive industry.

Collaborating and co-developing with established companies. We seek to initiate co-development or licensing collaborations with leading companies which have existing marketing channels or significant marketing power in critical geographies and sales channels.

Sell or License MUSE™ technology. Our board of directors has determined to examine potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology.

Substantially material portion of our revenues in recent years are based on the sale of miniature cameras which we develop and manufacture. The following data reflects our total revenue arising from the following services:

	Revenues		
	Year Ended December 31,		
	2018	2017	2016
	(Thousands of U.S. dollars)		
Sales of Miniature Cameras and related equipment	175	306	92
Development services	217	-	357
Sales of the MUSE™ System	44	161	100
Total	436	467	549

The following data reflects our total revenue broken down by geographic region:

	Revenues		
	Year Ended December 31,		
	2018	2017	2016
	(Thousands of U.S. dollars)		
United States	315	115	345
Europe	63	193	53
Asia	36	116	5
Other	22	43	146
Total	436	467	549

Seasonality of Business

During the last few years we have not seen any seasonality in our sales.

Raw Materials and Suppliers

The main raw materials required for the assembly and production of our various products mainly include electronic components, mechanical components, lighting components, tubes, lenses, sensors and cables, which we purchase from various suppliers and subcontractors in Israel and around the world.

We generally engage with our suppliers and subcontractors in routine purchase orders for the performance of specific orders of goods, and not via long-term contracts. We are not required to provide collateral of any kind with respect to our orders, though occasionally we have to pay some, or all, of the purchase order amount up front. The payment is usually made in various currencies as agreed by the parties.

Though we attempt to ensure the availability of more than one supplier for each important component in our products, the number of suppliers engaged in the provision of miniature video sensors which are suitable for our CMOS technology products is very limited, and therefore in some cases we engage with a single supplier, which may result in dependency on such supplier. This is the case regarding sensors for the CMOS type technology that is produced by a single supplier in the United States. As we do not have a contract in place with this supplier, there is no contractual commitment on the part of such supplier for any set quantity of such sensors. The loss of our sole supplier in providing us with miniature sensors for our CMOS technology products, and our inability or delay in finding a suitable replacement supplier, could significantly affect our business, financial condition, results of operations and reputation.

In general, alternative suppliers can be trained within a short period. However, we do have a small number of suppliers who the replacement of which could be longer, due to the adjustment of their products to our needs.

Marketing and Distribution

Marketing of micro ScoutCam™

With respect to our micro ScoutCam™ portfolio, we sell and market our off-the-shelf and customized products globally and also engage in co-development efforts when possible. We also maintain a dedicated web-site for our imaging products.

Marketing of MUSE™ systems

As part of our board of directors decision to examine potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology, our board of directors has reexamined the efforts and resources currently invested by us in our MUSE™ technology distribution agreements as well as the revenues obtained through such agreements in order to assess their financial viability. As a result of this analysis, our board of directors resolved to terminate our distribution agreements, except for our distribution in China, in order to redirect our resources to securing licensing agreements, which may in turn generate significant income in the short term, reduce operating expenses and lower the Company's burn rate.

Intellectual Property

Our commercial success depends, in part, on obtaining and maintaining patent and other intellectual property protection, in the United States and internationally, for the technologies used in our products. We cannot be sure that any of our patents will be commercially useful in protecting our technology. Our commercial success also depends in part on our non-infringement of the patents or proprietary rights of third parties. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. For additional information see "Item 3. Key information—D. Risk Factors—Risks Related to Our Intellectual Property."

We own 20 U.S. patents and have filed three additional patent applications in the U.S. In addition, we own 63 patents that were granted in other countries, including nine European patents, which are not valid on their own, unless validated in specific European countries, as indeed were validated according to our list of chosen European countries. We also have ten pending patent applications outside of U.S. Our patents, and any patents which may be granted under our pending patent applications, expire between the years 2021 and 2037.

We cannot be sure that any patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future. There is also a significant risk that any issued patents will have substantially narrower claims than those that are currently sought.

We also protect our proprietary technology and processes, in part, by confidentiality and invention assignment agreements with our employees, consultants, scientific advisors and other contractors. These agreements may be breached, and we may not have adequate remedies for any breach. We also rely on trade secrets to protect our product candidates. However, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants, scientific advisors or other contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Competition

The medical device industry, can be significantly affected by new product introductions and other market activities of industry participants. We believe that the principal competitive factors in our market include:

- safety, efficacy and clinically effective performance of products;
- ease of use and comfort for the physician and patient;
- the cost of product offerings and the availability of product coverage and reimbursement from third-party payors, insurance companies and other parties;
- the strength of acceptance and adoption by physicians and hospitals;
- the ability to deliver new product offerings and enhanced technology to expand or improve upon existing applications through continued research and development;
- the quality of training, services and clinical support provided to physicians and hospitals;
- effective sales, marketing and distribution;
- the ability to provide proprietary products protected by strong intellectual property rights; and
- the ability to offer products that are intuitive and easy to learn and use.

Competition with our micro ScoutCam™ portfolio

The main devices that compete with our miniature cameras are manufactured by Awaiba, Fujikura, MicroCam (Sanovas), Precision Optics, Opcom, Misumi and FISBA. The miniature cameras of each of these vendors differ in various factors include image quality and resolution, camera shape and dimensions, sensor technology, optic characteristics, and user flexibility and customization. In recent years, OmniVision, a global leader in CMOS sensors, expanded its interest in micro sensors, and in supporting them with optics and video processing solutions. We use OmniVision sensors in the MUSE™ system as well as in many of our ScoutCam™ projects and strive to strengthen our partnership with OmniVision.

Competition with the MUSE™ system

We have several competitors in the medical device and pharmaceutical industries. Patients and physicians may opt for more established existing therapies to treat GERD, including PPI pharmaceutical treatment or laparoscopic fundoplication surgery. PPIs are currently being offered by several large pharmaceutical manufacturers, most of whom have significantly greater financial, clinical, manufacturing, marketing, distribution and technical resources and experience than we have.

Over the last few years a number of different medical devices and treatments have been introduced to address the “treatment gap” in GERD treatments and therapies which is found between long-term pharmaceutical therapy on one hand and surgery on the other. These devices and treatments seek to treat GERD less invasively than fundoplication and without the need for long-term use of drug therapy

Government Regulation

The healthcare industry, and thus our business, is subject to extensive federal, state, local and foreign regulation. Some of the pertinent laws have not been definitively interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. In addition, these laws and their interpretations are subject to change.

Both federal and state governmental agencies continue to subject the healthcare industry to intense regulatory scrutiny, including heightened civil and criminal enforcement efforts. As indicated by work plans and reports issued by these agencies, the federal government will continue to scrutinize, among other things, the billing practices of healthcare providers and the marketing of healthcare products.

We believe that we have structured our business operations and relationships with our customers to comply with all applicable legal requirements. However, it is possible that governmental entities or other third parties could interpret these laws differently and assert otherwise. In addition, because there is a risk that our products are used off label, we believe we are subject to increased risk of prosecution under these laws and by these entities even if we believe we are acting appropriately. We discuss below the statutes and regulations that are most relevant to our business and most frequently cited in enforcement actions.

U.S. Food and Drug Administration

All of our medical device products sold in the U.S. are subject to regulation as medical devices under the FDA, as implemented and enforced by the FDA. The FDA governs the following activities that we perform or that are performed on our behalf, to ensure that medical products we manufacture, promote and distribute domestically or export internationally are safe and effective for their intended uses:

- product design, preclinical and clinical development and manufacture;
- product premarket clearance and approval;
- product safety, testing, labeling and storage;
- record keeping procedures;
- product marketing, sales and distribution; and
- post-marketing surveillance, complaint handling, medical device reporting, reporting of deaths, serious injuries or device malfunctions and repair or recall of products.

FDA Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either premarket notification, or 510(k) marketing clearance or approval of a premarket approval application, or PMA, from the FDA. The FDA classifies medical devices into one of three classes. Class I devices, considered to have the lowest risk, are those for which safety and effectiveness can be assured by adherence to the FDA's general regulatory controls for medical devices, which include compliance with the applicable portions of the Quality System Regulation, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials (General Controls). Class II devices are subject to the FDA's General Controls, and any other special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device (Special Controls). Manufacturers of most class II and some class I devices are required to submit to the FDA a premarket notification under Section 510(k) of the FDCA requesting permission to commercially distribute the device. This process is generally known as 510(k) marketing clearance. Devices deemed by the FDA to pose the greatest risks, such as life sustaining, life supporting or some implantable devices, or devices that have a new intended use, or use advanced technology that is not substantially equivalent to that of a legally marketed device, are placed in class III, requiring approval of a PMA.

510(k) Marketing Clearance Pathway

To obtain 510(k) marketing clearance, we must submit a premarket notification demonstrating that the proposed device is "substantially equivalent" to a legally marketed "predicate device" that is either in class I or class II, or to a class III device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of a PMA. A Special 510(k) is an abbreviated 510(k) application which can be used to obtain clearance for certain types of device modification such as modifications that do not affect the intended use of the device or alter the device's fundamental scientific technology. A Special 510(k) generally requires less information and data than a complete, or Traditional 510(k). In addition, a Special 510(k) application often takes a shorter period of time, which could be as short as 30 days, than a Traditional 510(k) marketing clearance application, which can be used for any type of 510(k) device. The FDA's 510(k) marketing clearance pathway usually takes from three to twelve months, but may take significantly longer. The FDA may require additional information, including clinical data, to make a determination regarding substantial equivalence. There is no guarantee that the FDA will grant 510(k) marketing clearance for our future products and failure to obtain necessary clearances for our future products would adversely affect our ability to grow our business.

The FDA is currently considering proposals to reform its 510(k) marketing clearance process and such proposals could include increased requirements for clinical data and a longer review period. In response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the 510(k) program, and in January 2011, announced several proposed actions intended to reform the review process governing the clearance of medical devices. The FDA intends these reform actions to improve the efficiency and transparency of the clearance process, as well as bolster patient safety. For example, in July 2011, the FDA issued a draft guidance document entitled "510(k) Device Modifications: Deciding When to Submit a 510(k) for a Change to an Existing Device," which was intended to assist manufacturers in deciding whether to submit a new 510(k) for changes or modifications made to the manufacturer's previously cleared device. While this draft guidance was subsequently withdrawn, the FDA is expected to replace the 1997 guidance document on the same topic. As part of FDASIA, Congress reauthorized the Medical Device User Fee Amendments with various FDA performance goal commitments and enacted several "Medical Device Regulatory Improvements" and miscellaneous reforms which are further intended to clarify and improve medical device regulation both pre- and post-approval. One of these provisions obligates the FDA to prepare a report for Congress on the FDA's approach for determining when a new 510(k) will be required for modifications or changes to a previously cleared device. After submitting this report, the FDA is expected to issue revised guidance to assist device manufacturers in making this determination. Until then, manufacturers may continue to adhere to the FDA's 1997 guidance on this topic when making a determination as to whether or not a new 510(k) is required for a change or modification to a device, but the practical impact of the FDA's continuing scrutiny of these issues remains unclear. It is possible that any new guidance will make substantive changes to existing policy and practice regarding the assessment of whether a new 510(k) is required for changes or modifications to existing devices. Specifically, industry has interpreted the withdrawn draft guidance to take a more conservative approach in requiring a new 510(k) for certain changes or modifications to existing, cleared devices that might not have triggered a new 510(k) under the 1997 guidance. As of July 28, 2014, the FDA released final guidance entitled "The 510(k) Program: Evaluating Substantial Equivalence in Premarket Notifications" which is intended to identify, explain, and clarify each of the critical decision points in the decision-making process FDA uses to determine substantial equivalence. We cannot predict which of the 510(k) marketing clearance reforms currently being discussed or proposed might be enacted, finalized or implemented by the FDA and whether the FDA will propose additional modifications to the regulations governing medical devices in the future. Any such modification could have a material adverse effect on our ability to commercialize our products.

Medical devices can be marketed only for the indications for which they are cleared or approved. After a device receives 510(k) marketing clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) marketing clearance or, depending on the modification, PMA approval. The FDA requires each manufacturer to determine whether the proposed changes requires submission of a 510(k) or a PMA, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing or recall the modified device until 510(k) marketing clearance or PMA approval is obtained. Also, in these circumstances, we may be subject to significant regulatory fines or penalties. We have made product enhancements to MUSE™ system and other products that we believe do not require new 510(k) marketing clearances. We cannot be assured that the FDA would agree with any of our decisions not to seek 510(k) marketing clearance or PMA approval. For risks related to 510(k) marketing clearance, see "Item 3. Key information—D. Risk Factors – Risks Related to Regulatory Compliance."

PMA Approval Pathway

A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process or is not otherwise exempt from the FDA's premarket clearance and approval requirements. A PMA must generally be supported by extensive data, including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling, to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will generally conduct a pre-approval inspection of the applicant or its third-party manufacturers' or suppliers' manufacturing facility or facilities to ensure compliance with the QSR.

New PMAs or PMA supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. PMA supplements often require submission of the same type of information as a PMA, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA and may not require as extensive clinical data or the convening of an advisory panel. None of our products are currently approved under a PMA approval. However, we may in the future develop devices which will require the approval of a PMA. There is no guarantee that the FDA will grant PMA approval of our future products and failure to obtain necessary approvals for our future products would adversely affect our ability to grow our business.

Clinical Trials

Clinical trials are generally required to support a PMA application and are sometimes required for 510(k) marketing clearance. Such trials generally require an Investigational Device Exemption application, or IDE, approved in advance by the FDA for a specified number of patients and study sites, unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. A significant risk device is one that presents a potential for serious risk to the health, safety or welfare of a patient and either is implanted, used in supporting or sustaining human life, substantially important in diagnosing, curing, mitigating or treating disease or otherwise preventing impairment of human health, or otherwise presents a potential for serious risk to a subject. Clinical trials are subject to extensive monitoring, recordkeeping and reporting requirements. Clinical trials must be conducted under the oversight of an Institutional Review Board, or IRB, for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. To conduct a clinical trial, we are also required to obtain the patient's informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the IRB could suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA clearance or approval to market the product in the United States. Similarly, in Europe the clinical study must be approved by a local ethics committee and in some cases, including studies with high-risk devices, by the ministry of health in the applicable country.

Pervasive and Continuing Regulation

After a device is placed on the market, numerous regulatory requirements continue to apply. In addition to the requirements below, the Medical Device Reporting, or MDR, regulations require that we report to the FDA any incident in which our products may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. See “Item 4. Information on the Company —D. Risk Factors – Risks Related to Regulatory Compliance,” for further information regarding our reporting obligations under MDR regulations. Additional regulatory requirements include:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all phases of the design and manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of one of our cleared devices;
- approval of product modifications that affect the safety or effectiveness of one of our approved devices;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply, when necessary, to protect the public health or to provide additional safety and effectiveness data for the device;
- the FDA’s recall authority, whereby it can ask, or under certain conditions order, device manufacturers to recall from the market a product that is in violation of governing laws and regulations; and
- notices of corrections or removals.

We must also register with the FDA as a medical device manufacturer and must obtain all necessary state permits or licenses to operate our business.

Failure to comply with applicable regulatory requirements, including delays in or failures to report incidents to the FDA as required under the MDR regulations, can result in enforcement action by the FDA, which may include any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) marketing clearances or PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

In January 2016, we performed an FDA mock audit by an FDA veteran specialist, following which we implemented improvements in our quality management system. We cannot be assured that we have adequately complied with all regulatory requirements or that one or more of the referenced sanctions will not be applied to us as a result of a failure to comply.

Marketing Approvals Outside the United States

Sales of medical devices outside the United States are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may differ.

The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Each European Union member state has implemented legislation applying these directives and standards at the national level. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. Devices that comply with the requirements of the laws of the relevant member state applying the applicable European Union directive are entitled to bear CE conformity marking and, accordingly, can be commercially distributed throughout the member states of the European Union and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a “Notified Body,” an independent and neutral institution appointed to conduct conformity assessment. This third-party assessment consists of an audit of the manufacturer’s quality system and clinical information, as well as technical review of the manufacturer’s product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In addition, compliance with ISO 13845 on quality systems issued by the International Organization for Standards, among other standards, establishes the presumption of conformity with the essential requirements for a CE marking. In addition, many countries apply requirements in their reimbursement, pricing or health care systems that affect companies’ ability to market products.

We have been authorized by Health Canada and have received AMAR approval in Israel. In addition, we received approval from the MedCert Zertifizierungs und Prüfungsgesellschaft für die Medizin GmbH of Germany, and are entitled to print the CE Mark on our products, after having examined the EU Technical File for each new product.

Israeli Government Programs

Under the Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984, or the Innovation Law, research and development programs which meet specified criteria and are approved by a committee of the Israeli Innovation Authority of the Israeli Ministry of Economy and Industry, or IIA (formerly known as Office of Chief Scientist, or the OCS) are eligible for grants from the IIA. The grant amounts are determined by the research committee, and are typically a percentage of the project’s expenditures. Under most programs, the grantee is required to pay royalties to the State of Israel from the sale of products developed under the program. Regulations under the Innovation Law generally provide for the payment of royalties of 3% to 6% on sales of products and services based on or incorporating technology developed using grants or know-how deriving therefrom, up to 100% of the grant, linked to the dollar and bearing interest at the LIBOR rate, is repaid. The royalty rates and the aggregate repayment amount may be higher if manufacturing rights are transferred outside of Israel, as further detailed below. The manufacturing rights of products incorporating technology developed thereunder may not be transferred outside of Israel, unless approval is received from the IIA and additional royalty payments are made to the State of Israel, as further detailed below. However, this does not restrict the export of products that incorporate the funded technology.

The pertinent obligations under the Innovation Law are as follows:

- *Local Manufacturing Obligation.* The terms of the grants under the Innovation Law require that we manufacture the products developed with these grants in Israel. Under the regulations promulgated under the Innovation Law, the products may be manufactured outside Israel by us or by another entity only if prior approval is received from the IIA (such approval is not required for the transfer of less than 10% of the manufacturing capacity in the aggregate, in which case a notice should be provided to the IIA). As a condition to obtaining approval to manufacture outside Israel, we would be required to pay royalties at an increased rate (usually 1% in addition to the standard rate and increased royalties cap (between 120% and 300% of the grants, depending on the manufacturing volume that is performed outside Israel). We note that a company also has the option of declaring in its IIA grant applications of its intention to exercise a portion of the manufacturing capacity abroad, thus avoiding the need to obtain additional approvals and pay the increased royalties cap with respect to the portion declared.
- *Know-How transfer limitation.* The Innovation Law restricts the ability to transfer know-how funded by the IIA outside of Israel. Transfer of IIA funded know-how outside of Israel requires prior approval of IIA and in certain circumstances is subject to certain payment to the IIA, calculated according to formulae provided under the Innovation Law. If we wish to transfer IIA funded know-how, the terms for approval will be determined according to the character of the transaction and the consideration paid to us for such transfer. The IIA approval to transfer know-how created, in whole or in part, in connection with a IIA-funded project to third party outside Israel where the transferring company remains an operating Israeli entity is subject to payment of a redemption fee to the IIA calculated according to a formula provided under the Innovation Law that is based, in general, on the ratio between the aggregate IIA grants to the company's aggregate investments in the project that was funded by these IIA grants, multiplied by the transaction consideration, considering depreciation mechanism and less royalties already paid to the IIA. The transfer of such know-how to a party outside Israel where the transferring company ceases to exist as an Israeli entity is subject to a redemption fee formula that is based, in general, on the ratio between aggregate IIA grants received by the company and the company's aggregate research and development expenses, multiplied by the transaction consideration considering depreciation mechanism and less royalties already paid to the IIA. The regulations promulgated under the Innovation Law establish a maximum payment of the redemption fee paid to the IIA under the above mentioned formulas and differentiates between two situations: (i) in the event that the company sells its IIA funded know-how, in whole or in part, or is sold as part of an M&A transaction, and subsequently ceases to conduct business in Israel, the maximum redemption fee under the above mentioned formulas will be no more than six times the amount received (plus annual interest) for the applicable know-how being transferred, or the entire amount received from the IIA, as applicable; (ii) in the event that following the transactions described above (i.e. asset sale of IIA funded know-how or transfer as part of an M&A transaction) the company continues to conduct its research and development activity in Israel (for at least three years following such transfer and maintain staff of at least 75% of the number of research and development employees it had for the six months before the know-how was transferred and keeps the same scope of employment for such research and development staff), then the company is eligible for a reduced cap of the redemption fee of no more than three times the amounts received (plus annual interest) for the applicable know-how being transferred.
- Approval of the transfer of IIA funded technology to another Israeli company may be granted only if the recipient abides by the provisions of the Innovation law and related regulations, including the restrictions on the transfer of know-how and manufacturing rights outside of Israel (note that there will be an obligation to pay royalties to the IIA from the income of such sale transaction as part of the royalty payment obligation).

Approval to manufacture products outside of Israel or consent to the transfer of technology, if requested, might not be granted. Furthermore, the IIA may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

Grants Received from the IIA (formerly the OCS)

We have received grants from the IIA as part of our participation in two programs as described below:

Membership in the Activities of the Bio Medical Photonic Consortium

The Bio Medical Photonic Consortium, or the Consortium, commenced its activities in June 2007, and concluded its activities on December 31, 2012. The purpose of the Consortium was to develop generic photonic technologies in the field of diagnostics and therapeutics in the biomedical industry in Israel, and specifically on the subject of the digestive system. The activities of the Consortium were performed under our management and the management of Given Imaging Ltd., where each would develop technological models which are based on their internal developments and on developments of the members of the Consortium.

Within the framework of the activities of the Consortium, the Company worked to develop the next generation technology of miniature cameras. The cameras were integrated, within the framework of the Consortium, in technological models for minimally invasive procedures which were developed by the members of the Consortium. The various combinations of surgical tools and advanced visual capabilities with miniature endoscopes are innovative, and we predict that the Consortium framework will continue serving as a fruitful basis for the development of innovative medical procedures through the creation of intellectual property. Additionally, we will cooperate with research groups which develop indicators for early detection of colorectal cancer, with the aim of integrating the visualization techniques and key products in this field. The Company received an amount of approximately US \$2.3 from the IIA in the framework of the Consortium.

In February 2019, the IIA approved a transfer of know-how and technology developed by the Company in the framework of the Consortium to ScoutCam Ltd., a company incorporated under the laws of the State of Israel, a wholly owned subsidiary of the Company. Accordingly, all rights and liabilities to the IIA under the Innovation Law in connection with such know how have been transferred to the subsidiary.

The following are details regarding the rights and obligations within the framework of our activity in the Consortium, which will apply to the subsidiary notwithstanding the conclusion of the program:

- (i) The property rights to information which has been developed belongs to the Consortium member that developed it. However, the developing entity is obligated to provide the other members in the Consortium a license for the use of the new information, without consideration, provided that the other members do not transfer such information to any entity which is not a member of the Consortium. The provision of a license or of the right to use the new information to a third party is subject to approval by the administration of the MAGNET Program at the IIA;
- (ii) The Consortium member is entitled to register a patent for the new information which has been developed by it within the framework of its activity in the Consortium. The foregoing registration does not require approval from the administration; and
- (iii) The know-how and technology developed under the program is subject to the restrictions set forth under the Innovation Law, including restrictions on the transfer of such know-how and any manufacturing rights with respect thereto, without first obtaining the approval of the IIA. Such approval may entail additional payments to the IIA, as determined under the Innovation Law and regulations, and as further detailed above.

Collaboration Grant for the Development of a Miniature Diameter Endoscope for Use in Dental Implants

In July 2011, the IIA approved our application for support for a joint project regarding the development of an innovative, miniature diameter endoscopic product in the field of dental surgery, or the Dental Project. In October 2012, the Company received a notice according to which approval was given for continued support for the Dental Project for a second year. The IIA support for the Dental Project concluded on July 31, 2013.

The Dental Project was performed in collaboration with Qioptiq GmbH, a German corporation, or Qioptiq, in the field of sophisticated medical micro-optics, including in the medical and life sciences sector. The collaboration between the Company and Qioptiq was performed within the framework of the Eureka organization, a Pan-European organization which includes approximately 40 member states, including the State of Israel, and which acts to coordinate and to finance research and development enterprises in and outside of Europe.

In accordance with the outline of the Dental Project, we and Qioptiq collaborated on the development of an innovative miniature-diameter endoscope, with side viewing capabilities, intended for use in various dental implant procedures, the Dental Endoscope. During the Dental Project, each of the parties developed different parts of the Dental Endoscope. In accordance with the terms of the collaboration, the intellectual property which originated from the development of the Dental Endoscope remained the exclusive property of the party which developed it. Subject to the completion of the project, the parties agreed to conduct negotiations regarding the method used to produce and market the Product. The foregoing negotiations have not been conducted. In January 2019 we have notified the IIA that the Dental Project has failed due to technological reasons and that there are no revenues to be expected from this project.

Grants and Royalty Obligations

We received various grants from the IIA in connection with our participation in its programs. We received a grant of approximately \$2.3 million in connection with our participation in the Bio Medical Photonics Consortium in the production of generic technology related to the partial development of miniature or the Consortium Grant. Under the terms of the Consortium Grant we are not required to pay royalties. In addition, we received a grant of approximately \$0.2 million in connection with a collaboration within the framework of the Eureka organization related to miniature endoscope for dental implants, or the Eureka Grant. Under the terms of the Eureka Grant, we would have to pay royalties at a rate of 3% -5% from the actual sales of the relevant device, up to the repayment of the grant, with the addition of interest and linkage. In January 2018 we have notified the IIA that the project that received the Eureka Grant has failed due to technological reasons and that there are no revenues to be expected from this project.

C. Organizational Structure

We currently have two wholly owned subsidiaries: (i) Medigus USA LLC, a limited liability company, incorporated in the State of Delaware, United States, and (ii) ScoutCam Ltd., a company incorporated under the laws of the State of Israel.

D. Property, Plant and Equipment

Our offices and research and development facility are located at Omer Industrial Park, No. 7A, P.O. Box 3030, Omer 8496500 Israel, where we occupy approximately 807 square meters. We lease our facilities and our lease ends on December 31, 2019.

We consider that our current office space is sufficient to meet our anticipated needs for the foreseeable future and is suitable for the conduct of our business. We have no current plans to construct, expend or improve our facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with “Item 3. Key Information—Selected Financial Data” and our consolidated financial statements and the related notes to those statements included elsewhere in this annual report. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

The audited consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 in this annual report have been prepared in accordance with International Financial Reporting Standards, which are standards and interpretations thereto issued by the International Accounting Standard Board.

Overview

We are engaged in the development, production and marketing of innovative miniaturized imaging equipment known as our micro ScoutCam™ portfolio for use in medical procedures as well as various industrial applications, through our Israeli subsidiary, Scout Cam.

In addition, we have been engaged in the development, production and marketing of innovative surgical devices with direct visualization capabilities for the treatment of Gastroesophageal Reflux Disease, or GERD, a common ailment, which is predominantly treated by medical therapy (e.g. proton pump inhibitors) or in chronic cases, conventional open or laparoscopic surgery.

To date, substantially material portion of our revenues have derived from our micro ScoutCam™ portfolio for use within the medical and industrial fields.

We have incurred net losses each year since inception. The Company's accumulated deficit as of December 31, 2018 aggregated to approximately \$62.5 million. We anticipate that we are likely to continue to incur significant net losses for at least the next several years as we continue the development of our products and expand our sales and marketing capabilities required to sell and market our products.

Recent business events and key milestones in the development of our business, include the following:

- In July 2018, pursuant to a registration statement in the United States, we raised approximately \$10 million (gross) through the issuance of ADSs and warrants. See "Item 10. Additional Information – C. Material Contracts."
- On September 20, 2018, the annual general meeting of the shareholders has determined to replace the then serving directors with our current directors.
- On January 3, 2019, we formed a wholly owned subsidiary in Israel under the name ScoutCam Ltd., or ScoutCam. ScoutCam was incorporated as part of a reorganization of the Company intended to distinguish the Company's miniaturized imaging business, or the micro ScoutCam™ portfolio, from the other operations of the Company and to enable the Company to form a separate business unit with dedicated resources focused on the promotion of such technology.
- On March 14, 2019, we have provided Algomizer Ltd. (TASE:ALMO), or Algomizer, with a letter of intent for an investment of an aggregate of approximately \$5 million in Algomizer group. As part of the investment, we offered Algomizer to invest (i) NIS 5.4 million directly in Algomizer, which is engaged in field of internet advertising and whose shares are traded on TASE. The investment will be made at a price per Algomizer share of NIS 4.15; (ii) NIS 9 million through the acquisition of the shares of Linkury Ltd., Algomizer subsidiary, from Algomizer, at a company valuation of Linkury of approximately NIS 96 million; and (iii) \$1 million in Algomizer through share exchange by issuing Algomizer ADSs at a price of \$3 per ADS in consideration for Algomizer shares at a price per Algomizer share of NIS 4.15. In addition, we will issue Algomizer warrants to purchase ADSs in an amount equal to the ADSs to be issued to Algomizer at an exercise price of \$4 per ADS, which will be in effect for three years from the date of issue. As part of the investment, Algomizer will issue us warrants to purchase Algomizer shares in an amount equal to the shares issued to us in the transaction at an exercise price of NIS 5.25 per share, which will be in effect for three years from the date of issue.

Summary of Critical Accounting Policies and Significant Judgments and Estimates

The preparation of consolidated financial statements in conformity with general accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those that are the most important to the portrayal of our financial condition and results of operations, and that require our most difficult, subjective and complex judgments. While our significant accounting policies are described in more detail in the notes to our financial statements, our most critical accounting policies, discussed below, pertain to revenue recognition, warrants, share- based compensation, inventory impairment, functional currency and accounting for income taxes.

Estimates, by their nature, are based upon judgments and information currently available to us. The estimates that we make are based upon historical factors, current circumstances and the experience and judgment of management. We evaluate our assumptions and estimates on an ongoing basis.

Revenue Recognition

a) Revenue measurement

Since January 1, 2018 (the initial implementation date of IFRS 15), the Group's revenues are measured according to the amount of consideration that the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, such as sales taxes. Revenues are presented net of VAT.

Until December 31, 2017 (IAS 18 implementation) revenues were measured in accordance with the fair value of the consideration received or receivable in respect of sales supplied in the ordinary course of business. Revenues were presented net of value added tax, returns, rebates and discounts.

b) Revenue recognition

Since January 1, 2018 (the initial implementation date of IFRS 15), the Group recognizes revenue when a customer obtains control over a promised goods or services. For each performance obligation a Group determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

Performance obligations are satisfied over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, a Group satisfies the performance obligation at a point in time.

Until December 31, 2017 revenue from the sale of goods is recognized when all of the following conditions are met:

- The Group transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Group does not retain continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of the revenue can be measured reliably. The amount of the revenue is not considered as being reliably measured until all the conditions relating to the transaction are met. The Group bases its estimates on past experience, considering the type of customer, type of transaction and special details of each arrangement;
- It is probable that the economic benefits that are associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Construction contracts:

Since January 1, 2018 the Group recognize revenue from construction contracts over time or at a point at time, as described above.

Until December 31, 2017 revenues from constructions contracts were recognized according to IAS 11, “Construction contracts”, as follows:

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, the revenue and the associated costs recognized over the contract period by reference to the stage of completion. The Group recognizes expected loss immediately once concluded that it’s probable.

When the outcome of a construction contract cannot be estimated reliably, the Group recognizes revenue only to the extent of contract costs incurred that it is probable will be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the “percentage-of-completion method” to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs recognized in the period in connection with the future activities on a contract are excluded from contract costs in determining the stage of completion.

The Group classified the net contract position for each contract as either an asset or a liability as part of the balance sheet. Net contract classified as an asset when the incurred costs plus recognized profits (less recognized losses) exceed progress billings and as a liability if otherwise.

Warrants

Receipts from investors in respect of warrants are classified as equity to the extent that they confer the right to purchase a fixed number of shares for a fixed exercise price. In the event that the exercise price is not deemed to be fixed, the warrants are classified as non-current liability. This liability initially recognized at its fair value on the issue date and subsequently accounted for at fair value at each reporting date. The fair value changes are charged to profit from changes in fair value of warrants issued to investors on the statement of comprehensive loss. The fair value of the warrants is measured at issue date and each reporting date on the basis of accepted valuation models and assumptions regarding unobservable inputs used in the valuation models.

In December 2016, in connection with a registered direct offering, we issued warrants to purchase 9,970 of our ADSs at an exercise price of \$36. The warrants are exercisable for a period of five and half years from the date of issuance.

In March 2017, in connection with our public offering, we issued warrants to purchase 535,730 of our ADSs at an exercise price of \$14. The warrants are exercisable for a period of five years from the date of issuance.

In November 2017, in connection with a registered direct offering, we issued warrants to purchase 101,251 of our ADSs at an exercise price of \$9. The warrants are exercisable for a period of five and half years from the date of issuance.

The fair value of the warrants was calculated according to valuation methods, and based on the following assumptions:

% %	December 31					
	2018			2017		
	Standard deviation	Risk-free interest	Fair value (USD thousands)	Standard deviation	Risk-free interest	Fair value (USD thousands)
Warrants issued November 2017	82.62%	1.46%	94	63.47%	0.97%	228
Warrants issued March 2017	91.11%	1.02%	-	66.72%	0.56%	325
Warrants issued December 2016	89.64%	1.18%	3	65.74%	0.70%	6

Share-Based Compensation

We granted several equity-settled share-based compensation plans to the Company’s employees, directors and other service providers in connection with their service to the Company. The fair value of such services is calculated at the grant date and amortized to the statement of loss and other comprehensive loss during the vesting period.

The fair value of the options which was granted on December 2015, October 2017 and January 2019 was calculated using the Black and Scholes options pricing model, and based on the following assumptions:

Date of grant	Fair value on grant date- NIS in thousands	Share price on date of grant (NIS)	Expected dividend	Expected volatility	Risk free interest	Vesting conditions	Expected term
December 2015	607	1.627	None	54%	1.39%	Four equal portions, following each anniversary of the grant date	6 years
October 2017	1,109	0.162	None	64%	1.16%	Four equal portions, following each anniversary of the grant date	6 years
January 2019	947	0.506	None	74%	1.45%	will vest in 12 equal quarterly installments over a three-year period commencing October 1, 2018	6 years

Inventory impairment

The company continually evaluates inventory for potential loss due to excess quantity or obsolete or slow-moving inventory by comparing sales history and sales projection to the inventory on hand. When evidence indicates that the carrying value of a product may not be recoverable, a charge is recorded to reduce the inventory to its current net realizable value.

Functional Currency

Until December 31, 2015, our consolidated financial statements were presented in NIS, which was the Company’s functional and presentation currency as of such date. Effective January 1, 2016, the Company changed its functional currency to the U.S. dollar. The 2015 and 2014 financial data presented in this annual report were translated from NIS to USD as follows: (1) assets and liabilities were translated using the December 31 exchange rates of each year, as applicable; (2) equity items were translated using historical exchange rates at the relevant transaction dates; (3) the consolidated statements of loss and other comprehensive loss line items were translated using the average exchange rates for each year; and (4) the translation net effect was recorded as “currency translation differences” within the consolidated statements of loss and other comprehensive loss for each year.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposures and make an assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities. Changes to these estimates may result in a significant increase or decrease to our tax provision in the current or subsequent period.

We recognize deferred tax assets for unused tax losses, tax benefits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which that 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.

The calculation of our tax liabilities or reduction in deferred tax asset involves dealing with uncertainties in the application of complex tax regulations and estimates of future taxable income in different geographical jurisdictions. We recognize liabilities for uncertain tax positions if it is probable to be realized. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effective settlement of audit issues, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

No deferred tax assets have been recorded in the Group's books and records with respect to accumulated losses since it is not probable that the Group will be able to utilize such losses in the foreseeable future against taxable income.

A. Results of Operations

The following table sets forth a summary of our operating results:

	Year ended December 31,		
	2018	2017	2016
	U.S. Dollars, in thousands, except per share and weighted average shares data		
Revenues:			
Products	219	467	192
Services	217	-	357
	<u>436</u>	<u>467</u>	<u>549</u>
Cost of revenues:			
Products	164	219	81
Services	115	-	95
Inventory impairment	328	297	-
	<u>607</u>	<u>516</u>	<u>176</u>
Gross Profit (Loss)	<u>(171)</u>	<u>(49)</u>	<u>373</u>
Research and development expenses	1,809	2,208	3,655
Sales and marketing expenses	1,354	846	2,125
General and administrative expenses	<u>3,338</u>	<u>3,005</u>	<u>3,684</u>
Operating loss	(6,672)	(6,108)	(9,091)
Profit from changes in fair value of warrants issued to investors	148	3,502	25
Finance income (expenses), net	(54)	54	87
Loss before taxes on income	(6,578)	(2,552)	(8,979)
Taxes benefit (Taxes on income)	(20)	7	(28)
Loss and total comprehensive loss for the year	<u>(6,598)</u>	<u>(2,545)</u>	<u>(9,007)</u>
		USD	
Basic loss per ordinary share	<u>(0.16)</u>	<u>(0.20)</u>	<u>(2.62)</u>
Diluted loss per ordinary share	<u>(0.16)</u>	<u>(0.23)</u>	<u>(2.62)</u>

Year ended December 31, 2018 compared to year ended December 31, 2017**Revenues**

Revenues for the year ended December 31, 2018 were \$436,000 a decrease of \$31,000, or 6.6%, compared to total revenues of \$467,000 for the year ended December 31, 2017.

The tables below set forth our revenues, by region and by product for the periods presented:

U.S. dollars; in thousands	Year Ended December 31,			
	2018		2017	
United States	315	72%	115	25%
Europe	63	14%	193	41%
Asia	36	8%	116	25%
Other	22	6%	43	9%
Total	436	100%	467	100%

U.S. dollars; in thousands	Year Ended December 31,			
	2018		2017	
MUSE™ system and related equipment	44	10%	161	34%
Development services	217	50%	-	-
Miniature camera and related equipment	175	40%	306	66%
Total	436	100%	467	100%

Our revenues in recent years were primarily derived from the sale of miniature camera and related equipment which we develop and manufacture and from development services. The remainder revenues relates to the sale of the MUSE™ system.

The decrease in revenues in 2018 was primarily due to a decrease of \$117,000 in revenues from MUSE™ systems, decrease of \$131,000 in revenues from miniature camera and related equipment revenues, which was partially offset by an increase of \$217,000 in development services.

The decrease in revenues from MUSE™ systems was primarily due to the decrease in the quantity of products sold. In 2017, the Company engaged in distribution agreements in Italy, Spain, Switzerland and Liechtenstein, which led to an increase in revenues from MUSE™ in 2017. The Company terminated these distribution agreements in 2018.

The decrease in revenues from miniature camera and related equipment was primarily due to overall decrease in the sales of the Company products to occasional customers, a decrease in camera-related R&D and marketing resources.

The increase in revenues from development services was primarily due to:

- (i) during the year ended December 31, 2018 we recorded revenues for development services provided to a customer in the amount of approximately \$130,000 (see 'Customer A' in note 17d to our financial statements for the year ended December 31, 2018). We did not receive any revenue from this customer during the year ended December 31, 2017; and
- (ii) during the year ended December 31, 2018 we recorded revenues for development services provided to a customer in the amount of approximately \$87,000. We did not receive any revenue from this customer during the year ended December 31, 2017.

Cost of revenues and inventory impairment

Cost of revenues and inventory impairment for the year ended December 31, 2018 were \$607,000, an increase of \$91,000, or 17.6%, compared to cost of revenues and inventory impairment of \$516,000 for the year ended December 31, 2017. The increase was primarily due to the increase in inventory impairment of \$31,000 and increase in cost of revenues of \$60,000. The increase in inventory impairment was due to the Company's decision to terminate distribution agreements. The increase in cost of revenues was due to changes in products and services mix.

Gross Loss

Gross loss for the year ended December 31, 2018 was \$171,000, an increase of \$122,000 compared to gross loss of \$49,000 for the year ended December 31, 2017. The increase was primarily due to the decrease in revenues and increase in cost of revenues and inventory impairment, as mentioned above.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2018, were \$1.8 million, a decrease of \$0.4 million, or 18%, compared to \$2.2 million for the year ended December 31, 2017. The decrease was primarily due to marketing efforts which were implemented by the Company, such efforts include amongst other things allocating part of two employees' salaries from research and development line item to the sales and marketing line item due to the nature of their current work which include training doctors and supporting them throughout their first few procedures and due to by one time charges of materials of \$202,000 which occur during 2017.

Sales and Marketing Expenses

Sales and marketing expenses for the year ended December 31, 2018, were \$1.3 million, an increase of \$0.5 million, or 60%, compared to \$0.8 million for the year ended December 31, 2017. The increase was primarily due to marketing efforts which were implemented by the Company, such efforts include amongst other things allocating part of two employees' salaries to the sales and marketing line item due to the nature of their current work and due to prepaid expenses write-off related to materials that were intended for testing, training, demonstrations and promotional activities of MUSE™ systems.

General and Administrative Expenses

General and Administrative expenses for the year ended December 31, 2018, were \$3.3 million, an increase of \$0.3 million, or 11%, compared to \$3.0 million for the year ended December 31, 2017. The increase was primarily due to an increase in professional services in connection with issuance expenses which were attributed to the warrants classified as liabilities and therefore allocated directly to the consolidated statement of loss and other comprehensive loss.

Operating loss

We incurred an operating loss of \$6.6 million for the year ended December 31, 2018, an increase of \$0.5 million, or 9%, compared to operating loss of \$6.1 million for the year ended December 31, 2017. The increase in operating results was due to \$0.5 million increase in sales and marketing expenses, \$0.3 million increase in administrative and general expenses and \$0.1 million increase in gross loss, partially offset by \$0.4 million decrease in research and development expenses.

Profit from Change in Fair Value of Warrants Issued to Investors

Profit from change in the fair value of warrants issued to investors for the year ended December 31, 2018, was \$148,000, a decrease of almost \$3.4 million, compared to \$3.5 million for the year ended December 31, 2017.

Warrants issued to investors classified as either liabilities or as part of the shareholders' equity based on the accounting guidance established in connection with the rights attached to the warrants. The warrants that were classified as liabilities due to a cashless exercise mechanism are subject to adjustment to fair value each balance sheet cut-off date. This adjustment is presented separately within the consolidated statement of loss and other comprehensive loss.

Finance income (loss), net

Finance loss, net for the year ended December 31, 2018, was \$54,000, an increase of \$108,000, compared to finance income of \$54,000 for the year ended December 31, 2017.

Loss before taxes on income

We incurred loss before taxes on income of \$6.6 million for the year ended December 31, 2018, an increase of \$4.0 million, or 157.8%, compared to loss before taxes on income of \$2.6 million for the year ended December 31, 2017. The increase was primarily due to \$0.5 million increase in operating loss, \$3.4 million decrease in profit from change in the fair value of warrants issued to investors and \$0.1 million decrease in finance income, net.

Taxes on income (Taxes benefit)

Taxes on income for the year ended December 31, 2018, were \$20,000, a decrease of \$27,000, compared to \$7,000 taxes benefit for the year ended December 31, 2017.

Loss for the year

Loss for the year was \$6.6 million, or a loss of \$0.16 per basic and diluted share, for the year ended December 31, 2018, an increase of \$4.1 million, compared to loss for the year of \$2.5 million, or loss of \$0.20 per basic and \$ 0.23 per diluted share, for the year ended December 31, 2017. The increase was primarily due to \$4.0 million increase in loss before taxes on income.

Year ended December 31, 2017 compared to year ended December 31, 2016

Revenues

Revenues for the year ended December 31, 2017 were \$467,000, a decrease of \$82,000, or 15%, compared to total revenues of \$549,000 for the year ended December 31, 2016.

The tables below set forth our revenues, by region and by product for the periods presented:

U.S. dollars; in thousands	Year Ended December 31,			
	2017		2016	
United States	115	25%	345	63%
Europe	193	41%	53	10%
Asia	116	25%	5	1%
Other	43	9%	146	26%
Total	467	100%	549	100%

U.S. dollars; in thousands	Year Ended December 31,			
	2017		2016	
MUSE™ system and related equipment	161	34%	100	18%
Development services	-	-	357	65%
Miniature camera and related equipment	306	66%	92	17%
Total	467	100%	549	100%

Our revenues in recent years were primarily derived from the sale of miniature camera and related equipment which we develop and manufacture and from development services. The remainder revenues relates to the sale of the MUSE™ system.

The decrease in revenues in 2017 was primarily due to a decrease of \$357,000 in development services which was partially offset by an increase of \$214,000 in revenues from miniature camera and related equipment revenues and an increase of \$61,000 in revenues from MUSE™ systems.

During 2016 we recognized two large projects aggregated to \$239,000 and \$118,000 for National Aeronautics and Space Administration and to one of Israel's leading industrial companies, respectively, both relate to the miniature camera and related equipment and both were disclosed as major customers within Note 17d in the Company's consolidated financial statements included elsewhere in this annual report. Those projects were not repeated during 2017, the loss of such revenues was partially offset by overall increase in the sales of the Company's products.

Cost of revenues and inventory impairment

Cost of revenues and inventory impairment for the year ended December 31, 2017 were \$516,000, an increase of \$340,000, or 193%, compared to cost of revenues of \$176,000 for the year ended December 31, 2016. The increase was primarily due to the inventory impairment of \$297,000 that was recorded during 2017 due to an inventory analysis management performed. Such analysis matched between the inventory items held by the Company each balance sheet cut-off date compared to management forecast. The excess inventory represented the inventory impairment that was recorded.

Gross Profit (Loss)

Gross loss for the year ended December 31, 2017 was \$49,000, a decrease of \$422,000 compared to gross profit of \$373,000 for the year ended December 31, 2016. The decrease was primarily due to the inventory impairment of \$297,000 mentioned above. The remainder decrease relates to the fact that the 2016 projects mentioned above, that were not repeated during 2017, were more profitable than the Company's products.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2017, were \$2.2 million, a decrease of \$1.5 million, or 40%, compared to \$3.7 million for the year ended December 31, 2016. The decrease was primarily due to the Company's cost reduction program which was implemented since the third quarter of 2016.

Sales and Marketing Expenses

Sales and marketing expenses for the year ended December 31, 2017, were \$0.8 million, a decrease of \$1.3 million, or 60%, compared to \$2.1 million for the year ended December 31, 2016. The decrease was primarily due to the Company's cost reduction program, which was implemented since the third quarter of 2016, which resulted in a termination of headcount (mainly in the Company's subsidiary in the U.S.) and also due to a reduction of our marketing activities such as participation in exhibits.

General and Administrative Expenses

Administrative and General expenses for the year ended December 31, 2017, were \$3.0 million, a decrease of \$0.7 million, or 18%, compared to \$3.7 million for the year ended December 31, 2016. The decrease was primarily due to a decrease in professional services of \$1.3 million in connection with an intellectual property litigation that took place during 2016 and a decrease of \$0.2 million primarily due to the cost reduction program, which was implemented since the third quarter of 2016, partially offset by an increase in professional services of \$0.9 million in connection with issuance expenses which were attributed to the warrants classified as liabilities during 2017 and therefore allocated directly to the consolidated statement of loss and other comprehensive loss (for additional information regarding such expenses, please refer to Note 13b in the Company's consolidated financials included elsewhere in this annual report).

Operating loss

We incurred an operating loss of \$6.1 million for the year ended December 31, 2017, a decrease of \$3.0 million, or 33%, compared to operating loss of \$9.1 million for the year ended December 31, 2016. The decrease in operating results was due to \$1.5 million decrease in research and development expenses, \$1.3 million decrease in sales and marketing expenses and \$0.7 million in administrative and general expenses, \$0.1 million decrease in revenues and \$0.3 million increase in cost of revenues.

Profit from Change in Fair Value of Warrants Issued to Investors

Profit from change in the fair value of warrants issued to investors for the year ended December 31, 2017, was \$3.5 million, an increase of almost \$3.5 million, compared to \$25,000 for the year ended December 31, 2016.

Warrants issued to investors classified as either liabilities or as part of the shareholders' equity based on the accounting guidance established in connection with the rights attached to the warrants. The warrants that were classified as liabilities due to a cashless exercise mechanism are subject to adjustment to fair value each balance sheet cut-off date based on the Black and Scholes model. This adjustment is presented separately within the consolidated statement of loss and other comprehensive loss. The significant profit recorded during the year ended December 31, 2017 derived from a decrease in the fair value of the warrants classified as liabilities relating primarily to warrants that were issued during the first quarter of 2017, and was primarily due to a reduction in price of the Company's ordinary shares and the fact that remaining exercise period was shortened. The profit during the year ended December 31, 2016 was relatively immaterial.

Finance income, net

Finance income, net for the year ended December 31, 2017, was \$54,000, a decrease of \$33,000, or 38%, compared to \$87,000 for the year ended December 31, 2016. The decrease was primarily due to changes in currencies exchange rates.

Loss before taxes on income

We incurred loss before taxes on income of \$2.6 million for the year ended December 31, 2017, a decrease of \$6.4 million, or 72%, compared to loss before taxes on income of \$9.0 million for the year ended December 31, 2016. The decrease was primarily due to \$3.0 million decrease in operating loss and \$3.5 million increase in profit from change in the fair value of warrants issued to investors.

Taxes benefit (Taxes on income)

Taxes benefit for the year ended December 31, 2017, were \$7,000, a decrease of \$35,000, compared to \$28,000 taxes on income for the year ended December 31, 2016. The decrease was due to tax adjustment entry recorded during 2017 due to prior year final tax assessment for the Company's U.S. subsidiary.

Loss for the year

Loss for the year was \$2.5 million, or a loss of \$0.20 per basic and \$0.23 per diluted share, for the year ended December 31, 2017, a decrease of \$6.5 million, compared to loss for the year of \$9.0 million, or loss of \$2.62 per basic and diluted share, for the year ended December 31, 2016. The decrease was primarily due to \$6.4 million decrease in loss before taxes on income.

Effective Corporate Tax Rate

Our effective consolidated tax rate for the years ended December 31, 2018, 2017 and 2016 was almost zero percent (0%), primarily due to the fact that the Company did not record deferred tax asset in connection with the losses incurred in Israel, since it is not probable that the Company will be able to utilize such losses in the foreseeable future against taxable income.

Impact of Inflation, Devaluation and Fluctuation in Currencies on Results of Operations, Liabilities and Assets

We generate part of our revenues in different currencies than our functional currency (U.S. dollars), such as NIS and Euro. As a result, some of our financial assets are denominated in these currencies, and fluctuations in these currencies could adversely affect our financial results. A considerable amount of our expenses are generated in U.S. dollars, but a significant portion of our expenses such as salaries are generated in other currencies such as NIS. In addition to our operations in Israel, we are expanding our international operations in the European Union. Accordingly, we incur and expect to continue incurring additional expenses in non-U.S. dollar currencies, such as described above. Due to the mentioned, our results could be adversely affected as a result of a strengthening or weakening of the U.S. Dollar compared to these other currencies.

The inflation in Israel during the last several years was relatively immaterial and therefore had immaterial effect on our results of operations.

Effective January 1, 2016, we changed our functional currency to the U.S. dollar from NIS. This change was based on management's assessment that the U.S. dollar is the primary currency of the economic environment in which we operate. Accordingly, the functional and reporting currency of our consolidated financial statements is the U.S. dollar.

B. Liquidity and Capital Resources

Liquidity

During the year ended December 31, 2018, we incurred a total comprehensive loss of approximately \$6.6 million and a negative cash flow used in operating activities of approximately \$4.2 million. As of December 31, 2018, we incurred accumulated deficit of approximately \$62.5 million.

We will need to seek additional sources of funds, including selling additional equity, debt or other securities or entering into a credit facility, take costs reduction steps or modify our current business plan to achieve profitability. If we raise additional funds through the issuance of debt securities, these securities may have rights senior to those of our ordinary shares and could contain covenants that could restrict our operations and ability to issue dividends. We may also require additional capital beyond our currently forecasted amounts. Any required additional capital, whether forecasted or not, may not be available on reasonable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay or eliminate some or all of our planned research, development and commercialization activities, which could materially harm our business and results of operations.

Because of the numerous risks and uncertainties associated with the development of our products and the current economic situation, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of our products and successfully deliver commercial products to the market. Our future capital requirements will depend on many factors, including but not limited to the following:

- the revenue generated by sales of our current and future products;
- the expenses we incur in selling and marketing our products and supporting our growth;
- the costs and timing of regulatory clearance or approvals for new products or upgrades or changes to our products;
- the expenses we incur in complying with domestic or foreign regulatory requirements imposed on medical device companies;
- the rate of progress, cost and success or failure of on-going development activities;
- the emergence of competing or complementary technological developments;
- the costs of filing, prosecuting, defending and enforcing any patent or license claims and other intellectual property rights;
- the terms and timing of any collaborative, licensing, or other arrangements that we may establish;
- the future unknown impact of recently enacted healthcare legislation;
- the acquisition of businesses, products and technologies; and
- general economic conditions and interest rates.

Cash Flows

Operating Activities

Net cash used in operating activities for the year ended December 31, 2018 was \$4.2 million, an increase of \$0.5 million, compared to net cash used in operating activities of \$4.7 million for the year ended December 31, 2017, which reflect an decrease of \$4.6 million compared to net cash used in operating activities of \$9.3 million for the year ended December 31, 2016.

Net cash used in operating activities for the year ended December 31, 2018, consisted primarily of loss for the year before taxes on income of \$6.6 million, partially offset by issuance expenses which were attributed to the warrants classified as a financial liability and charged directly to profit or loss of \$1.6 million, inventory impairment of \$0.3 million and an increase in other current liabilities of \$0.4 million.

Net cash used in operating activities for the year ended December 31, 2017, consisted primarily of loss for the year before taxes on income of \$2.6 million, and profit on change in the fair value of warrants issued to inventors of \$3.5 million, partially offset by issuance expenses which were attributed to the warrants classified as a financial liability and charged directly to profit or loss of \$1.0 million.

Net cash used in operating activities for the year ended December 31, 2016, consisted primarily of loss for the year before taxes on income of \$9.0 million and a decrease in accounts payable and accruals of \$0.4 million, partially offset by a decrease in accounts receivables of \$0.6 million and a decrease in accounts receivables of \$0.2 million.

Investing Activities

Net cash generated from investing activities for the year ended December 31, 2018 was \$3.5 million, an increase of almost \$7.0 million, compared to net cash used in investing activities of \$3.5 million for the year ended December 31, 2017, which reflect an increase of almost \$3.5 million compared to net cash used in investing activities of \$38,000 for the year ended December 31, 2016.

Net cash generated from investing activities for the year ended December 31, 2018, consisted primarily of withdrawal of short-term deposits of \$3.5 million.

Net cash used in investing activities for the year ended December 31, 2017, consisted primarily of investment in short-term deposit of \$5.0 million, partially offset by withdrawal of short-term deposit of \$1.5 million.

Net cash used in investing activities for the year ended December 31, 2016, consisted primarily of purchase of property and equipment of \$32,000.

Financing Activities

Net cash generated from financing activities for the year ended December 31, 2018 was \$8.6 million, an increase of \$0.7 million, compared to net cash generated from financing activities of \$7.9 million for the year ended December 31, 2017, which reflect an increase of \$6.0 million compared to net cash generated from financing activities of \$1.9 million for the year ended December 31, 2016.

Net cash generated from financing activities for the year ended December 31, 2018, consisted primarily of proceeds from issuance of shares and warrants and from exercise of warrants, net of issuances costs of \$8.6 million.

Net cash generated from financing activities for the year ended December 31, 2017, consisted primarily of proceeds from issuance of shares and warrants, net of \$7.9 million.

Net cash generated from financing activities for the year ended December 31, 2016, consisted of proceeds from issuance of shares and warrants, net of \$1.9 million.

C. Research and Development, Patents and Licenses, Etc.

Our research and development efforts are focused on continuous improvement of our products. We conduct all of our research activities in Israel.

As of December 31, 2018, our research and development team, including regulatory and quality team members, consisted of eight employees. In addition, we work with subcontractors for the development of our products as needed. We have assembled an experienced team with recognized expertise in mechanical and electrical engineering, software, control algorithms and systems integration, as well as significant medical and clinical knowledge and expertise.

We finance our research and development activities mainly through sale of our products, capital raising and grants received from the IIA. As of December 31, 2018, we had received total aggregated grants of \$2.5 million from the IIA. For further information see “Item 4. Information on the Company—B. Business Overview — Health Care Laws and Regulations—Israeli Government Programs.”

The table below set forth our research and development expenses for the periods presented:

	Year Ended December 31,		
	2018	2017	2016
	(U.S. Dollars, in thousands)		
Research and development expenses	\$ 1,809	\$ 2,208	\$ 3,655

From time to time we file applications for patent registration in the certain countries, some in which we are active and some which we consider as potential markets in order to protect our developed intellectual property.

D. Trend Information

The following is a description of factors that may influence our future results of operations, including significant trends and challenges that we believe are important to an understanding of our business and results of operations:

To date, a significant portion of our revenues was generated from the sale of our micro ScoutCam™ portfolio products, development services and the remainder from the sale of the MUSE™ system. The level of our future revenues is hard to predict as it depends on many factors, which most of them are outside of our control. For instance, future revenues from the sale of our products may be adversely affected by current general economic conditions and the resulting tightening of credit markets, which may cause purchasing decisions to be delayed, our customers may have difficulty securing adequate funding to buy our products or, in an extraordinary event, may cause our customers to experience difficulties in complying with their engagements with us. In addition, revenue growth depends on the acceptance of our technology in the market.

The healthcare industry in the United States has experienced a trend toward cost containment as government and private insurers seek to manage healthcare costs by imposing lower payment rates and negotiating reduced contract rates with service providers. This trend may result in inadequate coverage for procedures, especially those utilizing new technology, or result in new technology not receiving reimbursement coverage, which may negatively impact utilization of our products. In addition, medical malpractice carriers are withdrawing coverage in certain states or substantially increasing premiums. If this trend continues or worsens, physicians and surgeons may discontinue using our products or may choose to not purchase it in the future due to the cost or inability to procure insurance coverage.

E. Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our known contractual obligations and commitments as of December 31, 2018:

	Total	Less than 1 year	1 – 3 years
	(U.S. Dollars, in thousands)		
Car lease obligations	39	30	9
Premises leasing obligations	80	80	-
Total	119	110	9

Other Non-Current Liabilities Reflected on our Balance Sheet:

Long-term advanced payments aggregated to approximately \$0.1 million as of December 31, 2018. For further details, please refer to our 2018 consolidated financial statements and the related notes included elsewhere in this annual report.

Warrants that were classified as liabilities in our consolidated financial statements aggregated to approximately \$1.6 million as of December 31, 2018. For further details refer to our 2018 consolidated financial statements and the related notes included elsewhere in this annual report.

Retirement benefit obligation, net aggregated to \$79,000 as of December 31, 2018. For further details refer to our 2018 consolidated financial statements and the related notes included elsewhere in this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The following table lists the names and ages of our directors and senior management as of March 25, 2019:

Name	Age	Position(s)
Prof. Benad Goldwasser	68	Chairman of the Board of Directors
Ronen Rosenbloom ⁽¹⁾⁽²⁾	47	Director
Eliyahu Yoresh ⁽¹⁾⁽²⁾	48	Director
Eli Cohen ⁽¹⁾⁽²⁾	50	Director
Tatiana Yosef	36	Chief Financial Officer
Dr. Yaron Silberman	49	Chief Executive Officer of ScoutCam Ltd.
Minelu (Menashe) Sonnenschein ⁽³⁾	53	VP, Israel Operations

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) As previously disclosed, Mr. Sonnenschein will step down from his position as the Company's VP, Israel Operations, effective March 31, 2019.

Prof. Benad Goldwasser has been serving as a member and as Chairman of our Board since September 2018. Prof. Goldwasser is a serial entrepreneur and retired urology medical doctor. In 2016, Prof. Goldwasser launched a venture capital fund partnered with SAIL, a Shanghai Government investment company. Prof. Goldwasser serves as a member of the board of directors of Innoventric Ltd. since 2017 and as active chairman of Safe Foods Inc. since 2018. From 2013-2016 Prof. Goldwasser served as an external director of BioCanCell Ltd. (TASE: BICL). Prof. Goldwasser was the co-founder of Vidamed Inc., Medinol Ltd., Rita Medical Inc., Optonol Ltd. and GI View Ltd. Prof. Goldwasser served as managing director of Biomedical Investments Ltd., an Israeli Venture Capital. During his medical career he served as Chairman of Urology at the Chaim Sheba Medical Center and Professor of Surgery at Tel-Aviv University. Prof. Goldwasser holds an MD and MBA from Tel-Aviv University.

Ronen Rosenbloom has been serving as a member of our Board since September 2018. Mr. Rosenbloom is an independent lawyer working out of a self-owned law firm specializing in white collar offences. Mr. Rosenbloom serves as chairman of the Israeli Money Laundering Prohibition committee and the Prohibition of Money Laundering Committee of the Tel Aviv District, both of the Israel Bar Association. Mr. Rosenbloom previously served as a police prosecutor in the Tel Aviv District. Mr. Rosenbloom holds an LL.B. from the Ono Academic College, an Israeli branch of University of Manchester.

Eliyahu Yoresh has been serving as a member of our Board since September 2018. Mr. Yoresh serves as chief financial officer and director of Foresight Autonomous Holdings Ltd. (Nasdaq, TASE: FRSX) and Asia Group. In addition, Mr. Yoresh serves as a director of Nano Dimension Ltd. (Nasdaq, TASE: NNDM) and has previously served as a director of Geffen Biomed Investments Ltd. and Greenstone Industries Ltd. Mr. Yoresh served as the chief executive officer of Tomcar Global Holdings Ltd., a global manufacturer of off-road vehicles, from 2005 to 2008. Mr. Yoresh is an Israeli Certified Public Accountant. Yoresh acquired a B.A. in business administration from the Business College, Israel and an M.A. in Law Study from Bar-Ilan University, Israel.

Eli Cohen has been serving as a member of our Board since September 2018. Mr. Cohen is an independent lawyer working out of a self-owned firm. He serves as chairman of Univo Pharmaceuticals Ltd., as director of Europe Hagag Ltd., and has previously served as director of Hagag Group Ltd., Multimatrix Ltd., Matrat Mizug Ltd. and User Trend-M Ltd. Mr. Cohen also serves as a director of several private companies. Mr. Cohen holds an economics degree, an LL.B. and LL.M in Commercial Law from Tel-Aviv University, as well as an MBA from the Northwestern University and Tel-Aviv University joint program.

Tatiana Yosef has served as our Chief Financial Officer since March 22, 2019. Ms. Yosef is a certified public accountant with many years of experience, who has served as the Company's controller since December 2009. During 2008-2009 Ms. Yosef worked in the audit department at Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited. Ms. Yosef holds a Bachelor degree in Economics and Accounting from the Ben-Gurion University of the Negev.

Dr. Yaron Silberman has been serving as our chief executive officer of our subsidiary, ScoutCam Ltd. Since March 2019. Prior to that, since January 2011, Dr. Silberman served as our VP, Sales and Marketing. Dr. Silberman has served as Marketing Director of NiTi Surgical Solutions Ltd., and as Product Manager of Given Imaging Ltd. Dr. Silberman holds a PhD in Computational Neuroscience and Data Processing from Hebrew University of Jerusalem, Israel, an MBA from the College of Management Academic Studies of Rishon Le’Zion, Israel, and a B.A. in Theoretical Mathematics from The Technion Institute of Technology, Israel.

Minelu (Menashe) Sonnenschein is a founding member and officer of our company who has been serving as our VP, Israel Operations since June 2014. Mr. Sonnenschein will step down from his position as the Company’s VP Israel Operations, effective March 31, 2019. Among other roles, Mr. Sonnenschein previously served as our Director of Research and Development and has been directly responsible for the development of the MUSE™ System since the founding of the Company. Mr. Sonnenschein holds a M.Sc. in Electrical and Electronics Engineering from Ben-Gurion University of Be’er Sheva, Israel.

Mr. Chris Rowland, the former chief executive officer of the Company has stepped down effective as of February 28, 2019. Following such date, the board of directors undertook Mr. Rowland’s responsibilities until a replacement is appointed.

Family Relationships

There are no family relationships between any members of our executive management and our directors.

Arrangements for Election of Directors and Members of Management

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of our executive management or our directors were appointed.

B. Compensation

Compensation of Executive Officers

In accordance with the provisions of the Companies Law, the compensation of our directors and officer holders must generally comply with the terms and conditions of our compensation policy, as approved by our compensation committee, board of directors and general meeting of our shareholders, subject to certain exceptions under the Companies Law. Our current compensation policy was approved by our general meeting on January 9, 2019.

The table below reflects the compensation granted to our five most highly compensated office holders (as defined in the Companies Law) during or with respect to the year ended December 31, 2018:

Name and Position	Salary ⁽¹⁾	Bonus	Equity-Based Compensation ⁽²⁾	All other compensation ⁽³⁾	Total
U.S. Dollars in thousands					
Christopher (Chris) Rowland <i>Former Chief Executive Officer</i>	351	88	24	-	463
Minelu (Menashe) Sonnenschein ⁽⁴⁾ <i>VP, Israel Operations</i>	169	-	11	15	195
Yaron Silberman <i>Chief Executive Officer of ScoutCam Ltd. and Former VP, Sales and Marketing</i>	154	-	11	18	183
Oded Yatzkan <i>Former Chief Financial Officer</i>	159	-	10	18	187
Amir Govrin <i>Former VP, Research and Development</i>	152	-	10	17	179

(1) Salary includes the office holders’ gross salary plus payment of social benefits made by us on behalf of such office holder. Such benefits may include, to the extent applicable to the office holder, payments, contributions and/or allocations for savings funds (such as managers’ life insurance policy), education funds (referred to in Hebrew as “keren hishtalmut”), pension, severance, risk insurances (e.g., life, or work disability insurance), payments for social security and tax gross-up payments, vacation, medical insurance and benefits, convalescence or recreation pay and other benefits and perquisites consistent with our policies.

(2) Represents the equity-based compensation expenses recorded in the Company’s consolidated financial statements for the year ended December 31, 2018, based on the option’s fair value, calculated in accordance with accounting guidance for equity-based compensation.

(3) Includes car expenses.

(4) Mr. Sonnenschein will step down from his position as the Company’s VP Israel Operations, effective March 31, 2019.

The aggregate compensation paid by us to our executive officers (5 persons, including our former executive officers) for the year ended December 31, 2018 was approximately \$1.2 million. This amount includes set aside or accrued to provide pension, severance, retirement or similar benefits or expenses, car expenses and value of the ordinary shares underlying the options representing accounting expenses, but does not include business travel, relocation, professional and business association dues and expenses reimbursed to officers, and other benefits commonly reimbursed or paid by companies in Israel.

As of December 31, 2018, the total amount set aside as an actuarial estimate by the Company to provide post-employment benefits for our office holders was approximately \$58,000.

Compensation of Directors

Under the Companies Law and the rules and regulations promulgated thereunder, our directors are entitled to fixed annual compensation and to an additional payment for each meeting attended. We currently pay Mr. Ronen Rosenbloom, Mr. Eliyahu Yoresh and Mr. Eli Cohen an annual fee of NIS 37,115 and a per meeting fee of NIS 1,860, and pay Prof. Benad Goldwasser, our chairman of the board of directors, an annual fee of NIS 37,115 and a per meeting fee of NIS 2,480, all in accordance with the director fees allowed pursuant to applicable regulations under the Companies Law, as applicable to the Company. The aggregate amount paid by us to our directors for the year ended December 31, 2018, was approximately \$84,000.

In addition, during 2019, we granted each of Prof. Benad Goldwasser, Mr. Ronen Rosenbloom, Mr. Eliyahu Yoresh and Mr. Eli Cohen options to purchase up to 750,000 ordinary shares of the Company with the following terms: (i) a vesting schedule of a three (3) year period commencing on October 1, 2018, with 1/12 of such options vesting at the end of each subsequent three-month period following the grant, (ii) a term of six (6) years after the grant date, unless the options have been exercised or cancelled in accordance with the terms of and conditions of the applicable incentive plan of the Company, (iii) unless previously exercised or cancelled, the options may be exercised until 180 days from the termination of the tenure of a director, (iv) the exercise price per share of the options is NIS 0.59 per ordinary share, and (v) the options will be accelerated upon the closing of a material transaction, resulting in change of control of the Company.

Equity Based Compensation of our Executive Officers and Directors

As of March 25, 2019, options to purchase 3,192,450 of our ordinary shares were outstanding and held by current executive officers and directors (consisting of 7 persons) with an average exercise price of NIS 0.81 per ordinary share, of which, options to purchase 557,813 of our ordinary shares are currently exercisable or exercisable within 60 days as of March 25, 2019. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership” in this annual report on Form 20-F.

Employment Agreements

We have entered into written employment agreements with each of our executive officers. All of these agreements contain customary provisions regarding non-competition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law. In addition, we have entered into agreements with each executive officer and director pursuant to which we have agreed to indemnify each of them to the fullest extent permitted by law to the extent that these liabilities are not covered by directors and officers insurance.

Our office holders are generally eligible for bonuses each year. The bonuses are established and granted in accordance with our compensation policy and, and are generally payable upon meeting objectives and targets that are approved by our compensation committee and board of directors (and if required by our shareholders).

Employment Agreement with Mr. Rowland

On September 29, 2013, our shareholders approved that as of October 1, 2013, our U.S. Subsidiary, Medigus USA LLC, would enter into an employment agreement with Mr. Rowland, who served as our Chief Executive Officer and carried out his work from our U.S. Subsidiary's office in California, USA until February 28, 2019. In accordance with his employment agreement, Mr. Rowland was entitled to an annual base salary of \$315,000.

On January 10, 2019, the Company entered into a separation agreement with Mr. Rowland, pursuant to which Mr. Rowland stepped down from his position as chief executive officer, effective February 28, 2019. As part of the separation agreement, Mr. Rowland was entitled to receive all accrued but unpaid sums including earned but unpaid incentive payments for 2018 in the amount of \$88,200 and severance payment equal to six (6) months' in the amount of \$157,500.

C. Board Practices

Introduction

Under the Companies Law and our articles of association, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our chief executive officer is appointed by the general meeting of our shareholders, subject to his personal contract with the Company.

Under our articles of association, our board of directors must consist of at least three and not more than 12 directors, not including two external directors appointed as required under the Companies Law. Our board of directors currently consists of four members, none of which are external directors, including our non-executive chairman of the board of directors, which is also appointed by the general meeting of our shareholders. Our directors are nominated by our independent directors and elected at the annual general meeting of our shareholders by a simple majority. Because our ordinary shares do not have cumulative voting rights in the election of directors, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors. The general meeting of our shareholders may resolve, at any time, by an ordinary majority resolution prior to the termination of his respective term of service and it may appoint another director in his place, provided that the director was given a reasonable opportunity to state his case before the general meeting.

In addition, if a director's office becomes vacant, the remaining serving directors may continue to act in any manner, provided that their number is of the minimal number specified in our articles of association. If the number of serving directors is lower than three, then our board of directors will not be permitted to act, other than for the purpose of convening a general meeting of the Company's shareholders for the purpose of appointing additional directors. In addition, the directors may appoint, immediately or of a future date, additional director(s) to serve until the subsequent annual general meeting of our shareholders, provided that the total number of directors in office do not exceed twelve directors (not including external directors).

Pursuant to the Companies Law and our articles of association, a resolution proposed at any meeting of our board of directors at which a quorum is present is adopted if approved by a vote of a majority of the directors present and eligible to vote. A quorum of the board of directors requires at least a majority of the directors then in office who are lawfully entitled to participate in the meeting.

According to the Companies Law, the board of directors of a public company must determine the minimum number of board members that should have financial and accounting expertise while considering, among other, the nature of the company, its size, the scope and complexity of its operations and the number of directors stated in the articles of association. Our board of directors resolved that the minimum number of board members that need to have financial and accounting expertise is one and that Mr. Eliyahu Yoresh has accounting and financial expertise as required under the Companies Law.

External Directors

Under the Companies Law, companies incorporated under the laws of the State of Israel that are “public companies,” including companies with shares listed on the Nasdaq Capital Market, are required to appoint at least two external directors. External directors must meet certain independence criteria to ensure that they are unaffiliated with the company and its controlling shareholder, as well certain other criteria. External directors are elected for three-year terms in accordance with specific rules set forth in the Companies Law and the regulations promulgated thereunder and may be removed from office only under limited circumstances. Under the Companies Law, each committee of a company’s board of directors that is authorized to exercise powers of the board of directors is required to include at least one external director, and all external directors must be members of the company’s audit committee and compensation committee.

Pursuant to regulations promulgated under the Companies Law, companies with shares traded on a U.S. stock exchange, including the Nasdaq Capital Market, may, subject to certain conditions, “opt out” from the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors. In accordance with these regulations, effective of June 28, 2017, we have “opted out” from the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors.

Under these regulations, the exemptions from such Companies Law requirements will continue to be available to us so long as: (i) we do not have a “controlling shareholder” (as such term is defined under the Companies Law), (ii) our shares are traded on a U.S. stock exchange, including the Nasdaq Capital Market, and (iii) we comply with the director independence requirements, the audit committee and the compensation committee composition requirements, under U.S. laws (including applicable Nasdaq Rules) applicable to U.S. domestic issuers.

Alternate directors

Our articles of association provide, as allowed by the Companies Law, that any director may, by written notice to us, appoint another person who is qualified to serve as a director to serve as an alternate director and to terminate such appointment. Under the Companies Law, a person who is not qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as an alternate director for another director, may not be appointed as an alternate director. Nevertheless, a director who is already serving as a director may be appointed as an alternate director for a member of a committee of the board of directors as long as he or she is not already serving as a member of such committee.

Board committees

The board of directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of one or more directors (except the audit and compensation committees, as described below), and it may, from time to time, revoke such delegation or alter the composition of any such committees. Unless otherwise expressly provided by the board of directors, the committees will not be empowered to further delegate such powers. The composition and duties of our audit committee and compensation committee are described below.

Audit committee

Our audit committee is currently comprised of Mr. Eli Cohen, Mr. Eliyahu Yoresh, and Mr. Ronen Rosenbloom. Mr. Eli Cohen acts as the chairperson of our audit committee.

Companies Law Requirements

Under the Companies Law, our board of directors is required to appoint an audit committee, which is responsible, among others, for:

- (i) determining whether there are deficiencies in the business management practices of our Company, including in consultation with our internal auditor or the independent auditor, and making recommendations to our board of directors to improve such practices;
- (ii) determining the approval process for transactions that are ‘non-negligible’ (i.e., transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee;
- (iii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is extraordinary or material under Companies Law. See “— Fiduciary duties and approval of specified related party transactions and compensation under Israeli law.”
- (iv) where the board of directors approves the working plan of the internal auditor, to examine such working plan before its submission to our board of directors and proposing amendments thereto;
- (v) examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities;
- (vi) examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is considering the appointment of our auditor; and
- (vii) establishing procedures for the handling of employees’ complaints as to the management of our business and the protection to be provided to such employees.

Nasdaq requirements

Under the Nasdaq corporate governance rules, we are required to maintain an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the Nasdaq corporate governance rules. Our board of directors has determined that Mr. Eliyahu Yoresh is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by the Nasdaq Marketplace Rules.

Each of the members of the audit committee is required to be “independent” as such term is defined in Rule 10A-3(b)(1) under the Exchange Act, which is different from the general test for independence of board and committee members.

Audit committee role

Our board of directors has adopted an audit committee charter setting forth the responsibilities of the audit committee consistent with the rules of the SEC and the Nasdaq Rules, which include, among others:

- retaining and terminating our independent auditors, subject to the ratification of the board of directors, and in the case of retention, to that of the shareholders;

- pre-approving of audit and non-audit services and related fees and terms, to be provided by the independent auditors;
- overseeing the accounting and financial reporting processes of our company and audits of our financial statements, the effectiveness of our internal control over financial reporting and making such reports as may be required of an audit committee under the rules and regulations promulgated under the Exchange Act;
- reviewing with management and our independent auditor our annual and quarterly financial statements prior to publication or filing (or submission, as the case may be) to the SEC;
- recommending to the board of directors the retention and termination of the internal auditor, and the internal auditor's engagement fees and terms, in accordance with the Companies Law as well as approving the yearly or periodic work plan proposed by the internal auditor.
- reviewing with our general counsel and/or external counsel, as deem necessary, legal and regulatory matters that could have a material impact on the financial statements;
- identifying irregularities in our business administration, inter alia, by consulting with the internal auditor or with the independent auditor, and suggesting corrective measures to the board of directors; and
- reviewing policies and procedures with respect to transactions (other than transactions related to the compensation or terms of services) between the company and officers and directors, or affiliates of officers or directors, or transactions that are not in the ordinary course of the company's business and deciding whether to approve such acts and transactions if so required under the Companies Law.

The audit committee charter states that in fulfilling its obligations, the committee is entitled to demand from the Company any document, file, report or any other information that is required for the fulfillment of its roles and duties and to interview any of our employees or any employees of our subsidiaries in order to receive more details about his or her line of work or other issues that are connected to the roles and duties of the audit committee.

Compensation Committee

Our compensation committee is currently comprised of Mr. Eliyahu Yoresh, Mr. Eli Cohen and Mr. Ronen Rosenbloom. Mr. Eliyahu Yoresh acts as the chairperson of our compensation committee.

Companies Law requirements

Under the Companies Law, the board of directors of a public company must appoint a compensation committee which roles are, among others, as follows:

- to recommend to the board of directors the approval of compensation policy for directors and officers in accordance with the requirements of the Companies Law;
- to oversee the development and implementation of such compensation policy and recommending to the board of directors regarding any amendments or modifications that the compensation committee deems appropriate;
- to determine whether to approve transactions concerning the terms of engagement and employment of office holders that require approval of the compensation committee; and
- to resolve whether to exempt a transaction with a candidate for chief executive officer from shareholder's approval.

Nasdaq requirements

Our board of directors has adopted a compensation committee charter setting forth the responsibilities of the committee consistent with the Nasdaq Rules, which include among others:

- recommending to our board of directors for its approval a compensation policy in accordance with the requirements of the Companies Law as well as other compensation policies, incentive-based compensation plans and equity-based compensation plans, and overseeing the development and implementation of such policies and recommending to our board of directors any amendments or modifications to the committee deems appropriate, including as required under the Companies Law;
- reviewing and approving the granting of options and other incentive awards to our chief executive officer and other executive officers, including reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers, including evaluating their performance in light of such goals and objectives;
- approving and exempting certain transactions regarding office holders' compensation pursuant to the Companies Law; and
- administer our equity-based compensation plans, including without limitation to approve the adoption of such plans, to amend and interpret such plans and the awards and agreements issued pursuant thereto, and to make awards to eligible persons under the plans and determine the terms of such awards.

The compensation committee is also authorized to retain and terminate compensation consultants, legal counsel or other advisors to the committee and to approve the engagement of any such consultant, counsel or advisor, to the extent it deems necessary or advisable.

Our board of directors has determined that each member of our compensation committee is independent under the Nasdaq Rules, including the additional independence requirements applicable to the members of a compensation committee.

Compensation policy

Under the Companies Law, companies incorporated under the laws of the State of Israel, whose shares are listed for trading on a stock exchange or have been offered to the public in or outside of Israel, such as us, are required to adopt a policy governing the compensation of "office holders" (as defined in the Companies Law). Following the recommendation of our compensation committee and approval by our board of directors, our shareholders approved our current compensation policy at our special general meeting of shareholders held on January 9, 2019. Our compensation policy must be approved at least once every three years, first, by our board of directors, upon recommendation of our compensation committee, and second, by a simple majority of the ordinary shares present, in person or by proxy, and voting at a shareholders meeting, provided that either:

- such majority includes at least a majority of the shares held by shareholders who are not controlling shareholders and do not have a personal interest in such compensation arrangement and who are present and voting (excluding abstentions); or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement, does not exceed 2% of the company's aggregate voting rights.

Such majority determined in accordance with the majority requirement described above is hereinafter referred to as the Compensation Special Majority Requirement.

To the extent a compensation policy is not approved by shareholders at a duly convened shareholders meeting or by the Compensation Special Majority Requirement, the board of directors of a company may override the resolution of the shareholders following a re-discussion of the matter by the board of directors and the compensation committee and for specified reasons, and after determining that despite the rejection by the shareholders, the adoption of the compensation policy is in the best interest of the company. A compensation policy that is for a period of more than three years must be approved in accordance with the above procedure once every three years.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant office holder;
- the office holder's roles and responsibilities and prior compensation agreements with him or her;
- the ratio between the cost of the terms of employment of an office holder and the cost of the compensation of the other employees of the company, including those employed through manpower companies, in particular the ratio between such cost and the average and median compensation of the other employees of the company, as well as the impact such disparities may have on the work relationships in the company;
- the possibility of reducing variable compensation, if any, at the discretion of the board of directors; and the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, if any, the period of service of the office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;
- the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

Internal auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor based on the recommendation of the audit committee. Under the Companies Law, each of the following may not be appointed as internal auditor:

- a person (or a relative of a person) who holds more than 5% of the company's outstanding shares or voting rights;

- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an office holder (including a director) of the company (or a relative thereof); or
- a member of the company's independent accounting firm, or anyone on his or her behalf.

The role of the internal auditor is, among other things, to examine whether a company's actions comply with applicable law and orderly business procedure. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. Our internal auditor is Daniel Spira, Certified Public Accountant (Isr.).

Fiduciary duties and approval of specified related party transactions and compensation under Israeli law

Fiduciary duties of office holders

The Companies Law imposes fiduciary duties on all office holders of a company comprised of a duty of care and a duty of loyalty.

The duty of care requires an office holder to act in the same degree of proficiency with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes, among other things, a duty to use reasonable means, in light of the circumstances, to obtain:

- information on the business advisability of a given action brought for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to such action.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, and includes, among other things, the duty to:

- refrain from any act involving a conflict of interest between the performance of his or her duties in the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company for the purpose of gaining a personal advantage for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

Under the Companies Law, we may approve an act specified above, provided that the office holder acted in good faith, the act or its approval does not harm the company's best interest, and the office holder discloses his or her personal interest a sufficient time before the approval of such act, including any relevant document.

Disclosure of personal interests of an office holder and approval of transactions

The Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information or documents relating to any existing or proposed transaction by the company. An interested office holder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is considered. Under the Companies Law, once an office holder complies with the above disclosure requirement, the board of directors at which the transaction is considered. An office holder is not obliged to disclose such information if the personal interest of the office holder derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction.

Under the Companies Law, a company may approve a transaction between the company and the office holder or a third party in which the office holder has a personal interest only if the office holder has complied with the above disclosure requirement, provided, however, that a company may not approve a transaction or action that is not to the company's benefit.

Under the Companies Law, unless the articles of association of a company provide otherwise, a transaction with an office holder or with a third party in which the office holder has a personal interest, which is not an extraordinary transaction, requires approval by the board of directors. Our articles of association do not state otherwise. If the transaction considered with an office holder or third party in which the office holder has a personal interest is an extraordinary transaction, then the audit committee's approval is required prior to approval by the board of directors. For the approval of compensation arrangements with directors and executive officers, see "Item 6. Directors, Senior Management and Employees —C. Board Practices—Compensation of directors and executive officers."

Any person who has a personal interest in the approval of a transaction that is brought before a meeting of the board of directors or the audit committee may not be present at the meeting or vote on the matter. However, if the chairperson of the board of directors or the chairperson of the audit committee has determined that the presence of an office holder with a personal interest is required, such office holder may be present at the meeting for the purpose of presenting the matter. Notwithstanding the foregoing, a director who has a personal interest may be present at the meeting and vote on the matter if a majority of the directors or members of the audit committee have a personal interest in the approval of such transaction provided, however, that if a majority of the directors at a board of directors meeting have a personal interest in the approval of the transaction, such transaction also requires the approval of the shareholders of the company.

A "personal interest" is defined under the Companies Law as the personal interest of a person in an action or in a transaction of the company, including the personal interest of such person's relative or the interest of any other corporate body in which such person and/or such person's relative is a director or general manager, a 5% shareholder or holds 5% or more of the voting rights, or has the right to appoint at least one director or the general manager, but excluding a personal interest stemming solely from the fact of holding shares in the company. A personal interest also includes (1) a personal interest of a person who votes according to a proxy of another person, including in the event that the other person has no personal interest, and (2) a personal interest of a person who gave a proxy to another person to vote on his or her behalf regardless of whether the discretion of how to vote lies with the person voting or not.

An "extraordinary transaction" is defined under the Companies Law as any of the following:

- a transaction other than in the ordinary course of business;
- a transaction that is not on market terms; or
- a transaction that may have a material impact on the company's profitability, assets or liabilities.

An extraordinary transaction in which an office holder has a personal interest requires approval of the company's audit committee followed by the approval of the board of directors.

Disclosure of personal interests of a controlling shareholder and approval of transactions

The Companies Law also requires that a controlling shareholder promptly disclose to the company any personal interest that he or she may have and all related material information or documents relating to any existing or proposed transaction by the company. A controlling shareholder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is considered. The following require the approval of each of (i) the audit committee (or the compensation committee with respect to the terms of engagement of the controlling shareholder or relative thereof with the company related for the provision of service, including among others as an office holder or employee of the company), (ii) the board of directors and (iii) the shareholders (in that order): (a) extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest (including a private placement in which a controlling shareholder has a personal interest), (b) the engagement with a controlling shareholder or his or her relative, directly or indirectly, for the provision of services to the company, (c) the terms of engagement and compensation of a controlling shareholder or his or her relative as an office holder, and (d) the employment of a controlling shareholder or his or her relative by the company, other than as an office holder (collectively referred as Transaction with a Controlling Shareholder). In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or

- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than two percent (2%) of the voting rights in the company.

In addition, any extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest with a term of more than three years requires the abovementioned approval every three years, however, unless, with respect to certain transactions the audit committee determines that such longer term is reasonable under the circumstances.

Pursuant to regulations promulgated under the Companies Law, certain transactions with a controlling shareholder, a relative thereof, or with a director, that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit committee and board of directors.

The Companies Law requires that every shareholder that participates, in person, by proxy or by voting instrument, in a vote regarding a transaction with a controlling shareholder, must indicate in advance or in the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate will result in the invalidation of that shareholder's vote.

Approval of the compensation of directors and executive officers

The compensation of, or an undertaking to indemnify, insure or exculpate, an office holder who is not a director requires the approval of the company's compensation committee, followed by the approval of the company's board of directors, and, if such compensation arrangement or an undertaking to indemnify or insure is inconsistent with the company's stated compensation policy, or if the said office holder is the chief executive officer of the company (apart from a number of specific exceptions), then such arrangement is subject to the approval of our shareholders, subject to the Compensation Special Majority Requirement.

Directors. Under the Companies Law, the compensation of our directors requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the general meeting of our shareholders. If the compensation of our directors is inconsistent with our stated compensation policy, then, provided that those provisions that must be included in the compensation policy according to the Companies Law have been considered by the compensation committee and board of directors, shareholder approval will also be required to be approved by the Compensation Special Majority Requirement.

Executive officers other than the chief executive officer. The Companies Law requires the approval of the compensation of a public company's executive officers (other than the chief executive officer) in the following order: (i) the compensation committee, (ii) the company's board of directors, and (iii) if such compensation arrangement is inconsistent with the company's stated compensation policy, the company's shareholders by the Compensation Special Majority Requirement. However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company's stated compensation policy, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide detailed reasons for their decision.

Chief executive officer. Under the Companies Law, the compensation of a public company's chief executive officer is required to be approved by: (i) the company's compensation committee; (ii) the company's board of directors, and (iii) the company's shareholders by the Compensation Special Majority Requirement. However, if the shareholders of the company do not approve the compensation arrangement with the chief executive officer, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide a detailed reasoning for their decision. The approval of each of the compensation committee and the board of directors must be in accordance with the company's stated compensation policy; however, under special circumstances, the compensation committee and the board of directors may approve compensation terms of a chief executive officer that are inconsistent with the company's compensation policy provided that they have considered those provisions that must be included in the compensation policy according to the Companies Law and that shareholder approval was obtained by the Compensation Special Majority Requirement. In addition, the compensation committee may resolve that the shareholder approval is not required for the approval of the engagement terms of a candidate to serve as the chief executive officer, if the compensation committee determines that the compensation arrangement is consistent with the company's stated compensation policy, that the chief executive officer did not have a prior business relationship with the company or a controlling shareholder of the company, and that subjecting the approval to a shareholder vote would impede the company's ability to attain the candidate to serve as the company's chief executive officer.

Duties of shareholders

Under the Companies Law, a shareholder has a duty to refrain from abusing its power in the company and to act in good faith and in an acceptable manner in exercising its rights and performing its obligations to the company and other shareholders, including, among other things, when voting at meetings of shareholders on the following matters:

- an amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

The remedies generally available upon a breach of contract will also apply to a breach of the shareholder duties mentioned above, and in the event of discrimination against other shareholders, additional remedies are available to the injured shareholder.

In addition, any controlling shareholder, any shareholder that knows that its vote can determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or any other power with respect to a company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness, taking each shareholder's position in the company into account.

Approval of private placements

Under the Companies Law and the regulations promulgated thereunder, a private placement of securities does not require approval at a general meeting of the shareholders of a company; provided however, that in special circumstances, such as a private placement completed in lieu of a special tender offer (See "Item 10. Additional Information —Memorandum and Articles of Association—Acquisitions under Israeli law") or a private placement which qualifies as a related party transaction (See "Item 6. Directors, Senior Management and Employees —C. Board Practices—Fiduciary duties and approval of specified related party transactions and compensation under Israeli law"), approval at a general meeting of the shareholders of a company is required.

Exemption, Insurance and Indemnification of Directors and Officers

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of a fiduciary duty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our articles of association include such a provision. The company may not exculpate in advance a director from liability arising out of a prohibited dividend or distribution to shareholders.

Under the Companies Law and the Securities Law, 5738-1968, or the Securities Law, a company may indemnify an office holder in respect of the following liabilities, payments and expenses incurred for acts performed by him or her as an office holder, either in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

- a monetary liability incurred by or imposed on the office holder in favor of another person pursuant to a court judgment, including pursuant to a settlement confirmed as judgment or arbitrator's decision approved by a competent court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking will detail the abovementioned foreseen events and amount or criteria;
- reasonable litigation expenses, including reasonable attorneys' fees, which were incurred by the office holder as a result of an investigation or proceeding filed against the office holder by an authority authorized to conduct such investigation or proceeding, provided that such investigation or proceeding was either (i) concluded without the filing of an indictment against such office holder and without the imposition on him of any monetary obligation in lieu of a criminal proceeding; (ii) concluded without the filing of an indictment against the office holder but with the imposition of a monetary obligation on the office holder in lieu of criminal proceedings for an offense that does not require proof of criminal intent; or (iii) in connection with a monetary sanction;
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or which were imposed on the office holder by a court (i) in a proceeding instituted against him or her by the company, on its behalf, or by a third party, (ii) in connection with criminal indictment of which the office holder was acquitted, or (iii) in a criminal indictment which the office holder was convicted of an offense that does not require proof of criminal intent;
- a monetary liability imposed on the office holder in favor of a payment for a breach offended at an Administrative Procedure (as defined below) as set forth in Section 52(54)(a)(1)(a) to the Securities Law;
- expenses incurred by an office holder or certain compensation payments made to an injured party that were instituted against an office holder in connection with an Administrative Procedure under the Securities Law, including reasonable litigation expenses and reasonable attorneys' fees; and
- any other obligation or expense in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder, including, without limitation, matters referenced in Section 56H(b)(1) of the Securities Law.

An "Administrative Procedure" is defined as a procedure pursuant to chapters H3 (Monetary Sanction by the Israeli Securities Authority), H4 (Administrative Enforcement Procedures of the Administrative Enforcement Committee) or II (Arrangement to prevent Procedures or Interruption of procedures subject to conditions) to the Securities Law.

Under the Companies Law and the Securities Law, a company may insure an office holder against the following liabilities incurred for acts performed by him or her as an office holder if and to the extent provided in the company's articles of association:

- a breach of a fiduciary duty to the company, provided that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- a breach of duty of care to the company or to a third party, to the extent such a breach arises out of the negligent conduct of the office holder;
- a monetary liability imposed on the office holder in favor of a third party;
- a monetary liability imposed on the office holder in favor of an injured party at an Administrative Procedure pursuant to Section 52(54) (a)(1)(a) of the Securities Law; and
- expenses incurred by an office holder in connection with an Administrative Procedure, including reasonable litigation expenses and reasonable attorneys' fees.

Under the Companies Law, a company may not indemnify, exculpate or insure an office holder against any of the following:

- a breach of fiduciary duty, except for indemnification and insurance for a breach of the fiduciary duty to the company to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
- an act or omission committed with intent to derive illegal personal benefit; or
- a civil or administrative fine, monetary sanction or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders must be approved by the compensation committee and the board of directors and, with respect to directors or controlling shareholders, their relatives and third parties in which such controlling shareholders have a personal interest, also by the shareholders.

Our articles of association permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted or to be permitted by law. Our compensation committee and the board of directors have approved on March 6, 2019 and March 28, 2019, respectively, a new directors' and officers' liability insurance policy. Such policy should be also approved by the Company's shareholders, and therefore we intend to convene a shareholders' meeting for the approval of such officers' liability insurance policy.

Employment and consulting agreements with executive officers

We have entered into written employment or service agreements with each of our executive officers. See "Item 7. Major Shareholders and Related Party Transactions— B. Related Party Transactions – Employment Agreements" for additional information.

Directors' service contracts

There are no arrangements or understandings between us, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company.

D. Employees***Number of Employees***

As of December 31, 2018, we employed 27 employees: 26 in Israel, and 1 in the United States by our U.S. subsidiary, Medigus USA LLC.

As of March 25, 2019, we employed 19 employees in Israel through Medigus and our Israeli Subsidiary, ScoutCam Ltd.

Distribution of Employees

The following is the distribution of our employees (including those employed by our subsidiary) by areas of engagement and geographic location:

	As of December 31,		
	2018	2017	2016
<i>Numbers of employees by category of activity</i>			
Management and administrative	6	6	9
Research and development	6	6	8
Operations	6	6	8
Sales and marketing	3	3	2
Production	6	6	8
Total workforce	<u>27</u>	<u>27</u>	<u>35</u>
<i>Numbers of employees by geographic location</i>			
Israel	26	26	34
United States	<u>1</u>	<u>1</u>	<u>1</u>
Total workforce	<u>27</u>	<u>27</u>	<u>35</u>

During the years covered by the above table, we did not employ a significant number of temporary employees. We consider our relations with our employees excellent and have never experienced a labor dispute, strike or work stoppage. None of our employees is represented by a labor union.

In Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations including the Industrialists' Associations. These provisions of collective bargaining agreements are applicable to our Israeli employees by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy and Industry, and which apply such agreement provisions to our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern the minimum wage laws, length of the work day and workweek, overtime payment, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The extension orders which apply to our employees principally concern mandatory contributions to a pension fund or managers' insurance, annual recreation allowance, travel expenses payment and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

Israeli law generally requires severance pay, which may be funded by allocating payments to a managers' insurance and/or a pension fund described below, upon the retirement or death of an employee or termination of employment without cause (as defined in the law). The payments to the managers' insurance and/or pension fund in respect of severance pay amount to approximately 8.33% of an employee's wages, in the aggregate. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Such amounts also include payments for national health insurance.

The employees of U.S. Subsidiary are subject to local labor laws and regulations in the United States.

E. Share Ownership**Share ownership by Directors and Executive Officers**

For information regarding ownership of our ordinary shares by our directors and executive officers, see Item 7.A “Major Shareholders and Related Party Transactions — Major Shareholders”.

2013 Share Option and Incentive Plan

In August 2013, our board of directors approved and adopted our 2013 Share Option and Incentive Plan, or the Plan, which expires in August 2023. The Plan provides for the issuance of shares and the granting of options, restricted shares, restricted share units and other share-based awards to employees, directors, officers, consultants, advisors, and service providers of us and our U.S. Subsidiary. The Plan provides for awards to be issued at the determination of our board of directors in accordance with applicable law.

As of March 25, 2019, there were 3,150,112 ordinary shares reserved under the Plan and 3,849,888 ordinary shares issuable upon the exercise of awards issued under the Plan:

Grant date	Number of options outstanding – March 25, 2019	exercise price per one ordinary share (NIS)	Number of shares issuable upon the exercise	Expiration date
July 2014	1,640,000	53.7	16,400	July 17, 2020
December 2015	394,875	20.5	39,488	December 29, 2021
October 2017	7,940,000	1.62	794,000	October 17, 2023
January 2019	3,000,000	0.59	3,000,000	January 4, 2025

The Plan provides for the grant to residents of Israel of options that qualify under the provisions of Section 102 of the Israeli Income Tax Ordinance (New Version) 1961, as well as for the grant of options that do not qualify under such provisions. The 2013 Plan was submitted to the ITA, as required by applicable law. The Plan also provides for the grant of options to U.S. resident employees that are “qualified”, i.e., incentive stock options, under the U.S. Internal Revenue Code of 1986, as amended, or the Code, and options that are not qualified. In addition to the grant of awards under the relevant tax regimes of the United States and Israel, the Plan allows for the grant of awards to grantees in other jurisdictions, with respect to which our board of directors is empowered to make the requisite adjustments in the plan.

Options granted under the Plan which are currently outstanding generally may not expire later than six years from the date of grant, unless otherwise specified. Unvested awards that are cancelled and/or forfeited go back into the plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Shareholders**

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 25, 2019 (unless otherwise noted below), the beneficial ownership of our ordinary shares by:

- each of our directors and executive officers individually; and
- all of our executive officers and directors as a group.

As of March 25, 2019, there was no person or entity known by us to own 5% or more of our outstanding ordinary shares.

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days as of March 25, 2019, if any, to be outstanding and to be beneficially owned by the person holding the options or warrants for the purposes of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of ordinary shares beneficially owned is based on 75,932,058 ordinary shares outstanding as of March 25, 2019.

Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. In addition, none of our shareholders will have different voting rights from other shareholders. To the best of our knowledge, we are not owned or controlled, directly or indirectly, by another corporation or by any foreign government. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of March 25, 2019, there was one shareholder of record of our ordinary shares, which was located in Israel. The number of record holders is not representative of the number of beneficial holders of our ordinary shares, as the shares of all shareholders for a publicly traded company such as ours which is listed on the Tel Aviv Stock Exchange are recorded in the name of our Israeli share registrar, Bank Hapoalim Registration Company Ltd.

Unless otherwise noted below, each beneficial owner's address is Medigus Ltd., Omer Industrial Park, No. 7A, P.O. Box 3030, Omer 8496500, Israel.

Our principal shareholders do not have different or special voting rights.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Principal Shareholders		
Kfir Silberman ⁽¹⁾	6,757,920	8.73%
Directors and executive officers		
Prof. Benad Goldwasser	*	*
Ronen Rosenbloom	*	*
Eliyahu Yoresh	*	*
Eli Cohen	*	*
Tatiana Yosef	*	*
Dr. Yaron Silberman	*	*
Minelu (Menashe) Sonnenschein	*	*
All directors and executive officers as a group (seven persons)⁽²⁾	1,045,541	1.37%

* less than 1%.

(1) Based solely upon, and qualified in its entirety with reference to, Schedule 13D/A filed with the SEC on September 25, 2018, by Kfir Silberman and L.I.A. Pure Capital Ltd. Includes (i) 670,000 ordinary shares held by L.I.A Pure Capital Ltd., (ii) 4,433,920 ordinary shares underlying 221,696 ADSs held by L.I.A Pure Capital Ltd., (iii) 154,000 ordinary shares underlying 7,700 ADSs held by Kfir Silberman Ltd., and (iv) 1,500,000 ordinary shares underlying 75,000 Series C Warrants held by L.I.A. Pure Capital. Kfir Silberman is the controlling person of L.I.A. Pure Capital. The address of Mr. Silberman and L.I.A. Pure Capital Ltd. is 20 Raoul Wallenberg Street, Tel Aviv, Israel 6971916.

(2) Consists of 487,728 ordinary shares and options to purchase 557,813 ordinary shares currently exercisable or exercisable within 60 days as of March 25, 2019.

Significant Changes in Percentage Ownership by Major Shareholders

To our knowledge, the significant changes in the percentage of ownership held by our major shareholders during the past three years have been: (i) the increase in the percentage of ownership held by Orbimed Israel GP Ltd. above 5% as of 2013 and 2014, and the decrease in the percentage of ownership in 2015, 2016 and in 2017; (ii) the increase in the percentage of ownership held by Migdal Insurance & Financial Holdings Ltd. above 5% as of 2014 and the decrease in the percentage of ownership in 2015, 2016 and in 2017 below 5%; (iii) the increase in the percentage of ownership held by Senvest Management LLC above 5% as of 2013, 2014, 2015 and 2016, and the decrease in the percentage of ownership in 2017 below 5%; (iv) the increase in the percentage of ownership held by Oren Dan above 5% as of 2012, and the decrease in the percentage of ownership in 2013, 2014, 2015, 2016 and 2017 below 5%; (v) the increase in the percentage of ownership held by Armistice Capital Master Fund Ltd. above 5% as of 2014, and the decrease in the percentage of ownership in 2015, 2016 and 2017 below 5%; (vi) the increase in the percentage of ownership held by Sabby Healthcare Master Fund Ltd. and Sabby Volatility Warrant Master Fund, Ltd. above 5% as of 2016, 2017 and 2018, and the decrease in the percentage of ownership in 2018 below 5%; (vii) the increase in the percentage of ownership held by Empery Asset Management LP above 5% as of 2016 and 2017, and the decrease in the percentage of ownership in 2018 below 5%; and (viii) the increase in the percentage of ownership held by L.I.A. Pure Capital Ltd. above 5% as of 2018.

B. Related Party Transactions

Employment Agreements

We have entered into written employment agreements with each of our executive officers. All of these agreements contain customary provisions regarding non-competition, confidentiality of information and assignment of inventions. However, the enforceability of the non-competition provisions may be limited under applicable law. In addition, we have entered into agreements with each executive officer and director pursuant to which we have agreed to indemnify each of them to the fullest extent permitted by law to the extent that these liabilities are not covered by directors and officers insurance.

Our office holders are generally eligible for bonuses each year. The bonuses are established and granted in accordance with our compensation policy and, and are generally payable upon meeting objectives and targets that are approved by our compensation committee and board of directors (and if required by our shareholders).

Directors and Officers Insurance Policy and Indemnification Agreements

Our articles of association permit us to exculpate, indemnify and insure our directors and officeholders to the fullest extent permitted by the Companies Law.

We have entered into agreements with each of our current director and officers exculpating them from a breach of their duty of care to us to the fullest extent permitted by law, subject to limited exceptions, and undertaking to indemnify them to the fullest extent permitted by law, to the extent that these liabilities are not covered by insurance. This indemnification is limited, with respect to any monetary liability imposed in favor of a third party, to events determined as foreseeable by the board of directors based on our activities. The maximum aggregate amount of indemnification that we may pay to our directors and officers based on such indemnification agreement is equal to 25% of our shareholders' equity pursuant to our latest audited or unaudited consolidated financial statements, as applicable, as of the date of the indemnification payment. Such indemnification amounts are in addition to any insurance amounts. Each director or officer who agrees to receive this letter of indemnification also gives his approval to the termination of all previous letters of indemnification that we have provided to him or her in the past, if any.

Our compensation committee and the board of directors have approved on March 6, 2019 and March 28, 2019, respectively, a new directors' and officers' liability insurance policy. Such policy should be also approved by the Company's shareholders, and therefore we intend to convene a shareholders' meeting for the approval of such officers' liability insurance policy. The new directors' and officers' liability insurance policy providing total coverage of \$5 million for the benefit of all of our directors and officers, in respect of which we are charged a twelve-month premium of \$100,000, and which includes a deductible of up to \$250,000 per claim, other than securities related claims filed in the United States or Canada, for which the deductible will not exceed \$750,000.

In addition, at general meeting of our shareholders held on January 9, 2019, our shareholders approved our compensation policy, which determines, among others, that we may provide our directors and officers, including those serving in any of our subsidiaries from time or time and those who are controlling shareholders, with liability insurance policies provided that the engagement is in the ordinary course of business, in market terms and is not expected to materially influence our profits, properties and undertakings. The coverage limit is of up to \$30 million per occurrence and for the insurance period (additional coverage for legal expenses not included), provided that the annual premium will not exceed \$300,000 and that the deductible (except for extraordinary matters as prescribed in the insurance policy, such as lawsuits against the Company pursuant to securities laws and/or lawsuits to be filed in the US/Canada) will not exceed \$150,000 per occurrence.

On March 6, 2019 and March 28, 2019, our compensation committee and board of directors, respectively, have approved to amend, and recommend to our shareholders to amend, the framework for the liability insurance policy we provide our directors and officers. Under the proposed amendment the coverage limit of the liability insurance policy is of up to \$20 million per occurrence and for the insurance period (additional coverage for legal expenses not included), provided that the annual premium will not exceed \$500,000. We intend to convene a shareholders' meeting for the approval of such amendment to the compensation policy.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

See "Item 18. Financial Statements."

Export Sales

The following table presents total export sales for each of the fiscal years indicated (USD, in thousands):

	For the year ended December 31,		
	2018	2017	2016
Total export sales*	424	445	430
as a percentage of total revenues	97%	95%	78%

* Export sales, as presented, are defined as sales to customers located outside of Israel.

Legal Proceedings

From time to time we may assert or be subject to various asserted or unasserted legal proceedings and claims. Any such claims, regardless of merit, could be time-consuming and expensive to defend and could divert management's attention and resources from our operations. While management believes we have adequate insurance coverage and we accrue loss contingencies for all known matters that are probable and can be reasonably estimated, we cannot assure that the outcome of all current or future litigation will not have a material adverse effect on us and our results of operations.

In June 2018, we reached an agreement with the Israeli Tax Authorities, or the ITA agreement, regarding a withholding tax audit conducted by the ITA for the four-year period ended on December 31, 2014, which was disclosed in our annual report on Form 20-F for the fiscal year ended 31, 2017. According to the ITA agreement we are required to pay the ITA an immaterial amount.

Dividends

We have never paid cash dividends on our ordinary shares and do not anticipate that we will pay any cash dividends on our ordinary shares or ADSs in the foreseeable future.

We intend to retain our earnings to finance the development and expenses of our business. Any future determination relating to our dividend policy will be at the discretion of our board of directors and will depend on a number of factors, including future earnings, our financial condition, operating results, contractual restrictions, capital requirements, business prospects, applicable Israeli law and other factors our board of directors may deem relevant.

B. Significant Changes

No significant change, other than as otherwise described in this annual report, has occurred in our operations since the date of our consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares have been trading on the TASE under the symbol “MDGS” since February 2006. The ADSs are listed on Nasdaq under the symbol “MDGS” with one ADS representing 20 ordinary shares.

Our ADSs commenced trading on Nasdaq under the symbol “MDGS” on August 2015. Each ADS represents 20 ordinary shares.

For a description of the ADSs, see “Item 12. Description of Securities Other Than Equity Securities – D. American Depositary Shares.”

Our Series C Warrants have been trading on Nasdaq under the symbol “MDGSW” since July 2018. Each Series C Warrant is exercisable into one ADS for an exercise price of \$3.50, and will expire five years from the date of issuance.

B. Plan of Distribution

Not Applicable.

C. Markets

Our ordinary shares are listed and traded on TASE. The ADSs, each representing 20 ordinary share and evidenced by an American depositary receipt, or ADR, are traded on Nasdaq under the symbol “MDGS.” The ADRs were issued pursuant to a Depositary Agreement entered into with The Bank of New York. Our Series C Warrants, each exercisable into one ADS for an exercise price of \$3.50, are traded on the Nasdaq under the symbol “MDGSW”.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

General

Our legal and commercial name is Medigus Ltd. We were incorporated in the State of Israel on December 9, 1999, as a private company pursuant to the Israeli Companies Ordinance (New Version), 1983. In February 2006, we completed our initial public offering in Israel, and our ordinary shares have since traded on the TASE, under the symbol “MDGS”. In May 2015, we listed our ADSs on Nasdaq, and since August 2015 our ADSs have been traded on the Nasdaq under the symbol “MDGS”. Each ADS represents 20 ordinary shares. In July 2018, we listed our Series C Warrants on the Nasdaq, and since then our Series C Warrants have been traded on Nasdaq under the symbol “MDGSW”. Each Series C Warrant is exercisable into one ADS for an exercise price of \$3.50, and will expire five years from the date of issuance.

Our authorized share capital consists of 167,000,000 ordinary shares, par value NIS 1.00 per share. As of March 25, 2019, we had 75,932,058 ordinary shares issued and outstanding. All of our outstanding ordinary shares have been fully paid and non-assessable. Holders of paid-up ordinary shares are entitled to participate equally in the payment of dividends and other distributions and, in the event of liquidation, in all distributions after the discharge of liabilities to creditors. Our ordinary shares are not redeemable.

Options

As of March 25, 2019, options to purchase an aggregate of 3,849,888 ordinary shares have been granted under our share option plans. See “Item 4. Information on the Company - B. Business Overview – E. Share Ownership.”

Warrants

As of March 25, 2019, the following warrants are outstanding:

- Unregistered warrants to purchase an aggregate of 990 ADSs at an exercise price per ADS of \$57.50. These warrants expire on September 8, 2021.
- Unregistered warrants to purchase an aggregate of 10,469 ADSs at an exercise price per ADS of \$36. These warrants expire on June 6, 2022.
- Unregistered warrants to purchase an aggregate of 998 ADSs at an exercise price per ADS of \$29.48. These warrants expire on December 6, 2021.
- Warrants to purchase an aggregate of 535,730 ADSs at an exercise price per ADS of \$14. These warrants expire on March 29, 2022.
- Warrants to purchase an aggregate of 37,501 ADSs at an exercise price per ADS of \$17.5. These warrants expire on March 29, 2022.
- Unregistered warrants to purchase an aggregate of 101,251 ADSs at an exercise price per ADS of \$9. These warrants expire on May 27, 2023.
- Unregistered warrants to purchase an aggregate of 14,177 ADSs at an exercise price per ADS of \$10. These warrants expire on November 24, 2022.
- Warrants to purchase an aggregate of 3,263,325 ADSs at an exercise price per ADS of \$3.50. These warrants expire on July 18, 2023.
- Unregistered warrants to purchase an aggregate of 198,637 ADSs at an exercise price per ADS of \$4.375. These warrants expire on July 18, 2023.

B. Memorandum and Articles of Association

Registration Number and Purposes of the Company

Our registration number with the Israeli Registrar of Companies is 51-286697-1. Our purpose as set forth in our articles of association is to engage in any lawful activity.

Transfer of shares

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our articles of association, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our articles of association or the laws of the State of Israel, except for ownership by nationals of certain countries that are, or have been, in a state of war with Israel.

Liability to further capital calls

Our board of directors may make, from time to time, such calls as it may deem fit upon shareholders with respect to any sum unpaid with respect to shares held by such shareholders which is not payable at a fixed time. Such shareholder has to pay the amount of every call so made upon him or her.

Election of Directors

Under our articles of association, our board of directors must consist of at least three and not more than 12 directors, not including two external directors appointed as required under the Companies Law. Our board of directors currently consists of four members, none of which are external directors, including our non-executive chairman of the board of directors, which is also appointed by the general meeting of our shareholders. Our directors are nominated for election by our independent directors and elected at the annual general meeting of our shareholders by a simple majority. Because our ordinary shares do not have cumulative voting rights in the election of directors, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors. The general meeting of our shareholders may resolve, at any time, by an ordinary majority resolution prior to the termination of his respective term of service and it may appoint another director in his place, provided that the director was given a reasonable opportunity to state his case before the general meeting.

In addition, our articles of association allow our board of directors to appoint new directors to fill vacancies on the board of directors to serve until the subsequent annual general meeting of our shareholders, provided, that the number of directors will not exceed 12 directors. For further information on the election and removal of directors see “Item 6. Directors, Senior Management and Employees—C. Board Practices.”

Dividend and liquidation rights

We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings. Under the Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company’s articles of association provide otherwise. Our articles of association do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Companies Law, the distribution amount is limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited consolidated financial statements, provided that the date of the financial statements is not more than six months prior to the date of the distribution, or we may distribute dividends that do not meet such criteria only with court approval. In each case, we are only permitted to distribute a dividend if our board of directors and the court, if applicable, determines that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. This right, as well as the right to receive dividends, may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Exchange controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of certain countries that are, or have been, in a state of war with Israel.

Shareholder Meetings

Under the Companies Law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All general meetings other than the annual meeting of shareholders are referred to in our articles of association as extraordinary meetings. Our board of directors may call extraordinary meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Companies Law provides that our board of directors is required to convene a special meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% or more of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Under the Companies Law, one or more shareholders holding at least 1% of the voting rights at the general meeting may request that the board of directors include a matter in the agenda of a general meeting to be convened in the future, provided that it is appropriate to discuss such a matter at the general meeting.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Companies Law requires that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles of association;
- appointment or termination of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- mergers; and
- the exercise of our board of directors' powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

Under our articles of association, we are not required to give notice to our registered shareholders pursuant to the Companies Law, unless otherwise required by law. The Companies Law requires that a notice of any annual general meeting or extraordinary general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, or an approval of a merger, or as otherwise required under applicable law, notice must be provided at least 35 days prior to the meeting.

Voting rights

Voting rights

All our ordinary shares have identical voting and other rights in all respects.

Quorum requirements

Pursuant to our articles of association, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. The quorum required for our general meetings of shareholders consists of at least two shareholders, present in person or by proxy, holding at least ten percent (10%) of the voting rights of the Company. A meeting adjourned for lack of a quorum will be adjourned to the same day of the following week at the same time and place, or to such other day, time or place if such is stated in the notice of the meeting. At the reconvened meeting, if a quorum is not present within an half an hour, any number of shareholders present in person or by proxy will constitute a lawful quorum.

Vote requirements

Our articles of association provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Companies Law or by our articles of association. Under the Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder's relative (even if not extraordinary) requires the approval described under "Item 6. Directors, Senior Management and Employees—C. Board Practices—Fiduciary duties and approval of specified related party transactions and compensation under Israeli law—Disclosure of personal interests of a controlling shareholder and approval of transactions." Certain transactions with respect to remuneration of our office holders and directors require further approvals described under "Item 6. Directors, Senior Management and Employees—C. Board Practices—Fiduciary duties and approval of specified related party transactions and compensation under Israeli law—Approval of compensation of directors and executive officers." Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Companies Law, which requires the approval of the majority of the shareholders voting their shares, other than abstainees, holding at least 75% of the voting rights represented at the meeting, in person, by proxy or by voting deed and voting on the resolution.

Access to corporate records

Under the Companies Law, shareholders are provided access to minutes of our general meetings, our shareholders register and principal shareholders register, our articles of association, our financial statements and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

Modification of class rights

Under the Companies Law and our articles of association, the rights attached to any class of shares, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a majority of the shares of that class present at a separate class meeting, or otherwise in accordance with the rights attached to such class of shares, as set forth in our articles of association.

Acquisitions under Israeli law

Full tender offer

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If a tender offer is not accepted in accordance with the requirements set forth above, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

Special tender offer

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This requirement does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions.

A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (excluding the purchaser and its controlling shareholder, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer or any other person acting on their behalf, including relatives and entities under such person's control). If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, by a majority vote of each party's shares, and, in the case of the target company, a majority vote of each class of its shares voted on the proposed merger at a shareholders meeting.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described under "Item 6. Directors, Senior Management and Employees—C. Board Practices—Fiduciary duties and approval of specified related party transactions and compensation under Israeli law—Disclosure of personal interests of a controlling shareholder and approval of transactions").

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value to the parties to the merger and the consideration offered to the shareholders of the company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Borrowing powers

Pursuant to the Companies Law and our articles of association, our board of directors may exercise all powers and take all actions that are not required under law or under our articles of association to be exercised or taken by a certain organ of the Company, including the power to borrow money for company purposes.

Changes in capital

Our articles of association enable us to increase or reduce our share capital. Any such changes are subject to the provisions of the Companies Law and must be approved by a resolution duly adopted by our shareholders at a general meeting. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court.

Transfer agent and registrar

Our transfer agent and registrar is the Depositary for the ADSs, Bank of New York Mellon, and its address is 101 Barclay Street, 22W New York, NY 10286.

Preemptive Rights

Our ordinary shares and ADSs are not subject to any preemptive rights.

Listing

Our ordinary shares currently trade on the TASE in Israel under the symbol "MDGS," our ADSs are listed on Nasdaq under the symbol "MDGS," and our Series C Warrants are traded on Nasdaq under the symbol "MDGSW."

C. Material Contracts

Except as set forth below, we have not entered into any material contract within the three years prior to the date of this annual report filed on Form 20-F, other than contracts entered into in the ordinary course of business.

Underwriting Agreement, dated July 19, 2018

On July 19, 2018, we entered into an underwriting agreement as part of an offering of our ADSs pursuant to a registration statement in the United States. As part of the offering we issued a total of 577,529 Class C Units at a purchase price per unit of \$3.50 and of 2,260,145 Class D Units at a purchase price per unit of \$3.49. Each Class C unit consists of (i) one American Depositary Share, or ADS, and (ii) one Series C warrant to purchase one ADS, and each Class D unit consists of (i) one pre-funded warrant to purchase one ADS, and (ii) one Series C warrant to purchase one ADS. The Series C Warrants have a term of five years, and are exercisable immediately and have an exercise price of \$3.50 per ADS and are listed on Nasdaq. In addition, as part of such offering, we issued to H.C. Wainwright & Co., acting as underwriter in our offering, warrants to purchase up to an aggregate of 198,637 ADSs representing 3,972,740 ordinary shares, with an exercise price of \$4.375 per ADS. Pursuant to the engagement letter executed with H.C. Wainwright & Co. relating to the offering, we agreed to provide the placement agent with the right of first refusal, expiring on the twelve month anniversary following the closing of the offering, if we or our subsidiaries decide to raise funds by means of a public offering or a private placement of equity or debt securities using an underwriter or placement agent in the U.S. In connection with the offering, we granted the underwriter a 30-day option to purchase up to 425,651 additional ADSs and/or 425,651 Series C warrants to purchase up to additional 425,651 ADSs. The underwriter partially exercised its option to purchase additional securities by purchasing 425,651 Series C warrants to purchase up to additional 425,651 ADSs. As of the date of this report, all pre-funded warrants were exercised.

Securities Purchase Agreement, dated November 24, 2017

On November 24, 2017, we entered into a securities purchase agreement as part of an offering of our ADSs pursuant to our shelf registration statement in the United States. As part of the offering we issued a total of 202,500 of our ADSs representing a total of 4,050,000 ordinary shares, at a purchase price of US\$8.00 per ADS, and warrants to purchase up to a total of 101,251 ADSs representing 2,025,020 ordinary shares, at an initial exercise price of \$9 per ADS, in a concurrent private placement. In addition, as part of such offering, we issued to H.C. Wainwright & Co., acting as placement agent in our offering, warrants to purchase up to an aggregate of 14,177 ADSs representing 283,540 ordinary shares, with an exercise price of \$10.00 per ADS.

Securities Purchase Agreement, dated March 24, 2017

On March 24, 2017, we entered into a securities purchase agreement as part of an offering of our ADSs pursuant to a registration statement in the United States. As part of the offering we issued a total of 244,929 Class A Units at a purchase price per unit of \$14.00 and of 290,786 Class B Units at a purchase price per unit of \$13.96. Each Class A unit consists of (i) one American Depositary Share, or ADS, and (ii) one Series A warrant to purchase one ADS, and each Class B unit consists of (i) one pre-funded warrant to purchase one ADS, and (ii) one Series A warrant to purchase one ADS. The Series A warrants have a term of five years, and are exercisable immediately (or, at the election of the purchaser, six months following the issuance date) and have an exercise price of \$14.00 per ADS. In addition, as part of such offering, we issued to Rodman & Renshaw, a unit of H.C. Wainwright & Co., acting as placement agent in our offering, warrants to purchase up to an aggregate of 37,501 ADSs representing 750,020 ordinary shares, with an exercise price of \$17.5 per ADS. As of the date of this report, all pre-funded warrants were exercised.

Securities Purchase Agreement, dated November 30, 2016

On November 30, 2016, we entered into a securities purchase agreement as part of an offering of our ADSs pursuant to our shelf registration statement in the United States. As part of the offering we issued a total of 28,480 of our ADSs representing a total of 569,600 ordinary shares, at a purchase price of US\$26.8 per ADS, and warrants to purchase up to a total of 9,970 ADSs representing 199,400 ordinary shares, at an initial exercise price of \$36.00 per ADS, in a concurrent private placement. In addition, as part of such offering, we issued Rodman and Renshaw, a unit of H.C. Wainwright & Co, LLC, acting as placement agent warrants to purchase up to an aggregate of 998 ADSs representing 19,960 ordinary shares, with an exercise price of \$29.48 per ADS and a previous placement agent warrants to purchase up to an aggregate of 499 ADSs representing 9,980 ordinary shares, with an exercise price of \$36 per ADS.

Securities Purchase Agreement, dated September 8, 2016

On September 8, 2016, we entered into a securities purchase agreement as part of an offering of our ADSs pursuant to our shelf registration statement in the United States. As part of the offering we issued a total of 32,000 of our ADSs representing a total of 640,000 ordinary shares, at a purchase price of US\$46.00 per ADS. In addition, as part of such offering, we issued to Roth Capital Partners, LLC, acting as the lead placement agent, and Maxim Group LLC, acting as the co-placement agent warrants to purchase up to an aggregate of 990 ADSs representing 19,800 ordinary shares, with an exercise price of \$57.5 per ADS.

D. Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our securities or the proceeds from the sale of our securities, except or otherwise as set forth in this section and under “Item 10E. Additional Information — Taxation.” However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel, is not restricted in any way by our articles or by the laws of the State of Israel.

E. Taxation

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

Israeli Tax Considerations and Government Programs

The following is a summary of the material Israeli tax laws applicable to us, and some Israeli Government programs benefiting us. This section also contains a discussion of some Israeli tax consequences to persons owning our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include traders in securities or persons that own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on a new tax legislation which has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.

General Corporate Tax Structure in Israel

Israeli resident companies are generally subject to corporate tax on their taxable income at the rate of 23% of a company’s taxable income as of 2018 tax year (in 2017 the taxable income rate was 24%). However, the effective tax rate payable by a company that derives income from a Benefited Enterprise or a Preferred Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli resident company are subject to tax at the prevailing corporate tax rate.

Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for “Industrial Companies.”

The Industry Encouragement Law defines an “Industrial Company” as a company resident in Israel which was incorporated in Israel, of which 90% or more of its income in the tax year, other than income from certain government loans, is derived from an “Industrial Enterprise” owned by it and located in Israel. An “Industrial Enterprise” is defined as an enterprise whose principal activity in any given tax year is industrial activity.

The following corporate tax benefits, among others, are available to Industrial Companies:

- Amortization over an eight-year period commencing on the year in which such rights were first exercised, of the cost of purchased patents, rights to use a patent and know-how which are used for the development or advancement of the Industrial Enterprise;
- Under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies controlled by it; and
- Expenses related to a public offering are deductible in equal amounts over a three years period commencing on the year of the offering.

We may qualify as an Industrial Company and may be eligible for the benefits described above.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction for research and development expenditures, including capital expenditures, over three-years period. Expenditures are deemed related to scientific research and development projects, if:

- The expenditures are approved by the relevant Israeli government ministry, determined by the field of research;
- The research and development must be for the promotion of the company; and
- The research and development is carried out by or on behalf of the company seeking such tax deduction.

The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. No deduction under these research and development deduction rules is allowed if such deduction is related to an expense invested in an asset depreciable under the general depreciation rules of the income Tax Ordinance, 1961. Expenditures not so approved are deductible in equal amounts over three years.

From time to time we may apply the IIA for approval to allow a tax deduction for all research and development expenses/more than a third during the year incurred, rather than deduction over three-years period. There can be no assurance that such application will be accepted.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets) by “Industrial Enterprises” (as defined under the Investment Law).

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005 (referred to as the 2005 Amendment), as of January 1, 2011 (referred to as the 2011 Amendment) and as of January 1, 2017 (referred to as the 2017 Amendment).

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Israeli Authority for Investments and Development of the Israeli Ministry of Economy (referred to as the Investment Center) will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income be derived from exports.

An enterprise that qualifies under the new provisions is referred to as a "Beneficiary Enterprise", rather than "Approved Enterprise". The 2005 Amendment provides that Approved Enterprise status will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain Approved Enterprise status in order to receive the tax benefits previously available under the alternative benefits track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. Such position may be subject to a future tax audit. Companies are entitled to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Investment Law, as amended.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive 25% or more of their business income from export to specific markets with a population of at least 14 million in 2012 (such export criteria will further be increased in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all of the conditions, including exceeding a minimum investment amount specified in the Investment Law. Such investment allows a company to receive "Benefited Enterprise" status, and may be made over a period of no more than three years that will end at the year in which the company requested to have the tax benefits apply to its Benefited Enterprise. The benefits period under the Beneficiary Enterprise status is limited to 12 years from the year the company chose to have its tax benefits apply. Where the company requests to apply the tax benefits to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise and the company's effective tax rate will be the weighted average of the applicable rates. In this case, the minimum investment required in order to qualify as a Benefited Enterprise is required to exceed a certain percentage of the value of the company's production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise depend on, among other things, the geographic location in Israel of the Benefited Enterprise. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise in Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. The benefits period is limited to 12 or 14 years from the year the company first chose to have the tax benefits apply, depending on the location of the company within Israel.

A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to corporate tax in respect of the gross amount of the dividend, or a lower rate in the case of a qualified FIC which is at least 49% owned by non-Israeli residents. Dividends paid out of income attributed to a Benefited Enterprise (or out of dividends received from a company whose income is attributed to a Benefited Enterprise) are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. The reduced rate of 15% is limited to dividends and distributions out of income attributed to a Benefited Enterprise during the benefits period and actually paid at any time up to 12 years thereafter except with respect to a qualified Foreign Investment Company (as such term is defined in the Investment Law), in which case the 12-year limit does not apply.

The benefits available to a Benefited Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index, and interest, or other monetary penalties.

We applied for tax benefits as a “Benefited Enterprise” with 2005 as a “Year of Election”. In addition, the Company elected that years 2009 and 2012 be “years of election” for expansion of the benefited enterprise. We may be entitled to tax benefits under this regime once we are profitable for tax purposes and subject to the fulfillment of all the relevant conditions. If we do not meet these conditions, the tax benefits may not be applicable which would result in adverse tax consequences to us. Alternatively, and subject to the fulfillment of all the relevant conditions, we may elect in the future to irrevocably waive the tax benefits available for Benefited Enterprise and claim the tax benefits available to Preferred Enterprise under the 2011 Amendment (as detailed below).

Tax Benefits under the 2011 Amendment

The Investment Law was significantly amended as of January 1, 2011 (the “2011 Amendment”). The 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment.

The 2011 Amendment introduced new tax benefits for income generated by a “Preferred Company” through its “Preferred Enterprise,” in accordance with the definition of such term in the Investments Law. A “Preferred Company” is defined as either: (i) a company incorporated in Israel which is not wholly owned by a governmental entity, or (ii) a limited partnership that: (a) was registered under the Israeli Partnerships Ordinance and; (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel.

A Preferred Company is entitled to a reduced flat tax rate with respect to the income attributed to the Preferred Enterprise, at the following rates:

Tax Year	Development Region “A”	Other Areas within Israel
2011 – 2012	10%	15%
2013	7%	12.5%
2014	9%	16%
2017 onwards ⁽¹⁾	7.5%	16%

(1) In December 2016, the Israeli Parliament (the Knesset) approved an amendment to the Investment Law pursuant to which the tax rate applicable to Preferred Enterprises in Development Region “A” would be reduced to 7.5% as of 2017.

Dividends distributed from income which is attributed to a “Preferred Enterprise” will be subject to withholding tax at source at the following rates: (i) Israeli resident corporations — 0% (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply), (ii) Israeli resident individuals — 20%, and (iii) non-Israeli residents — 20%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

Under the 2011 Amendment, a company located in Development Region “A” may be entitled to cash grants and the provision of loans under certain conditions, if approved. The rates for grants and loans shall not be fixed, but up to 20% of the amount of the approved investment (may be increased with additional 4%). In addition, a company owning a Preferred Enterprise under the Grant Track may be entitled also to the tax benefits which are prescribed for a Preferred Company.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, that had participated in an alternative benefits program, before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

The termination or substantial reduction of any of the benefits available under the Investment Law could materially increase our tax liabilities.

As the Company does not have taxable income as of today, it does not use tax benefits under the said regime.

New Tax benefits under the 2017 Amendment that became effective on January 1, 2017

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of Technology Enterprises, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a Preferred Technology Enterprise and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as Preferred Technology Income, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain Benefited Intangible Assets (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (previously known as the Israeli Office of the Chief Scientist) (referred to as IIA).

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special Preferred Technology Enterprise (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on Preferred Technology Income regardless of the company's geographic location within Israel. In addition, a Special Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by an Israeli company or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A Special Preferred Technology Enterprise that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technology Enterprise or a Special Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

Taxation of Our Shareholders

Capital Gains

Capital gain tax is imposed on the disposition of capital assets by an Israeli resident, and on the disposition of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. The Israeli Income Tax Ordinance of 1961 (New Version) (the "Ordinance") distinguishes between "Real Capital Gain" and the "Inflationary Surplus." Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposition. Inflationary Surplus is not subject to tax in Israel.

Generally, Real Capital Gain accrued by individuals on the sale of our ordinary shares will be taxed at the rate of 25%. However, if the individual shareholder is a "Controlling Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with such person's relative or another person who collaborates with such person on a permanent basis, 10% or more of one of the Israeli resident company's means of control (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12 months period, such gain will be taxed at the rate of 30%.

Real Capital Gain derived by corporations will be generally subject to a corporate tax rate of 24% in 2017 and 23% as of 2018.

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income — 23% for corporations as of 2018 and a marginal tax rate of up to 47% in 2018 for individuals.

Notwithstanding the foregoing, capital gain derived from the sale of our ordinary shares by a non-Israeli shareholder may be exempt under the Ordinance from Israeli taxation provided that the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of the securities on the stock exchange (this condition will not apply to shares purchased on or after January 1, 2009), (ii) the seller does not have a permanent establishment in Israel to which the derived capital gain is attributed, (iii) neither the shareholder nor the particular capital gain is otherwise subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985 (this condition will not apply to shares purchased on or after January 1, 2009), (iv) if the seller is a corporation, no more than 25% of its means of control are held, directly and indirectly, by an Israeli resident shareholders, and there is no Israeli Resident that is entitled to 25% or more of the revenues or profits of the corporation directly or indirectly. In addition, such exemption would not be available to a person whose gains from selling or otherwise disposing of the securities are deemed to be business income.

In addition, the sale of shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, the U.S.-Israel Double Tax Treaty exempts U.S. resident from Israeli capital gain tax in connection with such sale, provided that (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days in the aggregate at the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel; (iv) the capital gain arising from such sale, exchange or disposition is not attributed to real estate located in Israel; (v) the capital gains arising from such sale, exchange or disposition is not attributed to royalties; and (vi) the shareholder is a U.S. resident (for purposes of the U.S.-Israel Treaty) is holding the shares as a capital asset. Under the U.S.-Israel Double Tax Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Double Tax Treaty does not provide such credit against any U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Either the purchaser, the Israeli stockbrokers or financial institution through which the shares are held is obliged, subject to the above-mentioned exemptions, to withhold tax upon the sale of securities from the Real Capital Gain at the rate of up to 25%.

At the sale of securities traded on a stock exchange a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid on January 31 and July 31 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Ordinance and regulations promulgated thereunder the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Dividends

We have never paid cash dividends. A distribution of dividend by our company from income attributed to a Benefited Enterprise will generally be subject to withholding tax in Israel at a rate of 15% unless a reduced tax rate is provided under an applicable tax treaty. A distribution of dividend by our company from income attributed to a Preferred Enterprise (if the company will be entitled to tax benefits of a Preferred Enterprise) will generally be subject to withholding tax in Israel at the following tax rates: Israeli resident individuals — 20%; Israeli resident companies — 0%; Non-Israeli residents — 20%, subject to a reduced rate under the provisions of any applicable double tax treaty.

A distribution of dividends from income, which is not attributed to a Preferred Enterprise or a Benefited Enterprise to an Israeli resident individual, will generally be subject to withholding tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a “Controlling Shareholder” (as defined above) at the time of distribution or at any time during the preceding 12 months period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be exempt from withholding tax provided the income from which such dividend is distributed was derived or accrued within Israel and was subject to tax in Israel.

The Ordinance provides that a non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 25% (30% if the dividends recipient is a “Controlling Shareholder” (as defined above), at the time of distribution or at any time during the preceding 12 months period); those rates are subject to a reduced tax rate under the provisions of an applicable double tax treaty (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). Thus, under the U.S.-Israel Double Tax Treaty the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting share capital of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends — the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company’s income which was entitled to a reduced tax rate applicable to an Approved Enterprise or a Benefited Enterprise — the tax rate is 15% and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the Israel U.S. Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

Payers of dividends on our ordinary shares, including the Israeli stockbroker effectuating the transaction, or the financial institution through which the securities are held, are generally required, subject to any of the foregoing exemptions, reduced tax rates and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the distribution of dividend at the rate of 25%, so long as the shares are registered with a nominee company.

Excess Tax

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% as of 2018 on annual income exceeding a certain threshold (NIS 641,880 for 2018 and thereafter, linked to the annual change in the Israeli Consumer Price Index), including, but not limited to income derived from, dividends, interest and capital gains.

Foreign Exchange Regulations

Non-residents of Israel who hold our ordinary shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, repayable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is generally required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of currency exchange control has not been eliminated, and may be restored at any time by administrative action.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

U.S. Federal Income Tax Consequences

The following discussion describes certain material U.S. federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in our ordinary shares. This discussion applies only to U.S. Holders that hold our ordinary shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), that have acquired their ordinary shares or ADSs and that have the U.S. dollar as their functional currency.

This discussion is based on the tax laws of the United States, including the Code, as in effect on the date hereof and on U.S. Treasury regulations as in effect or, in some cases, as proposed, on the date hereof, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the IRS will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our shares or that such a position would not be sustained. This summary does not address any estate or gift tax consequences, the alternative minimum tax, the Medicare tax on net investment income or any state, local, or non-U.S. tax consequences.

The following discussion neither deals with the tax consequences to any particular investor nor describes all of the tax consequences applicable to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark to market;
- certain former citizens or residents of the United States;
- tax-exempt entities;
- persons holding our ordinary shares as part of a straddle, hedging, constructive sale, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting share capital;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the United States;
- persons who acquired our ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation; or
- S-corporation and partnerships, including entities classified as partnerships for U.S. federal income tax purposes.

INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are the beneficial owner of our ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity or other arrangement treated as a partnership for U.S. federal income tax purposes holds our ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A person that would be a U.S. Holder if it held our ordinary shares directly and that is a partner of a partnership holding our ordinary shares is urged to consult its own tax advisor.

Passive Foreign Investment Company

Based on our anticipated income and the composition of our income and assets, there is a significant risk that we will be a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes at least until we start generating a substantial amount of active revenue. However, because PFIC status is a factual determination based on actual results for the entire taxable year, our U.S. counsel expresses no opinion with respect to our PFIC status. A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will generally be a PFIC for U.S. federal income tax purposes for any taxable year after applying certain look-through rules with respect to the income and assets of subsidiaries if either:

- at least 75% of its gross income for such year is passive income (such as interest income); or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our shares.

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other entity treated as a corporation for U.S. federal income tax purposes in which we own, directly or indirectly, 25% or more (by value) of the stock.

A separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ordinary shares, our PFIC status may depend in part on the market price of our ordinary shares, which may fluctuate significantly. In addition, there may be certain ambiguities in applying the PFIC test to us. No rulings from the U.S. Internal Revenue Service (the “IRS”), however, have been or will be sought with respect to our status as a PFIC.

If we are a PFIC for any taxable year during which you hold our ordinary shares, we generally will continue to be treated as a PFIC with respect to your investment in our ordinary shares for all succeeding years during which you hold our ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to our ordinary shares. If such election is made, you will be deemed to have sold our ordinary shares you hold at their fair market value on the last day of the last taxable year in which we were a PFIC, and any gain from such deemed sale would be subject to taxation under the excess distribution regime described below. After the deemed sale election, your ordinary shares with respect to which the deemed sale election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” (as defined below) you receive and any gain you realize from a sale or other disposition (including a pledge) of our ordinary shares, unless you make a valid “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for our ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of our ordinary shares cannot be treated as capital gains, even if you hold our ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs, you may be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion which the value of our ordinary shares you own bears to the value of all of our ordinary shares, and you may be subject to the adverse tax consequences described above with respect to the shares of such lower-tier PFICs you would be deemed to own. As a result, you may incur liability for any excess distribution described above if we receive a distribution from our lower-tier PFICs or if any shares in such lower-tier PFICs are disposed of (or deemed disposed of). You should consult your tax advisor regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a valid mark-to-market election for our ordinary shares, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of our ordinary shares as of the close of your taxable year over your adjusted basis in such ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of our ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on our ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of our ordinary shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on our ordinary shares, as well as to any loss realized on the actual sale or disposition of our ordinary shares, to the extent the amount of such loss does not exceed the net mark-to-market gains for such ordinary shares previously included in income. Your basis in our ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a mark-to-market election, any distributions we make would generally be subject to the rules discussed below under “— Taxation of dividends and other distributions on our ordinary shares,” except the lower rates applicable to qualified dividend income would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. We expect our ordinary shares will be listed on Nasdaq. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs we own, you generally will continue to be subject to the PFIC rules with respect to your indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. The Nasdaq is a qualified exchange, but there can be no assurance that the trading in our ordinary shares will be sufficiently regular to qualify our ordinary shares as marketable stock. You should consult your tax advisor as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs. Alternatively, if a non-U.S. entity treated as a corporation is a PFIC, a holder of shares in that entity may avoid taxation under the PFIC rules described above regarding excess distributions and recognized gains by making a “qualified electing fund” election to include in its income, on a current basis: (1) as ordinary income, its pro rata share of the “ordinary earnings” of the qualified electing fund; and (2) as long-term capital gain, its pro rata share of the “net capital gain” of the qualified electing fund. However, you may make a qualified electing fund election with respect to your ordinary shares only if we furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

A U.S. Holder of a PFIC may be required to file an IRS Form 8621. The failure to file this form when required could result in substantial penalties. If we are a PFIC, you should consult your tax advisor regarding any reporting requirements that may apply to you. You are urged to consult your tax advisor regarding the application of the PFIC rules to the acquisition, ownership and disposition of our ordinary shares.

YOU ARE STRONGLY URGED TO CONSULT YOUR TAX ADVISOR REGARDING THE IMPACT OF OUR BEING A PFIC ON YOUR INVESTMENT IN OUR ORDINARY SHARES AS WELL AS THE APPLICATION OF THE PFIC RULES AND THE POSSIBILITY OF MAKING A MARK-TO-MARKET ELECTION.

Taxation of Dividends and Other Distributions on our Ordinary Shares

Subject to the PFIC rules discussed above, the gross amount of any distributions we make to you (including the amount of any tax withheld) with respect to our ordinary shares generally will be includible in your gross income as dividend income on the date of receipt by the holder, but only to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. To the extent the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of your tax basis in your ordinary shares, and then, to the extent such excess amount exceeds your tax basis in your ordinary shares, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, dividends may be taxed at the lower capital gain rates applicable to “qualified dividend income,” provided (1) our ordinary shares are readily tradable on an established securities market in the United States (such as Nasdaq), (2) we are neither a PFIC nor treated as such with respect to you (as discussed above) for either the taxable year in which the dividend was paid or the preceding taxable year, (3) certain holding period requirements are met and (4) you are not under an obligation to make related payments with respect to positions in substantially similar or related property. As discussed above under “Passive foreign investment company,” there is a significant risk that we will be a PFIC for U.S. federal income tax purposes, and, as a result, the qualified dividend rate may be unavailable with respect to dividends we pay.

The amount of any distribution paid in a currency other than U.S. dollars will be equal to the U.S. dollar value of such currency on the date such distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars at that time. If the foreign currency is converted into U.S. dollars on the date of receipt, a U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the distribution. A U.S. Holder may have foreign currency gain or loss if the foreign currency is converted into U.S. dollars after the date of receipt, depending on the exchange rate at the time of conversion. Any gains or losses resulting from the conversion of foreign currency into U.S. dollars generally will be treated as ordinary income or loss, as the case may be, and generally will be treated as U.S. source. In addition, proposed Treasury regulations (which taxpayers may rely upon pending publication of final regulations) issued on December 18, 2017, provide that certain taxpayers may elect to “mark to market” gain or loss resulting from exchange rate fluctuations. The proposed regulations are complex, and you should consult your tax advisor regarding the availability of the proposed regulations in your particular circumstances. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Any dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

If Israeli withholding taxes apply to any dividends paid to you with respect to our ordinary shares, subject to certain conditions and limitations, such withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. Instead of claiming a credit, you may elect to deduct such taxes in computing taxable income, subject to applicable limitations. If a refund of the tax withheld is available under the applicable laws of Israel or under the Israel-U.S. income tax treaty (the “Treaty”), the amount of tax withheld that is refundable will not be eligible for such credit against your U.S. federal income tax liability (and will not be eligible for the deduction against your U.S. federal taxable income). The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor regarding the availability of a foreign tax credit in your particular circumstances, including the effects of the Treaty.

Taxation of Disposition of Ordinary Shares

Subject to the PFIC rules discussed above, upon a sale or other disposition of ordinary shares, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized (including the amount of any tax withheld) and your tax basis in such ordinary shares. If the consideration you receive for our ordinary shares is not paid in U.S. dollars, the amount realized will be the U.S. dollar value of the payment received determined by reference to the spot rate of exchange on the date of the sale or other disposition. However, if our ordinary shares are treated as traded on an “established securities market” and you are either a cash basis taxpayer or an accrual basis taxpayer that has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the IRS), you will determine the U.S. dollar value of the amount realized in a non-U.S. dollar currency by translating the amount received at the spot rate of exchange on the settlement date of the sale. If you are an accrual basis taxpayer that is not eligible to or does not elect to determine the amount realized using the spot rate on the settlement date, you will recognize foreign currency gain or loss to the extent of any difference between the U.S. dollar amount realized on the date of sale or disposition and the U.S. dollar value of the currency received at the spot rate on the settlement date. In addition, proposed Treasury regulations (which taxpayers may rely upon pending publication of final regulations) issued on December 18, 2017 provide that certain taxpayers may elect to ‘mark to market’ gain or loss resulting from exchange rate fluctuations. The proposed regulations are complex, and you should consult your tax advisor regarding the availability of the proposed regulations in your particular circumstances.

Your tax basis in our ordinary shares generally will equal the cost of such ordinary shares. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of shares is generally eligible for a preferential rate of taxation applicable to capital gains, if your holding period determined at the time of such sale, exchange or other disposition for such shares exceeds one year (i.e., such gain is long-term capital gain). The deductibility of capital losses is subject to significant limitations.

As mentioned above, to the extent that, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, the U.S. holder would be permitted to claim a credit for any such taxes incurred against U.S. federal income tax imposed on any gain from such sale, exchange or disposition, under the circumstances and subject to the limitations specified in the U.S-Israel Double Tax Treaty and U.S. domestic law applicable to foreign tax credit.

Information Reporting and Backup Withholding

Dividend payments with respect to ordinary shares and proceeds from the sale, exchange or redemption of ordinary shares may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. You should consult your tax advisor regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Information with respect to Foreign Financial Assets

Certain U.S. Holders may be required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain U.S. financial institutions). Penalties can apply if U.S. Holders fail to satisfy such reporting requirements. You should consult your tax advisor regarding the effect, if any, of this requirement on your ownership and disposition of our ordinary shares.

Information with respect to the Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act, or FATCA, encourages foreign financial institutions to report information about their U.S. account holders (including holders of certain equity interests) to the IRS. Foreign financial institutions that fail to comply with the withholding and reporting requirements of FATCA and certain account holders that do not provide sufficient information under the requirements of FATCA are subject to a 30% U.S. withholding tax on certain payments they receive, including foreign pass-through payments (which may include payments made by us with respect to our shares). The term “foreign pass thru payment” is not currently defined in U.S. Treasury Regulations, and therefore, the future application of FATCA withholding tax on foreign pass-thru payments to holders of shares is uncertain. If a holder of shares is subject to withholding, there will be no additional amounts payable by way of compensation to the holder of such securities for the deducted amount. Holders of shares should consult their own tax advisors regarding this legislation in light of such holder’s particular situation.

Information with respect to Net Investment Income Tax

Certain U.S. Holders who are individuals, estates or trusts may be required to pay an additional 3.8% Net Investment Income Tax, or NIIT, on, among other things, dividends and capital gains from the sale or other disposition of our shares. For individuals, the additional NIIT tax applies to the lesser of (i) “net investment income” or (ii) the excess of “modified adjusted gross income” over \$200,000 (\$250,000 if married and filing jointly or \$125,000 if married and filing separately). “Net investment income” generally equals the taxpayer’s gross investment income reduced by the deductions that are allocable to such income. U.S. Holders will likely not be able to credit foreign taxes against the 3.8% NIIT.

Information with respect to Reporting Requirements

Certain U.S. Holders owning “specified foreign financial assets” may be required to file IRS Form 8938, or Statement of Specified Foreign Financial Assets, with respect to such assets with their tax returns. “Specified foreign financial assets” generally include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. The IRS has issued guidance exempting “specified foreign financial assets” held in a financial account from reporting under this provision (although the financial account itself, if maintained by a foreign financial institution, may remain subject to this reporting requirement). The failure to file this form when required could result in substantial penalties. You are urged to consult your tax advisors regarding the application of these requirements to your ownership of our shares.

In addition, certain U.S. Holders may be required to report additional information relating to an interest in our ordinary shares, subject to certain exceptions. You are urged to consult your tax advisors regarding your information reporting obligations, if any, with respect to your ownership and disposition of our ordinary shares.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT ABOVE IS FOR GENERAL INFORMATIONAL PURPOSES ONLY. INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES.

B. Dividends and Paying Agents

Not applicable.

C. Statement by Experts

Not applicable.

D. Documents on Display

You may read and copy this annual report on Form 20-F, including the related exhibits and schedules, and any document we file with the SEC through the SEC's website at www.sec.gov.

As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Furthermore, as a foreign private issuer, we are also not subject to the requirements of Regulation FD (Fair Disclosure) promulgated under the Exchange Act. In addition, we are not required under the Exchange Act to file annual or other reports and consolidated financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. Instead, we must file with the SEC, within 120 days after the end of each fiscal year, or such other applicable time as required by the SEC, an annual report on Form 20-F containing consolidated financial statements audited by an independent registered public accounting firm. We also intend to furnish certain other material information to the SEC under cover of Form 6-K.

We maintain a corporate website at www.medigus.com. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report on Form 20-F. We have included our website address in this annual report on Form 20-F solely as an inactive textual reference.

E. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss related to changes in market prices, including interest rates and foreign exchange rates, of financial instruments that may adversely impact our consolidated financial position, results of operations or cash flows.

Risk of Interest Rate Fluctuation

Currently, our investments consist primarily of cash and cash equivalents and short-term bank deposits. We follow an investment policy that was set by our board of directors, pursuant to which we currently invest in tradable short term Israeli government loans or bank deposits. Our investments are exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. However, given the low levels of interest rates worldwide, our interest income is not material and a further reduction in interest rates would not cause us a significant reduction in the absolute amounts of interest income to us. We manage this exposure by performing ongoing evaluations of our investments. Due to the short-term maturities of our investments to date, their carrying value has always approximated their fair value. It is our current policy to hold investments to maturity in order to limit our exposure to interest rate fluctuations.

Foreign Currency Exchange Risk

Our reporting and functional currency is the U.S. dollar. Our revenues are currently primarily payable in U.S. dollars and Euros and we expect our future revenues to be denominated primarily in U.S. dollars and Euros. However, certain amount of our expenses are in NIS and as a result, we are exposed to the currency fluctuation risks relating to the recording of our expenses in U.S. dollars. We may, in the future, decide to enter into currency hedging transactions. These measures, however, may not adequately protect us from material adverse effects.

To date, we have not engaged in hedging transactions, however we hold our investments in both NIS and US dollars. In the future, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of our principal operating currencies. These measures, however, may not adequately protect us from the material adverse effects of such fluctuations.

Our interest rate risk exposure is in respect to bank deposits, which expose us to risk due to change in fair value interest rates. As of December 31, 2018, these deposits carried relatively low interest rates and under these low interest rates, reasonable changes in interest rates are expected have negligible impact on the fair value of these assets.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities.

Not applicable.

B. Warrants and rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares

General

The following is a summary description of the ADSs and does not purport to be complete. Each ADS represents 20 ordinary shares (or a right to receive 20 ordinary shares) deposited with the principal Tel Aviv office of either of Bank Hapoalim or Bank Leumi, as custodian for the Bank of New York Mellon as the Depository. Each ADS also represents any other securities, cash or other property which may be held by the Depository. The Depository's office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the Depository confirming their holdings. As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Israeli law governs shareholder rights. The Depository will be the holder of the shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the Depository, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the Depository. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The Depository has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

Cash. The Depository will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the Depository to distribute the NIS only to those ADS holders to whom it is possible to do so. It will hold the NIS if it cannot convert for the account of the ADS holders who have not been paid. It will not invest the NIS and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. For more information see “Item 10. Addition Information—E. Taxation.” The Depository will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the Depository cannot convert the NIS, you may lose some or all of the value of the distribution.*

Shares. The Depository may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The Depository will only distribute whole ADSs. It will sell shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. If the Depository does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The Depository may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution (or ADSs representing those shares).

Rights to purchase additional shares. If we offer holders of our securities any rights to subscribe for additional ordinary shares or any other rights, the Depository may make these rights available to ADS holders. If the Depository decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the Depository will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. The Depository will allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the Depository makes rights available to ADS holders, it will exercise the rights and purchase the shares on your behalf. The Depository will then deposit the shares and deliver ADSs to the persons entitled to them. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the Depository may deliver restricted depository shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

Other Distributions. The Depository will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the Depository has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the Depository is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The Depository may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The Depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

How can ADS holders withdraw the deposited securities?

You may surrender your ADSs at the Depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the Depositary will deliver the deposited securities at its office, if feasible.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the Depositary for the purpose of exchanging your ADR for uncertificated ADSs. The Depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Alternatively, upon receipt by the Depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the Depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting Rights

How do you vote?

ADS holders may instruct the Depositary how to vote the number of deposited shares their ADSs represent. The Depositary will notify ADS holders of shareholders' meetings and arrange to deliver our voting materials to them if we ask it to. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the Depositary how to vote. For instructions to be valid, they must reach the Depositary by a date set by the Depositary. *Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.*

The Depositary will try, as far as practical, subject to the laws of Israel, and of our articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders. The Depositary will only vote or attempt to vote as instructed.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the Depositary to vote your shares. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to deposited securities, if we request the Depositary to act, we agree to give the Depositary notice of any such meeting and details concerning the matters to be voted upon at least 30 days in advance of the meeting date.

Each of our American Depositary Shares, or ADSs, represents 50 of our ordinary shares. The ADSs trade on the Nasdaq Capital Market.

The form of the deposit agreement for the ADSs and the form of American Depositary Receipt (ADR) that represents an ADS as filed as exhibits to the Company's registration statement on Form F-6 with the SEC on May 7, 2015. Copies of the deposit agreement are available for inspection at the principal office of the Bank of New York Mellon, located at 101 Barclay Street, New York, New York 10286, and at the principal office of our custodians Bank Hapoalim B.M., 104 Hayarkon Street, Tel Aviv 63432, Israel.

Fees and Expenses

Persons depositing or withdrawing shares or ADS holders must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

\$0.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the Depositary

Taxes and other governmental charges the Depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS holders

- Depositary services
- Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when you deposit or withdraw shares
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- converting foreign currency to U.S. dollars
- As necessary

- As necessary

The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the Depositary may make payments to us to reimburse and/or share revenue from the fees collected from ADS holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the ADS program. In performing its duties under the deposit agreement, the Depositary may use brokers, dealers or other service providers that are affiliates of the Depositary and that may earn or share fees or commissions.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The Depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the Depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:

- Change the nominal or par value of our shares
- Reclassify, split up or consolidate any of the deposited securities
- Distribute securities on the shares that are not distributed to you
- Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

The cash, shares or other securities received by the Depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities. The Depositary may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the Depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the Depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the Depositary notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The Depositary will terminate the deposit agreement at our direction by mailing notice of termination to the ADS holders then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may also terminate the deposit agreement by mailing notice of termination to us and the ADS holders if 60 days have passed since the Depositary told us it wants to resign but a successor depositary has not been appointed and accepted its appointment.

After termination, the Depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver shares and other deposited securities upon cancellation of ADSs. Four months after termination, the Depositary may sell any remaining deposited securities by public or private sale. After that, the Depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The Depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the Depositary and to pay fees and expenses of the Depositary that we agreed to pay.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the Depositary. It also limits our liability and the liability of the Depositary. We and the Depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if we are or it is prevented or delayed by law or circumstances beyond our or its control from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we and the Depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the Depositary will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of shares, the Depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The Depositary may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the Depositary or our transfer books are closed or at any time if the Depositary or we think it advisable to do so.

Right to Receive the Shares Underlying your ADSs

ADS holders have the right to cancel their ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (i) the Depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the Depository to deliver ADSs before deposit of the underlying shares. This is called a pre-release of the ADSs. The Depository may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the Depository. The Depository may receive ADSs instead of shares to close out a pre-release. The Depository may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the Depository in writing that it or its customer owns the shares or ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the Depository considers appropriate; and (3) the Depository must be able to close out the pre-release on not more than five business days' notice. In addition, the Depository will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the Depository may disregard the limit from time to time if it thinks it is appropriate to do so.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, or DRS, and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by the Depository Trust Company, or DTC. DRS is the system administered by DTC that facilitates interchange between registered holding of uncertificated ADSs and holding of security entitlements in ADSs through DTC and a DTC participant. Profile is a required feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of ADSs, to direct the Depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the Depository of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the Depository will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the Depository's reliance on and compliance with instructions received by the Depository through the DRS/Profile System and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the Depository.

Shareholder communications; inspection of register of holders of ADSs

The Depository will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The Depository will send you copies of those communications if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There are no defaults, dividend arrangements or delinquencies that are required to be disclosed.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that information required to be disclosed on Form 20-F and filed with the Securities and Exchange Commission is recorded, processed, summarized and reported timely within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within the company to disclose information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on our evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) - 15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report on Form 20-F are effective at such reasonable assurance level.

(b) Management report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Based on the framework in Internal Control - Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Attestation Report of the Registered Public Accounting Firm

Not applicable.

(c) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Eliyahu Yoresh qualifies as an "audit committee financial expert" and that he is considered independent under the applicable SEC and Nasdaq Marketplace rules.

ITEM 16B. CODE OF ETHICS

In March 2016, we adopted a code of ethics and business conduct, which applies to all our directors, officers and employees, including without limitation our, Chief Executive Officer, Chief Financial Officer, and controller, or persons performing similar functions. This code of ethics is posted on our website, www.medigus.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Fees and services**

The table below summarizes the total amounts that we were billed by our independent accountants, Kesselman & Kesselman, an independent registered public accounting firm, a member firm of PricewaterhouseCoopers International Limited, related to the following periods.

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(USD in thousands)	
Audit fees ⁽¹⁾	144	160
Tax Fees ⁽²⁾	20	33
Total	164	193

(1) Includes professional services rendered in connection with the audit of our annual financial statements and the review of our interim financial statements. Includes professional fees related to annual tax returns.

(2) Represents fees paid for tax consulting services.

Audit committee's pre-approval policies and procedures

Our audit committee's specific responsibilities in carrying out its oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company include the approval of audit and non-audit services to be provided by the external auditor. The audit committee approves in advance the particular services or categories of services to be provided to the Company during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional non-audit services may be pre-approved by the audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Nasdaq Stock Market Listing Rules and Home Country Practices

As a foreign private issuer, we are permitted to follow Israeli corporate governance practices instead of Nasdaq Marketplace rules, provided that we disclose which requirements we are not following and the equivalent Israeli requirement. We rely on this “foreign private issuer exemption” with respect to the following items:

- *Quorum.* While the Marketplace Rules of the Nasdaq Stock Market require that the quorum for purposes of any meeting of the holders of a listed company’s common voting stock, as specified in the company’s bylaws, be no less than 33 1/3% of the company’s outstanding common voting stock, under Israeli law, a company is entitled to determine in its articles of association the number of shareholders and percentage of holdings required for a quorum at a shareholders meeting. Our Articles of Association provide that a quorum of two or more shareholders holding at least 10% of the voting rights in person or by proxy is required for commencement of business at a general meeting. However, the quorum set forth in our Articles of Association with respect to an adjourned meeting consists of any number of shareholders present in person or by proxy.
- *Approval of Related Party Transactions.* All related party transactions are approved in accordance with the requirements and procedures for approval of interested party acts and transactions, set forth in sections 268 to 275 of the Companies Law, and the regulations promulgated thereunder, which require the approval of the audit committee, the compensation committee, the board of directors and shareholders, as may be applicable, for specified transactions, rather than approval by the audit committee or other independent body of our board of directors as required under the Marketplace Rules of the Nasdaq Stock Market.
- *Equity Compensation Plans.* We do not necessarily seek shareholder approval for the establishment of, and amendments to, stock option or equity compensation plans (as set forth in NASDAQ Listing Rule 5635(c)), as such matters are not subject to shareholder approval under Israeli law. We will attempt to seek shareholder approval for our stock option or equity compensation plans (and the relevant annexes thereto) to the extent required in order to ensure they are tax qualified for our employees in the United States. However, even if such approval is not received, then the stock option or equity compensation plans will continue to be in effect, but we will not be able to grant options to our U.S. employees that qualify as Incentive Stock Options for U.S. federal tax purpose. Our stock option or other equity compensation plans are also available to our non-U.S. employees, and provide features necessary to comply with applicable non-U.S. tax laws.

Otherwise, we comply with the rules generally applicable to U.S. domestic companies listed on the Nasdaq Stock Market. We may in the future decide to use the foreign private issuer exemption with respect to some or all of the other Nasdaq Marketplace Rules related to corporate governance. We also comply with Israeli corporate governance requirements under the Israeli Companies Law applicable to public companies.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements and the related notes required by this Item are included in this annual report on Form 20-F beginning on page F-1.



MEDIGUS LTD.

Report of Independent Registered Public Accounting Firm

To the board of directors and shareholders of Medigus Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Medigus Ltd. and its subsidiary (the “Company”) as of December 31, 2018 and December 31, 2017, and the related consolidated statements of loss and other comprehensive loss, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers International Limited

Tel - Aviv, Israel
March 28, 2019

We have served as the Company’s auditor since 1999.

MEDIGUS LTD.
CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>USD in thousands</u>	
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	5	10,625	2,828
Short-term deposit	6	-	3,498
Accounts receivables - trade		24	18
Other current assets	7	404	290
Inventory	2(h),8	81	180
		<u>11,134</u>	<u>6,814</u>
NON-CURRENT ASSETS:			
Inventory	2(h),8	-	260
Property and equipment, net	9	90	120
Intangible assets, net		15	16
		<u>105</u>	<u>396</u>
TOTAL ASSETS		<u>11,239</u>	<u>7,210</u>

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

MEDIGUS LTD.
CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>USD in thousands</u>	
Liabilities and equity			
CURRENT LIABILITIES :			
Accounts payables - trade	11	190	190
Other current liabilities	11	1,172	767
		<u>1,362</u>	<u>957</u>
NON-CURRENT LIABILITIES:			
Contract liability		118	118
Warrants at fair value	4	1,601	559
Retirement benefit obligation, net		79	65
		<u>1,798</u>	<u>742</u>
COMMITMENTS	12		
TOTAL LIABILITIES		<u>3,160</u>	<u>1,699</u>
EQUITY:			
	13		
Ordinary share capital*		20,924	5,292
Share premium		48,942	55,040
Other capital reserves		692	330
Warrants		-	730
Accumulated deficit		(62,479)	(55,881)
TOTAL SHAREHOLDERS' EQUITY		<u>8,079</u>	<u>5,511</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>11,239</u>	<u>7,210</u>

* On July 9, 2018, the Company implemented a 1-for-10 consolidation of its ordinary shares with a market effective date of July 13, 2018, which was applied retrospectively for the calculation of the basic and diluted loss per ordinary share.

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

	Note	Year Ended December 31,		
		2018	2017	2016
		USD in thousands		
REVENUES:	17			
PRODUCTS		219	467	192
SERVICES		217	-	357
		<u>436</u>	<u>467</u>	<u>549</u>
COST OF REVENUES:	14			
PRODUCTS		164	219	81
SERVICES		115	-	95
INVENTORY IMPAIRMENT	2(h)	<u>328</u>	<u>297</u>	<u>-</u>
		<u>607</u>	<u>516</u>	<u>176</u>
GROSS PROFIT (LOSS)		<u>(171)</u>	<u>(49)</u>	<u>373</u>
RESEARCH AND DEVELOPMENT EXPENSES	14	1,809	2,208	3,655
SALES AND MARKETING EXPENSES	14	1,354	846	2,125
GENERAL AND ADMINISTRATIVE EXPENSES	14	<u>3,338</u>	<u>3,005</u>	<u>3,684</u>
OPERATING LOSS		<u>(6,672)</u>	<u>(6,108)</u>	<u>(9,091)</u>
PROFIT FROM CHANGES IN FAIR VALUE OF WARRANTS ISSUED TO INVESTORS	4	148	3,502	25
FINANCIAL INCOME (EXPENSES) IN RESPECT OF DEPOSITS, BANK COMMISIONS AND EXCHANGE DIFFERENCES, NET		<u>(54)</u>	<u>54</u>	<u>87</u>
FINANCING INCOME, NET		<u>94</u>	<u>3,556</u>	<u>112</u>
LOSS BEFORE TAXES ON INCOME		<u>(6,578)</u>	<u>(2,552)</u>	<u>(8,979)</u>
TAXES BENEFIT (TAXES ON INCOME)	10	<u>(20)</u>	<u>7</u>	<u>(28)</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(6,598)</u>	<u>(2,545)</u>	<u>(9,007)</u>
		USD		
BASIC LOSS PER ORDINARY SHARE*	15	<u>(0.16)</u>	<u>(0.20)</u>	<u>(2.62)</u>
DILUTED LOSS PER ORDINARY SHARE*	15	<u>(0.16)</u>	<u>(0.23)</u>	<u>(2.62)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING USED TO COMPUTE (IN THOUSANDS)*	15			
BASIC LOSS PER SHARE*		41,988	12,569	3,440
DILUTED LOSS PER SHARE*		41,988	12,969	3,440

* On July 9, 2018, the Company implemented a 1-for-10 consolidation of its ordinary shares with a market effective date of July 13, 2018, which was applied retrospectively for the calculation of the basic and diluted loss per ordinary share.

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Note	Shareholders' equity attributed to the owners of the Company							Total shareholders' equity
	Ordinary shares	Share premium	Capital reserves from options granted	Capital reserves from transactions with controlling shareholders	Currency translation differences	Warrants	Accumulated deficit	
USD in thousands								
BALANCE AS OF DECEMBER 31, 2015	870	51,990	697	538	(1,117)	1,532	(44,329)	10,181
TOTAL COMPREHENSIVE LOSS FOR THE YEAR							(9,007)	(9,007)
TRANSACTIONS WITH SHAREHOLDERS:								
Issuance of shares and warrants	13B	319	1,260	70				1,649
Stock-based compensation in connection with options granted to employees and service providers	13C			104				104
Forfeiture and expiration of options and warrants	13B,C		567	(92)		(475)		-
TOTAL TRANSACTIONS WITH SHAREHOLDERS		319	1,827	82		(475)		1,753
BALANCE AS OF DECEMBER 31, 2016		1,189	53,817	779	538	(1,117)	1,057	(53,336)

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Note	Shareholders' equity attributed to the owners of the Company							Total shareholders' equity
	Ordinary shares	Share premium	Capital reserves from options granted	Capital reserves from transactions with controlling shareholders	Currency translation differences	Warrants	Accumulated deficit	
USD in thousands								
BALANCE AS OF DECEMBER 31, 2016	1,189	53,817	779	538	(1,117)	1,057	(53,336)	2,927
TOTAL COMPREHENSIVE LOSS FOR THE YEAR							(2,545)	(2,545)
TRANSACTIONS WITH SHAREHOLDERS:								
Issuance of shares and warrants	13B	2,501	69	267				2,837
Exercise of warrant, net	13B	1,602	626					2,228
Stock-based compensation in connection with options granted to employees and service providers	13C			64				64
Forfeiture and expiration of options and warrants	13C		528	(201)		(327)		-
TOTAL TRANSACTIONS WITH SHAREHOLDERS		4,103	1,223	130		(327)		5,129
BALANCE AS OF DECEMBER 31, 2017		5,292	55,040	909	538	(1,117)	730	5,511

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Note	Shareholders' equity attributed to the owners of the Company							Total shareholders' equity
	Ordinary shares	Share premium	Capital reserves from options granted	Capital reserves from transactions with controlling shareholders	Currency translation differences	Warrants	Accumulated deficit	
	USD in thousands							
BALANCE AS OF DECEMBER 31, 2017	5,292	55,040	909	538	(1,117)	730	(55,881)	5,511
TOTAL COMPREHENSIVE LOSS FOR THE YEAR							(6,598)	(6,598)
TRANSACTIONS WITH SHAREHOLDERS:								
Issuance of shares and warrants	13B	3,179	(1,823)	630				1,986
Exercise of warrant, net		12,453	(5,430)					7,023
Stock-based compensation in connection with options granted to employees and service providers	13C			157				157
Expiration of options and warrants	13B,C		1,155	(425)		(730)		-
TOTAL TRANSACTIONS WITH SHAREHOLDERS		<u>15,632</u>	<u>(6,098)</u>	<u>362</u>		<u>(730)</u>		<u>9,166</u>
BALANCE AS OF DECEMBER 31, 2018		<u>20,924</u>	<u>48,942</u>	<u>1,271</u>	<u>538</u>	<u>(1,117)</u>	<u>(62,479)</u>	<u>8,079</u>

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2018	2017	2016
	USD in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH FLOWS USED IN OPERATIONS (see Appendix)	(4,253)	(4,659)	(9,255)
Income tax paid	(11)	(22)	(14)
Interest received	42	-	4
Net cash flow used in operating activities	<u>(4,222)</u>	<u>(4,681)</u>	<u>(9,265)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(4)	(2)	(32)
Purchase of intangible assets	(7)	(7)	(6)
Investment in short-term deposits	-	(5,000)	-
Withdrawal of short-term deposits	3,498	1,500	-
Net cash flow generated from (used in) investing activities	<u>3,487</u>	<u>(3,509)</u>	<u>(38)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares and warrants and from exercise of warrants, net of issuances costs	8,634	7,919	1,902
Net cash flow generated from financing activities	<u>8,634</u>	<u>7,919</u>	<u>1,902</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,899	(271)	(7,401)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,828	3,001	10,312
GAINS (LOSSES) FROM EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(102)	98	90
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>10,625</u></u>	<u><u>2,828</u></u>	<u><u>3,001</u></u>

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

MEDIGUS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

APPENDIX TO THE STATEMENTS OF CASH FLOWS:

	For the year ended December 31,		
	2018	2017	2016
	USD in thousands		
NET CASH USED IN OPERATIONS:			
Loss for the year before taxes on income	(6,578)	(2,552)	(8,979)
Adjustment in respect of:			
Profit from changes in the fair value of warrants issued to investors	(148)	(3,502)	(25)
Loss (gain) from exchange differences on cash and cash equivalents	102	(98)	(90)
Retirement benefit obligation, net	14	(12)	(21)
Inventory impairment	328	297	-
Issuance expenses which were attributed to the warrants classified as a financial liability and charged directly to profit or loss	1,565	970	-
Revaluation of and exchange differences on short-term deposits	-	2	-
Interest received	(42)	-	(4)
Depreciation	34	60	80
Amortization	8	17	19
Stock-based compensation in connection with options granted to employees and service providers	157	64	104
CHANGES IN OPERATING ASSET AND LIABILITY ITEMS:			
Decrease (increase) in accounts receivable - trade	(6)	3	233
Decrease (increase) in other current assets	(101)	262	640
Increase (decrease) in accounts payables - trade and contract liability	-	(177)	9
Increase (decrease) in other current liabilities	396	(202)	(393)
Decrease (increase) in inventory	18	209	(828)
NET CASH USED IN OPERATIONS	(4,253)	(4,659)	(9,255)

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

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

- a. Medigus Ltd. (the “Company”) was incorporated in Israel on December 9, 1999. Company’s registered office and principal place of business are located in Israel. The address of its registered office is P.O. Box 3030, Omer, Israel 8496500.

On July 22, 2007 the Company established a wholly owned subsidiary, MEDIGUS USA LLC, in the State of Delaware, USA (hereinafter - the “Subsidiary”).

The Subsidiary has not been engaged in any business activities until October 2013.

On October 1, 2013, the Company and its Subsidiary entered into an inter-company agreement whereby the Subsidiary provides services to the Company in consideration for a reimbursement of its costs plus a reasonable premium.

On January 3, 2019, the Company established a wholly owned subsidiary in Israel under the name ScoutCam Ltd., or ScoutCam. ScoutCam was incorporated as part of a reorganization of the Company intended to distinguish the Company’s miniaturized imaging business, or the micro ScoutCam™ portfolio, from the other operations of the Company and to enable the Company to form a separate business unit with dedicated resources focused on the promotion of such technology. As such the Company completed the transfer of all of the Company’s assets and intellectual property related to the Company’s miniaturized imaging business into ScoutCam.

The Company together with its subsidiaries (hereinafter – the “Group”) is engaged in the development, production and marketing of innovative miniaturized imaging equipment known as the Company’s micro ScoutCam™ portfolio for use in medical procedures as well as various industrial applications. Most of the Group’s research and development activities have been focused in developing and manufacturing of the Medigus Ultrasonic Surgical Endostapler (hereinafter - “MUSE”) endoscopy system, an FDA approved system, for the treatment of gastroesophageal reflux disease (hereinafter - “GERD”). In addition, the Group used the technological platform it developed for the purpose of additional special systems and products that are suitable for both medical and industrial applications.

In the recent months, the board of directors of the Company has materially changed Company’s business model, adjusted the Company exclusive focus on the medical device industry to include other industries, abandoned the strategy to commercialize the MUSE™ System, transferred ScoutCam activity into Company’s subsidiary, and assessing several new ventures.

Recently, the Company’s board of directors has determined to examine potential opportunities to sell our MUSE™ technology, or alternatively grant a license or licenses for the use of the MUSE™ technology.

The Company’s shares are listed on the Tel Aviv Stock Exchange Ltd. (hereinafter - “TASE”) and as of May 20, 2015, the Company’s American Depository Shares (hereinafter – “ADSS”) evidenced by American Depository Receipts (hereinafter – “ADRs”) are listed on the Nasdaq Capital Market. The Company’s depository agent for the ADR program is The Bank of New York Mellon. Since July 2018, the Company’s Series C Warrants are traded on Nasdaq Capital Market.

On March 15, 2017, the Company effected a change in the ratio of its ordinary shares per ADS from 5 ordinary shares per ADS to 50 ordinary shares per ADS. The change in the ordinary shares ratio for the ADSs had the same effect as a 1-for-10 reverse stock split of the ADSs.

On July 9, 2018 the Company, held an Extraordinary General Meeting of Shareholders (the “Extraordinary Meeting”) at the Company’s offices. At the Extraordinary Meeting, the proposals to amend the Company’s articles of association, and approve a reverse split of the Company’s ordinary shares was approved by the requisite vote of the Company’s shareholders. Following the approval of the shareholders at the Extraordinary Meeting, the Company effected a reverse split of the Company’s ordinary shares at the ratio of 10:1, such that each ten ordinary shares, par value NIS 0.10 per share, consolidated into one ordinary share, par value NIS 1.00 (the “Reverse Split”). The record date for determining which holders of the Company’s ordinary shares, and which holders of warrants or options to purchase ordinary shares, will have their holdings adjusted as a result of the Reverse Split was on July 13, 2018.

Concurrently with the Reverse Split, the Company effected a change in the ratio of ordinary shares to each of the Company’s American Depository Shares (“ADSS”), such that after the Reverse Split is implemented each ADS will represent 20 post-Split Ordinary Shares, instead of 50 pre-Split Ordinary Shares.

The effect of such consolidation was applied retrospectively for all the amount of shares, warrants, related par value and others presented in this note and elsewhere in the consolidated financial statements.

The Company’s shareholders also approved an increase of the authorized share capital of the Company by an additional NIS 80,000,000, such that the authorized share capital increased to NIS 160,000,000 ordinary shares par value NIS 1.00 each.

Unless stated otherwise, all ADS and ordinary shares per ADS numbers are after the Reverse Split.

- b. Since incorporation through December 31, 2018, the Group has accumulated deficit of approximately \$62.5 million and its activities have been funded mainly by its shareholders. The Group’s cash and cash equivalents as of December 31, 2018, will allow the Group to fund its operating plan through at least the next 12 months. However, the Group expects to continue to incur significant net losses for at least the next several years as the Group continue the development of its products and expand sales and marketing capabilities required to sell and market Group’s products.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis for preparation of the financial statements:

The Group's consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, are in compliance with International Financial Reporting Standards, which are standards and interpretations thereto issued by the International Accounting Standard Board (hereinafter "IFRS").

In connection with the presentation of these consolidated financial statements it is noted as follows:

- 1) The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.
- 2) These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of plan assets related to the retirement benefit obligation, and financial liabilities (including derivative instruments) measured at fair value through profit or loss.
- 3) The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. Actual results may differ materially from estimates and assumptions used by management.
- 4) The Group analyzes the expenses recognized in the consolidated statement of loss using a classification method based on the expenses' function.

b. Consolidation

Inter-company transactions and balances eliminated as part of the consolidation.

Accounting policies of the Subsidiary are those of the Company and have been consistently applied.

c. Translation of foreign currency balances and transactions:

- 1) The functional currency and the presentation currency

Our reporting and functional currency is the USD.

The consolidated financial statements are presented in USD, and rounded to the nearest thousand.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Transactions and balances

Transactions made in a currency which is different from the functional currency (hereinafter – “foreign currency”) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-year exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income or loss.

Gains and losses from changes in exchange rates are presented in the consolidated statement of loss and other comprehensive loss within the “Financing income in respect of deposits and exchange differences” line item.

d. Property and equipment

Property and equipment are initially recognized at purchased cost. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of replaced items is derecognized. All other repairs and maintenance are charged to income or loss during the financial period in which they are incurred.

Property and equipment is recognized at cost less accumulated depreciation.

Depreciation is calculated using the straight line method over the estimated useful life of the asset as follows:

Machinery and equipment	6 – 10 years (primarily 10)
Furniture	7 – 14 years
Computers	3 years

Leasehold improvements are depreciated using the straight line method over the shorter of the term of the lease or the estimated useful lives of the assets.

The assets’ residual values, their useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each year.

Gains or losses with respect to disposals are determined by comparing the net proceeds with the carrying amount and recognized in the consolidated statement of loss and other comprehensive loss within “Other income – net” line item.

e. Intangible assets:

Computer programs

Licenses to use purchased computer programs are capitalized on the basis of the costs incurred in their purchase and preparation for use of the specific program. These costs are amortized using the straight line method over the estimated useful life of the assets (usually three years).

Costs related to the maintenance of computer programs are recognized as expenses when incurred.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Impairment of non-monetary assets

Non-monetary assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (cash-generating units). Non-monetary assets that were impaired are reviewed for possible reversal of the impairment recognized at each balance sheet date.

g. Financial instruments:

1) On January 1, 2018 International Financial Reporting Standard 9 "Financial Instruments" (hereinafter – "IFRS 9") became effective. This initial implementation of IFRS 9 did not have a material effect on the consolidated financial statements of the Group.

2) Accounting policies applied since January 1, 2018, according IFRS 9:

a. Classification

The Group classifies its financial assets to the category of amortized cost. The classification is based on the business model of the entity and on characteristics of the contractual cash flows of the financial asset.

Financial instruments at amortized cost

Financial instruments at of amortized cost are held within a business model whose objective is to collect the contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest.

These assets are classified as current assets, except for maturities longer than 12 months following the date of the balance sheet which are classified as non-current assets. The Group's financial assets at amortized cost are included in "accounts receivable", "short-term deposits" and "cash and cash equivalents" in the consolidated balance sheet (see also sections i and j below).

b) Recognition and measurement

Regular purchases and sales of financial assets are recorded at the date of the settlement which is the date on which the asset was delivered to the Group or delivered from the Group.

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss, excluding trade receivables. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership associated with these assets. Receivables are subsequently carried at amortized cost using the effective interest method.

For those liabilities for which, upon initial recognition, the transaction price is different than their fair value – the liability is initially recognized at fair value adjusted to defer the difference between the fair value at initial recognition and the transaction price ("Day 1 Loss"), as the Group uses valuation techniques that incorporate data not obtained from observable markets. After initial recognition, the unrecognized Day 1 Loss of the said liabilities is amortized on a straight line basis over the term that market participants would take into account when pricing the liability. Any unrecognized Day 1 Loss is immediately recognized in profit or loss if the fair value of the financial instrument in question can be determined either by using only market observable model inputs or by reference to a quoted price for the same product in an active market. Upon exercise of convertible debenture for which an unrecognized a Day 1 Loss exists, the carrying amount of the convertible debenture (which is presented net of the unrecognized Day 1 Loss) is reclassified to equity with no impact on profit or loss.

As to methods for measurement of the Group's financial instruments, see note 4.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group classifies its financial liabilities to the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost. The Group's management determines the classification of financial liabilities upon initial recognition.

1) Financial liabilities at fair value through profit or loss.

Warrants allotted to investors with a cashless exercise mechanism. In accordance with International Accounting Standard 32: "Financial Instruments: Presentation", these warrants are classified as a "financial liability". As the aforementioned liability is a non-equity derivative financial instrument, it is classified in accordance with IFRS 9 as a financial liability at fair value through profit or loss, which is measured at its fair value at each date of the balance sheet, with changes in the fair value carried to "profit from changes in fair value of warrants issued to investors" in the consolidated statement of loss and comprehensive loss.

2) Financial liabilities at amortized cost

Trade payables and financial liabilities included in "other liabilities" are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3) Accounting policies applied until December 31, 2017, according IAS 39:

a. Classification

The Group classifies its financial assets to the category of receivables. The classification depends, among other things, on the purpose for which the financial assets were purchased. Management determines the classification of financial assets upon initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These assets are classified as current assets, except for maturities longer than 12 months following the date of the balance sheet which are classified as non-current assets. The Group's receivables are included in "accounts receivable", "short-term deposits" and "cash and cash equivalents" in the consolidated balance sheet (see also sections i and j below).

The Group classifies its financial liabilities to the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost. The Group's management determines the classification of financial liabilities upon initial recognition.

1) Financial liabilities at fair value through profit or loss.

Warrants allotted to investors with a cashless exercise mechanism. In accordance with International Accounting Standard 32: "Financial Instruments: Presentation", these warrants classified as a "financial liability". As the aforementioned liability is a non-equity derivative financial instrument, it is classified in accordance with IAS 39 as a financial liability at fair value through profit or loss, which is measured at its fair value at each date of the balance sheet, with changes in the fair value carried to "profit from changes in fair value of warrants issued to investors" in the consolidated statement of loss and comprehensive loss.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Financial liabilities at amortized cost

Trade payables and financial liabilities included in “other liabilities” are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

b) Recognition and measurement

Regular purchases and sales of financial assets are recorded at the date of the settlement which is the date on which the asset was delivered to the Group or delivered from the Group.

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership associated with these assets. Receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from the changes in the fair value of financial assets at fair value through profit or loss are presented in the consolidated statement of loss and other comprehensive loss within “other income - net” line item in the period in which they were incurred.

As to methods for measurement of the Group’s financial instruments, see note 4.

c) Impairment of financial assets

The Group assesses at each date of the balance sheet whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Inventory

Inventory is measured at the lower of cost or net realizable value.

The cost is determined on the basis of “first in-first out” basis. Cost of purchased products and inventory in process includes costs of design, raw materials, direct labor, other direct costs and fixed production overheads.

Net realizable value is an estimated selling price in the ordinary course of business less applicable variable selling expenses.

Provisions for potentially obsolete or slow-moving inventory are made based on management’s analysis of inventory levels and historical obsolescence.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

The Group periodically analyzes anticipated product sales based on historical results, current backlog and marketing plans. Based on these analyses, the Group anticipates that certain products will not be sold during the next twelve months, such products were classified within the non-current assets.

i. Trade receivables

The balance of trade receivables includes amounts due from customers for products sold or services rendered in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts.

j. Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

k. Current and deferred taxes

Tax expenses for the reported years include current taxes. The taxes are recognized in the consolidated statements of Loss and other comprehensive Loss.

The amount that was recorded as current taxes, is calculated based on the tax laws that have been enacted or substantively enacted at the balance sheet date, in countries in which the Company and its Subsidiary operate and generate taxable income. The Group’s management periodically evaluates the tax implications applicable to the taxable income, in accordance with the relevant tax laws, and creates provisions in accordance with the amounts expected to be paid to the tax authorities.

The Group recognizes deferred taxes using the liability method, for temporary differences between the amounts of assets and liabilities included in the financial statements, and the amounts for tax purposes. Deferred taxes are not recognized, if the temporary differences arise at the initial recognition of the asset or liability which at the time of the transaction has no effect on profit or loss, whether for accounting or tax reporting. The amount of deferred taxes is determined using the tax rates (and laws) which are expected to apply when the related deferred tax assets is realized or the deferred tax liabilities will be settled.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Deferred tax assets are recognized for temporary differences that are tax deductible, up to the amount of the differences that are expected to be utilized in the future, against taxable income.

No deferred tax assets have been recorded in the Group's books and records with respect to accumulated losses since it is not probable that the Group will be able to utilize such losses in the foreseeable future against taxable income.

Deferred tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- Deferred income tax assets and liabilities relate to income taxes imposed by the same taxation authority on the same taxable entity.

In the event of a dividend distribution originating from tax exempted "benefited enterprises", tax will be levied on the amount distributed using the tax rate that would have been applicable to Company had it not been exempted from tax. In the event of such a distribution, the amount of tax will be recognized as an expense in the consolidated statement of loss and other comprehensive loss.

I. Employee benefits

1) Pension and severance pay obligations

Israeli labor laws and Company's work agreements require the Company to pay retirement benefits to employees terminated or leaving their employment, in certain circumstances. Most of the Company's employees are covered by a defined contribution plan under Section 14 of the Israel Severance Pay Law. According to the plan, the Company regularly makes payments to severance pay or pension funds without having a legal or constructive obligation to pay further contributions if the funds does not hold sufficient assets to pay all employees in the plan the benefits relating to employee service in the current and prior periods. Contributions for severance pay or pension are recognized as employee benefit expenses when they are due commensurate with receipt of work services from the employee and no further provision is required in the financial statements.

With respect to the remaining employees, the Company records a liability on its balance sheet for defined benefit plans that represent the present value of the defined benefit obligation as of each reporting date, net of the fair value of plan assets. The present value of the defined benefit liability is determined by discounting the anticipated future cash outflows, using interest rates that are denominated in the currency in which the benefits will be payable.

2) Vacation and recreation pay

Under the Israeli law each employee is legally entitled to vacation and recreation benefits. The entitlement is based on term of employment. The Group records such obligations as incurred.

3) Bonus plans

The Group record bonus obligation when a contractual or constructive obligation exists. Such bonus obligation is record in the amount expected to be paid, to the extent that the Group can reliably estimate the amount expected to be paid.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. Share based payments

The Company granted several equity-settled share based compensation plans to the Group's employees and other service providers in connection with their service to the Group. The fair value of such services is calculated at the grant date and amortized to the statement of loss and other comprehensive loss during the vesting period. The total amount charged as an expense is determined taking into consideration the fair value of the options granted:

- Without considering service and performance conditions, which are non-market vesting conditions (e.g. meeting profit and sales targets and continued employment in the Company for a certain period).
- Non-market vesting conditions are included among the assumptions in connection with the estimate level of options vesting period. The total expense is recognized during the vesting period, which is the period over which all of the specified vesting conditions of the share-based payment are to be satisfied.

The Group analyze the estimate level of options vesting period at each cut-off date, based on non-market vesting conditions. In case such analysis result in a variance vs. the original estimates, the Group records such variance in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds, less directly related transaction costs, are reflected in the share capital (at par value) and in share premium.

n. Revenue recognition

a) Revenue measurement

Commencing January 1, 2018 (the initial implementation date of IFRS 15), the Group's revenues are measured according to the amount of consideration that the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, such as sales taxes. Revenues are presented net of VAT.

Until December 31, 2017 (IAS 18 implementation) revenues were measured in accordance with the fair value of the consideration received or receivable in respect of sales supplied in the ordinary course of business. Revenues were presented net of value added tax, returns, rebates and discounts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

b) Revenue recognition

Commencing January 1, 2018 (the initial implementation date of IFRS 15), the Group recognizes revenue when a customer obtains control over a promised goods or services. For each performance obligation the Group determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

Performance obligations are satisfied over time if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, a Group satisfies the performance obligation at a point in time.

Until December 31, 2017 revenue from the sale of goods is recognized when all of the following conditions are met:

- The Group transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Group does not retain continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of the revenue can be measured reliably. The amount of the revenue is not considered as being reliably measured until all the conditions relating to the transaction are met. The Group bases its estimates on past experience, considering the type of customer, type of transaction and special details of each arrangement;
- It is probable that the economic benefits that are associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Construction contracts:

Commencing January 1, 2018 the Group recognize revenue from construction contracts over time or at a point at time, as described above.

Until December 31, 2017 revenues from constructions contracts were recognized according to IAS 11, "Construction contracts", as follows:

When the outcome of a construction contract was be estimated reliably and it is was probable that the contract will be profitable, the revenue and the associated costs recognized over the contract period by reference to the stage of completion. The Group was recognizes expected loss immediately once concluded that it's probable.

When the outcome of a construction contract could not be estimated reliably, the Group recognized revenue only to the extent of contract costs incurred that it is probable will be recoverable.

Variations in contract work, claims and incentive payments were included in contract revenue to the extent that may have been agreed with the customer and were capable of being reliably measured.

The Group used the "percentage-of-completion method" to determine the appropriate amount to recognize in a given period. The stage of completion was measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with the future activities on a contract were excluded from contract costs in determining the stage of completion.

The Group classified the net contract position for each contract as either an asset or a liability as part of the balance sheet. Net contract was classified as an asset when the incurred costs plus recognized profits (less recognized losses) exceed progress billings and as a liability if otherwise. The initial implementation of IFRS 15 did not have a material effect on the consolidated financial statements of the Group.

o. Leases

Lease agreements in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made in connection with operating leases are recognized in profit or loss using the straight-line basis over the term of the lease.

p. Loss per share

Loss per share is based on the loss that is attributed to the shareholders holding ordinary shares, divided by the weighted average number of ordinary shares in issue during the period.

For purposes of the calculation of the diluted loss per share, the Group adjusts the loss that is attributed to the holders of the Company's ordinary shares, and the weighted average number of ordinary shares in issue, to assume conversion of all of the dilutive potential shares.

The potential shares are taken into account only if their effect is dilutive (increases loss per share).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. New international financial reporting standards, amendments to standards and new interpretations:

Standards and interpretations to existing standards that are not yet in effective and have not been early adopted by the Group:

International Financial Reporting Standard 16 “Leases” (hereafter – “IFRS 16”).

IFRS 16, *Leases*, which replaces the current guidance in IAS 17. IFRS 16 requires lessees, with certain exceptions, to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for lease contracts. The standard is effective for annual periods beginning on or after January 1, 2019. The Group has assessed IFRS 16’s potential impacts on its consolidated financial statements and concluded that the implementation will not have a material effect.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS:

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Included in this note are accounting judgments and/or estimates which cover areas that the Directors and Management consider to have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the future:

a. Deferred tax assets

Based on management's judgment, no deferred tax assets have been recorded in the Group's books of accounts for current losses carried forward for tax purposes since it is not probable that the Group will be able to utilize those losses in the foreseeable future against taxable income as of December 31, 2018. The deferred tax asset in connection with the accumulated losses for tax purposes (which was not recorded due to the reason mentioned above) aggregated to approximately USD 15 million.

b. Fair value measurement of share-based payment transactions

The Company granted several equity-settled share based compensation plans to the Group's employees and other service providers in connection with their service to the Group. The fair value of the share options is measured at grant date on the basis of accepted valuation models and assumptions regarding unobservable inputs used in the valuation models. The fair value mentioned above is expensed to the statement of loss and other comprehensive loss during the vesting period and concurrently recorded as capital reserves from options granted within the consolidated statement of changes in equity.

c. Inventory impairment

The Company continually evaluates inventory for potential loss due to excess quantity or obsolete or slow-moving inventory by comparing sales history and sales projection to the inventory on hand. When evidence indicates that the carrying value of a product may not be recoverable, a charge is recorded to reduce the inventory to its current net realizable value. During 2018, the Company recorded in its books an inventory impairment of \$ 328 thousands, charged to cost of revenues.

d. Fair value measurement of warrants

Receipts from investors in respect of warrants are classified as equity to the extent that they confer the right to purchase a fixed number of shares for a fixed exercise price. In the event that the exercise price is not deemed to be fixed, the warrants are classified as non-current liability. This liability initially recognized at its fair value on the issue date and subsequently accounted for at fair value at each reporting date. The fair value changes are charged to profit from changes in fair value of warrants issued to investors on the statement of comprehensive loss. The fair value of the warrants is measured on the basis of accepted valuation models and assumptions regarding unobservable inputs used in the valuation models.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued):

e. Considering the likelihood of contingent losses and quantifying possible settlements:

Provisions are recorded when a loss is considered probable and can be reasonably estimated. Judgment is necessary in assessing the likelihood that a pending claim or litigation against the Group will succeed, or a liability will arise, quantifying the possible range of final settlement. These judgments are made by management with the support of internal specialists or with the support of outsource consultants such as legal counsel. Because of the inherent uncertainties in this evaluation process, actual results may be different from these estimates.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

Financial risk management:

1) Financial risk factors

The Group is exposed to a variety of financial risks such as: market risks (including currency risks, fair value interest rate risk, cash flow interest rate risk and price risk), credit risks and liquidity risks. The Group's overall risk management plan focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Group's financial performance.

Risk management is performed by the finance department according to the policy authorized by the board of directors.

a) Market risk - Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risks due to exposure to foreign currencies, primarily the NIS. Foreign exchange risk arises from future commercial transactions, assets or liabilities denominated in foreign currency.

The Group's policy to reduce the exposure to changes in exchange rates is based on maintaining, where possible, the balances of current monetary assets, according to the currency of the current liabilities.

As of December 31, 2018, if the Group's functional (USD) had weakened/strengthened by 10% against the NIS, with all other variables held constant, the loss for the year would decrease/increase by USD 244 thousand (the effect for 2017 was a decrease/increase by USD 24 thousand and the effect for 2016 was a decrease/increase by USD 32 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

b) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the end of the reporting year.

Credit risks are treated at the Group level. Credit risks arise typically from cash and cash equivalents, bank deposits and from credit exposures in connection with outstanding receivables and committed transactions.

No credit limits were exceeded during the reported periods and Group's management does not expect any losses from non-performance of these parties.

c) Liquidity risk

Liquidity risk exists where the Group might encounter difficulties in meeting its financial obligations as they become due. The Group monitors its liquidity in order to ensure that sufficient liquid resources are available to allow it to meet its obligations.

Cash flow forecasting is performed by the Group's finance department. The finance department monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities, so that the Group does not breach any of its credit facilities.

The Group invests cash surpluses in interest bearing investments such as time deposits and short-term government debentures, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

Liquidity risk arises from financial liabilities due to payable balances (except for advanced payments) and amounted to USD 1,131 thousands on December 31, 2018 (December 31, 2017 - USD 896 thousands).

These liabilities are classified as current liabilities, and are expected to mature within 12 months following the balance sheet date.

2) Estimates of fair value

The following is an analysis of the financial instruments measured at fair value using valuation methods. The different levels have been defined as follows:

- Quoted price (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

The following table presents the financial assets and liabilities that were measured at fair value as of December 31, 2018 and 2017:

	December 31				
	2018			2017	
	Level 1	Level 3	Total	Level 3	Total
	USD in thousands				
Financial liabilities at fair value through profit or loss -					
Fair value of warrants	1,504	444	1,948	1,028	1,028
Unrecognized Day 1 loss (see note 13)	-	(347)	(347)	(469)	(469)
Warrants, net	1,504	97	1,601	559	559

Financial instruments in level 3

The Group's financial liability at fair value through profit or loss is the obligation for warrants (see Note 13(b)).

	December 31					
	2018			2017		
	Standard deviation	Risk-free interest	Fair value (USD thousands)	Standard deviation	Risk-free interest	Fair value (USD thousands)
Warrants issued November 2017	82.62%	1.46%	94	63.47%	0.97%	228
Warrants issued March 2017	91.11%	1.02%	-	66.72%	0.56%	325
Warrants issued December 2016	89.64%	1.18%	3	65.74%	0.70%	6

As part of calculating the warrants fair value by utilizing the Black and Scholes model, if the change in standard deviation for that warrants shifted +5%, the impact on profit or loss would be USD 23 thousand. If the change in standard deviation for that warrants shifted -5%, the impact on profit or loss would be USD 9 thousand. The higher the standard deviation, the higher the fair value. The expected volatility is based on fluctuations in the price of the Company's share.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

The following table presents the Level 3 instruments roll-forward during 2018:

	Warrants USD in thousands
Opening balance as of January 1, 2018	559
Granted (see note 13(b))	6,681
Exercised	(7,045)
Changes in fair value of warrants issued to investors	(98)
Closing balance as of December 31, 2018	<u>97</u>
Total unrealized profits for the period included in profit or loss for liabilities held at the end of the reporting period	<u>98</u>

The following table presents the Level 3 instruments roll-forward during 2017:

	Warrants USD in thousands
Opening balance as of January 1, 2017	237
Granted (see note 13(b))	6,041
Exercised	(2,217)
Changes in fair value of warrants issued to investors	(3,502)
Closing balance as of December 31, 2017	<u>559</u>
Total unrealized profits for the period included in profit or loss for liabilities held at the end of the reporting period	<u>3,502</u>

The following table presents the Level 3 instruments roll-forward during 2016:

	Warrants USD in thousands
Opening balance as of January 1, 2016	9
Granted (see note 13(b))	253
Changes in fair value of warrants issued to investors	(25)
Closing balance as of December 31, 2016	<u>237</u>
Total unrealized profits for the period included in profit or loss for liabilities held at the end of the reporting period	<u>25</u>

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - CASH AND CASH EQUIVALENTS:

	As of December 31	
	2018	2017
	USD in thousands	
Cash in banks	5,077	1,828
Short-term bank deposits	5,548	1,000
	<u>10,625</u>	<u>2,828</u>

The currencies in which the cash and cash equivalents are denominated or to which they are linked are as follows:

	December 31	
	2018	2017
	USD in thousands	
USD	7,591	2,220
NIS	2,943	354
Other currencies	91	254
	<u>10,625</u>	<u>2,828</u>

The carrying amount of cash and cash equivalents approximates their fair value.

NOTE 6 - SHORT-TERM DEPOSIT:

Short-term deposit amounted to approximately USD 3.5 million as of December 31, 2017 include a bank deposit with a maturity period of up to 12 months.

The deposit bears an interest rate of 1% per year.

NOTE 7 - OTHER CURRENT ASSETS:

	December 31	
	2018	2017
	USD in thousands	
Institutions	163	56
Prepaid expenses*	85	225
Advances to suppliers	72	9
Other	84	-
	<u>404</u>	<u>290</u>

* Such amount includes materials that were used to manufacture MUSE systems and MUSE systems which were intended for testing, training, demonstrations and promotional activities aggregated to USD 27 thousand and USD 177 thousand as of December 31, 2018 and 2017, respectively.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - INVENTORY:

Composed as follows:

	December 31	
	2018	2017
	USD in thousands	
Current assets:		
Raw materials and supplies	38	67
Work in progress	43	79
Finished goods	24	34
Provision for impairment	(24)	-
	<u>81</u>	<u>180</u>
Non-current assets:		
Raw materials and supplies	589	557
Finished goods	12	-
Provision for impairment of raw materials and supplies	(601)	(297)
	<u>-</u>	<u>260</u>

NOTE 9 - PROPERTY AND EQUIPMENT:

- a. Composition of property and equipment and accumulated depreciation thereon, grouped by major classifications and changes therein, and their movements during 2018:

	Cost			Accumulated Depreciation			Depreciated balance December 31,	
	Balance at beginning of year	Additions during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Balance at end of year		
	USD in thousands			USD in thousands			USD in thousands	
Property and equipment:								
Machinery and equipment	736	-	736	639	20	659	77	97
Leasehold improvements	47	-	47	47	-	47	-	-
Office furniture and equipment (including computers)	393	4	397	370	14	384	13	23
	<u>1,176</u>	<u>4</u>	<u>1,180</u>	<u>1,056</u>	<u>34</u>	<u>1,090</u>	<u>90</u>	<u>120</u>

- b. Composition of property and equipment and accumulated depreciation thereon, grouped by major classifications and changes therein, and their movements during 2017:

	Cost			Accumulated Depreciation			Depreciated balance December 31,	
	Balance at beginning of year	Additions during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Balance at end of year		
	USD in thousands			USD in thousands			USD in thousands	
Property and equipment:								
Machinery and equipment	736	-	736	609	30	639	97	127
Leasehold improvements	47	-	47	41	6	47	-	6
Office furniture and equipment (including computers)	391	2	393	346	24	370	23	45
	<u>1,174</u>	<u>2</u>	<u>1,176</u>	<u>996</u>	<u>60</u>	<u>1,056</u>	<u>120</u>	<u>178</u>

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - TAXES ON INCOME:

a. Corporate taxation in Israel:

1) Measurement of results for tax purposes:

Commencing with tax year 2008 the results of the Company for tax purposes are measured in nominal values. Through the end of tax year 2007 the results of the Company for tax purposes were measured having regard to the changes in the Israeli consumer price index (hereinafter - "CPI"), in accordance with the Income Tax Law (Inflationary Adjustments), 1985 (hereinafter - the "Inflationary Adjustments Law"). The transitional provisions regarding the discontinuation of the application of the Inflationary Adjustments Law stipulate that losses carried forward for tax purposes, deduction for depreciation, and real loss from sale of a depreciable asset or security will be linked to the CPI until the end of tax year 2007 and linkage shall be discontinued as of this date.

2) Tax rates

The income of the Company (other than income which is eligible for reduced tax rates in accordance with encouragement laws in Israel, see C below) is subject to corporate tax at the regular corporate tax rates.

In January 2016, published the Amendment of the Income Tax Ordinance (No. 216), 2016, which stipulated a reduction of the corporate tax, commencing 2016 and thereafter from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

The Company's capital gains are subject to tax at the regular corporate tax rates.

b. Taxation of the Subsidiary

The Subsidiary was incorporated in the United States and is subject to the Federal and State tax laws established in the United States.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduces the corporate tax rate to 21 percent from 35 percent, among other things. The Act did not have a material effect on the Group's consolidated financial statements.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - TAXES ON INCOME (continued):

c. Encouragement laws in Israel:

Tax benefits under the Law for the Encouragement of Capital Investments-1959 (hereinafter- the “Law for the Encouragement of Capital Investments”):

1) General

Under the Law for the Encouragement of Capital Investments, companies are entitled to various tax benefits by virtue of their “approved enterprise” or “benefited enterprise” status subject to the fulfillment of certain conditions. In addition, companies may be entitled to additional tax benefits as “foreign investors’ companies,” as defined by the Law for the Encouragement of Capital Investments.

According to the Economic Policy Law for 2011 and 2012 (Legislative Amendments), 2011, which was published in December 2010 also amended the Capital Investment Encouragement Law (hereinafter – the amendment).

The amendment sets alternative benefit tracks to the ones that were in place under the provisions of the Law for the Encouragement of Capital Investments, as follows: investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks (preferred enterprise and a special preferred enterprise), which provide for application of a unified tax rate to all preferred income of the company, as defined in the law.

Under the amended law, a company which qualifies for benefits under the encouragement law prior to the amendment thereof may opt for application of the amendment on each year, commencing with the first year in which the amendment became effective (2011) thereby making available to itself the tax benefits in accordance with the tracks set in the amendment subject to the fulfillment of certain conditions. A company’s election for application of the amendment is irrevocable and once it opts for application thereof, it will no longer be entitled to the tax benefits available to it under the pre-amendment regime of the Law for the Encouragement of Capital Investments. A company will be allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law.

In December 2016, the Economic Efficiency Law (Legislative Amendments to Achieving the Budget Goals for 2017 and -2018), 2016 was published. Under this law, two new benefit programs for high-tech industries” benefited technology enterprise “and “special benefited technology enterprise ” were added.

2) Tax benefits

The Company has not decided at this stage whether and when to elect the application of the amendment of the law. Once the Company generates taxable income, it is currently scheduled to be eligible for tax benefits available under the Law for the Encouragement of Capital Investments before it was amended in accordance with the provisions of the benefited enterprise regime, as follows:

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - TAXES ON INCOME (continued):

Reduced tax rates

During the period of benefits - 10 years commencing in the first year in which the Company earns taxable income from the benefited enterprises (provided the maximum period to which it is restricted by law has not elapsed) - the income from the benefited enterprises owned by the Company is tax exempt so long as it is not distributed or deemed to be distributed. The portion of income which qualifies for tax exemption as above is based on the ratio between the turnover relating to the "benefited enterprise" and the total turnover of the Company.

In the event of a dividend distribution or deemed dividend distribution from income which was previously exempt, the Company will be subject to tax on the grossed-up amount of the (deemed) dividend, according to the tax rate which would have applied to the income were it not eligible for the exemption.

The Company has not yet utilized the tax benefits for the main plant, nor for the expansion of the plant.

3) Conditions to receive the benefits

The entitlement to the above benefits is conditional upon the Company's fulfillment of the conditions stipulated by the Law for the Encouragement of Capital Investments, and the regulations promulgated thereunder. In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of interest. As of the date of approval of these financial statements, the Company has met the aforementioned conditions.

d. Carry forward tax losses

Carry forward tax losses aggregate NIS 252 million (approximately USD 67 million) and NIS 231 million (approximately USD 62 million) as of December 31, 2018 and 2017, respectively. The Company did not record deferred taxes asset in respect of these losses, as the utilization thereof is not expected to occur in the foreseeable future.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - TAXES ON INCOME (continued):**e. Tax assessments**

The Company was subject to a withholding tax audit in Israel for the four years ended December 31, 2014. The Israeli Tax Authorities (“ITA”) completed their audit on October 6, 2016 and issued an assessment claiming additional NIS 5.3 million (approximately USD 1.5 million) withholding taxes for the period mentioned, mainly related to the Company’s prior CEO’s compensation.

In June 2018, the Company reached an agreement with the ITA. According to the ITA agreement the Company is required to pay the ITA an immaterial amount.

f. Taxes on income included in the Statements of Loss and Other Comprehensive Loss for the periods presented:

The following is reconciliation between the “theoretical” tax, which would apply to the Group if all of its income were taxed at the regular rate applicable to the Company in Israel (see a2 above) and the amount of tax reflected in the Statements of Loss for the reported year:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>USD in thousands</u>		
Loss before taxes on income	(6,578)	(2,552)	(8,979)
Theoretical tax benefit	(1,513)	(587)	(2,245)
Increase in taxes arising from mainly tax losses created in the reported year for which deferred taxes were not recorded	1,533	580	2,273
Taxes on income (Tax benefit)	<u>20</u>	<u>(7)</u>	<u>28</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11- TRADE PAYABLES AND OTHER CURRENT LIABILITIES:

a. Trade payables are denominated in the following currencies:

	December 31,	
	2018	2017
	USD in thousands	
NIS unlinked	137	123
USD	43	54
Euro	10	13
	190	190

b. Other:

	December 31,	
	2018	2017
	USD in thousands	
Payroll and related expenses	72	180
Wages and fees of related parties and related expenses	271	72
Institutions	83	96
Provision for vacations and recreation	162	158
Contract liability	231	61
Accrued expenses	299	200
Provisions	54	-
	1,172	767

Other payable balances (except for advances from customers) are denominated in the following currencies:

	As of December 31,	
	2018	2017
	USD in thousands	
NIS unlinked	446	461
USD	447	215
Euro	48	30
	941	706

The balances of the financial instruments included within the trade payables and other payables approximate their fair value as the effect of the discounting is immaterial.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS:

Lease agreements:

- 1) The Company has an operating lease agreement with respect to the building it uses. The lease period ends in December 31, 2019.

The lease payments are linked to the Israeli CPI.

The annual lease payments amounted to approximately USD 83 thousands for the year ended December 31, 2018.

The minimum annual lease payments under the agreements for 2019 are USD 80 thousands.

- 2) The Company leases vehicles under operating lease agreements for a period of 36 months. With regards to these agreements, the Company has deposited amounts as security for the future lease payments. As of the balance sheet date the balance of such deposits is approximately USD 11 thousands which was recorded as part of the prepaid expenses within the "Other current assets". The minimum annual lease payments according to the agreements are as follows:

	December 31, 2018
	USD in thousands
2019	30
2020	9
	<u>39</u>

NOTE 13 - EQUITY:

a. Share capital:

- 1) Composed as follows:

	Number of shares				Amount			
	Authorized		Issued and paid		Authorized		Issued and paid	
	December 31,		December 31,		December 31,		December 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
	In thousands				NIS in thousands		USD in thousands	
Ordinary shares of NIS 1.0 par value	160,000	80,000	75,932	19,179	160,000	80,000	20,924	5,292

- 2) The ordinary shares confer upon their holders voting rights and the right to participate in shareholders' meetings, the right to receive dividends and the right to participate in surplus assets in the event of liquidation of the Company.
- 3) Regarding increase of the authorized share capital of the Company see note 1(a).

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

b. Share offering to the public and existing shareholders:

- 1) On September 12, 2016, the Company closed a registered direct offering, pursuant to which the Company issued a total of 32,000 ADS representing a total of 640,000 ordinary shares, at a purchase price of USD 46 per ADS.

The immediate gross and net of issuance proceeds from such securities issuance aggregated to approximately USD 1.47 million and USD 1.30 million, respectively.

The Company issued to the co-placement agent on this offering warrants to purchase up to a total 990 ADSs representing 19,800 ordinary shares, with an exercise price of USD 57.5 per ADS during the 5 years following the allotment. The warrants may, under certain circumstances, also be exercised via a cashless exercise mechanism as defined in the agreement.

The fair value of such warrants as was calculated by the Company amounted to USD 38 thousand.

- 2) On December 6, 2016, the Company closed a registered direct offering, pursuant to which the Company issued a total of a total of 28,480 ADSs representing a total of 569,600 ordinary shares, at a purchase price of USD 26.8 per ADS, and warrants to purchase up to a total of 9,970 ADSs representing 199,400 ordinary shares, with an exercise price of USD 36 per ADS during the 5.5 years following the allotment.

The immediate gross and net of issuance expenses proceeds from such securities issuance aggregated to approximately USD 0.8 million and USD 0.6 million, respectively.

As the warrants may be net share settled these warrants are classified as financial liabilities measured at fair value through profit or loss at each reporting period.

As to the fair value of the said warrants as of December 31, 2018 see note 4(2).

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

The Company issued to the placement agent on this offering warrants to purchase up to a total 998 ADSs representing 19,960 ordinary shares, with an exercise price of USD 29.48 per ADS during the 5 years following the allotment. The warrants may, under certain circumstances, also be exercised via a cashless exercise mechanism.

As part of the December 2016 offering, the Company issued to Roth Capital Partners and Maxim Group LLC, which served as the transaction bankers, warrants to purchase up to a total 499 ADSs representing 9,980 ordinary shares, with an exercise price of USD 36 per ADS during the 5.5 years following the allotment. The warrants may, under certain circumstances, also be exercised via a cashless exercise mechanism as defined in the agreement.

The fair value of such warrants as was calculated by the Company as of the date of grant amounted to USD 32 thousand.

- 3) On March 29, 2017, the Company allotted in a public issue, a total of 4,898,570 ordinary shares of the Company, warrants A for the purchase up to a total 535,730 ADSs representing 10,714,600 shares, with an exercise price of USD 14 per ADS during the 5 years following the allotment and warrants B for the purchase up to a total 290,786 ADSs representing 5,815,720 shares, with an exercise price of USD 0.05 per ADS.

Warrants A and warrants B may, under certain circumstances, also be exercised via a cashless exercise mechanism as defined in the agreement, whereby the number of shares the value of which equals the exercise premium in cash will be deducted from the number of shares to be issued upon exercise of the warrant. In addition, the number of warrants outstanding will be adjusted for certain events specified in the warrant agreement.

In addition, the Company issued to the placement agent on this offering warrants to purchase up to a total 37,501 ADSs representing 750,020 ordinary shares, with an exercise price of USD 17.5 per ADS during the 5 years following the allotment. The warrants may, under certain circumstances, also be exercised via a cashless exercise mechanism as defined in the agreement. The fair value of such warrants as calculated by the Company as of the date of grant amounted to USD 221 thousand.

As the warrants may be net share settled these warrants, other than the warrants issued to the placement, are classified as financial liabilities measured at fair value through profit or loss at each reporting period. The warrants are initially recognized at fair value adjusted to defer the difference between the fair value at initial recognition and the transaction price ("Day 1 loss"), as the Company uses valuation techniques that incorporate data not obtained from observable markets. Transaction costs allocated to the warrants are recognized immediately in profit or loss.

Unrecognized Day 1 loss is amortized over the expected life of the instrument. Any unrecognized Day 1 loss is immediately recognized in income statement if fair value of the financial instrument in question can be determined either by using only market observable model inputs or by reference to a quoted price for the same product in an active market.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

Upon exercise, the carrying amount of the warrants (which is presented net of the related unrecognized Day loss, if any) is reclassified to equity with no impact on profit or loss.

Net proceeds from the issuance, net of cash issuance expenses, aggregated to approximately USD 6.5 million. Issuance expenses were attributed to equity and liability in proportion with the allocation of the proceeds.

During 2017 all warrants B were exercised. Accordingly, 5,815,720 ordinary shares of the Company were allotted.

The warrants A are presented as non-current liabilities, as cash settlement is not required.

- 4) On November 28, 2017, the Company closed a registered direct offering, pursuant to which the Company issued a total of 202,500 ADSs representing a total of 4,050,000 ordinary shares, at a purchase price of USD 8 per ADS, and warrants to purchase up to a total of 101,251 ADSs representing 2,025,020 ordinary shares, with an exercise price of USD 9 per ADS during the 5.5 years following the allotment

The immediate gross and net of issuance expenses proceeds from such securities issuance aggregated to approximately USD 1.6 million and USD 1.4 million, respectively.

As the warrants may be net share settled these warrants are classified as financial liabilities measured at fair value through profit or loss at each reporting period.

As to the fair value of the said warrants as of December 31, 2018 see note 4(2).

To the placement agent on this offering the Company issued warrants to purchase up to an aggregate 14,177 ADSs representing 283,540 ordinary shares, with an exercise price of USD 10 per ADS during the 5 years following the allotment. The warrants may, under certain circumstances, also be exercised via a cashless exercise mechanism as defined in the agreement. The fair value of such warrants as was calculated by the Company as of the date of grant amounted to USD 46 thousand.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

- 5) On July 23, 2018, the Company completed a public offering with approximately USD 9.9 million gross proceeds, or USD 8.6 million net of issuance costs by issuing (a) 577,529 units at a price of USD 3.50 per unit, each unit consisting of (i) one ADS and (ii) one Warrant C to purchase one ADS for an exercise price of USD 3.50 per ADS for a period of five years (hereinafter - "Warrants C"), and (b) 2,260,145 pre-funded units at a price of USD 3.49 per unit, each unit consisting of (i) one pre-funded warrant to purchase one ADS for an exercise price of USD 0.01 per ADS with no time limitation, and (ii) one Warrant C.

As part of such public offering, the Company provided the underwriters an option exercisable within 30 days to purchase: (a) up to 425,651 additional ADSs for USD 3.50 per ADS and (b) up to 425,651 Warrants C for USD 0.01 per warrant. The underwriters exercised only the latter option.

The Company was also obligated to issue the underwriters 198,637 warrants to purchase 198,637 ADSs for an exercise price of USD 4.375 per ADS for a period of five years once the Company increases its authorized share capital. The fair value of such warrants as calculated by the Company as of the grant date amounted to USD 375 thousand.

During 2018 all pre-funded warrants were exercised. Accordingly, 45,202,900 ordinary shares of the Company were allotted.

Warrants C may, under certain circumstances, be exercised via a cashless exercise mechanism as defined in the warrant agreement. In addition, the number of warrants outstanding will be adjusted for certain events specified in the warrant agreement. As such warrants C are classified as financial liabilities measured at fair value through profit or loss at each reporting period.

Accordingly, warrants C were initially recognized at fair value. The difference between the fair value of warrants C at initial recognition and the transaction price ("Day 1 Loss") at the sum of \$149 thousand was immediately recognized in the income statement.

The pre funded warrants are initially recognized at fair value adjusted to defer Day 1 Loss. Unrecognized Day 1 Loss was amortized on a straight line basis over of a period of approximately 30 days. Upon exercise, the carrying amount of the pre funded warrants (which is presented net of the related unrecognized Day 1 Loss, if any) is reclassified to equity. As a result, during the third quarter of 2018 the Company recognized Day 1 Loss related to the pre funded warrants in an amount of \$441 thousand. Furthermore, during the third quarter of 2018, all pre funded warrants were exercised.

Issuance cost were attributed to equity and liability components in proportion with the allocation of the proceeds, amounting to USD 319 thousand and USD 1,565 thousand, respectively. Issuance cost attributed to the equity component were charged directly as a reduction to equity while those attributed to liability components were charged directly to profit or loss.

In the event of a fundamental transaction as defined in the warrant C agreement (other than a fundamental transaction not approved by the Company's board of directors), the Company or any successor entity shall at the option of the holder of warrants C, exercisable at any time concurrently with, or within 30 days after, the consummation of the fundamental transaction, purchase such warrants from their holder by paying an amount of cash equal to the Black Scholes value of the remaining unexercised portion of the warrant Cs on the date of the consummation of such fundamental transaction. The Black Scholes value of the said warrants as of December 31, 2018, amounted to USD 4.8 million. As of December 31, 2018, the Company believes that no event that constitutes a fundamental transaction has occurred.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

c. Share based payments (not include warrants as described above):

- 1) In August 2013, our board of directors approved and adopted our 2013 Share Option and Incentive Plan, or the 2013 Plan, which expires in August 2023. The 2013 Plan provides for the issuance of shares and the granting of options, restricted shares, restricted share units and other share-based awards to employees, directors, officers, consultants, advisors, and service providers of us and our U.S. Subsidiary. The Plan provides for awards to be issued at the determination of our board of directors in accordance with applicable law.
- 2) The following are the grants of options to employees and other service providers:

Date of grant	Number of options granted	exercise price per option (NIS)	Fair value on grant date-NIS in thousands	Number of options outstanding-December 31, 2018	Number of options exercisable at 31, December 2018	Expiration date
July 2014 (***)	(*)310,000	(**)0.537	56	310,000	310,000	July 17, 2020
July 2014 (***)	3,070,000	(**)0.537	554	1,330,000	1,330,000	July 17, 2020
December 2015 (****)	(*)157,500	2.05	116	157,500	118,125	December 29, 2021
December 2015 (****)	664,800	2.05	491	251,300	188,475	December 29, 2021
October 2017 (****)	(*)4,000,000	0.162	167	1,750,000	437,500	October 17, 2023
October 2017 (****)	7,630,000	0.162	942	7,630,000	1,907,500	October 17, 2023
January 2019 (*****)	(*)3,000,000	0.59	947	3,000,000	250,000	January 9, 2025
Total	18,832,300			14,428,800	4,541,600	

- (*) Granted to related parties.
- (**) Linked to the CPI as set out in the option allotment plan.
- (***) Each 100 options is exercisable into 1 ordinary share.
- (****) Each 10 options is exercisable into 1 ordinary share.
- (*****) Each 1 option is exercisable into 1 ordinary share.

On January 10, 2019, the Company entered into a separation agreement with CEO. According to the agreement all options granted to CEO will be deemed vested on February 28, 2019 and will expired on May 31, 2019.

The fair value of all of the options was calculated using the Black and Scholes options pricing model, and based on the following assumptions:

Date of grant	Fair value on grant date-NIS in thousands	Share price on date of grant (NIS)	Expected dividend	Expected volatility	Risk free interest	Vesting conditions	Expected term
October 2017	1,109	1.62	None	64%	1.16%	four equal batches, following one, two, three and four years from their grant date	6 years
January 2019	947	0.506	None	74%	1.45%	will vest in 12 equal quarterly installments over a three-year period commencing October 1, 2018	6 years

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EQUITY (continued):

- 3) The changes in the number of share options and the weighted averages of their exercise prices are as follows:

	For the year ended December 31,					
	2018		2017		2016	
	Number of options	Weighted average of exercise price per 1 ordinary share-(NIS)	Number of options	Weighted average of exercise price per 1 ordinary share-(NIS)	Number of options	Weighted average of exercise price per 1 ordinary share-(NIS)
Outstanding at the beginning of year	18,308,800	5.80	8,722,500	46.92	10,459,800	48.01
Granted	3,000,000	0.59	11,630,000	1.62	-	-
Forfeited	-	-	(801,064)	35.16	(302,500)	64.49
Expired	(6,880,000)	15.16	(1,242,636)	37.44	(1,434,800)	50.90
Outstanding at year end	14,428,800	1.25	18,308,800	5.80	8,722,500	46.92
Exercisable at year end	4,541,600	3.83	6,064,400	61.09	7,208,542	63.17

- 4) The amounts of expenses that were recorded for options to employees and other service providers in the reported years are USD 157 thousand, USD 64 thousand and USD 104 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.
- 5) The plans are intended to be governed by the terms stipulated by Section 102 to the Israeli Income Tax Ordinance (except for the options to controlling shareholders and directors).

In accordance with these general rules and the track chosen by the Company pursuant to the terms thereof, in respect of options granted to employees under the option allotment plan, the Company is not allowed to claim as an expense for tax purposes the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's books, with the exception of the salary-benefit component, if exists, determined on the grant date.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - EXPENSES BY NATURE:

	Year ended December 31,		
	2018	2017	2016
	USD in thousands		
Payroll and related expenses	2,556	2,666	4,104
Professional fees	2,313	1,609	2,129
Materials used and subcontracted work	760	903	1,566
Travel	223	189	605
Advertising and participation in exhibitions	268	170	403
Rent and office maintenance	176	206	212
Vehicle maintenance	110	140	202
Preparation of patents	139	118	110
Depreciation and amortization	42	77	99
Other	193	200	210
Inventory impairment	328	297	-
TOTAL COST OF REVENUES, INVENTORY IMPAIRMENT, RESEARCH AND DEVELOPMENT, SELLING AND MARKETING AND GENERAL AND ADMINISTRATIVE EXPENSES	7,108	6,575	9,640

NOTE 15 - LOSS PER SHARE:

Basic net loss per share is computed by dividing net loss attributable to ordinary shareholders of Medigus Ltd. by the weighted average number of shares outstanding for the reporting periods.

Diluted net loss per share is computed by dividing the basic net loss per share including adjustment of the dilutive effect of the Company's revaluation of warrants, by the weighted-average number of ordinary shares and the potential dilutive ordinary shares outstanding during the period. Diluted shares outstanding include the dilutive effect of in-the-money options using the treasury stock method and presumed share settlement of the Company's deferred payments liability.

The following table presents the numerator and denominator of the basic and diluted net loss per share computations:

	Year ended December 31,		
	2018	2017	2016
Numerator (USD in thousands):			
Net loss attributable to Medigus Ltd. for basic loss per share	(6,598)	(2,545)	(9,007)
Adjustment of revaluation of warrants issued to investors	-	(476)	-
Net loss attributable to Medigus Ltd. for diluted loss	(6,598)	(3,021)	(9,007)
Denominator (in thousands):			
Weighted average shares – denominator for basic net loss per share	41,988	12,569	3,440
Shares settlement presumed for warrants issued to investors	-	400	-
Denominator for diluted loss per share	41,988	12,969	3,440
Net loss per share attributable to Medigus Ltd. (USD)			
Basic	(0.16)	(0.20)	(2.62)
Diluted	(0.16)	(0.23)	(2.62)

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

“Related Parties” – As defined in IAS 24 – ‘Related Party Disclosures’ (hereinafter- “IAS 24”)

Key management personnel of the Company - included together with other entities, in the said definition of “Related Parties” mentioned in IAS 24, include some members of senior management.

a. Transactions with related parties:

1):

	Year ended on December 31,		
	2018	2017	2016
	USD in thousands		
Preparation of patents			18
Benefits to related parties:			
Payroll and related expenses to related parties employed by the Company* (2018 and 2017: 1 recipients, 2016 : 3 recipients)	621	478	377
Compensation to directors not employed by the Company (2018:8 recipients, 2017: 3 recipients, 2016: 4 recipients) **	131	71	52
Compensation to a director employed by the Company			14
Directors’ and Officers’ insurance	91	71	61

* Includes granted options benefit aggregated to USD 24 thousand, USD 11 thousand and USD 20 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. As for the method used to determine the said value and the assumptions used in calculation thereof, see Note 13 C.

** Includes granted options benefit aggregated to USD 47 thousand, USD 11 thousand and USD 6 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. As for the method used to determine the said value and the assumptions used in calculation thereof, see Note 13 C.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 -TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued):

2) Compensation to key management personnel

The compensation to key management personnel for employment services they provide to the Company is as follows:

	Year ended on December 31,		
	2018	2017	2016
	USD in thousands		
For employment services:			
Payroll and other short-term benefits	*597	**467	330
Share based payments	24	11	19
	<u>621</u>	<u>478</u>	<u>349</u>

* Including provision for bonus of approximately USD 88 thousand and provision for termination of employment of approximately USD 158 thousand.

** Including provision for bonus of approximately USD 56 thousand.

3) Indemnification, exemption and insurance for directors and officers of the Company

- a. The Company provides its directors and officers with an obligation for indemnification and exemption.
- b. The Company has a directors and officers' liability insurance policy covering all Company's directors and officers. The Company currently has directors' and officers' liability insurance providing total coverage of \$5 million for the benefit of all of our directors and officers, in respect of which the Company is charged a twelve-month premium of \$100 thousand, and which includes a deductible of up to \$200,000 per claim, other than securities related claims filed in the U.S. or Canada, for which the deductible shall not exceed \$750,000. The policy should be approved by the Company's shareholders.

b. Balances with related parties:

	December 31,	
	2018	2017
	USD in thousands	
Current liabilities, presented in the balance sheets among "other current liabilities":		
Directors fee	25	16
Provision for bonus and for termination of employment	246	56
	<u>271</u>	<u>72</u>

- c. As to options granted to related parties, see Note 13 C.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - ENTITY LEVEL DISCLOSURES:

a. Revenues by product:

	Year ended on December 31,		
	2018	2017	2016
	USD in thousands		
Miniature camera and related equipment	175	306	92
Development services	217	-	357
MUSE and related equipment	44	161	100
	<u>436</u>	<u>467</u>	<u>549</u>

b. Revenues by geographical area (based on the location of customers):

	Year ended on December 31,		
	2018	2017	2016
	USD in thousands		
USA	315	115	345
Switzerland	3	74	-
South Korea	7	52	-
Italy	9	49	3
Israel	12	22	119
Other	90	155	82
	<u>436</u>	<u>467</u>	<u>549</u>

c. All of the Group's long-lived assets are located in Israel.

d. Major customers

Set forth below is a breakdown of Company's revenue by major customers (major customer –revenues from these customers constitute at least 10% of total revenues in a certain year):

	Year ended on December 31,		
	2018	2017	2016
	USD in thousands		
Customer A	<u>134</u>		
Customer B	<u>92</u>		
Customer C			<u>239</u>
Customer D	<u>9</u>	<u>49</u>	
Customer E		<u>9</u>	<u>118</u>

e. Remaining Performance Obligations

Remaining Performance Obligations ("RPO") represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of December 31, 2018 the total RPO amounted to \$349 thousand. The Company expects to recognize \$231 thousand of this RPO during the next 12 months, \$118 thousand recognized over the subsequent 12 months and the remainder recognized thereafter.

MEDIGUS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - EVENT SUBSEQUENT TO DECEMBER 31, 2018:

- 1) On January 9, 2019 an extraordinary general meeting of the Company's shareholders approved an increase of the authorized share capital of the Company by an additional NIS 7,000,000, consisting of 7,000,000 ordinary shares par value NIS 1.00 per share, such that the authorized share capital of the Company following such increase shall be NIS 167,000,000, consisting of 167,000,000 ordinary shares.
- 2) On January 9, 2019 an extraordinary general meeting of the Company's shareholders approved to increase the aggregate number of ordinary shares authorized for issuance under the 2013 share option and incentive plan by 5,330,000 ordinary shares.
- 3) On January 9, 2019 an extraordinary general meeting of the Company's shareholders approved to grant 3,000,000 options to the directors of the Company in accordance with the following terms:
 - (a) the options will vest over the period of three years commencing on October 1, 2018, with 1/12 of such options vesting at the end of each subsequent three-month period following the grant.
 - (b) the term of the options is of six years from the grant date.
 - (c) the exercise price of the options is NIS 0.59.
 - (d) the options will be accelerated upon the closing of a material transaction, resulting in change of control of the Company.

ITEM 19. EXHIBITS

Exhibit Number	Exhibit Description
1.1	Articles of Association of Medigus Ltd., as amended^{(1)∞}
2.1	Form of Deposit Agreement between Medigus Ltd., The Bank of New York Mellon as Depository, and owners and holders from time to time of ADSs issued thereunder, including the Form of American Depositary Shares⁽²⁾
2.2	Form of Series A Warrant to purchase Ordinary Shares Represented by American Depositary Shares issued in connection with the March 2017 Securities Purchase Agreements⁽³⁾
2.3	Form of Placement Agent Warrant to purchase Ordinary Shares Represented by American Depositary Shares issued in connection with the March 2017 Securities Purchase Agreements⁽³⁾
2.4	Form of Series C Warrant Agent Agreement between the Registrant and Computershare Inc., as warrant agent, including Form of Series C Warrant⁽⁸⁾
4.1	2013 Share Option and Incentive Plan⁽²⁾
4.2	Compensation Policy of Medigus Ltd.⁽⁴⁾
4.3	Summary of Lease Agreement between Medigus Ltd. and Tefen Yazamut Ltd. regarding main offices in Omer Industrial Park dated November 25, 2018, as amended⁽¹⁾
4.4	Form of Indemnification and Exculpation Undertaking⁽²⁾
4.5	Securities Purchase Agreement by and between the Registrant and the purchasers named therein, dated September 8, 2016⁽⁵⁾
4.6	Securities Purchase Agreement by and between the Registrant and the purchasers named therein, dated November 30, 2016⁽⁶⁾
4.7	Form of Warrant to purchase Ordinary Shares Represented by American Depositary Shares issued in connection with the November 30, 2016 Securities Purchase Agreements⁽⁶⁾
4.8	Securities Purchase Agreement by and between the Registrant and the purchasers named therein, dated March 24, 2017⁽³⁾
4.9	Securities Purchase Agreement by and between the Registrant and the purchasers in the registered direct offering dated November 24, 2017⁽⁷⁾
4.10	Form of Warrant to purchase Ordinary Shares Represented by American Depositary Shares issued in connection with the November 24, 2017, Securities Purchase Agreements⁽⁷⁾
8.1	List of Subsidiaries⁽¹⁾
12.1	Certification of Chief Executive Officer as required by rule 13a-14(a)⁽¹⁾
12.2	Certification of Chief Financial Officer as required by rule 13a-14(a)⁽¹⁾
13.1	Certification of Chief Executive Officer as required by rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code⁽¹⁾
13.2	Certification of Chief Financial Officer as required by rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code⁽¹⁾
15.1	Consent of Kesselman & Kesselman, Certified Public Accountant (Isr.), a member of PricewaterhouseCoopers International Limited, independent registered public accounting firm for the Medigus Ltd.⁽¹⁾
101	Financial information from Medigus Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2017 formatted in XBRL (eXtensible Business Reporting Language)

(1) Furnished herewith.

(2) Previously filed with the Securities and Exchange Commission on May 7, 2015, as an exhibit to the Registrant's registration statement on Form 20-F (File No 001-37381) and incorporated by reference herein.

(3) Previously filed with the Securities and Exchange Commission on March 23, 2017, as an exhibit to the Registrant's registration statement on Form F-1 (File 333-216155) and incorporated by reference herein.

(4) Previously filed with the Securities and Exchange Commission on November 29, 2018, pursuant to Exhibit 99.1 to an immediate report on Form 6-K and incorporated by reference herein.

(5) Previously filed with the Securities and Exchange Commission on September 8, 2016, as an exhibit to the Registrant's report on Form 6-K (File No 001-37381) and incorporated by reference herein.

(6) Previously filed with the Securities and Exchange Commission on December 1, 2016, as an exhibit to the Registrant's report on Form 6-K (File No 001-37381) and incorporated by reference herein.

(7) Previously filed with the Securities and Exchange Commission on November 24, 2017, as an exhibit to the Registrant's report on Form 6-K (File No 001-37381) and incorporated by reference herein.

(8) Previously filed with the Securities and Exchange Commission on July 18, 2018, as an exhibit to the Registrant's registration statement on Form F-1 (File 333-2225610) and incorporated by reference herein.

∞ English translation of original Hebrew document.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf.

Date: March 28, 2019

Medigus Ltd.

By: /s/ Tatiana Yosef

Tatiana Yosef
Chief Financial Officer

Medigus Ltd.

Articles of Association

In accordance with The Companies Law, 5759-1999

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Interpretation

Article 1:

In these Articles the following terms shall bear the meaning ascribed to them below:

“Person”	shall include a corporation;
“Shareholder”	shall mean a Registered Shareholder or Unregistered Shareholder. Where an effective date, as defined in Section 182 of the Companies Law, is in effect, a Shareholder shall mean such Registered Shareholder or Unregistered Shareholder as of the Effective Date;
“Registered Shareholder”	shall mean a Person registered in the Register;
“Unregistered Shareholder”	shall mean a Person in whose favor a share is registered with a stock exchange member, and such share is also registered in the Register under a nominee company’s name;
“Stock Exchange”	shall mean the Tel Aviv Stock Exchange Ltd.
The “Board”	shall mean the Company’s Board of Directors as appointed in accordance with the Law and these Articles;
“Director”	shall mean a member of the Board, or any other person or entity serving, <i>de-facto</i> , as a Director, even if referred to otherwise;
The “Companies Law”	shall mean the Israeli Companies Law, 5759 – 1999, as amended from time to time, and all the rules and regulations promulgated thereunder;
The “Law”	shall mean the Companies Law, the Israeli Securities Law, 5728-1968, as amended from time to time and its regulations or regulation prescribed by Law, and any other companies-related law applicable to the company at the time;
The “Company”	shall mean the company referred to above;
“Administrative Enforcement Proceeding”	shall mean administrative enforcement proceeding under Chapter 8-C, 8-D or 9-1 to the Israeli Securities Law, 5728-1968, and proceeding under Article D, Chapter 4 of part 9 of the Companies Law, 5759-1999;
“Register”	shall mean a register of shareholders as required under Section 127 of the Companies Law, and any additional register of shareholders maintained by the Company outside of Israel;
The “Office”	shall mean the registered office of the Company, as shall be from time to time in accordance with the Board’s discretion;
“In Writing”	shall mean print, lithography, photo, telegram, telex, facsimile, electronic mail, or any other visual expression or imprinting of words;
“Securities”	shall include shares, debentures, capital notes, certificates and other documents granting the right to sell or convert them as such;
The “Companies Ordinance”	shall mean the Israeli Companies Ordinance [New Version], 5743- 1983;
The “Articles”	shall mean the articles of association contained in the Articles, as originally registered and as may be amended from time to time;

Article 2:

Sections 2, 3, 4, 5, 6, 7, 8 and 10 of the Interpretation Law, 5741-1981, shall apply, *mutatis mutandis*, to the interpretation of these Articles herein, unless otherwise provided herein or unless the matter at hand, or its context, does not conform to such application.

Article 3:

Except for this Article 3 herein, all terms and expressions used in these Articles herein shall have the same meaning as provided in the Companies Law, unless such meaning is in contradiction to the relevant matter at hand or its context.

Article 4:

Provisions which may be conditioned shall apply the Company, unless otherwise provided in these Articles herein, and in any contradiction between the provisions of these Articles herein and those of the Companies Law, the provisions of these Articles herein shall prevail.

Article 5:

Where these Articles refer to provisions of the Companies Law which were amended or canceled, such provision shall apply as if already stipulated in these Articles herein, unless otherwise prohibited by law.

Article 6:

Unless otherwise stipulated in these Articles herein, resolutions shall be adopted by the Company's general meeting of its shareholders or by the Board by an ordinary majority.

The Company's Name

Article 7:

The name of the Company shall be as follows:

In Hebrew: מדיגוס בע"מ

In English: Medigus Ltd.

The Company's Objectives

Article 8:

The Company may undertake any lawful activity, subject to the provisions stipulated in its Memorandum of Association.

The Company's Purpose

Article 9:

The purpose of the Company is to operate in accordance with commercial considerations with the intention of generating profits. However, the Company may donate reasonable amounts for any suitable purpose even if such contributions do not fall within the business considerations of the Company, as the Board may determine in its discretion.

The Registered Share Capital

Article 10:

- A) The Company's registered share capital is NIS 167,000,000 divided into 167,000,000 ordinary shares of the Company, par value NIS 1.00 each (hereinafter: the "Shares").
- B) All ordinary Shares shall have equal rights for any matter or purpose, and holders of fully paid ordinary shares shall be entitled to the following rights with respect to each such ordinary share held by them:
 - 1) A right to be invited to and participate in, all the general meetings of the Company's shareholders, and a right to one vote per each ordinary share he holds, in every voting, in every general meeting of the Company's shareholders he participates in.
 - 2) A right to participate in dividends' distribution, if and when distributed, and a right to be granted with bonus shares, if and when granted.
 - 3) A right to participate in the Company's liquidation distribution in the event of its liquidation.

Liability of Shareholders

Article 11:

The shareholders' liability is limited. Every shareholder's liability is limited to the payment of the par value of his Shares. Where the Company allocated Shares for less than their par value, the liability of every shareholder so allocated shall be limited to the lower par value of such Shares.

Public Company

Article 12:

Subject to the Companies Law, and for as long as the Shares are listed for trade in the Stock Exchange or have been offered to the public under a prospectus, as such term is defined in the Securities Law, 1968, or have been offered to the public outside of Israel under an applicable public offer instrument as required by applicable law outside of Israel, and are held by the public, the Company shall qualify as a Public Company. Prior to the date of becoming a Public Company and upon the date the date of ceasing to be a Public Company (if at all), the Company shall then be a Private Company.¹

Shares

Article 13:

Without prejudice to any special rights previously granted to holders of existing Shares, the Company may issue or allot Shares or other Securities consisting preference or deferred rights, or to issue from its unissued share capital redeemable Securities, or to issue shares consisting other special limited rights or limitations regarding dividend distribution rights, voting rights, or other matters, as shall be resolved from time to time by a special majority resolution of the general meeting of the Company's shareholders.

Article 14:

If at any time, the Company's share capital shall be divided into different classes, the general meeting of the Company's shareholders may resolve by an ordinary majority, unless otherwise stipulated by the issuance terms of the relevant class of shares, to convert, extend, add or to otherwise amend the rights, privileges, benefits, limitations and provisions related or unrelated at that time to the relevant class of shares, or as shall otherwise be resolved by an ordinary majority of the Company's shareholders holding the relevant class of shares, at the general meeting of the Company's shareholders.

Article 15:

The special rights attached to issued shares or classes of shares, including preference rights shares or other special rights shares, shall not be considered to be amended by creating or issuing additional shares of an equal rank, unless otherwise stipulated by the issuing terms of such shares. The provisions regarding general meetings of the Company's shareholders stipulated in these Articles herein shall apply, *mutatis mutandis*, on any class meetings.

Article 16:

The Company's unissued share capital shall be subject to the Board's supervision, which may allocate it to those Persons for cash or such other consideration, under the same terms and conditions, at a higher par value, equal par value or lower par value (in accordance with the provisions of the Companies Law), and at those dates determined by the Board, and the Board shall be authorized to demand payment for any such shares from any Person, equal, higher or lower than their par value, during such period and for such consideration, terms and conditions as the Board may determine.

¹ For the avoidance of doubt, it is hereby clarified that any Articles specifically referring to a Private Company shall not apply for as long as the Company is as a Public Company.

Article 17:

Upon allocation of shares, the Board may distinguish between shareholders regarding payment amounts and payment dates.

Article 18:

If any allocation terms stipulate that the consideration for the shares so allocated shall be, in whole or in part, in installments, each such installment shall be paid by the Person registered as the shareholder at the time of payment, or by his legal guardians.

Article 19:

The Company may pay at any time any Person, for providing underwriting services or for his consent to provide underwriting services, either conditionally or unconditionally, for any of the Company's Securities, including debentures and debentures stock, or for his consent to obtain signatures, either conditionally or unconditionally, for any of the Company's securities, debentures or debentures stock. Any commission may be paid or removed in cash, Securities, debentures or debentures stock.

Share Certificate; Share Deed

Article 20:

Subject to and in accordance with the provisions of the Companies Law, each share certificate evidencing proprietary right in the Shares shall carry the Company's seal or its printed name, along with one of the signatures of one of the company's members of the Board and Company secretary, or as otherwise shall be determined by the Board.

Article 21:

Every registered shareholder (including a nominee company), is entitled to receive from the Company, as requested, one share certificate evidencing all of the Shares registered under his name, or, if so approved by the Board (upon payment of the amounts determined by the Board from time to time), several share certificates, each for one or more such Shares; each share certificate shall denote the number of Shares represented by such certificate, the serial number of such Shares and their par value, all subject to the Companies Law.

Article 22:

Share certificate registered jointly under the names of two Persons or more shall be delivered to the Person whose name is listed first among other such Persons in the Register, unless otherwise instructed in writing by such joint registered Persons.

Article 23:

- A) Where the consideration for Shares is fully paid, the Company may provide a share deed entitling its holder with rights to the Shares denoted in the share deed and the right to transfer it by transferring the Share, and the provisions regarding Share transfers stipulated in these Articles herein shall not apply.
- B) Shareholder lawfully holding a share deed is entitled to return such share deed to the Company to be cancelled and converted to a registered Share; Such shareholder is further entitled, upon payment of a fee determined by the Board, to be registered in the Register as the holder of the Shares so represented by the share deed returned to the Company, and to receive a share certificate representing such Shares.
- C) Holder of a share deed may deposit his share deed in the Office, and for as long as it is so deposited, such depositor shall have the right to request for the general meeting of the Company's shareholders to convene, in accordance with and subject to the Companies Law and these Articles herein, to attend it, to vote in it and to uphold all further rights granted to a shareholder in a general meeting of the Company's shareholders convened pursuant to his request 48 hours pursuant to such deposit, as though his name was registered in the Register as the holder of those Shares represented by the deed. Only one Person shall be acknowledged as the share deed depositor, and the Company must return the share deed to its depositor if so requested by him, in writing, at least two days in advance.

Where a share deed was not deposited in accordance with the above, its holder shall not have the rights stated in subsection C above, and shall have, subject to these Articles herein, all other rights granted to the Company's shareholders.

Article 24:

If a share certificate or share deed are lost, damaged or defected, the Board may issue a new share certificate or share deed to replace them, provided that such share certificate or share deed were not canceled by the Company, or upon proving to the Board's satisfaction such loss or destruction, and the Company was provided with guarantees against any possible damage to the Board's satisfaction, all for the consideration determined by the Board. Articles 20-23 above shall apply, *mutatis mutandis*, in connection with the issuance of a new share certificate.

Calls on Shares

Article 25:

The Board may, from time to time, in its discretion, make calls upon to perform payment of any amount of the consideration of their Shares not yet paid, and which, according to the allocation terms of such Shares are not to be paid in definite dates, and all such shareholder shall pay the calls so made upon him at the time(s) and place(s) designated in such call. A call may contain a demand for payment in installments. The date of the Board's resolution approving such call shall be deemed as the date of such call.

Article 26:

A call shall be delivered to the relevant shareholder not less than fourteen (14) days prior to the date of payment stipulated therein, and shall specify the installments and the designated place of payment. Notwithstanding the above, prior to the due date stipulated in the call the Board may, by delivering a written notice to the relevant shareholder, revoke such call or extend the payment period, subject to such revoking being approved prior to the payment of the call.

Article 27:

The joint holders of a Share shall be bound jointly and severally to pay all calls in respect thereof.

Article 28:

If, according to the terms of issuance of any Share, any amount is due at a definite date or in installments in definite dates, such amount(s) shall be paid on same date(s) as though due call had been delivered to the shareholder by the Board, and provisions regarding calls provided in these Articles herein shall apply such call.

Article 29:

Any amount not paid by the shareholder of the respective Share, when due or prior to that, shall bear an interest from its due date until its actual payment at a rate determined by the Board from time to time, or as prescribed by law at the date of call, unless otherwise prescribed by the Board.

Article 30:

The Board may agree to accept prepayment by any shareholder of any amount yet due with respect to his Shares or any part thereof. The Board may direct the payment of interest for such prepayment or any part thereof, until the date of such prepayment at a rate as may be agreed upon between the Board and the shareholder so prepaying.

Forfeiture and Lien of Shares

Article 31:

The Board may require any shareholder failing to pay any due amount on account of his Shares or any part thereof, to pay the unpaid due amount, including accrued interest and all expenses incurred by the Company with respect to the collection of such payment, on the date and in the terms so prescribed, by delivering a notice to such shareholder.

Article 32:

The notice shall specify a date, which date shall be not less than 14 days following the delivery date of such notice, and a place(s) where such payment, including the accrued interest and expenses thereon, is to be paid. Same notice shall specify that, in the event of failure to pay the entire amount due within the period stipulated in the notice, same failure may cause, ipso facto, the forfeiture of such Shares.

Article 33:

By Shareholder's failure to meet the demands included in the abovementioned, the Board may, at any time thereafter and prior to the payment of all due amounts specified in the notice or payment of all expenses and accrued interest to which the company is entitled with respect to such shareholder's Shares, resolve to forfeit such Shares. Such forfeiture shall include all dividends declared with respect thereof and not actually paid to the date of forfeiture thereof.

Article 34:

Any Share so forfeited shall be deemed as the Company's property, and the Board may resolve, subject to the provisions of these Articles herein, to resell it, reissue it or otherwise transfer it as it deems fit, all subject to the provisions of the Companies Law.

Article 35:

Shares so forfeited and yet to be resold shall be deemed dormant Shares, and shall not have any rights attached to them for as long as they are held by the Company.

Article 36:

The Board may, at any time prior to the resell, reissuance or otherwise disposal of an aforesaid forfeited Share, nullify the forfeiture on such conditions as it deems fit.

- A) Any shareholder whose Shares have been so forfeited shall cease to be a holder of such forfeited Shares, but shall nevertheless continue to be obligated to pay the Company all amounts at the time of forfeiture due to the Company with respect thereof, including accrued interest and expenses as aforesaid until actual repayment, and including the interest to be paid for the aforesaid amounts from the time of forfeiture until the actual repayment, at the maximal interest rate prescribed by law, unless such Shares have been resold and the Company received the full amount owed by the shareholder, including all expenses incurred by the Company with respect to the sale of such Shares thereof.
- B) If the consideration received by the Company for the sale of the forfeited Shares shall exceed the amounts owed by the shareholder of whose Shares have been forfeited, such shareholder shall be entitled to receive the partial consideration paid by him to the Company with respect to such Shares, if so paid, subject to the allocation agreement, provided that the total remaining consideration shall not be less than the total obligations of such shareholder, including any sell-related expenses.

Article 37:

Provisions of these Articles herein regarding forfeiture of Shares shall also apply to failure to pay due known amounts in accordance with the allocation agreement, as if such amount was due to be repaid in accordance with a duly delivered payment notice.

Article 38:

The Company shall have a first and paramount lien upon all the Shares registered in the name of each shareholder on the Register, excluding fully paid Shares, and upon proceeds from their sale for repayment of such shareholder’s debts and obligations to the Company, whether joint or several, matured or un-matured, regardless of the origins of such debts and obligations, and no equitable rights for any such Shares shall be constituted. The abovementioned lien shall apply upon all the declared dividends from time to time with respect to such Shares.

Article 39:

The Board may sell any of the Shares subject to the abovementioned lien, in any manner it deems fit in accordance with its discretion, for the purpose of enforcing the abovementioned lien; however, such sale may be executed only where the period specified in Article 32 thereof has passed and a written notice specifying the Company’s intention to sell such Shares have been delivered to the shareholder in question (or to the one entitled to such notice following his departure or his bankruptcy, liquidation or receivership), and the shareholder or any other Person so entitled to the Share has failed to fully pay his abovementioned debts or obligations within fourteen (14) days following the delivery of such notice.

Article 40:

The net proceeds of any such sale, after payment of the sale expenses, shall be used for the full payment of the respective shareholder’s debts and obligations (including the debts, obligations and engagements yet to be due), and the provisions of Article 36(b) herein shall apply, *mutatis mutandis*.

Article 41:

Upon the sale of forfeited Shares or enforcement of a lien, the Board may appoint any Person to execute a Share transfer deed of the sold Shares and register the purchaser of such Shares in the Register as the holder of such Shares, and after such registration in the Register, the validity of such sale shall not be rebutted, and any Person damaged by such sale shall be entitled to claim monetary damages solely from the Company.

Transfer of Shares

Article 42:

Any transfers of Shares registered in the Register by a registered shareholder, including transfer by or to the nominee company, shall be executed in writing, provided that the Share transfer deed shall be signed by or on behalf of the transferor and the transferee, or by their respective representatives, and by witnesses to their signatures, and the transferor shall be deemed the holder of such Shares until the registration of the transferee in the Register with respect to the Shares so transferred. Subject to the provisions of the Companies Law, transfer of Shares shall not be registered unless the Company was provided with the Share transfer deed, as described above.

The Share transfer deed shall be drawn-up and filled as below or in a manner as similar as possible or in an ordinary and accepted manner so approved by the chairman of the Board

“I, the undersigned, of (the “Transferor”), for consideration of NIS paid to me by of (the “Transferee”) do hereby transfer to the Transferee Shares par value NIS _____ each, numbered through (inclusive) of _____ Ltd., to be held by the Transferee, the administrators of his estate, his guardians and his representatives, in accordance with the terms and conditions by which they were held by me on the date of signing this Share transfer deed herein, and I, the Transferee, do hereby accept the transfer of these Shares in accordance with those terms and conditions.”

In witness whereof we have we have signed this Share transfer deed in this ___ day of _____.

The Transferor

The Transferee

Witness to the Transferor’s Signature

Witness to the Transferee’s Signature

Article 43:

The Company may close the Register for a period as the Board deems fit, provided that such period shall not exceed thirty (30) days per year. The Company shall notify the shareholders of the closing of the Register as stipulated in these Articles herein in connection the delivery of notices to shareholders.

Article 44:

- A) Every Share transfer deed shall be submitted to the Office for registration along with the Share certificates to be transferred, if such Share certificates have been issued, and all such other evidencing instruments as the Board may deem required. Such registered Share transfer deeds shall remain in the Company's possession. However, Share transfer deeds which the Board refused to register shall be returned, on demand, to their respective submitter, along with the Share certificates (if submitted). Where the Board refuses to approve Share transfers, it shall notify the transferor no later than thirty (30) days following the date in which it received the Share transfer deed.
- B) The Company may require payment of a fee for the registration of the transfer of Share, as shall be determined by the Board from time to time.

Article 45:

Upon the departure of a registered shareholder, the Company shall recognize the guardians, administrators of the estate, executors of the will, and in the absence of such persons, the inheritors of the deceased shareholder, as the only holders of rights in the deceased shareholder's registered Shares.

Article 46:

In the event of the deceased shareholder being a registered shareholder of a Share held jointly with others, the surviving shareholder(s) shall be deemed the sole holder(s) of rights in such Shares, but such rights will not dismiss the deceased shareholder's estate from any liability relating to such Shares held jointly. Each joint holder or registered Shares may transfer his rights in such Shares.

Article 47:

Any Person acquiring rights in Shares by virtue of a shareholder's departure, shall be entitled, upon provision of a due will or appointment of legal guardian or issuance of order of probate, evidencing his rights in such Shares, to be registered as a shareholder of the respective Shares, or to transfer such Shares in accordance with the provisions of these Articles herein.

Article 48:

The Company may recognize an official receiver or liquidator of a shareholder which is a corporate in dissolution proceedings, or trustee in liquidation proceedings, or any receiver of a bankrupt shareholder, as the acquirer of the rights in the registered Shares of such shareholder.

Article 49:

Subject to the Board's approval (which may refuse to provide such approval without providing any reason), a Person acquiring a right to a Share by virtue of being an official receiver, liquidator or trustee in liquidation proceedings regarding a corporate shareholder, or any official receiver of a bankrupt shareholder, may be registered as the shareholder of the respective Share or transfer such Share in accordance with the provisions of these Articles herein, subject to the provision of such proof of entitlement as the Board may deem necessary.

Article 50:

All the abovementioned provisions regarding transfer of Shares shall apply to transfer of any other of the Company's Securities, *mutatis mutandis*.

Redeemable Securities

Article 51:

Subject to the provisions of these Articles herein regarding issuance of Securities, the Company may issue or allot redeemable Securities.

Article 52:

Where the Company had issued redeemable Securities, it may redeem them without being subject to such limitations as prescribed under Chapter Two of Part Seven of the Companies Law.

Article 53:

Where the Company had issues redeemable Securities, it may attach them with similar rights to those attached to Shares, including voting rights and rights to participate in the distribution of dividends.

Alteration of Share Capital

Article 54:

The Company may, from time to time, by an ordinary majority resolution of the general meeting of the Company's shareholders, increase the registered share capital of the Company in classes of shares, as it may determine.

Article 55:

Unless otherwise resolved in the abovementioned resolution approving the increase of registered share capital, all newly issued Shares shall be subject to these Articles herein.

Article 56:

The Company may, by ordinary majority resolution of the general meeting of the Company's shareholders:

- A) Consolidate and redistribute its Share capital, or any part thereof, into Shares par higher value than the par value of its already issued Shares, and if the already issued Shares have no par value - into a Share capital comprised of a smaller number of Shares, provided that the proportional holdings of the existing shareholders shall not be retained.

For the purpose of executing any such resolution, the Board may settle any difficulty arising as it deems fit, including issuance of Share certificates for fractional Shares or issuance of several Share certificates for several shareholders which shall include fractional Shares.

Without derogating from the above generality of the Board's authority, if the consolidation of the Shares results in fractional Shares, the Board may, subject to an ordinary majority approval of the general meeting of the Company's shareholders:

- 1) sell all the fractional Shares, and for that purpose, assign to a trustee on whose name Share certificates including the fractional Shares shall be issued, who will sell them, and the net proceeds of any such sale, after deducting commissions and other sale related expenses, shall be distributed to those eligible; or
- 2) issue each shareholder holding fractional Shares due to the consolidation, fully paid Shares of the same class of Shares which existed prior to the consolidation, in such number that would constitute one whole Share, and such issuance shall be deemed to take effect immediately prior to the consolidation; or
- 3) resolve that shareholders shall not be entitled to receive a consolidated Share due to fractional consolidated Shares, resulting from consolidation of half or less of the number of Shares which consolidation results one whole consolidated Share, and shall be entitled to receive one consolidated Share due to fractional consolidated Shares resulting from of more than half of the number of Shares which consolidation constitutes one whole Share;

Where actions under paragraphs (2) and (3) above require the additional issuance of Shares, such Shares may be redeemed in the manner by which preferred Shares may be redeemed. The abovementioned consolidation and division shall not change the rights attached to the Shares so consolidated or divided.

- B) Redistribute all or any of its Share capital through the redistribution of all or any of its existing Shares into shares of a lower par value, and where its Shares have no par value, into issued Share capital comprised of a larger number of Shares, provided, however, that the proportional holdings of the existing shareholders is retained.
- C) Cancel registered Share capital yet to be issued, provided that the Company did not undertake (conditionally or otherwise), to issue such Share capital.
- D) Reduce the Shares in its issued Share capital in such manner that the reduced Shares shall be cancelled and any payment made with respect to their par value shall be registered in the Company's financial statements as a capital fund which shall be treated as a premium paid for the Shares remaining in the Company's issued Share capital.
- E) Consolidate any or all of its Share capital into one class of Shares, and the Company may resolve to reimburse any or all of its shareholders for such consolidation, by means of issuing preferred Shares to such shareholders.

General Meetings of the Company's Shareholders

Article 57:

An annual meeting of the Company's shareholders shall be held once in every calendar year, within a period of not more than fifteen (15) months after the previous annual meeting of the Company's shareholders. All general meetings of the Company's shareholders other than those annual meetings shall be referred to as "Extraordinary Meetings".

Article 58:

The agenda at the annual meeting of the Company's shareholders shall include the following matters:

- A) a discussion on the Company's audited financial statements and the Board's report on the state of the Company's affairs, which shall be submitted to the general meeting of the Company's shareholders;
- B) appointment of directors;
- C) appointment of an auditor and receiving the Board's report on the auditor's remuneration;
- D) other matters brought for discussion and resolution by the Board.

Article 59:

For as long as the Company is a Private Company, the Board may convene an Extraordinary Meeting at its discretion and following the request of each of the following:

- A) a member of the Board;
- B) One or more shareholders, holding at least 10 percent (10%) of the Company's issued Share capital and at least one percent (1%) of the Company's voting rights, or one or more shareholders holding at least ten percent (10%) of the Company's voting rights.

Article 60:

Notwithstanding the above, if the Company becomes a Public Company, the Board may convene an Extraordinary Meeting pursuant to a Board resolution, and must convene such meeting if request is received from two members of the Board or one-fourth of the then serving members of the Board or one or more shareholders holding at least five percent (5%) of the Company's issued Share capital and at least one percent (1%) of the Company's voting rights or one or more shareholders holding at least five percent (5%) of the Company's voting rights.

If the Board is requested to convene an Extraordinary Meeting, it shall so convene it within twenty one (21) days pursuant to such request being submitted to it, at such date resolved in the notice of the Extraordinary Meeting, as provided in Article 63(B) therein, provided that if the Company is a Public Company, such meeting shall not be held later than thirty five (35) days from the date such notice was published, all subject to the provisions of the Law.²

Article 61:

If the Board does not convene a duly requested Extraordinary Meeting as stipulated in Articles 59 and 60 thereof, the Person so requesting such meeting to be convened, and in the case of shareholders – any of them holding more than one half of their voting rights, may convene the meeting himself, provided that it shall not be held more than three (3) months after the date upon which such was submitted, and it shall be convened, insofar as possible, in the same manner by which meetings are convened by the Board.

Article 62:

- A) A general meeting's agenda shall be determined by the Board and will include the matters for which an Extraordinary Meeting is requested to be convened pursuant to Articles 59 and 60 of these Articles herein, as well as matters requested in accordance with sub-Article (b) below.
- B) One or more shareholders holding at least one percent (1%) of the Company's voting rights may request matters to be included on the agenda by the Board, provided that such matters are suitable for discussion at a general meeting of the Company's shareholders.
- C) A request as mentioned in article b) above shall be submitted to the Company in writing no less than seven (7) days prior to the date on which a notice of the convening of the general meeting of the Company's shareholders is given, and shall include the language of the proposed resolution.

Article 63:

- A) If the Company is to become a Public Company, notice of a general meeting of the Company's shareholders shall be made in accordance with applicable law, and the Company shall not be obligated to provide any other notice of such general meeting of its shareholders to any registered shareholders.
- B) Notice of a general meeting of the Company's shareholders shall include the type of meeting and the place, date and time at which such meeting shall convene and shall further include the agenda, a summary of the proposed resolutions, the majority required for the approval of the proposed resolutions and the determining date for the purpose of eligibility to vote in the such general meeting. If a differed general meeting is adjourned at a different day, time or place in the following week, the notice must specify the details of such adjourned meeting.

Article 64:

Notwithstanding the above, for as long as the Company is a Private Company: (a) a notice of a general meeting of the Company's shareholders shall be delivered to all those eligible to participate in the meeting no later than seventy two (72) hours prior to the date of the meeting, provided that such notice shall not be delivered earlier than 45 days prior to the date of meeting; (b) the general meeting of the Company's shareholders may be convened on a shorter notice, if so approved by all those eligible to receive such notice. Waiver may be retroactively submitted in writing even after such general meeting was convened.

² Provisions of this Article herein shall not be in effect for as long as the Company is a Private Company, as such term is defined in the Companies Law.

Article 65:

The general meeting of the Company's shareholders may assume powers conferred on another organ. Where the general meeting assumed powers conferred by law on the Board, the shareholders shall be liable and bound by the liability and duties of Directors regarding the exercise of such powers, *mutatis mutandis*, including, among other things and taking into consideration their holdings in the Company, their participation in the general meeting and the manner in which they vote, the provisions of Chapters 3, 4 and 5 of Part Six of the Companies Law.

Article 66:

A bona fide flaw in convening the general meeting of the Company's shareholders or in the conduct thereof, including a flaw deriving from non-compliance with a provision or condition stipulated by the Law or these Articles herein, including in connection with the manner by which the meeting is to convene or to be conducted, shall not cause any resolutions adopted by such general meeting to be invalid and shall not impair discussions held thereat, subject to the provisions of any law.

Voting Rights

Article 67:

A shareholder wishing to vote at a general meeting of the Company's shareholders shall provide evidence of his ownership in his Shares, as required by any applicable law.

Article 68:

If, and when, the Company becomes a Public Company, it may set an effective date for the purpose of eligibility to participate and vote at the general meeting of its shareholders, provided that such date will not be less than twenty one (21) days or will exceed four (4) days prior to the date such general meeting is to convene.

Article 69:

A Shareholder who is a minor or shareholder who is legally incapacitated by a court of competent jurisdiction may exercise his right to vote by his custodian, and such custodian may vote by proxy.

Article 70:

Subject to the provisions of any applicable law, where Shares are held jointly, each shareholder so holding the Shares may vote at any meeting, in person or by proxy, in relation to such Shares, as though he were the sole owner of such Shares. If more than one such shareholders attend a meeting, in person or by proxy, the vote shall be made by the joint shareholder whose name appears first in the Register in relation to such Shares, or in an applicable deed or certificate evidencing the ownership of such Shares as determined by the Board for such purpose. Several guardians or administrators of the estate of a deceased registered shareholder shall be deemed as joint shareholders of such Shares for the purposes of this Article herein.

Article 71:

A Shareholder may vote in the general meeting of the Company's shareholders in person or by proxy, subject to the conditions stipulated hereunder.

Article 72:

A corporate body being a shareholder of the Company and entitled to attend and vote at a general meeting of the Company's shareholders may exercise such rights by authorizing any Person, whether in general or for such specific general meeting, to be present and/or vote on its behalf. Such representative may exercise, on behalf of such corporate body, the rights of the corporate body, as if the corporate body was a single shareholder. Upon the request of the chairman of such general meeting, a reasonable evidence of such authorization and its validity shall be furnished thereto as a requirement for the participation of such representative in such general meeting.

It is hereby clarified that Articles 73 through 77 hereunder with respect to a letter of appointment shall not apply to an authorized representative of the corporate body, but shall only apply to its proxy.

Article 73:

A proxy's letter of appointment (hereinafter: "**Letter of Appointment**") shall be in writing and shall be signed by the appointer or by such other duly authorized Person. If the appointer is a corporate body, the Letter of Appointment shall be in writing and signed by the corporate body's approved signatory, accompanied by the corporate seal or signed by its authorized representative.

Article 74:

The Letter of Appointment, or a suitable copy thereof to the Board's satisfaction, shall be deposited in the Office or in any other place in which the general meeting of the Company's shareholders is to convene, not less than forty eight (48) hours prior to the commencement of the meeting at which the Person appointed by the Letter of Appointment is to vote. Notwithstanding the aforesaid, the chairman of such meeting may waive such requirement with respect to all the participants in a general meeting and accept a Letter of Appointment upon the commencement of such meeting.

Article 75:

A Shareholder holding more than one Share may appoint more than one proxy, subject to the following provisions:

- A) The Letter of Appointment shall specify the class and number of Shares for which it is issued;
- B) If the Letter of Appointment specifies a number of Shares higher than the number of Shares held by the relevant shareholder, all Letters of Appointment issued by such shareholder with respect to the excess Shares shall be void, without derogating from the validity of the Letters of Appointment issued with respect to the Shares duly held by such shareholder;
- C) If the Letter of Appointment does not specify the number and class of Shares in respect of which it is being issued, such Letter of Appointment shall be deemed to have been given in respect of all the shareholder's registered Shares as of the date he submitted the Letter of Appointment to the Company or submitted it to the chairman of the general meeting of the Company's shareholders, as the case may be. If the Letter of Appointment is issued in respect of fewer Shares than the ones held by the shareholder, then the shareholder shall be deemed to have abstained from voting in respect of the remaining Shares held by him and the Letter of Appointment shall be valid only in respect of the number of Shares specified therein.

Article 76:

The Letter of Appointment shall be drawn up in the following form of wording or in a form of wording as similar thereto as possible:

"I _____, of _____, as a shareholder of _____ Ltd. (the "Company"), hereby appoint _____ of _____ whose identity number is _____ or in his absence _____ of _____ whose identity number is _____ as my proxy, to vote in my name and stead in respect of _____ number of shares of _____ class which are held by me, at the annual/Extraordinary Meeting of the Company's shareholders to be held on the _____ day of _____ year _____ and at any deferred meeting thereof.

In witness whereof I have signed this Letter of Appointment in this ___ day of _____.

Signature"

Article 77:

Voting by virtue of a Letter of Appointment shall be valid even if prior to such voting the appointer had died or the Letter of Appointment had been cancelled or the Share in respect of which it was given was transferred, unless a written notice regarding such death, cancellation or transfer was received in the Office prior to the respective meeting.

Discussions and Adoption of Resolutions in the General Meetings

Article 78:

Discussions are no to be held unless a quorum is present within half an hour of the time scheduled for the respective meeting. Unless otherwise stipulated by the Companies Law or these Articles herein, a legal quorum is the presence, in person or by proxy, of at least two (2) shareholders holding at least ten percent (10%) of the voting rights in the Company.

Article 79:

If a quorum is not present within half an hour from the time set for the respective meeting's commencement, the meeting shall be adjourned for the following week, at the same day, time and place, without it being necessary to notify the shareholders of such adjournment, or to another date if such is stated in the notice of the meeting, at which the agenda shall be of the first meeting. If a quorum is not present at the adjourned meeting within half an hour of the time set for its commencement, the adjourned meeting shall then commence at the presence of any number of shareholders (it is hereby clarified that the provisions of this Article 79 are also applicable to meetings convened upon a Shareholder's request).

Article 80:

A general meeting chairman shall be appointed at every general meeting of the Company's shareholders. Such chairman shall be appointed at the commencement of every such general meeting, subject to the presence of the required quorum, by the Company Secretary or by a Shareholder authorized by him for that purpose.

Article 81:

The chairman of a general meeting of the Company's shareholders may, with the consent of the respective meeting in which a quorum is present, adjourn the meeting or adjourn the discussion or the adoption of a resolution on a particular matter on the agenda to that time place as resolved by the meeting, and is obliged to so adjourn such meeting, discussion or resolutions at the general meeting's demand. No matter shall be discussed at an adjourned meeting save for a matter that was on the agenda and which were not discussed or which discussion did not end in the meeting so decided to be adjourned.

Article 82:

Subject to the provisions of any applicable law, any resolution shall be adopted by a vote in which every Share shall entitle its respective holder to one vote. In case of equal votes, the resolution shall be deemed to have been rejected.

Article 83:

Resolution in the general meeting of the Company's shareholders shall be adopted by an ordinary majority, unless otherwise required by Law or these Articles herein.

Article 84:

In addition to any matters to be resolved by the general meeting of the Company's shareholders in accordance with the Law and these Articles herein, the following matters shall be resolved by ordinary majority in general meeting of the Company's shareholders:

- A) amending these Articles;

- B) exercising the Board's powers by the general meeting of the Company's shareholders, if the Board is unable to exercise such powers and the exercise of any of its powers is essential for the Company's adequate management as stipulated in Section 52(a) of the Companies Law;
- C) appointment of the Company's auditor and the termination of his service;
- D) appointment and dismissal of the Company's directors;
- E) reserved;
- F) appointment of the Company's general manager;
- G) approval of actions and transactions requiring the general meeting of the Company's shareholders' approval;
- H) increase or reduction of the Companies authorized share capital; and
- I) merger.

Article 85:

Declaration of the chairman of the general meeting of the Company's shareholder's that a resolution by the general meeting has been adopted unanimously or in a certain majority or denied, shall constitute evidence prima facie of the minutes of such meeting.

Article 86:

The Board may, from time to time, determine which of the resolutions of the general meeting of the Company's shareholders may be adopted by means of voting paper. Unless otherwise determined by the Board and subject to the provisions of the Companies Law and the regulations thereunder, the general meeting of the Company's shareholders may vote by means of voting paper on the following matters:

- A) appointment and removal of Directors;
- B) approval of transactions requiring the approval of the general meeting of the Company's shareholders in accordance with the provisions of Sections 255 and 268 through 275 of the Companies Law;
- C) approval of a merger in accordance with Section 320 of the Companies Law;
- D) such other matters prescribed by the Minister in accordance with Section 89 of the Companies Law.

Article 86A:

For as long as the Company is a Private Company, a resolution in writing, signed by all of the Company's Shareholders, shall be, subject to the provisions of the Law, valid and binding, as any resolution of a duly convened general meeting of the Company's shareholders in accordance with these Articles herein.

Article 86B:

For as long as the Company is a Private Company, the Company may hold a general meeting of its shareholders by using any means of communication, provided that all shareholders so participating in the meeting are able hear each other simultaneously.

The Board of Directors

Article 87:

The number of Directors shall be prescribed, from time to time, by an ordinary majority resolution of the general meeting of the Company's shareholders, or by an ordinary majority resolution of the, provided such number shall not be less than three (3) nor more than twelve (12) Directors (not including external Directors appointed as required under applicable law).

Article 88:

- A) The Directors shall be appointed by the ordinary majority of the then present shareholders in the annual meeting of the Company's shareholders. Any Director so appointed shall serve in office until the subsequent annual general meeting of the Company's shareholders.
- B) Director's term of service shall commence on the date of appointment, but the general meeting of the Company's shareholders may determine a different date for such commencement of service.
- C) The general meeting of the Company's shareholders may resolve, at any time, by an ordinary majority resolution, to remove any Director from office prior to the termination of his respective term of service and it may appoint another Director in his place, provided that the Director is given a reasonable opportunity to state his case before the general meeting.

Article 89:

- A) Director may, at any time, appoint an alternate director on his behalf (hereinafter: "**Alternate Director**"). Person who is not qualified to be appointed as a Director or who is serving as a Director or Alternate Director shall not be appointed to serve as an Alternate Director, unless otherwise permitted by any applicable law. An Alternate Director may be appointed to serve on a committee of the Board, provided that such Alternate Director does not serve as a member of another committee of the Board.
- B) For as long as the appointment of the Alternate Director is in effect, the Alternate Director is entitled to receive notices to all of the Board meetings (without such right derogating from the Director's right to receive such notices) and to participate and vote in every such Board meeting in which the appointing Director is absent.
- C) Subject to the provisions of the letter of appointment by which he was appointed, an Alternate Director shall be vested with all of the rights of the appointing Director and shall be deemed a Director for all purposes.
- D) Appointing Director may terminate his appointment of an Alternate Director at any time thereafter. The appointment of an Alternate Director shall terminate by delivery of notice regarding the termination of such appointment by the appointing Director to the Company, or by the appointing Director's resignation, or by termination of service of the appointing Director in any other way.
- E) Notice of the appointment or termination of appointment of an Alternate Director must be submitted in writing to the Company.

Article 90:

Director whose service was terminated may be reappointed to serve as Director.

Article 91:

Director's office shall be vacated on the occurrence of any of the following:

- A) he resigns or is removed from office, as stipulated in Sections 229 through 231 (inclusive) of the Companies Law.
- B) he is convicted in a felony specified in Section 232 of the Companies Law.
- C) a competent court orders his termination of service, as stipulated in Section 233 of the Companies Law.

- D) he is declared bankrupt, and in the case of a corporation – has declared its voluntary dissolution or was given a dissolution order.
- E) upon death.
- F) he is declared legally incapacitated.

Article 92:

If a Director's office becomes vacant, the remaining serving Directors may continue to act in any manner, provided that their number is of the minimal number specified above. If the number of serving Directors is lower than their minimal one, the Board shall not be permitted to act, other than for the purpose of convening a general meeting of the Company's shareholders for the purpose of appointing additional Directors.

Article 93:

The Directors may appoint, immediately or of a future date, additional Director(s) to serve until the subsequent annual general meeting of the Company's shareholders, provided that the number of Directors shall not exceed twelve (12) Directors (not including external Directors).

Article 94:

Subject to the approvals required by any applicable law, the Directors shall be entitled to remuneration by the Company for their services as Directors. In addition, every Director shall be entitled to reimbursement of his reasonable travel expenses and other expenses related to his participation at the Board's meetings and the service as a Director.

Article 95:

If and when so required by any applicable law, not less than 2 external Directors shall serve on the Board, and the provisions stipulated in the Companies Law regarding their qualifications, service and remuneration shall apply.

The Board of Directors' Powers and Duties

Article 96:

The Board shall set the policy and guidelines for the Company's operations and shall supervise the performance of the general manager's position, and shall be vested with residual authority not vested or granted to any other organ.

Article 97:

Subject to the provisions of the Companies Law, the Board may delegate any of its powers to the general manager or to one of the Board's committees.

Article 98:

- A) The Board may resolve by an ordinary majority that powers vested with the general manager shall be transferred to it, for a particular matter or for a particular period of time.
- B) Without derogating from the above, the Board may instruct the general manager how to act in a particular matter. Should the general manager fail to follow such instruction, the Board may exercise the power required to execute such instruction in his stead.
- C) Should the general manager be unable to exercise his powers, the Board may exercise them in his stead.

Board Meetings

Article 99:

The Board shall convene in accordance with the Company's needs and not less than once every three (3) months.

Article 100:

The chairman of the Board may convene a meeting of the Board at any time. In addition, any Director may request the Board to convene for the purpose of any matter to be specified.

Article 101:

- A) Notice of a Board meeting may be delivered orally, by telephone, in writing (including via e-mail or facsimile) or by telegram, at least twenty four (24) hours prior to the scheduled time of the meeting, or with a shorter prior notice or without notice, if so agreed by all Directors or Alternate Directors (if appointed).
- B) Director exiting the borders of Israel (hereinafter: "**Absent Director**") who wishes to receive notices during the time of his absence, shall provide the Company corporate secretary with sufficient contact details for such purpose (an Absent Director who provided such contact details as well as any Directors who are present in Israel shall be collectively referred to hereinafter as: "**Directors Entitled to Receive Notices**").
- C) An Absent Director who did not provide the above contact details, shall not be entitled to receive notices during his absence, unless he requested to deliver the notices to an Alternate Director representing him, who was duly appointed in accordance with these Articles herein.
- D) A written memorandum signed by the Company Secretary shall be deemed conclusive evidence of providing notice to the Absent Director which is a Director Entitled to Receive Notices.

Article 102:

Notice of a Board meeting shall state the time and place of the meeting and reasonable details of the matters to be discussed thereat, pursuant to the agenda.

The agenda shall be determined by the chairman of the Board, and shall include such matters so determined by him, as well as any other matter requested from the chairman of the Board to be included, by a Director or the general manager reasonable time prior to the Board meeting.

Article 103:

The quorum for opening a Board meeting shall be a majority of the Directors Entitled to Receive Notices who are not prohibited from participating and voting in such meeting under any applicable law. The quorum shall be verified at the opening of such meeting.

Notwithstanding the above, should the Board convene to resolve termination of the Company's internal auditor's service, the quorum shall be the majority of the Board.

Article 104:

The general meeting of the Company's Board shall appoint one of the Directors to serve as chairman of the Board. The chairman of the Board shall conduct and administer the Board meetings. Should the chairman of the Board be absent from a Board meeting or should he not wish to conduct and administer such meeting, the Directors present at the meeting shall elect one of them to serve as chairman for such meeting, to conduct and administer it, and to sign the its minutes.

Article 105:

Board Resolutions shall be adopted by an ordinary majority. Each Director shall have one vote. The chairman of the Board shall not have an additional or casting vote.

Article 106:

Subject to the presence of a due quorum, the Board may exercise all powers and discretion vested in it at the date of meeting, or usually exercised by it, in accordance with these Articles herein.

Article 107:

The Board may hold meetings using any means of communication, provided that all the participating Directors are able to hear one another at all times.

Article 108:

The Board may adopt resolutions without actually convening, provided that all Directors Entitled to Receive Notices and those entitled to participate in the discussion and vote have provided their consent for such non-convening for the matter thereof. Should any such meeting not convene, minutes of the resolutions, including the resolution not to convene, shall be prepared, and signed by the chairman of the Board, or shall be drafted by the chairman of the Board and signed by all of the Directors.

For the purpose of this Article 108, a "Director's signature" may be accompanied by his consent, objection or abstention. Instead of a Director's signature, the chairman of the Board or the Company's corporate secretary may attach a transcript signed by either of them, specifying such Director's vote.

Article 108A:

A resolution adopted without the Board actually convening and signed by the chairman of the Board, provided that all Directors Entitled to Receive Notices and entitled to participate in the discussion and vote on the matter thereof have provided their consent to the above, or a written resolution signed by all Directors Entitled to Receive Notices and entitled to participate in the discussion and vote on the matter thereof, shall be, subject to the provisions of the Law, valid and legally binding as a resolution of a duly convened meeting of the Board in accordance with these Articles herein.

Article 109:

Subject to the provisions of any applicable law, all acts performed by the Board or pursuant to a Board resolution or by a Board committee or by any Person serving as Director or as a member of a Board committee, shall be valid even if a later defect in the appointment of the Board, the Board committee, the Director, or the committee member is discovered, or if any or all of them were disqualified from service in their respective positions, as though they were duly nominated for service and have the required skills to serve as Directors or members of the relevant Board committee.

Board Committees

Article 110:

The Board may establish Board committees. Person who is not a member of the Board shall not serve as member of a Board committee to which the Board has delegated any of its powers. Persons who are not Directors may be appointed to serve on a Board Committee designated solely for the purpose of advising and consulting. Subject to the provision of the Companies Law and these Articles herein, the Board may delegate all or any of its powers to a Board committee. Any Board committee shall consist of not less than two (2) Directors.

Article 111:

Each Board committee must exercise its powers in compliance with all terms and regulations prescribed by the Board. Board committees' meetings and actions shall comply with the provisions stipulated in these Articles herein relating Board meeting and actions, to the fullest applicable extent, unless otherwise prescribed by the Board.

Article 112:

Board committees shall routinely report to the Board regarding their respective resolutions or recommendations, as prescribed by the Board.

Article 113:

The Board may cancel any resolution adopted by a Board committee appointed by it. Nevertheless, such cancellation shall not invalidate such resolution by which the Company acted in relation to other Person, who was unaware of the cancellation thereof.

All acts made in good faith at a Board meeting or by a Board committee or by any Person acting as a Director shall be valid even if a later defect in the appointment of the Director or such Person serving or acting as such, or if any or all of them were disqualified from service in their respective positions, as though they were duly nominated for service and have the required skills to serve as Directors.

The General Manager

Article 114:

The general manager shall be appointed and dismissed by the general meeting of the Company's shareholders, which may appoint more than one general manager.

Article 115:

The general manager shall be responsible for the day-to-day management of the Company's business within the framework of the policy determined by the Board and subject to its guidelines. The general manager shall have all the management and executive powers of not vested in other organ in accordance with the Law or these Articles herein, and shall be subject to the Board's supervision.

Article 116:

- A) The general manager shall notify the chairman of the Board, without delay, of any extraordinary issues material to the Company, and shall provide the Board with reports on such matters, at such times and of such scope as the Board may determine. Should the Company not have an acting chairman of the Board, or should he be unable to exercise his powers, the general manager shall notify or report the aforesaid matters to all members of the Board.
- B) The chairman of the Board may, in his own initiative or pursuant to a Board resolution, request the general manager to provide a report on the Company's businesses.
- C) Where a notice or report requires an action by the Board, the chairman of the Board shall convene, without delay, a Board meeting to discuss the notice or the resolution to act as required.

The Company's Office Holders

Article 117:

The general manager may appoint office holders from time to time (except for Directors and a general manager) for either permanent, temporary or special positions, as he finds appropriate, and he may terminate the appointment of any of the above officer holder from time to time in his sole discretion.

Article 118:

The general manager may establish the powers and positions of the officer holders so appointed by him, as well as their respective employment terms, all subject to the provisions of the Companies Law.

Internal Auditor

Article 119:

To the extent required by any applicable law, the Board shall appoint an internal auditor in accordance with the recommendation of the audit committee.

Article 120:

The internal auditor shall examine, among other things, the compliance of the Company's actions with the provisions of the Law and proper business procedures.

Article 121:

The internal auditor shall be subject to the chairman of the Board's supervision.

Article 122:

The internal auditor shall submit to the Board a proposal for an annual or periodic work program for approval. The Board shall approve such proposal or any modifications it considers necessary.

The Accounting Auditor

Article 123:

One or more accounting auditors shall be appointed by every annual general meeting of the Company's shareholders, and shall hold office until the end of the following annual general meeting. Notwithstanding the above, accounting auditor may be appointed for a longer period, which shall exceed the end of the third annual general meeting following the annual general meeting in which the auditor was appointed, by an ordinary majority resolution of the general meeting.

Article 124:

The general meeting of the Company's shareholders may terminate the accounting auditor's service, subject to, and in accordance with, the provisions of the Companies Law.

Article 125:

The accounting auditor's compensation for performing the audit shall be determined by the Board, which shall report such compensation to the annual general meeting of the Company's shareholders.

Article 126:

The accounting auditor's compensation for additional services which are not related to auditing shall be determined by the Board, which shall report such compensation, including payments and other of the Company's obligations to the auditor, to every annual general meeting of the Company's shareholders; the term "auditor" shall include, for the purposes of this Article 126 herein, a partner, an employee related to the accounting auditor and a corporate body under his control.

Validity of Acts and Approval of Non-Extraordinary Transactions

Article 127:

Subject to the provisions of any applicable law, all acts done by the Board or by a Board committee or by any Person acting as a Director or as a member of a Board committee or by the general manager, as the case may be – shall be valid even if later discovered that there was a defect in the appointment of the Board, the Board committee, the Director, the committee member or the general manager, as the case may be, or that any such officer holders does not qualify to serve in his position.

Article 128:

Should an office holder have a personal interest in any of the Company's transactions, such office holder shall disclose to the Company, reasonable time prior to the discussion on the approval of such transaction, information regarding the nature of his personal interest, including any relevant fact or document.

Article 129:

A Company's transaction with an office holder or a Company's transaction with another Person in which an office holder has personal interest, which is not an extraordinary transaction, shall be approved by the Board. The Board may approve such transaction either by providing a general approval for a particular type of transactions or by approving a particular transaction.

Article 130:

The Company's extraordinary transaction with an office holder, the Company's engagement with a Director of the Company regarding the terms and conditions of his service and/or employment in other positions, the Company's extraordinary transaction with one of its controlling shareholders, the Company's extraordinary transaction with another Person in which one of the Company's office holders or controlling shareholders have personal interest and the Company's engagement with one of its controlling shareholders or any of his relatives (if he also serves as one of the Company's office holders – regarding his terms and conditions of services and if he is an employee of the Company who does not serve as an office holder – regarding his terms and conditions of employment), shall be approved in accordance with any applicable law.

Distribution of Dividends

Article 131:

Subject to the provisions of the Companies Law, the Board may resolve to distribute dividends.

Dividends and Bonus Shares

Article 132:

Subject to any special or limited rights attached to any classes of Shares, dividend or bonus shares shall be distributed relatively to the paid par value of the Shares, without consideration to any premium paid on such Shares.

Article 133:

The Company may set determining date for determining the right to receive dividends, provided that such date shall be later than the date on which the dividend distribution was approved.

Article 134:

The Board may delay the distribution of any dividend, bonus, benefit, rights or other amounts to be paid on account of Shares which are subject to the Company's lien, and to use any such amount or exercise any such bonus, benefit or right and to use the consideration received upon such exercise for payment of any debts owed by the holder of such Shares on which the has lien.

Article 135:

The transfer of Shares shall not provide the transferee with the right to participate in the distribution of dividends or any other distribution declared after such transfer and prior to the registration of the transfer with the Register. Notwithstanding the above, where the transfer of Shares is subject to the Board's approval, the date of registration of the transfer with the Register shall be replaced by the date of such approval.

Article 136:

Dividends unclaimed within seven (7) years from the date of approving their distribution shall be forfeited and shall be reverted to the Company.

Article 137:

Unless other instructions were provided, any dividend may be paid by check or payment order which shall be sent via mail to the registered address of the Person entitled to receive such dividend, and if there are two or more joint registered owners, to the registered shareholder whose name appears first in the Register. Any such check shall be in favor of the shareholder entitled to receive it, and its payment shall be used as release of any payments paid in connection with such Share.

Article 138:

The Board may withhold from any dividend or other distribution in connection with a shareholder's Shares, whether such shareholder is the sole holder of such Shares or holds them jointly with others, any amounts due from the shareholder, on account of payment demand or other similar demands.

Article 139:

The Board may, in accordance with its discretion, set aside to special funds any amounts from its profits or from the revaluation of its assets, or from the proportional share in the revaluation of its affiliated companies' assets, and to determine the purpose of such funds.

Merger

Article 140:

A merger shall be approved by an ordinary majority of the general meeting of the Company's shareholders, unless otherwise stipulated by the Law.

Minutes

Article 141:

The Company shall maintain a register of the minutes of the general meetings of its shareholders, class meetings, Board meetings and Board committees meetings. All minutes shall be archived at the Office or at such other address in Israel, of which the Company has notified the Registrar of Companies, for the period of seven (7) years following the date of any such meetings.

Article 142:

The abovementioned minutes shall include the following:

- A) the date and location in which the meeting was held;
- B) the names of participants, and if they are representatives of an Alternate Directors, the names of their respective appointers, and in meetings of the Company's shareholders – the number and class of the Shares held by the voters;
- C) the summary of the discussions held and the resolutions adopted;
- D) directives and instructions provided by the Board to its committees or general manager; and
- E) documents, reports, approvals, opinions and other information presented, discussed or attached.

Article 143:

Minutes of the general meeting of the Company's shareholders signed by the chairman of the general meeting shall constitute a prima facie evidence of its content. Minutes of the meetings of the Board or Board committees, approved and signed by the Director chairing such meeting shall constitute a prima facie evidence of its content.

Register of Shareholders

Article 144:

The company shall maintain a Register which shall include the following:

- A) With respect to Shares registered under a Person's name –
 - 1) the name, identity number and address of the each shareholder, as provided to the Company;
 - 2) the number of Shares and their respective classes held by each shareholder, their par value and if any consideration was yet to be paid – such unpaid consideration;
 - 3) the issuing date of the Shares or the transfer dates to shareholders, as the case may be; and
 - 4) where the Shares include serial numbers, the Company shall note next to the name of each shareholder the numbers of such Shares registered under such shareholder's name.
- B) With respect to bearer shares –
 - 1) note indicating issuance of bearer Shares, their issuance date and the number of bearer Shares issued;
 - 2) the numbering of the bearer Share and of the Share certificates;

If a share deed was cancelled following the Shareholder's request, such Shareholder's name and number of Shares registered under his name shall be registered in the Register.

- C) With respect to Dormant Shares - also their numbers and the date on which they became dormant, all to the Company's knowledge.
- D) With respect to Shares which do not confer any voting rights in accordance with Section 309(b) or 333(b) of the Companies Law - also include their numbers and the date on which they became Shares which do not confer any voting rights, all to the Company's knowledge.
- E) All such other details which required or permitted under the Companies Law or these Articles herein.

Article 145:

The Company may maintain an additional Register outside of Israel.

Article 146:

The Register shall be deemed as a prima facie evidence of its contents. In the event of contradiction between the information provided in the Register and the one provided in a Share certificate, the evidentiary weight of the Register shall prevail over that of the Share certificate.

Notices

Article 147:

Notice of a general meeting of the Company's shareholders shall be provided in accordance with Article 63 above.

Article 148:

- A) Notices which the Company is required to deliver to its registered shareholders in accordance with any applicable law, subject to Article 63 above, shall be delivered to such shareholders by personal delivery shall be delivered to the last addresses they provided the Company. Delivery by mail shall be deemed duly delivered – If delivered to addresses in Israel within seventy two (72) hours from delivery, and to an address outside of Israel, within ten (10) days from delivery.
- B) The Company may deliver notices to the registered shareholders, whether they hold Shares registered under their names or bearer Shares, in accordance with applicable law as stipulated in Article 63 above.

Sub-section (a) above shall not apply in such cases where the Company shall send notices in accordance with this subsection (b), unless otherwise required by any applicable law.

- C) Nothing in sub-Sections (a) and (b) above shall impose upon the Company any obligation to provide notices to shareholders who did not provide it with their addresses in Israel.

Article 149:

The following Shareholders shall be deemed to have not provided the Company with a mail delivery address in Israel:

- A) Shareholder who failed to confirm the receipt of a registered mail sent to the address he provided the Company with requesting such confirmation or an update of a new address, within thirty (30) days from the date the mail was sent.
- B) Shareholder whose been sent a registered mail by the Company which was returned to the Company by the postal services or where the postal services sent the Company a notice that such shareholder no longer resides in that address, or any similar notice.

Article 150:

Where Shares are jointly held, the Company may duly send a notice by sending it to the shareholder whose name is registered first in the Register.

Article 151:

Any document or notice sent to a shareholder in accordance with the provisions of these Articles herein shall be deemed to have been duly sent despite the departure, bankruptcy or winding up of such shareholder (whether the Company was aware of or not), so long as no other Person was registered as the holder of his Shares, and such delivery shall be deemed for all purposes as adequate with respect to any Person interested in such Shares.

Winding Up and Liquidation

Article 152:

Should the Company be wound up and liquidated, either voluntarily or otherwise, the following shall apply, unless otherwise provided in these Articles herein or in the terms and conditions of any Share issued:

- A) The liquidator shall first use all of the Company's assets to discharge its obligations (the Company's remaining assets following such discharge of all its obligations shall be referred to hereinafter as the "**Remaining Assets**").
- B) Subject to special rights attached to Shares, the liquidator shall distribute all Remaining Assets amongst the shareholders on a pro rata basis to the par value of their respective Shares.
- C) Pursuant to an ordinary majority resolution of the general meeting of the Company's shareholders, the liquidator may distribute the Remaining Assets or any part thereof amongst the shareholders in specie or transfer any part of them to a trustee who shall hold them for the benefit of the shareholders, as the liquidator deems appropriate.

Exemption of Liability

Article 153:

- A) The Company may exempt an office holder in advance from all or any of his liabilities for damage resulting from breach of his duty of care to it.
- B) Notwithstanding the above, the Company may not exempt a Director in advance for his liability for a breach of the duty of care in distribution, as such term is defined in the Companies Law.

Insurance

Article 154:

The Company may enter into an insurance agreement for the insurance of office holders' liability, in whole or in part, for an obligation imposed upon him in resulting from an act performed in his capacity as an office holder, in any of the following cases:

- A) a breach of the duty of care to the Company or to another Person;
- B) a breach of the fiduciary duty to the Company, provided that the office holder acted in good faith and had reasonable basis to believe that the act would benefit the Company;
- C) a monetary obligation imposed on the office holder in favor of another Person;
- D) a payment imposed on the office holder in connection with an Administrative Enforcement Procedure, including reasonable litigation expenses and attorney's fees; or
- E) any other insurable act in accordance with the provisions of the Companies Law.

Indemnity

Article 155:

Subject to the provisions of the Companies Law, the Company may indemnify an office holder for any of the following liabilities and expenses he incurred resulting from an act performed in his capacity as an office holder:

- A) a monetary obligation imposed on him in favor of another Person pursuant to a judgment, including a settlement or arbitrator's award approved by court;
- B) reasonable litigation expenses, including attorney's fees, incurred by the office holder pursuant to an investigation or proceeding conducted against him by an competent authority, and which concluded without a criminal indictment being filed against him and without a monetary fine being imposed on him as an alternative to a criminal proceeding, and which does not require proof of criminal thought; in this sub-Article:

conclusion of a proceeding without a criminal indictment being filed in a matter in which a criminal investigation has been commenced – shall mean the closing of a file in accordance with Section 62 of the Criminal Procedure Law (Consolidated Version) 5742-1982 (hereinafter in this sub-Article: the "**Criminal Procedure Law**"), or the stay of proceedings by the Attorney-General in accordance with Section 231 of the Criminal Procedure Law;

"Monetary liability as a substitute for legal proceedings" – a monetary liability that has been imposed by any applicable law as a substitute for a legal proceeding, including an administrative fine pursuant to the Administrative Offences Law, 5746-1985, a fine for an offence that has been determined as a finable offence pursuant to the provisions of the Criminal Procedure Law, a financial sanction or penalty;

- C) reasonable litigation expenses, including attorney's fees, incurred by the office holder or which he is ordered to pay by a court in proceedings filed against him by the Company or on its behalf or by another Person, or in a criminal indictment of which he is acquitted, or in a criminal indictment in which he is convicted of an offence not requiring proof of criminal thought or in an Administrative Enforcement Procedure conducted against him;
- D) a payment imposed on the office holder in favor of an injured party in connection with an Administrative Enforcement Procedure;
- E) any other liability or expense for which it is or shall be permitted to indemnify an office holder in accordance with the Companies Law.

Article 156:

The Company may indemnify an office holder retroactively, and it may undertake in advance to indemnify an office holder, or to indemnify him retroactively, as stipulated in Article 155(A) above, for a liability or expense imposed on him in resulting from an act performed in his capacity as an office holder, provided that the undertaking shall be limited to events which in the Board's opinion are to be expected given the Company's activities at the time the indemnity undertaking is given, as well as the reasonable amounts or criteria as the Board so determined to be expected given the Company's activities when the indemnity is given as well as the amount and the criteria that the board of directors determined as reasonable in the circumstances of the case, and it may undertake to indemnify him in advance as stipulated in Article 155 (B)-(E) above.

Article 157:

In no case shall the total accumulated sum of indemnity to be paid by the Company (in addition to such sums received from the insurance company, if received, for Directors and officer holders' insurance purchased by the Company) to all office holders, in accordance with all letters of indemnity provided to them by the Company, exceed 25% of the Company's equity in accordance with the Company's most recent financial reports as of the indemnity payment date.

Signatory Rights

Article 158:

- A) The signature of any Person duly authorized by the Board from time to time, alone or together with others, in general or for a particular matter, accompanied by the Company's seal or printed name, shall bind the Company.
- B) The Board may determine separate signatory rights with regards to the Company's different operations and with regards to sums for which such Persons are authorized to sign.

Amendment to these Articles of Association

Article 159:

The Company may amend these Articles herein by an ordinary majority resolution adopted by the general meeting of the Company's shareholders.

Summary of Lease Agreement by and among Tefen Yazamut Ltd. and Medigus Ltd.

Note: this summary does not contain a full or direct translation of the terms of the original Hebrew-language lease agreement, and is designated solely for the purpose of providing a general presentation of such agreement.

On January 6, 2004, Tefen Yazamut Ltd. (the “**Lessor**”) and Medigus Ltd. (the “**Company**”) entered into a lease agreement, as amended from time to time, as further elaborated below.

1. Leased Premises:

Certain areas in building number 7A located in the Omer Industrial Park.

Total square meters of leased premises: approximately 807.

2. Term of Lease:

The premises are currently leased until December 31, 2019.

3. Purpose of the Lease:

The premises are to be used by the Company for the purpose of offices, laboratories and clean rooms.

4. Consideration:

In consideration for the leased premises the Company will pay Lessor a total amount of NIS 24,670 + VAT, per month, linked to the Israeli consumer price index. The consideration shall be paid by the Company on a monthly basis.

The Company has provided the Lessor a deposit in the amount of NIS 45,000 for the purpose of guaranteeing its financial obligations under the lease agreement.

5. Termination of the Lease Agreement:

The Lessor may immediately terminate the lease agreement upon: (i) the transfer or assignment of the Company’s rights in the premises to a third party contrary to the terms and conditions stipulated in the lease agreement; or (ii) the Company’s failure to pay any due amount to the Lessor within thirty (30) days of its due date; or (iii) use of the premises for purposes others than those stipulated in the agreement; or (iv) the Company creates a nuisance that may disturb the surrounding businesses.

6. Liability for Injury, Damage or Loss:

- (a) The Company shall be liable for any injury, damage or loss caused by its act or omission in, or in connection with, the premises, to the body or property of any person or corporation, including to the Company or its employees or the Lessor or any other party.
- (b) The Company shall be liable and indemnify its employees or any other party for the damages, losses or expenses incurred by them due to injuries caused in relation with the Company’s activities in the premises and the Lessor shall not be liable for any such damages losses or expenses.

7. Insurance and Indemnity:

The Company shall maintain such standard practice insurance policies as required by any applicable law and as customary with respect to the Company’s operations.

LIST OF SUBSIDIARIES

Company Name	Jurisdiction of Incorporation
Medigus USA LLC ScoutCam Ltd.	Delaware, United States Israel

CERTIFICATION

I, Benad Goldwasser, certify that:

1. I have reviewed this annual report on Form 20-F of Medigus Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 28, 2019

By: /s/ Benad Goldwasser
Prof. Benad Goldwasser
Chairman of the Board of Directors

CERTIFICATION

I, Tatiana Yosef, certify that:

1. I have reviewed this annual report on Form 20-F of Medigus Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 28, 2019

By: /s/ Tatiana Yosef
Tatiana Yosef
Chief Financial Officer

CERTIFICATIONPURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Medigus Ltd., a company organized under the laws of the State of Israel (the "Company"), does hereby certify that, to his knowledge:

1. This Annual Report on Form 20-F for the year ended December 31, 2018 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2019

By: /s/ Benad Goldwasser
Prof. Benad Goldwasser
Chairman of the Board of Directors

This certification accompanies this annual report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

CERTIFICATIONPURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Medigus Ltd., a company organized under the laws of the State of Israel (the "Company"), does hereby certify that, to his knowledge:

1. This Annual Report on Form 20-F for the year ended December 31, 2018 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2019

By: /s/ Tatiana Yosef
Tatiana Yosef
Chief Financial Officer

This certification accompanies this annual report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (No. 333-213280) and Form S-8 (Nos. 333-221019, 333-206803 and 333-229429) of Medigus Ltd. of our report dated March 28, 2019 relating to the financial statements, which appears in this Form 20-F.

Tel-Aviv, Israel
March 28, 2019

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International
Limited

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