

Disclaimer

The following is an unofficial translation into the English language, for convenience purposes only, of the quarterly report of Itamar Medical Ltd. (the “**Company**”) for the six and three months ended June 30, 2018 (the “**Quarterly Report**”) that originally were prepared in the Hebrew language.

The full, legal and binding version of the Quarterly Report for all purposes is the Hebrew version, filed by the Company with the Israel Securities Authority and published on the MAGNA website: www.magna.isa.go.il, on August 12, 2018.

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

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

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

Readers are advised to read the authoritative Hebrew version of the Quarterly Report in all matters, which may affect them, and/or their decisions in any way. The following are links to the Company’s Annual Report in Hebrew:

<https://www.magna.isa.gov.il/details.aspx?id=012311&reference=2018-01-074866#?id=012311&reference=2018-01-074866>



ITAMAR MEDICAL LTD.

QUARTERLY REPORT

AS OF JUNE 30, 2018

TABLE OF CONTENTS:

1. Part A – Update of the Description of the Corporate Business Affairs in the 2017 Annual Report
2. Part B – Board of Directors’ Report on the State of Corporate Affairs
3. Part C – Consolidated Financial Statements as of June 30, 2018



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ITAMAR MEDICAL LTD.

PART A

**UPDATE OF THE DESCRIPTION OF
THE CORPORATE BUSINESS AFFAIRS
IN THE 2017 ANNUAL REPORT**

UPDATE OF THE DESCRIPTION OF THE CORPORATE BUSINESS AFFAIRS IN THE 2017 ANNUAL REPORT

Pursuant to Regulation 39a of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the “**Reports Regulations**”), details of the significant changes and new issues that have occurred in the business of Itamar Medical Ltd. (the “**Company**”) since the publication of the quarterly report of the Company as of March 31, 2018, which was published on May 17, 2018 (Reference No. 2018-01-049045) and up to the publication date of this report.

The terms that follow shall have the meaning that is intended for them in the Company’s annual report for the year ended December 31, 2017, which was published on March 15, 2018 (Reference No. 2018-01-020331), which is included in this report by way of referral (the “**2017 Annual Report**”), unless otherwise stated.

This chapter of the quarterly report has been prepared with the assumption that the chapter on Description of the Corporate Business Affairs of the 2017 Annual Report and the update thereto in the quarterly report of the Company as of March 31, 2018, which was published on May 17, 2018 (Reference No. 2018-01-049045) are available to the reader.

1. Annual and extraordinary general meeting of the Company’s shareholders

On May 23, 2018, an annual and extraordinary general meeting of the Company’s shareholders (in this section: the “**meeting**”) was convened, which approved:

- 1.1 The re-appointment of Dr. Giora Yaron, Martin Gerstel, Ilan Biran, Christopher M. Cleary, Jonathan Kolber and Sami Totah.
- 1.2 Approval of a material private allotment of shares to interested parties and other shareholders in the Company, as described in Section 3 below.
- 1.3 Updating the salary of Mr. Gilad Glick, the Company’s President and Chief Executive Officer.
- 1.4 Updating the vesting conditions of unregistered options and restricted share units granted to the Company’s President and Chief Executive Officer.
- 1.5 Annual bonus plan for the Company’s President and Chief Executive Officer.
- 1.6 Transition from reporting format in accordance with Chapter F of the Securities Law, 1968 (the “**Securities Law**”) to reporting in accordance with the provisions of Chapter E3 of the Securities Law and the regulations promulgated thereunder, in accordance with the provisions of Section 35(32) of the Securities Law (Reporting in accordance with the SEC rules, upon the completion of the registration of the Company’s shares (or American Depositary Receipts (ADRs)) representing the Company’s shares) for trading on the Nasdaq in the United States.
- 1.7 The reappointment of the firm of Somekh Chaikin as the Company’s independent auditor for 2018 and the empowering of the Company’s Board of Directors to set their fees.

For more information, see the report on the calling of a general meeting of the shareholders, dated, April 1, 2018 as amended and supplemented on April 20, 2018, as well as the immediate report regarding the results of the meeting, dated May 23, 2018 (Reference No. 2018-01-027798, 2018-01-036912 and 2018-01-050809 , which the information contained therein, is included in this report by way of reference.

2. **An extraordinary general meeting of the holders of the Company's Warrants (Series 4)**

On May 23, 2018, an extraordinary general meeting of the holders of the Company's Warrants (Series 4) (in this section: the "**meeting of the warrants' holders**") was convened, which approved the transition from reporting format in accordance with Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter E3 of the Securities Law and the regulations promulgated thereunder, in accordance with the provisions of Section 35 (32) of the Securities Law (Reporting in accordance with the SEC rules, upon the completion of the registration of the Company's shares (or American Depositary Receipts (ADRs)) representing the Company's shares) for trading on the Nasdaq in the United States.

For more information, see the report on the calling of the meeting of the warrants' holders, dated, April 1, 2018, as well as the immediate report regarding the results of the meeting, dated May 23, 2018 (Reference No. 2018-01-033985 and 2018-01-050812), , which the information contained therein, is included in this report by way of reference.

3. **A material private allotment of shares to interested parties and other shareholders in the Company**

On March 22, 2018 (after obtaining the approval of the Audit Committee and the Board of Directors for a material private offering to interested parties and other shareholders of the Company), the Company entered into separate investment agreements with the controlling shareholder of the Company, Viola Growth II A.V. LP, a limited partnership, which holds the Company's shares through Viola Growth II (A) LP and Viola Growth II (B) LP (All three jointly referred to as "**Viola**"), Medtronic International Technology, Inc. ("**Medtronic**")¹, an interested party of the Company, Giora Yaron, an interested party of the Company, Yelin-Lapidot Mutual Funds Management Ltd., an interested party of the Company ("**Yelin Lapidot**"), Meitav Dash Provident and Pension Funds Ltd. ("**Meitav-Dash**"), and the Israel Shares – Phoenix Associates ("**Phoenix**") (Jointly: the "**offerees**").

Under the investment agreements, on May 27, 2018, following the approval of the Company's shareholders on May 23, 2018 (see Section 1 above), the offerees invested (directly or, in the case of Yelin Lapidot, Meitav and Phoenix, through mutual funds and/or provident funds and/or pension funds managed thereby) NIS 20.8 million (approximately \$6 million) in consideration for the allotment of 22,013,893 ordinary shares of the Company of NIS 0.01 par value (the "**Shares Offered**") which, immediately after the execution of the transaction, will constitute approximately 7.7% of the Company's issued and outstanding share capital, or approximately 6% of its issued and outstanding share capital on a fully diluted basis.

4. **Renewal of a framework agreement with a network of hospitals in the United States**

On July 30, 2018, the Company announced that the framework agreement for the sale of the Company's products (the "**Agreement**") to a chain of hospitals spread in the United States, which is a material customer of the Company (the "**Customer**"), was renewed for a period of five years (until June 2023). Today there are more than 340 hospitals / clinics in the hospital's network, and the customer's network has about 19 million members, and the Company's revenues from the customer in 2017 totaled \$2.5 million. See Section 11.1 of Part A of the 2017 Annual Report.

¹ For details regarding the reorganization of Medtronic's holdings in the Company, see Section f below and the Company's immediate report of dated May 3, 2018 (Reference No: 2018-01-035391), which is included in this Report by way of reference.

For more information, see the immediate report of July 30, 2018 (Reference No. 2018-01-071266), which the information contained therein, is included in this report by way of reference.

5. **Health Canada approvals for the WatchPAT™ product**

Health Canada's approvals for the WatchPAT200 and WatchPAT200U products are expected to expire on December 31, 2018. For more information regarding these approvals, see Section 8.9.3 of Part A of the 2017 Annual Report, which the information contained therein, is included in this report by way of reference. In light of the costs involved in renewing the said approvals, and taking into account the Canadian market conditions for the said products, the Company does not intend to renew the aforesaid approvals, and therefore, upon expiration of the said approvals, the said products will not be offered for sale in Canada.

6. **Approval of filing a registration statements with the SEC for listing for trading in the U.S.**

The Company's Board of Directors approved, at its last meeting, a confidential filing with the SEC, a registration statement for listing of the Company's shares on the Nasdaq Stock Exchange in the U.S. through an ADR (American Depositary Receipt) program and ADRs representing the Company's shares (the "ADR Plan"). The purpose of the move is to strengthen the investor base in the Company and to enable the Company to increase trading in the share by U.S. and foreign investment entities. The Company's shareholders and the holders of the Warrants (Series 4) approved in meetings held on May 23, 2018 the transition from reporting in accordance with the provisions of Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter 5C of the Securities Law, if and when the process under the ADR Plan is carried out. The ADR Plan does not include capital raising in the U.S. At meetings held on May 23, 2018, transition from reporting in accordance with the provisions of Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter E3 of the Securities Law and the regulations promulgated thereunder, if and when the move is the subject of the program will be implemented. It is hereby clarified that the completion of the move is subject to the receipt of the required approvals, including the approval of the SEC and the Nasdaq, and the precise date on which the Company's ADRs will be listed on Nasdaq is not known at this stage. It is clarified that the Company does not undertake to complete the process even if the required approvals are received. Upon the transition to the reporting format in accordance with Chapter E3 of the Securities Law, i.e., reporting according to U.S. securities laws (including the U.S. Securities Exchange Act of 1934), the Company will report the reports it will file with SEC To MAGNA in accordance with the Securities Law and the regulations promulgated thereunder.

Some of the above information is not based on historical facts and constitutes forward-looking information, as this term is defined in the Securities Law. In particular, the aforesaid information regarding the assessments of the Company's management regarding the listing process for the ADRs in the United States and the possible outcomes of this process is forward-looking information. Any forward-looking information included above is subject to future events or changes, some of which are not under the Company's control, including changes in the target markets of the Company's products, changes in capital market conditions and decisions of regulatory authorities, such as the SEC and the Nasdaq.

ITAMAR MEDICAL LTD.

PART B

**BOARD OF DIRECTORS' REPORT
ON THE STATE OF CORPORATE AFFAIRS
AS OF JUNE 30, 2018**

BOARD OF DIRECTORS' REPORT FOR THE THREE-MONTH PERIOD **ENDED JUNE 30, 2018**

We hereby present the Board of Directors' Report of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company**") and its subsidiaries (the "**Group**") as of June 30, 2018 which includes the Company's consolidated financial results for the six and three-month periods ended June 30, 2018 (the "**reporting period**", and the "**quarter**", respectively), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report as of June 30, 2018 is provided with the assumption that the annual report for the year ended December 31, 2017, issued by the Company on March 14, 2018 (Reference No. 2018-01-020331) (the "**2017 Annual Report**") and the Board of Directors Report as of March 31, 2018, issued by the Company on May 17, 2018 (Reference No. 2018-01-049045) (the "**Report for the First Quarter of 2018**") are available to the reader. Data included in this Annual Report, which are stated as of the issuance date are true as of August 9, 2018.

Definitions:

| | |
|----------------------|---|
| "TASE" | The Tel Aviv Stock Exchange Ltd. |
| "dollar", "\$" | The U.S. dollar |
| The "Securities Law" | The Israeli Securities Law, 1968 |
| "Series L Notes" | Company notes (Series L), which were issued to the public in March 2013, were listed for trading on the TASE, were convertible into the Company's ordinary shares and were fully repaid on February 28, 2018. |

Preparation of the financial statements

The financial statements enclosed in Part C of this Report are prepared in accordance with International Financial Reporting Standards ("**IFRS**") and in conformity with the Regulations. The functional currency and the reporting currency of the financial statements is the dollar. For more information, see Note 2b to the Company's financial statements as of December 31, 2017, which are included in the 2017 Annual Report.

Chapter A – Board of Directors' Explanations of the State of Company's Affairs

1. Summary description of the Company

The Company is engaged in development, manufacturing, marketing, selling and leasing of the PAT[™] ("**PAT**") signal based non-invasive medical devices and other non-invasive devices, and associated support services for the diagnosis and assessment of various medical conditions, principally sleep breathing disorders and cardiologic diseases.

The Company has two products: WatchPAT[™] ("**WatchPAT**") and EndoPAT[™] ("**EndoPAT**"). For more information about the Company's products, see Section 8 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

The WatchPAT product is the Company's main product, and the Company's business strategy is focused on this product (see also below) and it includes reusable devices and disposable probes. This product diagnoses sleep breathing disorders apnea, which has been proven, among others, to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart.

As part of the Company's strategy, the U.S. subsidiary launched in January 2015 the "Total Sleep Solution" ("TSS"), which is a package of products and services providing a comprehensive solution which combines diagnosis and treatment of sleep apnea, including ancillary services' designed principally for cardiac medicine (clinics and departments around hospitals). For more information on the TSS, see Section 8.5 in Part A of this Annual Report, which the information contained therein, is included in this Report by way of reference. As part of the TSS, in the third quarter of 2016, the Company started marketing and selling in the U.S. a solution for the treating of sleep apnea using CPAP devices (continuous positive airway pressure) manufactured by the U.S. corporation, DeVilbiss Healthcare ("DeVilbiss") and accessories. In addition, during the third quarter of 2017, the U.S. subsidiary signed an additional distribution agreement with Philips Respironics, Inc. ("Philips") in which the subsidiary received non-exclusive and limited distribution rights of medical equipment manufactured by Philips (including the PAP device and its associated derivatives) for the treatment of sleep apnea in the field of cardiology. For more information on the principles agreement with DeVilbiss and on the distribution agreement with Philips, see Section 8.6 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

In accordance with its strategic plan, the Company currently focuses on marketing the WatchPAT product and the TSS in the cardiology field, emphasizing the U.S. market, which is its principal comprehensive sleep solution market, while continuing operations on the general sleep disorder market. At the same time, the Company continues its efforts to market the WatchPAT product on the Japanese, Chinese and the European markets, which the Company considers to be the markets with a material potential to increase its revenues, after the U.S. market. Under the TSS model, the Company is moving from a sale of devices and probes to a sale of tests (Test as a Service – TaaS). Under this model, the actual charge is made at the time of the sale of tests, when the Company provides the cardiologists with the WatchPAT devices, and the charge at the time of purchase of the test covers the price of the probe and the rental of the device and related services (Cost per Test). This model is a substantial component in the acceleration of gaining new customers, since it does not require pre-capital investment by the customers.

The other product of the Company is EndoPAT, which is used to diagnose endothelial dysfunction, which is a key indicator of potential cardio-vascular disease. As of the date of this report, the selling and marketing efforts pertaining to this product are secondary to the efforts relating to the WatchPAT product. They are mainly focused on sales for the research purposes in general and focusing on pharma testing.

Both products have FDA (the U.S. Food and Drugs Administration) approval in the United States, CE approval in Europe, MHLW approval in Japan, CFDA approval in China and in other markets.

For more information about the Company's strategy, see Section 31 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

2. Major events during and after the reported period

The Company's revenues increased by approximately 20% and 23%, respectively, in the current quarter and in the first half of 2018, as compared to the corresponding periods last year. Revenues from Watch PAT (including CPAP devices), which is the focus of the Company's strategy, increased by approximately 21% and 30%, respectively, in the current quarter and in the first half of 2018, as compared to the corresponding periods last year. This increase is the result of an increase in the sale of probes and tests.

The Company continues to maintain a high gross margin, while in the first half of 2018 it increased to 77%, compared with 76% in the corresponding period last year.

Moreover, there is a continuous decrease in the Non-IFRS cash basis operating loss in the last two years from \$2.2 million in the first quarter of 2016 to \$0.4 million in the current quarter.

During the first half of 2018, the Company focused on several significant areas, as described below, in order to further support the growth trend in the current year:

- a. The Company continues its efforts to promote the TSS in the United States, as described in Section 1 above, and to improve that solution; this is in addition to the sale of devices and probes to customers in the sleep area. In this context, the Company made a transition from the normal sales model (devices and probes sales) to the sale of medical tests. The Company recently launched a package of logistics services, the WatchPAT Direct, which is offered as part of the TSS solution for the Company's customers in the U.S., which includes a contact solution with patients on behalf of the customer by telephone and other means to coordinate the sleep check, shipping the devices to the patients' homes and back by mail and instructing them how to carry out the test. This is done from the Company's service center located in its headquarters in Atlanta, Georgia. The service is for a fee and maintains the average gross margin of the Company, and a number of large customers have already contacted the Company and purchase this package of services on a regular basis.

The revenues from sales of tests and probes and CPAP devices (revolving sales) in North America in the first half of 2018 constituted approximately 67% of total revenues from sales of WatchPAT (including CPAP devices) in North America, as compared to approximately 64% in the first half of 2017, an increase of 5%. Moreover, a considerable portion of information on consumption pattern of customers using the TSS services, as well as other medical information thereon, is available to the Company and may be applied thereby for research and marketing purposes, subject to the applicable privacy protection laws, the agreements with the Company's customers and the industry practice.

- b. The revenues from EndoPAT continued to decline in the first quarter of 2017, primarily due to the decrease in the Company's marketing efforts and due to the reduction in research funds which purchase this product and the difficulties of caregivers to receive insurance reimbursement for use of this product. The effort to increase the sales of this product in the secondary prevention field, as well as the continued marketing activity in the primary prevention field, which focused primarily on Japan and China did not bring the desired results. Consequently, in January 2017 the Company modified its business strategy so that the company would focus on marketing and sales of TSS in the cardiology field and reduce the marketing and selling activity of this product in Japan. The Company continues the marketing and sales of this product to customers in the pharmaceutical research field worldwide (including in Japan). The Company operates, through an exclusive representative, to find additional distributors and/or strategic partners for this product in Japan. For further details, see Sections 7.3.4 and 8.3 in Part A of the 2017 Annual Report, which the information contained therein is included in this Report by way of reference.
- c. Since the Series L Notes were not converted, on February 28, 2018, the Company discharged the remaining 50% of the par value of the Notes, in an amount of approximately NIS 38.1 million (approximately \$10.9 million on the payment date). Of this amount, a principal of NIS 6 million (approximately \$1.7 million) relating to Notes that were held by three

interested parties in the Company, Medtronic International Technology, Inc. (“**Medtronic**”)¹, Dr. Giora Yaron, who serves as Chairman of the Board of Directors of the Company (through Itamar Technologies and Investments (1994) Ltd., a company owned and controlled by him) (Jointly: “**Giora Yaron**”) and Mr. Martin Gerstel, who serves as a director of the Company, plus the interest that was to be paid to them were not paid. The above interested parties informed the Company that in order to support the Company's business strategy, they intend to provide the Company with a loan of the same amount. On March 22, 2018, all the above interested parties, with the exception of Mr. Martin Gerstel, have entered into the investment agreements mentioned below. With regard to Mr. Gerstel, it was agreed at that time between the Company and Mr. Gerstel and at his request that the amount of principal and interest which amounted to approximately \$0.5 million, up to the date of repayment of the notes will be paid within 90 days (i.e., until June 21, 2018). It is hereby clarified that it was agreed between Mr. Gerstel and the Company that he will not be paid additional interest from the original repayment date of the notes until June 21, 2018. This amount was repaid in full on June 20, 2018.

On March 22, 2018 (after obtaining the approval of the Audit Committee and the Board of Directors for a material private offering to interested parties and other shareholders of the Company), the Company entered into separate investment agreements (each of the agreements will be referred to as the “**Investment Agreement**” or the “**Agreement**” and together, the “**Investment Agreements**” or the “**Agreements**”) with the controlling shareholder of the Company, Viola Growth II A.V. LP, a limited partnership, which holds the Company’s shares through Viola Growth II (A) LP and Viola Growth II (B) LP (All three jointly referred to as “**Viola**”), Medtronic, an interested party of the Company, Giora Yaron, an interested party of the Company, Yelin-Lapidot Mutual Funds Management Ltd., an interested party of the Company (“**Yelin Lapidot**”), Meitav Dash Provident and Pension Funds Ltd. (“**Meitav-Dash**”), and the Israel Shares – Phoenix Associates (“**Phoenix**”) (Jointly: the “**offerees**”).

Under the Investment Agreements, on May 27, 2018, following the approval of the Company’s shareholders on May 23, 2018, the offerees invested (directly or, in the case of Yelin Lapidot, Meitav and Phoenix, through mutual funds and/or provident funds and/or pension funds managed thereby) NIS 20.8 million (approximately \$6 million) (the “**Investment Amount**”) in consideration for the allotment of 22,013,893 ordinary shares of the Company of NIS 0.01 par value (the “**Shares Offered**”) which, immediately after the execution of the transaction, will constitute approximately 7.7% of the Company’s issued and outstanding share capital, or approximately 6% of its issued and outstanding share capital on a fully diluted basis.

The investment was made at a price of NIS 0.947 per ordinary share of the Company, reflecting a 7% discount on the average share price during the 15 consecutive trading days preceding March 15, 2018 (inclusive), the date of issuance of the Company's 2017 financial statements. The shares offered shall be subject to resale restrictions as stipulated by the Securities Law and the regulations published thereunder.

- d. In April 2018, the Company reported that the U.S. Food and Drug Administration (the “**FDA**”) had received for examination the next generation of sleep products, the WatchPAT300, which is the first in a series of planned submissions of a platform that implements a new technology that enables fast data transfer with a small, lightweight device, reduced production costs and infrastructure for future capabilities, such as wireless

¹ For details regarding the reorganization of Medtronic’s holdings in the Company, see Section f below and the Company’s immediate report of dated May 3, 2018 (Reference No: 2018-01-035391), which is included in this report by way of reference.

communication options. The new device has been submitted to the FDA for identical indications to the existing device. The Company estimates that the FDA takes six to 12 months to complete the examination process, and based on past experience, there is a high probability of approval.

- e. On May 2, 2018, Medtronic informed the Company that as part of the reorganization of a wide portfolio of investments by Medtronic (which also includes its holdings in the Company) its holdings in the Company were transferred to MS Pace LP, a limited partnership incorporated in Delaware, U.S. (the “**Partnership**”), such that the Partnership holds approximately 14.3% of the Company's issued and outstanding share capital. Medtronic holds 51% of the holdings in the General Partner in the Partnership. Medtronic transferred to the Partnership the Company’s shares that were issued to it as part of the private offering, as detailed in Section c. above.
- f. In May 2018, at the Heart Rhythm 2018 Conference in Boston, U.S., the Company launched SleePath™, an integrated cloud-based sleep apnea patient care pathway management tool for cardiologic patients in general and atrial fibrillation (“**AFib**”) patients in particular, which are treated with Philips CPAP device. Effective management of sleep apnea is essential for improving outcomes in patients with AFib. The Philips CPAP devices report into EncoreAnywhere™, an information system which enables monitoring of the Patient Adherence Management, or and PAMS services which are a unique to intervention model improving patient compliance. Utilizing data from the Philips EncoreAnywhere, SleePath includes a Cardio Sleep Dashboard which allows cardiologists to track multiple aspects of a patient’s sleep apnea status anytime. The system monitors follows care pathway progress, from diagnosis status and results, to CPAP compliance, (the number of days and hours on CPAP and residual sleep apnea). The data is presented in a user-friendly visual format (including statistics for all the cardiologist patients and patient-specific data for each patient), that gives the cardiologist simple understanding of the current status of the sleep apnea as a risk factor. This system which is classified as a medical device data information system and there for is exempt from submission to the FDA and requires registration only.
- g. In July 2018, the Company renewed the framework agreement for the sale of the Company’s products to a chain of hospitals spread in the United States, which is a material customer of the Company (in this section: the “**Customer**”), which was renewed for a period of five years (until June 2023). Today there are more than 340 hospitals / clinics in the hospital’s network, and the customer’s network has about 19 million members, and the Company’s revenues from the customer in 2017 totaled \$2.5 million.
- h. The Company’s Board of Directors approved, at its last meeting, a confidential filing with the U.S. Securities and Exchange Commission (the “**SEC**”) a registration statement for listing of the Company’s shares on the Nasdaq Stock Exchange in the U.S. through an ADR (American Depositary Receipt) program and ADRs representing the Company’s shares (the “**ADR Plan**”). The Company’s shareholders and the holders of the Warrants (Series 4) approved in meetings held on May 23, 2018 the transition from reporting in accordance with the provisions of Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter 5C of the Securities Law, if and when the process under the ADR Plan is carried out. The ADR Plan does not include capital raising in the U.S. The purpose of the move is to strengthen the investor base in the Company and to enable the Company to increase trading in the share by U.S. and foreign investment entities. At meetings held on May 23, 2018, transition from reporting in accordance with the provisions of Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter E3 of the Securities Law and the regulations promulgated thereunder, if and when the move is the subject of the program will be implemented. It is hereby clarified that the completion of the

move is subject to the receipt of the required approvals, including the approval of the SEC and the Nasdaq, and the precise date on which the Company's ADRs will be listed on Nasdaq is not known at this stage. It is clarified that the Company does not undertake to complete the process even if the required approvals are received. Upon the transition to the reporting format in accordance with Chapter E3 of the Securities Law, i.e., reporting according to U.S. securities laws (including the U.S. Securities Exchange Act of 1934), the Company will report the reports it will file with SEC to MAGNA in accordance with the Securities Law and the regulations promulgated thereunder.

The information provided above with regard to continued growth of the Company and improvement in its future revenue flow, as well as, the Company's assessments regarding the new technology's ability described in Section d above to reduce production costs and its ability to provide infrastructure for future capabilities, such as wireless communication options, as well as the Company's assessment of the length of time required for the FDA examination process and the high probability of approval, and the Company's assessments regarding the listing process for ADRs in the United States and the possible outcome of this process, constitute forward-looking information, as this term is defined in the Securities Law. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, among others, to a delay in the FDA approval process or to delay in negotiations with distributors and/or delay in research and development and/or change in market structure and requirements or market competition and/or financing difficulties which could impact the development of Company business, and / or changes in capital market conditions and decisions of regulatory agencies, such as the SEC and the Nasdaq.

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

| Item | June 30, 2018 | December 31, 2017 | Change - increase (decrease) % | Company explanations |
|---|----------------------|-------------------|--------------------------------|---|
| | Dollars in thousands | | | |
| Cash and cash equivalents (December 31, 2017 and investments in securities) | 8,534 | 10,816 | (21%) | Most of the decrease in the first half of 2018 derives from the second and final repayment of Series L Notes and payment of interest in respect thereof, and from the cash flows used in operating activities in an amount of approximately \$2.0 million (including financial expenses and changes in asset and liability items, and the elimination of non-cash expense items, such as doubtful accounts and stock-based payments) (See Section 5 below). On the other hand, these balances, increased due to the proceeds from the \$6 million private offering to |

| Item | June 30, 2018 | December 31, 2017 | Change - increase (decrease) % | Company explanations |
|-------------------------|----------------------|-------------------|--------------------------------|--|
| | Dollars in thousands | | | |
| | | | | shareholders and institutional investment as well as the withdrawal of \$5.0 million from a credit facility from bank, as described in Section 6.3 below. |
| Current assets | 17,478 | 19,123 | (9%) | The decrease is primarily due to the decrease in cash and cash equivalents and investments in securities, as described above. |
| Non-current assets | 2,040 | 2,154 | (5%) | There was no material change in this item. |
| Current liabilities | 9,959 | 15,767 | (37%) | The decrease in the balance of current liabilities derives mainly from the final repayment of principal and interest in respect of the Series L Notes, which was partially offset by an increase of \$5.0 million in credit from a bank, as described above. |
| Non-current liabilities | 2,044 | 4,133 | (51%) | The decrease is mainly due to the following reasons: (i) a decrease of approximately \$2 million in the fair value of the warrants issued to the Viola Fund (the “ Viola Warrants ”) and of the Warrants (Series 4) issued to the public, deriving mainly from a decrease of 16.5% in the Company’s share price (as of June 30, 2018, compared to December 31, 2017) and shortening the life of the warrants. For information regarding the valuation of the Viola Warrants and the Warrants (Series 4), see Section 17 below; and (ii) a decrease of approximately \$0.1 million in the value of the embedded warrants in the Series L Notes, due to the repayment of the balance of the principal of the Notes. |
| Working capital | 7,376 | 3,356 | 120% | The increase in the working capital and in the current ratio is mainly attributable to the proceeds from the private offering and the withdrawal from the bank credit facility, which |
| Current ratio | 1.7 | 1.2 | | |

| Item | June 30, 2018 | December 31, 2017 | Change - increase (decrease) % | Company explanations |
|--------|----------------------|----------------------|---|---|
| | Dollars in thousands | | | |
| | | | | was partially offset by repayment of the balance of the principal of the notes and the financing of current operations. |
| Equity | 7,372 | 1,377 | 435% | The increase in the equity is resulting mainly from the private offering of shares by the Company. For further information, see financing sources in Section 6.1 below. |

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

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

Summary of operating results as presented in the financial statements:

Summary of operating results as presented in the financial statements:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|----------------|--------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 11,546 | 9,403 | 6,076 | 5,058 |
| Cost of revenues | 2,680 | 2,286 | 1,431 | 1,224 |
| Gross profit | 8,866 | 7,117 | 4,645 | 3,834 |
| Selling and marketing expenses | 6,078 | 6,091 | 3,269 | 2,975 |
| Research and development expenses | 1,856 | 1,962 | 873 | 917 |
| General and administrative expenses | 2,724 | 2,710 | 1,411 | 1,424 |
| Operating loss | (1,792) | (3,646) | (908) | (1,482) |
| Financial income (expenses) from cash and investments | 182 | 1,454 | (28) | 362 |
| Financial expenses from notes and loans | (761) | (3,291) | (183) | (1,092) |
| Gain from derivative instruments | 2,110 | 3,835 | 710 | 1,086 |
| Financial income, net | 1,531 | 1,998 | 499 | 356 |
| Loss before taxes on income | (261) | (1,648) | (409) | (1,126) |
| Taxes on income | (51) | (42) | (15) | (6) |
| Loss for the period | (312) | (1,690) | (424) | (1,132) |

Summary of Non -IFRS operating results **:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|----------------|--------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 11,546 | 9,403 | 6,076 | 5,058 |
| Cost of revenues | 2,550 | 2,200 | 1,357 | 1,184 |
| Gross profit | 8,996 | 7,203 | 4,719 | 3,874 |
| Selling and marketing expenses | 5,872 | 5,548 | 3,156 | 2,782 |
| Research and development expenses | 1,776 | 1,908 | 835 | 932 |
| General and administrative expenses | 2,320 | 2,214 | 1,173 | 1,209 |
| Operating loss | (972) | (2,467) | (445) | (1,049) |
| Financial income (expenses) from cash and investments | 182 | 1,454 | (28) | 362 |
| Financial expenses from notes and loans | (761) | (3,169) | (183) | (1,092) |
| Financial expenses, net | (579) | (1,715) | (211) | (730) |
| Loss before taxes on income | (1,551) | (4,182) | (656) | (1,779) |
| Taxes on income | (51) | (42) | (15) | (6) |
| Adjusted loss for the period* | (1,602) | (4,224) | (671) | (1,785) |

Adjustments to loss for the period:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|----------------|--------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Loss for the period – under IFRS | (312) | (1,690) | (424) | (1,132) |
| Adjustments: | | | | |
| Depreciation and amortization | 243 | 239 | 128 | 113 |
| Change in provision for doubtful and bad debt | 68 | 84 | 66 | 25 |
| Share-based payment | 509 | 705 | 269 | 233 |
| Expenses relating to reduction of manpower | - | 273 | - | 62 |
| Gain from derivative instruments | (2,110) | (3,835) | (710) | (1,086) |
| Total adjustments | (1,290) | (2,534) | (247) | (653) |
| Adjusted loss for the period* | (1,602) | (4,224) | (671) | (1,785) |

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

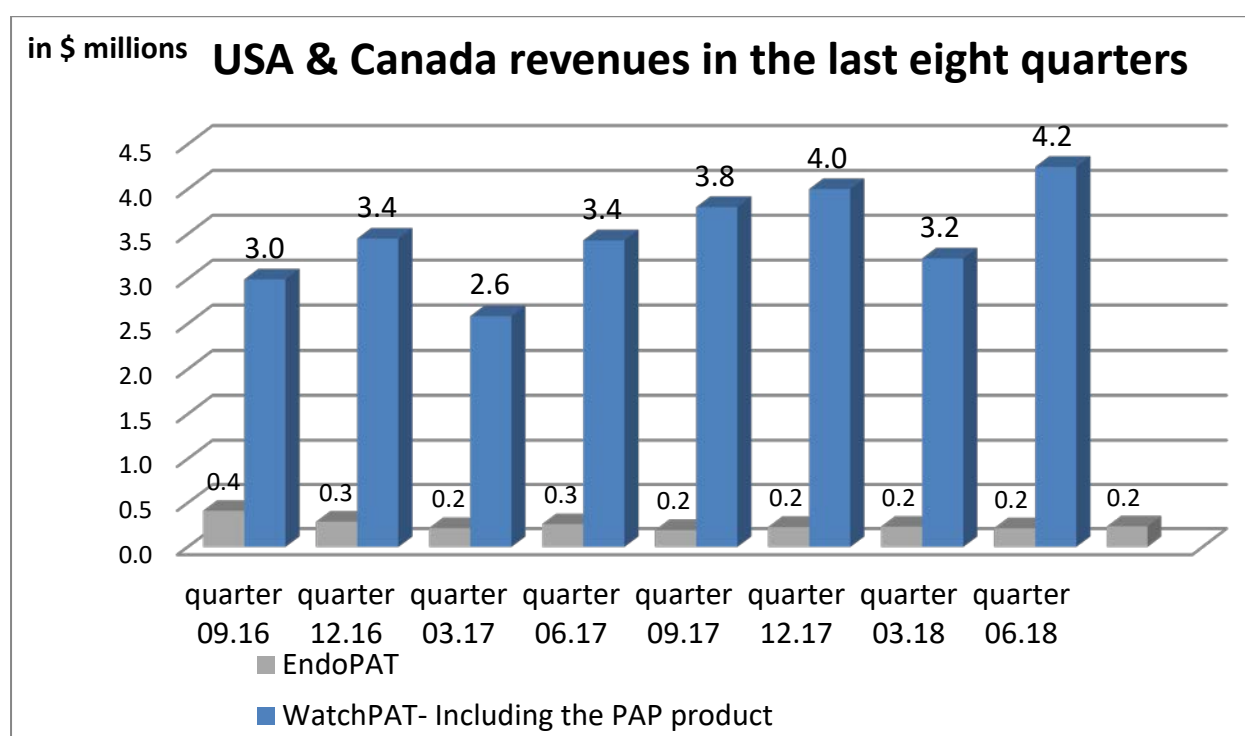
** Adjusted information, not in conformity with IFRS rules, which eliminates non-cash components and non-recurring components.

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

Information about product revenues (dollars in thousands):

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|-------------------------------|--------------------------------------|--------------|--|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| WatchPAT and related products | 10,651 | 8,210 | 5,612 | 4,646 |
| EndoPAT | 1,193 | 1,193 | 464 | 412 |
| | 9,403 | 9,403 | 6,076 | 5,058 |

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|-------------------------------|--------------------------------------|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| WatchPAT and related products | 92% | 87% | 92% | 92% |
| EndoPAT | 8% | 13% | 8% | 8% |
| | 100% | 100% | 100% | 100% |



Analysis of statement of operations data in first half of 2018

| Item | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|--------------|------------------------------|-------|---------------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| Revenues | 11,546 | 9,403 | 23% | The increase in revenues in the first half of 2018, compared to the corresponding period last year is mainly attributable to an increase of approximately 41% in revenues from the WatchPAT product, resulting also from an increase from sales of disposables (which are used in each test) sold in the U.S. (total revenues from the sale of the WatchPAT product in the U.S. increased by 26%, compared to the corresponding period last year), as well as an increase of 51% in revenues from sale of products under the distribution agreement with Philips Japan. It should be also noted that there was an increase in sales of WatchPAT in the core sleep market as a result of the new AIM Guidelines. This increase was partially offset by a decrease of approximately 25% in the revenues from sale of the EndoPAT device (approximately \$0.3 million) which is resulting from the trend of decrease in revenues from the sale of the EndoPAT product as described in Section 2b above. |
| Gross profit | 8,866 | 7,117 | 25% | Gross margin in the first half of 2018 was approximately 77% of total revenues, compared to approximately 76% in the corresponding period last year. The improvement in gross margin on the Company's products is primarily attributable to the streamlining of the production processes in 2016, 2017 and 2018 and to the increase in the quantities of the Company's products produced during the period. |

| Item | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|-------------------------------------|------------------------------|---------|---------------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| Selling and marketing expenses | 6,078 | 6,091 | (0%) | There was no material change in selling and marketing expenses in the first half of 2018, compared with the corresponding period last year, but there was a change in composition. On the one hand, there was an increase in expenses as follows: (i) an increase in sales commissions expenses due to an increase in sales of the U.S. subsidiary; and (ii) an increase in expenses to consultants, mainly due to the Company's efforts to increase the number of insureds entitled to reimbursement for use of the Company's products, mainly in the U.S. On the other hand, there was a decrease in expenses as a result of: (i) a reduction in the subsidiary's operations in Japan; and (ii) a decrease in expenses related to seminars and trade shows abroad. |
| Research and development expenses | 1,856 | 1,962 | (5%) | The decrease in research and development expenses in the first half of 2018, compared to the corresponding period last year, was primarily due to: (i) a decrease in the expenses related to the large-scale clinical study in the U.S. carried out in order to expand the acquaintance of the medical community with the PAT signal (this study is carried out in cooperation with the Faculty of Medicine of the Johns Hopkins University in Baltimore, Maryland), as compared to the corresponding period last year; and (ii) a decrease in expenses of subcontractors and consultants, as compared to the corresponding period last year. On the other hand, there was an increase in payroll and related expenses as a result of recruitment of personnel for new developments on which the Company is working. |
| General and administrative expenses | 2,724 | 2,710 | 1% | There was no significant change in general and administrative expenses in the first half of 2018, as compared to the corresponding period last year. |
| Operating loss | (1,792) | (3,646) | (51%) | The decrease in operating loss in the first half of 2018, compared to corresponding |

| Item | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|--|------------------------------|---------|---------------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | period last year resulted mainly from the increase in revenues, improved gross margin and from the decrease in research and development expenses, as described above. |
| Financial income from cash and investments | 182 | 1,454 | (87%) | The decrease in financial income from cash and investments in the first half of 2018, compared to the corresponding period last year resulted from the decrease in the balances of such items as a result of the repayment of the balance of the principal of the Series L Notes at the end of February 2018. In addition, in the first half of 2017, there was a sharp devaluation of 9.1% in the dollar/NIS exchange rate, while in the first half of 2018 until the repayment date of the Series L Notes there was a slight appreciation in the dollar/NIS exchange rate. Devaluation in the dollar/NIS exchange rate results in an increase in financial income due to the increase in the dollar value of cash, cash equivalents and marketable securities. |
| Financial expenses from notes and loans | (761) | (3,291) | (77%) | The decrease in financial expenses from notes and loans in the first half of 2018, compared to the corresponding period last year, is primarily due to the repayment of the balance of the principal of the Series L Notes at the end of February 2018. In addition, financial expenses in the corresponding period last year included exchange differences resulting from depreciation in the dollar/NIS exchange rate, which increased the dollar value of the Series L Notes. This decrease was partially offset by an increase in interest expenses due to the withdrawal of short-term bank loan in February 2018. |
| Gain from derivative instruments | 2,110 | 3,835 | (45%) | The decrease in gain from derivative instruments in the first half of 2018, compared to the corresponding period last year is due to a lower decline in the fair value of the Viola Warrants and of the Warrants (Series 4), approximately \$2.0 million in the current period, compared to approximately \$2.1 million in the |

| Item | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|---------------------|------------------------------|---------|---------------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | corresponding period last year. In addition, the decline in the fair value of the warrants embedded in the Series L Notes was also lower in the current period (\$0.1 million, compared to \$1.7 million in the corresponding period last year) since the notes were fully repaid in February 2018 and the fair value of their embedded warrants was very low at the end of 2017. For information on valuation of the warrants, see Section 17 below. |
| Loss | (312) | (1,690) | (86%) | The decrease in the loss in the first half of 2018, compared to corresponding period last year is mainly attributable to the decrease in the operating loss, which was partially offset by a decrease in financial income, net, as described above. |
| Adjustments to loss | (1,290) | (2,534) | (49%) | Most of the change in adjustments to loss in the first half of 2018, compared to the corresponding period last year derives from valuation of derivative instruments as described above and from share-based compensation expenses. |
| Adjusted loss | (1,602) | (4,224) | (62%) | The decrease in adjusted loss in the first half of 2018, compared to the corresponding period last year is mainly due to the decrease in the operating loss resulting from the increase in revenues, improvement in the gross profit and decrease in research and development expenses and decrease in financial expenses, net, which was partially offset by the increase in selling and marketing expenses. |

Analysis of statement of operations data in the second quarter of 2018

| Item | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|----------|--|-------|---------------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| Revenues | 6,076 | 5,058 | 20% | The increase in revenues in the second quarter of 2018, compared to the corresponding quarter last year is mainly attributable to an increase of approximately 21% in revenues from the |

| Item | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|-----------------------------------|-------------------------------------|-------|------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | WatchPAT product, resulting from an increase in sales of disposables (which are used in each test) sold in the U.S. (total revenues from the sale of the WatchPAT product in the U.S. increased by 24%, compared to the corresponding quarter last year), as well as an increase of 21% in revenues from sale of products under the distribution agreement with Philips Japan. Moreover there was an increase of approximately 13% in the revenues from sale of the EndoPAT device. |
| Gross profit | 4,645 | 3,834 | 21% | Gross margin in the second quarter of 2018 was approximately 76% of total revenues similar to the corresponding quarter last year. |
| Selling and marketing expenses | 3,269 | 2,975 | 10% | The increase in selling and marketing expenses in the second quarter of 2018, compared to the corresponding quarter last year is mainly due to the increase in payroll expenses, sales commissions and related expenses which resulted from the increased sales and the recruitment of personnel to new territories in the U.S. On the other hand, there was a decrease in expenses related to seminars and trade shows abroad and to consultants. |
| Research and development expenses | 873 | 917 | (5%) | The decrease in research and development expenses in the second quarter of 2018, compared to the corresponding quarter last year, was primarily due to a decrease in the expenses related to the large-scale clinical study in the U.S. carried out in order to expand the acquaintance of the medical community with the PAT signal (this study is carried out in cooperation with the Faculty of Medicine of the Johns Hopkins University in Baltimore, Maryland), as compared to the corresponding quarter last year. This decrease was partially offset by an increase in payroll and related expenses as a result of recruitment of personnel for new developments on which the Company is working. |
| General and | 1,411 | 1,424 | (1%) | There was no significant change in |

| Item | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|---|-------------------------------------|---------|------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| administrative expenses | | | | general and administrative expenses in the second quarter of 2018, as compared to the corresponding quarter last year. |
| Operating loss | (908) | (1,482) | (39%) | The decrease in operating loss in the second quarter of 2018, compared to corresponding quarter last year resulted mainly from the increase in revenues, partially offset by an increase in selling and marketing expenses, as described above. |
| Financial income (expenses) from cash and investments | (28) | 362 | | The financial expenses from cash and investments in the second quarter of 2018 derive from an appreciation of 3.9% in the dollar/NIS exchange rate, compared with financial income in the corresponding quarter last year, deriving mainly from a 3.7% devaluation of the dollar/NIS exchange rate. |
| Financial expenses from notes and loans | (183) | (1,092) | (83%) | The decrease in financial expenses from notes and loans in the second quarter of 2018, compared to the corresponding quarter last year, is primarily due to the repayment of the balance of the principal of the Series L Notes at the end of February 2018. This decrease was partially offset by an increase in interest expenses due to the withdrawal of short-term bank loan in February 2018. |
| Gain from derivative instruments | 710 | 1,086 | (35%) | The decrease in gain from derivative instruments in the second quarter of 2018, compared to the corresponding quarter last year resulted from the fact that in the corresponding quarter last year, the Company recorded a gain from derivative instruments due to a decrease of approximately \$0.4 million in the fair value of the warrants embedded in the Series L Notes. The gain from the revaluation of the warrants issued to the Viola Warrants and the Warrants (Series 4) c in both quarters amounted to \$0.7 million. For information on valuation of the warrants, see Section 17 below. |
| Loss | (424) | (1,132) | (63%) | The decrease in the loss in the second quarter of 2018, compared to the |

| Item | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|---------------------|-------------------------------------|---------|------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | corresponding quarter last year is mainly attributable to the decrease in the operating loss and to the increase in financial income, net, as described above. |
| Adjustments to loss | (247) | (653) | (62%) | The main change in the adjustments to the loss in the second quarter of 2018, compared to the corresponding quarter of last year derived from the gain from the valuation of the warrants embedded in Series L Notes in the amount of \$0.4 million. |
| Adjusted loss | (671) | (1,785) | (62%) | The decrease in adjusted loss in the second quarter of 2018, compared to the corresponding quarter last year is mainly attributable to the decrease in the operating loss, mainly as a result of increase in revenues and decrease in financial expenses, net, offset by an increase in selling and marketing expenses. |

5. Liquidity

In the reported period, the Company continued to finance its current operations, as follows: (i) by increasing selling and marketing effort in markets on which the Company's operations are focused, principally the U.S, Japan and Europe; and (ii) funds received by the Company from the issuance of Series L Notes in February 2013, from a private placement of shares to institutional investors during 2014, funds received in the years 2015 and 2016 from the investment transaction of the Viola Fund and the proceeds from rights offering to the Company's shareholders and funds received in May 2018 from a private offering to shareholders and institutional investors; and (iii) short-term bank credit, see also Section 6.1 below.

Analysis of cash flows for the first half of 2018

| Activity Type | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|-----------------------|---------------------------|---------|------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| Operating activities* | (2,016) | (4,031) | (50%) | The decrease in the cash flows used in operating activities in the first half of 2018, as compared to the corresponding period last year is primarily due to: (i) the decrease in the loss for the period (after elimination of non-cash financial expenses, allowance for doubtful accounts and expenses relating to share-based compensation); (ii) an increase in |

| Activity Type | Six Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|----------------------|---------------------------|-------|------------------------------|--|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | accounts payable and other payables and accrued expenses in the current period, compared to a decrease in the corresponding period last year; and (iii) lower interest payment in respect of Series L Notes, as a result of repayment of the principal of such notes. This increase was partially offset by a higher increase in inventories, compared to the corresponding period last year, as a result of an increase in the current revenues and in the forecasted revenues. |
| Investing activities | 3,017 | (145) | | The amounts of cash flows used in investing activities in the first half of 2018 resulted from proceeds from realization of marketable securities, partially offset by purchase of fixed assets. Cash used in investing activities in the first half of 2017 resulted from purchase of fixed assets. |
| Financing activities | (10,324) | (140) | (99%) | Cash flows used in financing in the first half of 2018 were applied to the repayment of the balance of the Series L Notes, which were almost fully offset by a fund raising in a private offering and a short-term bank loan. Cash flows used in financing activities in the first half of 2017 were applied to the repayment of the first half of the Series L Notes. |

* Cash flows from operating activities, including interest payments in respect of Series L Notes and bank loans.

Analysis of cash flows for the second quarter of 2018

| Activity Type | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|-----------------------|-------------------------------------|-------|------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| Operating activities* | (389) | (801) | (51%) | The decrease in the cash flows used in operating activities in the second quarter of 2018, as compared to the corresponding quarter last year is primarily due to: (i) the decrease in the loss for the quarter (after elimination of non-cash financial expenses, allowance for doubtful accounts and expenses relating to share-based compensation); (ii) a higher increase in accounts payable |

| Activity Type | For the Three Months Ended June 30, | | Change Increase (Decrease) % | Company Explanations |
|----------------------|--|------|---------------------------------------|---|
| | 2018 | 2017 | | |
| | Dollars in thousands | | | |
| | | | | and other payables in the current quarter, compared to the corresponding quarter last year; and (iii) decrease in accounts receivable, compared to the corresponding quarter last year. This increase was partially offset by a higher increase in inventories, compared to the corresponding quarter last year as a result of an increase in the current revenues and in the forecasted revenues. |
| Investing activities | (65) | (40) | 63% | Cash flows used in investing activities in both the second quarter of 2018 and 2017 resulted from purchase of fixed assets. |
| Financing activities | 4,774 | 53 | 9,008% | The cash flows provided by financing activities in the second quarter of 2018 derived mainly from raising capital in the framework of a private offering, which was partially offset by repayment of a loan to a shareholder. Cash flows provided by financing activities in the corresponding quarter last year derived from the proceeds from the exercise of options granted to employees and officers of the Company. |

* Cash flows from operating activities, including interest payments in respect of Series L Notes and bank loans.

6. Financing sources

6.1 Overview

Since its initial public offering in March 2007, the Group financed its operations primarily by public offerings, private issuances of equity and debt to Viola and to institutional investors and by private loans from shareholders and a credit facility from a bank.

On May 27, 2018, the Company issued to the Company's controlling shareholder, interested parties in the Company and to institutional investors, one of which is an interested party in the Company, 22,013,893 ordinary shares, for a consideration of approximately \$6 million. For further details, see Section 2c above.

For more information about the Company's financing and grants received from the National Technological Innovation Authority of the Ministry of Economy and Industry (Formerly - the Chief Scientist) (the "**Innovation Authority**"), see Sections 3, 24 and 18.3, respectively, in Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference and Section 2c above

6.2 Exercise of convertible securities

In the reported period, employees and office-holders exercised approximately 212 thousand options, for a total consideration of approximately \$25 thousand.

6.3 Credit facility with a bank

In March 2017, the Company and an Israeli Bank (the “**Bank**”) entered into an agreement, which was amended on January 30, 2018 and on May 28, 2018 (the “**Credit Agreement**”) whereunder the Bank would grant the Company a credit facility (which was not fully utilized through the date of this report) in a total amount of \$10 million. The credit facility is comprised of a \$6 million long-term loan (the “**Loan**”) and a \$4 million credit facility against trade accounts receivable, based on specific customer invoices (the “**Credit Facility for Financing Accounts Receivable**”). The Loan may be drawn through February 28, 2019. The loan bears annual interest of quarterly dollar LIBOR + 5.5%, payable quarterly. The principal of the Loan is repayable in equal quarterly installments over three years from the date of the draw. The Credit Facility for Financing Accounts Receivable may be drawn through January 12, 2019 and is renewable annually. The Credit Facility for Financing Accounts Receivable bears annual interest of monthly dollar LIBOR + 4.25%. The right to draw the credit facility is conditional on the Company’s having cash balances of not less than 40% of the amount withdrawn in the Company’s account with the Bank. In addition, the Company allotted the Bank warrants exercisable for purchase of a like number of its shares at the exercise price of NIS 1.36 per share.

On February 20, 2018, the Company withdrew approximately \$5 million from the said credit facility, approximately \$2.9 million as a short-term loan and \$2.1 million Credit Facility for Financing Accounts Receivable. The short-term loan is for the period of three months. On May 18, 2018, the loans in the amount of \$5 million from the said credit facility were renewed, approximately \$2.85 million as a short-term loan and \$2.15 million Credit Facility for Financing Accounts Receivable. The short-term loan is for a period of three months.

Of the Company’s total cash, the Company is required to maintain a balance of 40% of the credit amount, i.e., \$2 million is not available for general use by the Company.

For more information, see Section 24.3 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

In addition, the Company has a credit line in the total amount of NIS 100 thousand with another bank.

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

As of June 30, 2018, the Company has equity of approximately \$7,372 thousand.

As of June 30, 2018, the Group has cash and cash equivalents amounting to approximately \$8,534 thousand.

On February 28, 2018, the Company used its funds and part of its credit facility from the Bank, described in Section 6.3 above to repay the second installment in respect of its Series L Notes in the amount of \$10.9 million, see also Section 2c above.

The Company reviews from time to time options to raise capital, including through issuance in the TASE or through private placement with investors in Israel and/or overseas.

The funds raised or to be raised are designated to help the Company realize its growth potential, focusing on its target markets (in line with the Company's strategy), to accelerate development processes and to maintain the Company's capacity to achieve its other business and financial targets (including its financial liabilities).

6.5 Notes and Long- term loans (including current maturities)

The average balance of the notes and the long-term loans in the first half of 2018, amounted to \$7,241 thousand, compared to \$12,165 thousand in the corresponding period last year.

7. Summary of exposure to market risk and management thereof

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

| Assets and liabilities | Gain (loss) from change | | Fair value | Gain (loss) from change | |
|------------------------|-------------------------------|------------------------------|------------|------------------------------|-------------------------------|
| | 10% increase in exchange rate | 5% increase in exchange rate | | 5% decrease in exchange rate | 10% decrease in exchange rate |
| NIS | 29 | 14 | 283 | (14) | (29) |
| Euro | 42 | 21 | 416 | (21) | (42) |

As of the report date, the policy on market risk management and actual risk management are aligned. For more information about the policy and actual risk management, see Section 8 below.

8. Significant events in the reported period

For more information about significant events in the reported period as per Regulation 39a, see Part A of this report.

Chapter B – Exposure to Market Risk and Management Thereof

9. Exposure to market risk and management thereof

Company policy with regard to market risk management

In the period ended June 30, 2018, the exposure to market risks and the management thereof did not change materially from those described in Section 8 of Part B in the 2017 Annual Report.

10. Linkage basis report

The linkage terms of monetary balances are as follows:

| | June 30, 2018 | | | | | |
|--|----------------------|--------------|------------|---------------------|---------------------------|---------------|
| | dollar | NIS | Euro | Other currencies | Non- monetary items | Total |
| | Dollars in thousands | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 6,253 | 2,117 | 158 | 6 | - | 8,534 |
| Trade receivables (including long-term) | 5,130 | 67 | 321 | - | - | 5,518 |
| Other accounts receivable (including prepaid expenses) | 306 | 30 | 12 | - | 587 | 935 |
| Inventories | - | - | - | - | 2,807 | 2,807 |
| Restricted long-term deposits | 108 | 195 | - | - | - | 303 |
| Fixed assets | - | - | - | - | 1,034 | 1,034 |
| Intangible assets | - | - | - | - | 244 | 244 |
| Total assets | 11,797 | 2,409 | 491 | 6 | 4,672 | 19,375 |
| Liabilities | | | | | | |
| Trade payables | 542 | 731 | 4 | - | - | 1,277 |
| Employee benefits | - | - | - | - | 649 | 649 |
| Provisions | - | - | - | - | 189 | 189 |
| Other accounts payable (including accrued expenses) | 2,141 | 630 | 71 | - | 325 | 3,167 |
| Short-term bank loan | 5,000 | - | - | - | - | 5,000 |
| Derivative instruments | - | 765 | - | - | - | 765 |
| Other long-term accounts payable | 905 | 51 | - | - | - | 956 |
| Total liabilities | 8,588 | 2,177 | 75 | - | 1,163 | 12,003 |
| Balance, net | 3,209 | 232 | 416 | 6 | 3,509 | 7,372 |

December 31, 2017

| | <u>dollar</u> | <u>NIS unlinked</u> | <u>NIS -linked to the CPI</u> | <u>Euro</u> | <u>Other currencies</u> | <u>Non- monetary items</u> | <u>Total</u> |
|--|-----------------------------|-------------------------|-----------------------------------|-------------------|-----------------------------|------------------------------------|----------------------|
| | Dollars in thousands | | | | | | |
| Assets | | | | | | | |
| Cash and cash equivalents | 2,337 | 5,1241 | - | 160 | 22 | - | 7,643 |
| Marketable securities | - | ,1 797 | 1,376 | - | - | - | 3,173 |
| Trade receivables (including long-term) | 4,952 | 194 | - | 689 | - | - | 5,835 |
| Other accounts receivable (including prepaid expenses) | 137 | 45 | - | 3 | - | 569 | 754 |
| Inventories | - | - | - | - | - | 2,260 | 2,260 |
| Restricted long-term deposits | 108 | 205 | - | - | - | - | 313 |
| Fixed assets | - | - | - | - | - | 1,022 | 1,022 |
| Intangible assets | - | - | - | - | - | 277 | 277 |
| Total assets | <u>7,534</u> | <u>7,365</u> | <u>1,376</u> | <u>852</u> | <u>22</u> | <u>4,128</u> | <u>21,277</u> |
| Liabilities | | | | | | | |
| Trade payables | 382 | 833 | - | 47 | - | - | 1,262 |
| Employee benefits | - | - | - | - | - | 533 | 533 |
| Provisions | - | - | - | - | - | 183 | 183 |
| Other accounts payable (including accrued expenses) | 1,877 | 1,117 | - | 70 | - | 339 | 3,403 |
| Convertible notes | - | 10,696 | - | - | - | - | 10,696 |
| Derivative instruments | - | 2,875 | - | - | - | - | 2,875 |
| Non-current liabilities | 905 | - | 43 | - | - | - | 948 |
| Total liabilities | <u>3,164</u> | <u>15,521</u> | <u>43</u> | <u>117</u> | <u>-</u> | <u>1,055</u> | <u>19,900</u> |
| Balance, net | <u>4,370</u> | <u>(8,156)</u> | <u>1,333</u> | <u>735</u> | <u>22</u> | <u>3,073</u> | <u>1,377</u> |

11. Sensitivity analysis

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

11.1 Sensitivity to changes in exchange rates

- Excess of assets over liabilities (linked and unlinked) in the Israeli CPI indexation report amounts to \$232 thousand.

- Excess of assets over liabilities in the Euro indexation report, amounts to \$416 thousand.

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

This sensitivity analysis is based on the exchange rate as of June 30, 2018 - \$0.2740 = NIS 1.

| Assets and liabilities | Gain (loss) from change | | Fair value | Gain (loss) from change | |
|---------------------------|-------------------------------|------------------------------|------------|------------------------------|-------------------------------|
| | 10% increase in exchange rate | 5% increase in exchange rate | | 5% decrease in exchange rate | 10% decrease in exchange rate |
| Cash and cash equivalents | 212 | 106 | 2,117 | (106) | (212) |
| Trade receivables | 7 | 3 | 67 | (3) | (7) |
| Other receivables | 3 | 2 | 30 | (2) | (3) |
| Restricted deposits | 20 | 10 | 195 | (10) | (20) |
| Trade payables | (73) | (37) | (731) | 37 | 73 |
| Other accounts payable | (63) | (32) | (630) | 32 | 63 |
| Derivative instruments | (77) | (38) | (765) | 38 | 77 |
| Total | 29 | 14 | 283 | (14) | (29) |

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

This sensitivity analysis is based on the exchange rate as of December 31, 2017 - \$1.1658 = Euro 1.

| Assets and liabilities | Gain (loss) from change | | Fair value | Gain (loss) from change | |
|---------------------------|-------------------------------|------------------------------|------------|------------------------------|-------------------------------|
| | 10% increase in exchange rate | 5% increase in exchange rate | | 5% decrease in exchange rate | 10% decrease in exchange rate |
| Cash and cash equivalents | 16 | 8 | 158 | (8) | (16) |
| Trade receivables | 32 | 16 | 321 | (16) | (32) |
| Other receivables | 1 | (1) | 12 | 1 | (1) |
| Trade payables | - | - | (4) | - | - |
| Other accounts payable | (7) | (4) | (71) | 4 | 7 |
| Total | 42 | 21 | 416 | (21) | (42) |

Chapter C - Corporate Governance Aspects

12. Charitable donations

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

13. Directors with accounting and financial expertise

As of the report date, the Board of Directors has not changed its resolution regarding the appropriate minimum required number of directors with accounting and financial expertise as stated the 2017 Annual Report.

14. Independent directors

The Company's bylaws do not stipulate the proportion of independent directors of the total members of the board of directors.

As of the report date, eight directors serve on the Company's Board of Directors, one independent director (Mr. Ilan Biran) and two external directors (Ms. Yaffa Krindel Sieradzki and Ms. Tzipi Ozer-Armon).

15. Internal Auditor of the Company

On March 14, 2018, after Mr. Yisrael Gevirtz, CPA notified the Company of his desire to terminate his position as the Company's Internal Auditor, the Company's Board of Directors approved, at the recommendation of the Audit Committee, the appointment of Ms. Irena Ben Yakar, CPA a partner at Brightman Almagor Zohar & Co., as the Company's Independent Auditor instead of Mr. Yisrael Gevirtz, CPA.

| Item | Details |
|---|---|
| Name | Ms. Irena Ben Yakar, CPA – Partner at Brightman Almagor Zohar & Co. (Deloitte). |
| Start of term in office | March 14, 2018 |
| Compliance with statutory provisions | The Auditor is in compliance with provisions of Section 146(b) of the Companies Law, 1999 (the “ Companies Law ”) and the provisions of Sections 3(a) and 8 of the Internal Audit Law, 1992 (the “ Internal Audit Law ”). |
| Holding of securities of the Company or affiliated entity thereof | As of the report date, the Company is unaware of any holdings of securities of the Company or affiliated entity thereof by Brightman Almagor Zohar & Co., directly or through employees thereof. |
| Material business or other relations with the Company or affiliated entity thereof | None |
| Is the Auditor employed by the Company or an external service provider thereto? | The Internal Auditor is not employed by the Company, but rather is an external service provider to the Company (as Partner at Brightman Almagor Zohar & Co. (Deloitte)) - and has no other position with the Company. |
| Method of appointment | On March 14, 2018, the Company's Board of Directors appointed Ms. Irena Ben Yakar, CPA as the Company's Independent Auditor, at the recommendation of the Audit Committee, based on his education, skills, and extensive experience in internal auditing, taking into account the nature, size, scope of operations and complexity of operations of the Company. For information about the qualifications, education and experience of Ms. Ms. Irena Ben Yakar, see Section 17 of Part D of the 2017 Annual Report, which the information contained therein, is |

| Item | Details |
|--|---|
| | included in this Report by way of reference. |
| Identity of the Internal Auditor's supervisor within the organization | Dr. Giora Yaron, the Chairman of the Board of Directors. |
| Remuneration of the Internal Auditor | Remuneration of the Internal Auditor is set at a pre-determined rate per hour. In return for his work, the Company would pay the Internal Auditor NIS 230 per hour. The Board of Directors believes that this remuneration of the Internal Auditor would neither influence nor impair the latter's professional judgment. To the best of the Company's knowledge, the Internal Auditor does not hold any securities of the Company. |

During the reporting period, the following material transactions² were carried out:

Updating the salary of Mr. Gilad Glick, the Company's President and Chief Executive Officer (the "CEO").

Approval of an annual bonus plan for the CEO.

Updating the vesting conditions of unregistered options and restricted share units that were granted to the CEO.

The above transactions were not examined by the Company's internal auditor.

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

16. Subsequent events mentioned in the financial statements

In the period subsequent to the date of the statement of financial position, there were no events requiring disclosure in the financial statements.

17. Valuation

Valuation of the Viola Warrants

From the date of commencement of trade in the Series 4 Warrants through September 30, 2016, these warrants were valued at their quoted price, since the International Financial Reporting Standard No. 13 stipulates that the fair value of securities should be measured using their unadjusted quoted price on an active market, whenever available, since that price is the most reliable indication of fair value. Since the terms of the non-marketable warrants issued to Viola are essentially very similar to those of the Warrants (Series 4), their value was determined based on the quoted price of the Warrants (Series 4) (the differences between the two warrants are immaterial to their value; this is reflected in the valuation of the warrants by an independent valuer).

² As this term is defined in Section 5(f) of the Fourth Schedule to the Reports Regulations.

As from the last quarter of 2016, the number of transactions in the Warrants (Series 4) was very low. Moreover, the prices of such transactions differed significantly, while there were no material changes in the quoted price of the Company's shares (sometimes there even was negative correlation between the fluctuation of the share prices and those of the warrants). The price differences often reflected a very big deviation from the standard deviation. Therefore, in the Company's opinion, as from the last quarter of 2016, there was no "active market" for the Warrants (Series 4) and their prices ceased reflecting their fair value. Consequently, the Company has resolved not to present the warrants at fair value but rather to have recourse to an independent valuer in order to determine the value of the warrants.

| | |
|---|---|
| Identification of the subject of valuation | Fair value of the Viola Warrants and the Warrants (Series 4) for accounting reporting purposes |
| Valuation date | June 30, 2018 |
| Date of agreement with the external valuer | November 5, 2015 |
| Value of the subject of valuation shortly before the valuation date had accounting principles, including depreciation and amortization, not required the change in value thereof based on appraisal | NIS 0.13 |
| Value of the subject of valuation based on appraisal | NIS 0.07 |
| Identification of the valuer | |
| Name of the valuer | PricewaterhouseCoopers Consulting Ltd. |
| The person rendering the appraisal | Shalom Sofer, CPA (Isr.), Partner in Kesselman & Kesselman PricewaterhouseCoopers |
| Education | BA in accounting and economics summa cum laude and MA in economics summa cum laude, both from the Tel-Aviv University |
| Appraising experience | About 15 year experience in economic and financial consulting |
| Dependence on the contractee | No dependence |
| Indemnification agreements with the appraiser | There is an indemnification agreement |
| Valuation model applied by the appraiser | Binomial model generally accepted for option valuation |
| Assumptions upon which the valuation is | |

based:

| | |
|-----------------------------------|-----------|
| Maximum life span of the warrants | 0.8 years |
| Dividend yield | 0% |
| Expected volatility | 55.51% |
| Risk-free interest rate | 0.18% |

| Valued item | Valuer | Valuation date | Number of warrants | Valuation ⁽¹⁾ | Effect on results ⁽²⁾ | Series 4 warrants price | Share price | Standard deviation | Discount rate |
|--------------------------------------|--|-----------------------------------|--------------------|--------------------------|----------------------------------|-------------------------|--------------|--------------------|---------------|
| Viola Warrants | PricewaterhouseCoopers Consulting Ltd. | Effective as of November 5, 2016 | 31,950 | 4,848 | - | Don't exist | 151 | 59.9% | 0.61% |
| Viola Warrants + Warrants (Series 4) | Market value ⁽³⁾ | Effective as of December 31, 2015 | 38,389 | 2,696 | 2,604 | 27.4 | Not relevant | | |
| Viola Warrants + Warrants (Series 4) | PricewaterhouseCoopers Consulting Ltd. | Effective as of December 31, 2016 | 39,877 | 4,563 | (1,873) | 134.1 | 148.7 | 57.9% | 0.43% |
| Viola Warrants + Warrants (Series 4) | PricewaterhouseCoopers Consulting Ltd. | Effective as of December 31, 2017 | 39,877 | 2,779 | 1,784 | 136.7 | 134.0 | 56.1% | 0.11% |
| Viola Warrants + Warrants (Series 4) | PricewaterhouseCoopers Consulting Ltd. | Effective as of March 31, 2018 | 39,877 | 1,495 | 1,284 | 88.9 | 114.5 | 56.0% | 0.15% |
| Viola Warrants + Warrants (Series 4) | PricewaterhouseCoopers Consulting Ltd. | Effective as of June 30, 2018 | 39,877 | 765 | 730 | 99.9 | 111.9 | 55.5% | 0.18% |

November 5, 2015 was the date of allocation of the warrants to Viola. It should be noted that additional 1,488,074 warrants, with the same terms, were allotted to Viola on February 1, 2016. As of January 3, 2016, 6,438,152 Warrants (Series 4) are traded in the TASE.

- (1) Data in dollars in thousands. The valuation was made in NIS and translated into dollars using the exchange rate prevailing on the valuation date.
- (2) Effect on operating results for the reported period in dollars in thousands
- (3) Warrants (Series 4) price as of the first trading day, which is January 3, 2016.

For further information on the valuation of the non-marketable Viola Warrants and Warrants (Series 4), see the valuation reports attached to this Report.

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

Dr. Giora Yaron
Chairman of the Board of
Directors

Gilad Glick
President and chief
Executive Officer

Date: August 9, 2018

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

ITAMAR MEDICAL LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

AS OF JUNE 30, 2018

(UNAUDITED)

ITAMAR MEDICAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

(UNAUDITED)

TABLE OF CONTENTS

| | <u>Page</u> |
|---|--------------------|
| Condensed Consolidated Interim Financial Statements: | |
| Condensed consolidated statements of financial position | 4-5 |
| Condensed consolidated statements of operations | 6 |
| Condensed consolidated statements of comprehensive income (loss) | 7 |
| Condensed consolidated statements of changes in equity | 8-10 |
| Condensed consolidated statements of cash flows | 11 |
| Notes to the condensed consolidated interim financial statements | 12-25 |

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| | June 30, | | December 31 |
|-------------------------------------|----------------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | U.S. dollars in thousands | | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8,534 | 10,009 | 7,643 |
| Investment in marketable securities | - | 3,102 | 3,173 |
| Trade receivables | 5,115 | 4,377 | 5,362 |
| Other receivables | 879 | 673 | 685 |
| Inventories | 2,807 | 1,740 | 2,260 |
| Total current assets | 17,335 | 19,901 | 19,123 |
| Non-current assets | | | |
| Restricted deposits | 303 | 296 | 313 |
| Prepaid expenses | 56 | 111 | 69 |
| Long-term trade receivables | 403 | 509 | 473 |
| Fixed assets | 1,034 | 1,090 | 1,022 |
| Intangible assets | 244 | 293 | 277 |
| Total non-current assets | 2,040 | 2,299 | 2,154 |
| Total assets | 19,375 | 22,200 | 21,277 |

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| | June 30, | | December 31 |
|--|----------------------------------|--------------------|--------------------|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | (Unaudited) | (Audited) |
| Liabilities | U.S. dollars in thousands | | |
| Current liabilities | | | |
| Trade payables | 1,277 | 840 | 1,262 |
| Short-term employee benefits | 326 | 314 | 223 |
| Current maturities of convertible notes | - | 9,727 | 10,696 |
| Short-term bank loan | 5,000 | - | - |
| Provisions | 189 | 175 | 183 |
| Accrued expenses | 1,209 | 998 | 1,405 |
| Other accounts payable | 1,958 | 1,648 | 1,998 |
| Total current liabilities | 9,959 | 13,702 | 15,767 |
| Non-current liabilities | | | |
| Derivative instruments | 765 | 2,965 | 2,875 |
| Long-term employee benefits | 323 | 184 | 310 |
| Other long-term accounts payable | 956 | 863 | 948 |
| Total non-current liabilities | 2,044 | 4,012 | 4,133 |
| Total liabilities | 12,003 | 17,714 | 19,900 |
| Equity | | | |
| Ordinary share capital | 746 | 683 | 683 |
| Additional paid-in capital | 110,206 | 104,443 | 104,443 |
| Capital reserve in respect of transactions with shareholders | 1,236 | 1,151 | 1,151 |
| Capital reserve in respect of currency translation adjustments | (9) | (9) | (9) |
| Capital reserve in respect of marketable securities available-for-sale | - | 88 | - |
| Accumulated deficit | (104,807) | (101,870) | (105,004) |
| Total equity | 7,372 | 4,486 | 1,377 |
| Total liabilities and equity | 19,375 | 22,200 | 21,277 |

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Shy Basson, Chief Financial Officer

Date of approval date of the financial statements: August 9, 2018

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

ITAMAR MEDICAL LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

| | Six Months Ended | | Three Months Ended | | Year Ended |
|--|------------------|---------|--------------------|---------|------------|
| | June 30, | | June 30, | | December |
| | 2018 | 2017 | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| U.S. dollars in thousands (except per share data) | | | | | |
| Revenues | 11,546 | 9,403 | 6,076 | 5,058 | 20,701 |
| Cost of revenues | 2,680 | 2,286 | 1,431 | 1,224 | 5,002 |
| Gross profit | 8,866 | 7,117 | 4,645 | 3,834 | 15,699 |
| Selling and marketing expenses | 6,078 | 6,091 | 3,269 | 2,975 | 12,140 |
| Research and development expenses | 1,856 | 1,962 | 873 | 917 | 4,129 |
| General and administrative expenses | 2,724 | 2,710 | 1,411 | 1,424 | 5,278 |
| Operating loss | (1,792) | (3,646) | (908) | (1,482) | (5,848) |
| Financial income (expenses) from cash and investments | 182 | 1,454 | (28) | 362 | 1,591 |
| Financial expenses from notes and loans | (761) | (3,291) | (183) | (1,092) | (4,884) |
| Gain from derivatives instruments, net | 2,110 | 3,835 | 710 | 1,086 | 3,925 |
| Financial income (expenses), net | 1,531 | 1,998 | 499 | 356 | 632 |
| Loss before taxes on income | (261) | (1,648) | (409) | (1,126) | (5,216) |
| Taxes on income | (51) | (42) | (15) | (6) | (85) |
| Loss for the period | (312) | (1,690) | (424) | (1,132) | (5,301) |
| Basic loss per share (In U.S. dollars) | (0.00) | (0.01) | (0.00) | (0.00) | (0.02) |
| Diluted loss per share (In U.S. dollars) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) |

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

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

| | Six Months Ended | | Three Months Ended | | Year Ended |
|---|----------------------------------|----------------|---------------------------|----------------|---------------------|
| | June 30, | | June 30, | | December 31, |
| | 2018 | 2017 | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | U.S. dollars in thousands | | | | |
| Loss for the period | (312) | (1,690) | (424) | (1,132) | (5,301) |
| Other comprehensive loss items that will not be carried to the statement of operations | | | | | |
| Actuarial gains (losses) of defined benefit plan, net of tax | - | - | - | - | (112) |
| Total other comprehensive loss for the period that will not be carried to the statement of operations, net of tax | - | - | - | - | (112) |
| Other comprehensive income items, which, after preliminary recognition in comprehensive income (loss), were or will be carried to the statement of operations | | | | | |
| Net change in fair value of marketable securities available-for-sale, net of tax | (113) | 133 | - | 42 | 158 |
| Total other comprehensive income items which, after initial recognition in comprehensive income (loss), were or will be carried to the statement of operations, net of tax | (113) | 8 | - | 42 | 158 |
| Other comprehensive income (loss) for the period | (113) | 8 | - | 42 | 46 |
| Total comprehensive loss for the period | (425) | (1,557) | (424) | (1,090) | (5,255) |

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

ITAMAR MEDICAL LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| | Ordinary share capital | Additional paid-in capital | Capital reserve in respect of transactions with shareholders | Capital reserve in respect of currency translation adjustments | Capital reserve in respect of marketable securities available-for- sale | Accumulated deficit | Total |
|--|---------------------------|-------------------------------|--|--|--|------------------------|--------------|
| U.S. dollars in thousands | | | | | | | |
| For the six months ended June 30, 2018 (Unaudited) | | | | | | | |
| Balance as of January 1, 2018 | 683 | 104,443 | 1,151 | (9) | 113 | (105,004) | 1,377 |
| Total comprehensive loss for the period: | | | | | | | |
| Loss for the period | - | - | - | - | - | (312) | (312) |
| Other comprehensive loss for the period, net of tax | - | - | - | - | (113) | - | (113) |
| Total comprehensive loss for the period | - | - | - | - | (113) | (312) | (425) |
| Transactions carried directly to equity: | | | | | | | |
| Issuance of shares due to the exercise of options | 1 | 24 | - | - | - | - | 25 |
| Private issuance of ordinary shares | 62 | 5,739 | - | - | - | - | 5,801 |
| Share-based payment | - | - | - | - | - | 509 | 509 |
| Capital reserve from transactions with shareholders, see Note 6b | - | - | 85 | - | - | - | 85 |
| Balance as of June 30, 2018 (Unaudited) | 746 | 110,206 | 1,236 | (9) | - | (104,807) | 7,372 |
| For the six months ended June 30, 2017 (Unaudited) | | | | | | | |
| Balance as of January 1, 2017 | 679 | 104,350 | 1,151 | (9) | (45) | (100,885) | 5,241 |
| Total comprehensive loss for the period: | | | | | | | |
| Loss for the period | - | - | - | - | - | (1,690) | (1,690) |
| Other comprehensive income for the period, net of tax | - | - | - | - | 133 | - | 133 |
| Total comprehensive loss for the period | - | - | - | - | 133 | (1,690) | (1,557) |
| Transactions carried directly to equity: | | | | | | | |
| Issuance of shares due to the exercise of options | 4 | 93 | - | - | - | - | 97 |
| Share-based payment | - | - | - | - | - | 705 | 705 |
| Balance as of June 30, 2017 (Unaudited) | 683 | 104,443 | 1,151 | (9) | 88 | (101,870) | 4,486 |

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| | <u>Ordinary share capital</u> | <u>Additional paid-in capital</u> | <u>Capital reserve in respect of transactions with shareholders</u> | <u>Capital reserve in respect of currency translation adjustments</u> | <u>Capital reserve in respect of marketable securities available-for- sale</u> | <u>Accumulated deficit</u> | <u>Total</u> |
|---|-----------------------------------|---|---|---|--|--------------------------------|--------------|
| | U.S. dollars in thousands | | | | | | |
| For the three months ended June 30, 2018 (Unaudited) | | | | | | | |
| Balance as of April 1, 2018 | 684 | 104,467 | 1,236 | (9) | - | (104,652) | 1,726 |
| Total comprehensive loss for the period: | | | | | | | |
| loss for the period | - | - | - | - | - | (424) | (424) |
| Total comprehensive loss for the period | - | - | - | - | - | (424) | (424) |
| Transactions carried directly to equity: | | | | | | | |
| Private issuance of ordinary shares | 62 | 5,739 | - | - | - | - | 5,801 |
| Share-based payment | - | - | - | - | - | 269 | 269 |
| Balance as of June 30, 2018 (Unaudited) | 746 | 110,206 | 1,236 | (9) | - | (104,807) | 7,372 |
| For the three months ended June 30, 2017 | | | | | | | |
| Balance as of April 1, 2017 (Unaudited) | 681 | 104,392 | 1,151 | (9) | 46 | (100,971) | 5,290 |
| Total comprehensive profit for the period: | | | | | | | |
| Loss for the period | - | - | - | - | - | (1,132) | (1,132) |
| Other comprehensive loss for the period, net of tax | - | - | - | - | 42 | - | 42 |
| Total comprehensive loss for the period | - | - | - | - | 42 | (1,132) | (1,090) |
| Transactions carried directly to equity: | | | | | | | |
| Issuance of shares due to the exercise of options | 2 | 51 | - | - | - | - | 53 |
| Share-based payment | - | - | - | - | - | 233 | 233 |
| Balance as of June 30, 2017 (Unaudited) | 683 | 104,443 | 1,151 | (9) | 88 | (101,870) | 4,486 |

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

ITAMAR MEDICAL LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| | <u>Ordinary share capital</u> | <u>Additional paid-in capital</u> | <u>Capital reserve in respect of transactions with shareholders</u> | <u>Capital reserve in respect of currency translation adjustments</u> | <u>Capital reserve in respect of securities available- for- sale</u> | <u>Accumulated deficit</u> | <u>Total</u> |
|---|-----------------------------------|---|---|---|--|--------------------------------|--------------|
| U.S. dollars in thousands | | | | | | | |
| For the year ended December 31, 2017 (Audited) | | | | | | | |
| Balance as of January 1, 2017 (Audited) | 679 | 104,350 | 1,151 | (9) | (45) | (100,885) | 5,241 |
| Total comprehensive loss for the year: | | | | | | | |
| Loss for the year | - | - | - | - | - | (5,301) | (5,301) |
| Other comprehensive income for the year, net of tax | - | - | - | - | 158 | (112) | 46 |
| Total comprehensive loss for the year | - | - | - | - | 158 | (5,413) | (5,255) |
| Transactions carried directly to equity: | | | | | | | |
| Issuance of shares due to the exercise of options | 4 | 93 | - | - | - | - | 97 |
| Share-based payment | - | - | - | - | - | 1,294 | 1,294 |
| Balance as of December 31, 2017 (Audited) | <u>683</u> | <u>104,443</u> | <u>1,151</u> | <u>(9)</u> | <u>113</u> | <u>(105,004)</u> | <u>1,377</u> |

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

| | Six Months Ended | | Three Months Ended | | Year Ended |
|--|---------------------------|----------|--------------------|---------|------------|
| | June 30, | | June 30, | | December |
| | 2018 | 2017 | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | U.S. dollars in thousands | | | | |
| Cash flows from operating activities | | | | | |
| Loss for the period | (312) | (1,690) | (424) | (1,132) | (5,301) |
| Adjustments for: | | | | | |
| Depreciation and amortization | 243 | 239 | 128 | 113 | 509 |
| Share-based payment | 509 | 705 | 269 | 233 | 1,294 |
| Loss from sale/ disposal of fixed assets | - | (8) | - | (15) | (8) |
| Change in provision for doubtful and bad debt | 68 | 84 | 66 | 25 | 147 |
| Net financial cost | 571 | 1,639 | 182 | 668 | 3,133 |
| Gain from revaluation of derivatives | (2,110) | (3,835) | (710) | (1,086) | (3,925) |
| Decreases (increase) in trade receivables | 249 | 179 | 659 | (121) | (833) |
| Decreases (increase) in other accounts receivable | (181) | 139 | (211) | 56 | 169 |
| Increase in inventories | (684) | (113) | (297) | - | (711) |
| Increase (decrease) in trade payables | 22 | (524) | (247) | 255 | (66) |
| Increase (decrease) in accounts payable and accrued expenses | 133 | (118) | 360 | 134 | 669 |
| Increase in employee benefits | 116 | 144 | 37 | 76 | 67 |
| Increase in provisions | 6 | 8 | 4 | 5 | 16 |
| Income tax expense | 51 | 42 | 15 | 6 | 85 |
| Taxes paid during the period | (105) | (39) | (101) | (24) | (83) |
| Interest received during the period | - | 18 | - | 6 | 18 |
| Interest paid during the period | (592) | (901) | (119) | - | (1,362) |
| Net cash used in operating activities | (2,016) | (4,031) | (389) | (801) | (6,182) |
| Cash flows from investing activities | | | | | |
| Sale of securities | 3,109 | - | - | - | - |
| Purchase of fixed assets and intangible assets and capitalization of development expenses | (92) | (152) | (65) | (65) | (296) |
| Investment in restricted deposits | - | 7 | - | 25 | (22) |
| Net cash used in investing activities | 3,017 | (145) | (65) | (40) | (318) |
| Cash flows from financing activities | | | | | |
| Issuance of share capital, net of share issuance | 5,209 | - | 5,209 | - | (10,421) |
| Short-term bank loans | 5,000 | - | - | - | - |
| Repayment of notes | (9,939) | (10,421) | - | - | - |
| Repayment of shareholders' loans | (435) | - | (435) | - | - |
| Issuance of shares due to exercise of stock options | 25 | 97 | - | 53 | 97 |
| Net cash provided by (used in) financing activities | (140) | (10,324) | 4,774 | 53 | (10,324) |
| Increase (decrease) in cash and cash equivalents | 861 | (14,500) | 4,320 | (788) | (16,824) |
| Cash and cash equivalents at beginning of period | 7,643 | 23,358 | 4,264 | 10,560 | 23,358 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | 30 | 1,151 | (50) | 237 | 1,109 |
| Cash and cash equivalent balance at end of period | 8,534 | 10,009 | 8,534 | 10,009 | 7,643 |
| Non-cash financing activity – repayment of notes to related parties against receipt of a loan | 1,076 | - | - | - | - |

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

NOTE 1 – GENERAL

Reporting entity and the Company's financial position

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

The Company, together with its subsidiaries, is engaged in the research and development, marketing, selling and leasing of non-invasive medical devices and associated support services mainly for the diagnosis and assessment of cardiology disease and sleep breathing disorders. The unique proprietary technology developed by the Company is capable of measuring the Peripheral Arterial Tonometry; PAT[™] (“**PAT**”) signal. The PAT signal accurately measures the changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. The peripheral arterial volume is measured, using the PAT technology, by way of a thimble-shaped probe, which fits over the patient's finger and transmits information to a computer-based processing system, which monitors the PAT signal and diagnoses the patient's medical condition.

The Company develops and markets two medical devices that are based on our PAT technology: WatchPAT[™] (“**WatchPAT**”) and EndoPAT[™] (“**EndoPAT**”).

The WatchPAT device diagnoses sleep breathing disorders, which are proven, amongst other things, to be a major contributor to heart disease, and if treated, improve the patient's cardiac condition.

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

The condensed financial statements of the Company and its subsidiaries (the “**Group**”) as of June 30, 2018 and for the periods ended on that date include the financial statements of the Company and its subsidiaries.

The Company's total equity as of June 30, 2018 amounted to \$7,372 thousand, and it had negative cash flows from operating activities in the six months ended June 30, 2018 totaled \$2,016 thousand.

The management and the Board of Directors are of the opinion that based on the positive trend of its operating results, the credit facility from bank (see Note 6) and the Company's ability to update its budget to business developments, the Company has enough financial resources in order to continue its business activities in the foreseeing future. In addition, the management continuously assesses its actual results, compared its approved budget and its financial covenants is able to respond by reducing its operating expenses in case it does not meet its targets.

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International Financial Reporting Standards (“IFRS”)

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. Accordingly, they do not contain all the information required in full annual financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial Statements as of December 31, 2017 and for the year then

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

ended (the “**Annual Financial Statements**”). In addition, these financial statements have been prepared in accordance with Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed interim consolidated financial statements were approved by the Board of Directors on August 9, 2018.

b. Use of estimates, assumptions and judgments

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

Management judgment at the time of applying the Group’s accounting policy, and the basic assumptions used in the assessments involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these interim condensed consolidated financial statements are the same as those applied by the Group in its 2017 consolidated financial statements.

New standards and interpretations adopted in the reported period

Commencing from January 1, 2018, the Group adopted the new standards and amendments to the standards described below:

(1) IFRS 9 (2014), “Financial Instruments”

Commencing from January 2018, the Group adopted IFRS 9 (2014) (in this Section: the “**Standard**”), which replaced IAS 39, “Financial Instruments: Recognition and Measurement”.

The Standard is a final version of the Standard, which includes updated directives for the classification and measurement of financial instruments, as well as a new model for measuring the impairment of financial assets. These provisions are added to the chapter on “Hedge Accounting - General” published in 2013.

The Group elected to apply the Standard, effective January 1, 2018, without restating the comparative figures. The implementation of the standard did not have a material effect on the financial statements.

(2) IFRS 15, “Revenue from Contracts with Customers”

On January 1, 2018, the Group adopted IFRS 15 (in this Section: “**IFRS 15**” or the “**Standard**”), using the cumulative impact transition method applied to those contracts which were not completed as of January 1, 2018. Based on the analysis performed by the Group, there was no effect on retained earnings as of January 1, 2018.

For the three and six months ended June 30, 2018, there was no impact to revenue and to cost of revenue as result of the adoption of IFRS 15. As of June 30, 2018 and January 1, 2018, the Group had an immaterial effect on its financial statements as a result of recognizing receivables in the amount of \$398 thousand and \$333 thousands, respectively, in respect of contract assets that the rights in their respect are unconditional, together with a corresponding increase to deferred revenue in accordance with the guidance of the Standard.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

Presented hereunder are the new significant accounting policies regarding revenue recognition that were applied as from January 1, 2018 following the application the Standard:

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the products or services that will be transferred;
- (c) The Group can identify the payment terms for the products or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the products or services transferred to the customer, will be collected.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: (i) the Group has no remaining obligations to transfer products or services to the customer and any consideration promised by the customer has been received and cannot be returned; or (ii) the contract has been terminated and the consideration received from the customer cannot be refunded.

The Group recognizes revenue from the sale of its products, net of provision for returns and discounts, when the customer obtains control over the promised products or services, the timing of which may be upon shipment or upon delivery to the customer site, based on the contract terms or legal requirements.

Revenues from sales agreements consisting of multiple products or services, such as devices, consumables, usage of the CloudPAT application, WatchPAT Direct logistic services and support and other service agreements, are separated into different performance obligations and revenue is separately recognized for each performance obligation.

The Group identifies products or services promised to the customer as being distinct performance obligations when the customer can benefit from the products or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the products or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer products or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the products or services with other products or services promised in the contract into one integrated outcome that is the purpose of the contract. Products or services that are not considered as being distinct, are grouped together as a single performance obligation. The revenue from each such performance obligation is recognized upon transfer of control over the promised products or services to customer. In general, the Group allocates the transaction price to the identified performance obligations in the contract, based on the relative stand-alone selling prices when the products or services are sold separately. In cases where the products or services are not sold separately, for example, in the case of installations or training, the Group establishes the stand-alone selling price assigned to that performance obligation, based

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

on estimated costs plus a reasonable margin. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the products or services promised to the customer, other than amounts collected for third parties.

The Group recognizes estimated sales discounts as a reduction of sales in the same period revenue is recognized. The Group adjusts reserves to reflect differences between estimated and actual. The Group estimates its sales returns reserve based on historical return rates and analysis of specific accounts.

The Group recognizes revenue from leasing its products over the lease term, in conformity with the agreement with the customer. In some cases, the Group handles sale transactions of these devices as a finance lease and recognizes revenue in respect of the products supplied at the commencement date of the lease. When these transactions include multiple deliverables, revenue is recognized based on the relative stand-alone selling prices of each deliverable in the transaction when they are sold separately.

When the Group sells its products through distributors, revenue is being recognized upon delivery of the product to the distributor, as the distributors does not have the right to return and the control over the products is transferred at this point in time.

Incremental costs of obtaining a contract with a customer such as sales fees to agents are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the pattern of transfer of the products or services to which the asset relates.

A contract asset is recognized when the Group has a right to consideration for products or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Group. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability is recognized when the Group has an obligation to transfer products or services to the customer for which it received consideration (or the consideration is payable) from the customer.

An asset and liability relating to the same contract are presented on a net basis in the statement of financial position. On the other hand, a contract asset and contract liability deriving from different contracts are presented on a gross basis in the statement of financial position.

A new standard not yet adopted

(3) IFRS 16, “Leases”

IFRS 16 (in this Section: “**IFRS 16**” or the “**Standard**”) supersedes IAS 17, “Leases” (in this Section “IAS 17”) and its related interpretations. The provisions of IFRS 16 abrogate the existing requirement from lessees to classify the lease as operating or finance. Instead, with respect to lessees, IFRS 16 presents one model for the accounting treatment of all leases, according to which the lessee must recognize a right to use asset and a lease liability in its financial statements. However, IFRS 16 includes two exceptions to the general model, according to which a lessee may choose not to implement the recognition requirements for an asset, a right of use and a liability for short-term lease of up to one year and/or leases in which the underlying asset is of low value.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

In addition, the Standard allows the lessee to apply the definition of a lease in one of the following two alternatives consistently to all leases: retrospective application for all lease agreements, i.e., a reevaluation of the existence of a lease for each contract separately or alternatively the application of a practical relief. The provisions of IAS 17 and International Financial Reporting Interpretations Committee ("IFRIC") 4, "Determining Whether an Arrangement Contains a Lease" (IFRIC 4), defines criteria with respect to the existing agreements as at the date of initial application of IFRS 16. In addition, IFRS 16 provides new and broader disclosure requirements than those existing today.

The Standard is effective for annual periods beginning on or after January 1, 2019, with the possibility of early adoption.

The Standard includes various alternatives for the implementation of the transitional provisions, so that one of the following alternatives can be chosen consistently for all leases at initial application: full retrospective application, or application of the cumulative effect, i.e., implementation of IFRS 16 (with the possibility of several concessions) for the first time with adjustments to the opening balance of retained earnings as of that date.

The manner of implementation of the Standard and expected effects

The Group intends to adopt IFRS 16 as of January 1, 2019 in the cumulative effect approach, while adjusting the retained earnings as at January 1, 2019. The Company elected to adopt the relief, whereby one discount rate will be used for lease contracts having similar characteristics in a reasonable manner.

The Group has not yet decided whether to adopt the exemptions that IFRS 16 allows not to apply the recognition of the asset as a right of use and a liability for short-term leases of up to one year and not to implement the recognition requirements for the asset and the lease period ends within 12 months from the date of initial application.

Expected effects

The Group intends to choose to apply the transitional provision according to which it will recognize the IFRS 16 implementation date of the lease liability according to the present value of the balance of the future lease payments, discounted at the lessee's incremental interest rate on that date and simultaneously recognize the same amount as the lease asset, which were recognized as an asset or liability prior to the IFRS 16 implementation date. As a result, implementation of IFRS 16 is not expected to have an effect on retained earnings as at the date of initial application

The Group is required to recognize at the initial implementation date a right to use asset and lease liability for all leases in which it is found that it has the right to control the use of identified assets for a specified period of time. Under the assumption that the Company will not implement the relief with regard to leases whose lease period ends within 12 months from the date of the initial implementation, these changes are expected to result in an increase of \$0.9 million in the balance of the right-of-use assets and approximately \$0.4 million in the balance of other receivables and an increase of approximately \$1.3 million in the balance of the lease liability as of June, 30, 2018. Accordingly, depreciation and amortization expenses in respect of an asset will be recognized, and the need to record impairment in respect of a right-of-use asset will be examined in accordance with the provisions of IAS 36, "Impairment of Assets". In addition, financial expenses in respect of a lease liability will be recognized. Therefore, as from January 1, 2019, rental expenses relating to assets leased under operating leases, which were presented under general and administrative expenses in the statements of

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

operations, will be capitalized as assets and will be amortized under depreciation and amortization expenses in subsequent periods. If the Company chooses to implement the aforementioned relief, the changes are expected to result in an increase of approximately \$0.7 million in the balance of the right-of-use assets and an identical increase in the balance of the lease liability as of June 30, 2018. In addition, the range of nominal discount rates used for measuring lease liabilities ranges from 9% in respect of NIS-denominated leases to 12.8% in respect of dollar-denominated leases. This range is affected by differences in the length of the lease period, differences in the various asset groups, and a change between the discount rates of the Group companies and the like.

NOTE 4 – FINANCIAL INSTRUMENTS

a. Financial instruments that are measured at fair value for disclosure purposes only

The carrying value of cash and cash equivalents, trade receivables, other receivables, bank deposits, restricted deposits, trade payables and other accounts payable, are the same or proximate to their fair value.

The fair value of other financial assets and liabilities, together with the book value shown in the statement of financial condition, are as follows:

| | June 30, 2018 | | June 30, 2017 | | December 31, 2017 | |
|---|-----------------|------------|-----------------|------------|-------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| U.S. dollars in thousands | | | | | | |
| (Unaudited) | | | | (Audited) | | |
| Non-current liabilities (including current maturities) | | | | | | |
| Convertible notes (including accumulated interest and the conversion component) | - | - | 10,593 | 11,731 | 11,118 | 11,283 |

* Based on the quoted market price.

b. Fair value hierarchy of instruments measured at fair value

The table below presents an analysis of financial instruments measured at fair value on a periodic basis, using the valuation method pursuant to the fair value levels in the hierarchy.

The different levels were defined as follows:

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Inputs other than quoted priced included within Level 1 that are observable, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (unobservable inputs).

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

| June 30, 2018 | | | | |
|----------------------------------|----------------|----------------|--------------|-----|
| Level 1 | Level 2 | Level 3 | Total | |
| U.S. dollars in thousands | | | | |
| (Unaudited) | | | | |
| Financial liabilities - | | | | |
| Derivative instruments | - | - | 765 | 765 |

| June 30, 2017 | | | | |
|----------------------------------|----------------|----------------|--------------|-------|
| Level 1 | Level 2 | Level 3 | Total | |
| U.S. dollars in thousands | | | | |
| (Unaudited) | | | | |
| Financial assets - | | | | |
| Available-for- sale securities | 3,102 | - | - | 3,102 |
| Financial liabilities - | | | | |
| Derivative instruments | - | - | 2,965 | 2,965 |

| December 31, 2017 | | | | |
|----------------------------------|----------------|----------------|--------------|-------|
| Level 1 | Level 2 | Level 3 | Total | |
| U.S. dollars in thousands | | | | |
| (Audited) | | | | |
| Financial assets - | | | | |
| available-for- sale securities | 3,173 | - | - | 3,173 |
| Financial liabilities - | | | | |
| Derivative instruments | - | - | 2,875 | 2,875 |

The change from the opening balance to the closing balance of the financial instruments measured at fair value, categorized within Level 3 hierarchy, for the three and six-month periods ended June 30, 2018 was caused by the revaluation to fair value of the derivatives in the amount of \$2,110 thousand and \$710 thousand, respectively. The change from the opening balance to the closing balance of the financial instruments measured at fair value, categorized within Level 3 hierarchy, for the three and six-month periods ended June 30, 2017 was caused by the revaluation to fair value of the derivatives in the amount of \$3,835 thousand and \$1,086 thousand, respectively.

c. Valuation technique applied in determination of fair value and data types used therein

The fair value of the warrant component embedded in the convertible notes was measured based on observed market data, directly or indirectly, in accordance with the binomial model and based on relevant parameters for the terms of the notes, which are required for the evaluation of their value. The assumptions and the variables for the model include: the base asset (the market price of the share), the exercise price of the warrant, the conversion rate, the lifetime of the warrant, the expected fluctuations in the base asset (the share price) and the yield to maturity of the notes.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

The fair value of the warrants issued to Viola (the “**Viola Warrants**”) and the Warrants (Series 4) Through September 30, 2016 was measured at quoted market value of the Warrants (Series 4), on the basis of the warrants’ rate every cut-off date.

Pursuant to financial reporting standards, the price cited in an active market must be used with no adjustment to measure fair value any time it can be obtained, as this price provides the most reliable evidence of fair value. An “active market” is defined as a market where transactions in the asset or liability occur with sufficient frequency and volume, enough to provide information on price on an ongoing basis. When a significant decline occurs in the volume or level of activity in the asset or liability, additional analysis of the transactions or prices is needed, and a change in the valuation technique or the use of multiple valuation techniques may be appropriate.

In connection with said provisions, the position of the Company is that as of the end of 2016 there is no “active market” for the traded Warrants (Series 4) primarily due to an ongoing gradual decline in the frequency and volume of trading in the traded warrants, so that the total of units traded over the fourth quarter of 2016, the four quarters of 2017 and the first quarter of 2018, constituted approximately less than 3% of the total number of existing units with significant variance in the transactions prices of the warrants without a corresponding material change in the share price. There was often a negative correlation between the change in the share price and the change in the warrants price.

Consequently, the Company estimated the value of the Viola Warrants and the Warrants (Series 4) as from December 31, 2016 on the basis of an accepted option pricing model, with the assistance of an independent assessor. In addition, the Company gave proper weight to the market at the time. In addition, the Company has given the appropriate weighting to the market prices in the course of the period. The fair value has been measured based on observed market data, directly or indirectly, in accordance with the binomial model and based on relevant parameters for the terms of the Viola Warrants and Warrants (Series 4), which are required for the evaluation of their value. The assumptions and the variables for the model include: the base asset (the market price of the share), the exercise price of the warrant, the additional amount payable on the exercise, the lifetime of the warrant, the expected fluctuations in the base asset (the share price), and the risk free interest rate for the period

NOTE 5 – SHARE-BASED PAYMENT

a. Grant of options and restricted share units (“RSUs”)

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

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

| The grant date and the entitled employees | The instrument conditions | The number of instruments | Vesting conditions | Contractual duration of the options (years) |
|---|---|---------------------------|--|---|
| | | | The first quarterly tranche will vest on June 30, 2019. | |
| Grant of options to three key employees (with service conditions only) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12* | 118,375 | 25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019. | 10 years from January 21, 2016 |
| Grant of options to two office holders (with service conditions and market conditions) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02** | 496,882 | The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Grant of options to a key employee (with service conditions and market conditions) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02** | 212,949 | The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Grant of options to two key employee of the U.S. subsidiary (with service conditions and market conditions) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.10*** | 283,932 | The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Grant of options to 15 employees (with service conditions only) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12* | 572,000 | 2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in four equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2020. | 5 years from date of grant |
| Grant of options to a consultant (with service conditions only) | Each option is exercisable into a share of NIS 0.01 par value | 50,732 | 25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the | 10 years from January 21, 2016 |

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

| The grant date and the entitled employees | The instrument conditions | The number of instruments | Vesting conditions | Contractual duration of the options (years) |
|--|---|---------------------------|---|---|
| conditions only) | with an exercise price of NIS 1.12* | | end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019. | 2016 |
| Grant of options to a consultant (with service conditions and market conditions) | Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.10*** | 212,949 | The options will on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Total options | | <u>2,066,193</u> | | |
| Grant of RSUs to two office holders (with service conditions and market conditions) | Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price. | 115,036 | The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Grant of RSUs to three key employees (with service conditions and market conditions) | Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price. | 114,498 | The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Grant of RSUs to a consultant (with service conditions and market conditions) | Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price. | 49,032 | The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest. | 10 years from January 21, 2016 |
| Total RSUs | | <u>278,566</u> | | |

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

** The exercise price of each option is NIS 1.02 (determined based on the average closing price of the Company's share on the TASE, in the 30 trading days prior to the date of

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

approval of the grant by the Board of Directors, i.e., March 14, 2018).

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

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

On March 14, 2018, the Company's Board of Directors resolved to change the vesting terms of the options and RSUs with service terms and market conditions granted to the CEO and officers and key employees of the Company and its subsidiaries, such that the minimum share price will be NIS 1.70 instead of NIS 2.13 and the exercise period will be December 20, 2020 instead of January 20 2020. There shall be no change in the other terms of the options and the RSUs, including the exercise price and the other vesting conditions. The change in the aforesaid conditions regarding the CEO is subject to the approval of the Company's shareholders.

- c.** The exercise price in respect of 330,000 options for three directors, which constitutes the third tranche of three tranches, the awarding of which was approved by the Company's shareholders on May 25, 2016, was actually determined on May 23, 2018, upon the renewal of their term by the Company's shareholders at that time, at NIS 1.14 (the average closing price for the Company's shares on the TASE in the 30 trading days preceding that time, plus 10%). An additional director left the Board of Directors and accordingly he was not granted the second tranche.
- d.** The exercise price in respect of 220,000 options for two external directors, which constitutes the third tranche of three tranches, the awarding of which was approved by the Company's shareholders on May 25, 2016, was actually determined on June 17, 2018, the end of their first year of their term, at NIS 1.14 (the average closing price for the Company's shares on the TASE in the 30 trading days preceding that time, plus 10%).

NOTE 6 – CREDIT FACILITY WITH A BANK, CONVERTIBLE NOTES, LOAN FROM SHAREHOLDERS AND PRIVATE PLACEMENT OF SHARES

a. Credit facility with a bank

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

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

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

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

On February 20, 2018, the Company withdrew approximately \$5 million from the credit facility, approximately \$2.9 million as a short-term loan and \$2.1 million as Credit Facility for Financing Accounts Receivable. The short-term loan was for a period of three months. On May 18, 2018, the loans were renewed in the amount of \$5 million from the said credit facility, approximately \$2.85 million as a short-term loan and \$2.15 million Credit Facility for Financing Accounts Receivable. The short-term loan is for a period of three months .Of the Company's total cash, the Company is required to maintain a balance of 40% of the amount of the credit, i.e., \$2 million is not available for general use by the Company.

The fair value of the warrants is \$122 thousand.

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

b. Convertible notes and loan from shareholders

On February 28, 2018, the final repayment date of the second and final tranche of the notes in the total amount NIS 38,128 thousand par value occurred.

Out of this amount, an amount of approximately NIS 6 million (approximately \$1.7 million), which were held by three interested parties in the Company who informed the Company that in order to support the Company’s business strategy, they intend to provide the Company with a loan of the same amount. If the parties fail to reach agreement on the terms of the loan within 30 days (i.e., until March 23, 2018), the balance of the principal of the notes and the interest will be paid to the interested parties within 60 days (i.e., until April 22, 2018). The interested parties are Medtronic International Technology Inc. (“**Medtronic**”), Dr. Giora Yaron, who serves as Chairman of the Board of Directors in the Company (through Itamar Technologies and Investments (1994) Ltd., a company owned and controlled by him) (“**Giora Yaron**”) and Mr. Martin Gerstel, who serves as a director of the

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

Company . The amount of the loan includes the interest that was supposed to be paid to them.

On March 22, 2018, all of the aforementioned interested parties, with the exception of Mr. Martin Gerstel, entered into the investment agreements described in Section c. below. As to Mr. Martin Gerstel, it was agreed at that time between the Company and Mr. Martin Gerstel, that the repayment of the notes will be repaid within 90 days (i.e., until June 21, 2018.) It is hereby clarified that Mr. Gerstel and the Company agreed that no additional interest will be paid from the original repayment date of the notes until June 21, 2018. The amount of the principal and interest was repaid in full on June 20, 2018.

In addition, as part of the investment agreement signed by the Company with Medtronic, the Company transferred the amount of the loan from Medtronic to a trusteeship as stated in Section c. below, thereby repaying the loan to Medtronic, including the accrued interest.

The loans received from interested parties on February 28, 2018 bore no interest. Due to the fact that the loans were received from shareholders who are interested parties, the Company measured them at fair value on the date of the transaction. Due to the fact that this is a capital transaction, the Company recognized the difference between the fair value and the principal amount of the loans granted to equity. The fair value was calculated based on the interest rate customary for such loans. The difference between the amount of the loan principal amount and its fair value, which amounted to \$85 thousand, was charged to a capital reserve from transactions with shareholders. The amount of this difference is charged over the period of the loan to the statement of operations as interest expenses.

c. Private offering of shares

On March 22, 2018 (after obtaining the approval of the Audit Committee and the Board of Directors for a material private offering to interested parties and other shareholders of the Company), the Company entered into separate investment agreements (each of the agreements will be referred to as the “Investment Agreement” or the “Agreement” and together, the “**Investment Agreements**” or the “**Agreements**”) with the controlling shareholder of the Company, Viola Growth II A.V. LP, a limited partnership, which holds the Company’s shares through Viola Growth II (A) LP and Viola Growth II (B) LP (All three jointly referred to as “**Viola**”); Medtronic¹, an interested party of the Company; Giora Yaron, an interested party of the Company; Yelin-Lapidot Mutual Funds Management Ltd., an interested party of the Company (“**Yelin Lapidot**”), Meitav Dash Provident and Pension Funds Ltd. (“**Meitav-Dash**”), the Israel Shares – Phoenix Associates (“**Phoenix**”) (Jointly: the “**offerees**”).

Under the Investment Agreements, on May 27, 2018, following the approval of the Company’s shareholders on May 23, 2018, the offerees invested (directly or, in the case of Yelin Lapidot, Meitav and Phoenix, through mutual funds and/or provident funds and/or pension funds managed thereby) NIS 20.8 million (approximately \$6 million) (the “**Investment Amount**”) in consideration for the allotment of 22,013,893 ordinary shares of the Company of NIS 0.01 par value (the “**Shares Offered**”) which, immediately after the execution of the transaction, will constitute approximately 7.7% of the Company’s issued and outstanding share capital, or approximately 6% of its issued and outstanding share capital on a fully diluted basis.

The investment was made at a price of NIS 0.947 per ordinary share of the Company, reflecting a 7% discount on the average share price during the 15 consecutive trading days preceding March 15, 2018 (inclusive), the date of issuance of the Company's 2017 financial

¹ For details regarding the reorganization of Medtronic’s holdings in the Company, see below.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(UNAUDITED)

statements. The shares offered shall be subject to resale restrictions as stipulated by the Securities Law and the regulations published thereunder.

On May 2, 2018, Medtronic informed the Company that as part of the reorganization of a wide portfolio of investments by Medtronic (which also includes its holdings in the Company) its holdings in the Company were transferred to MS Pace LP, a limited partnership incorporated in Delaware, U.S. (the “**Partnership**”), such that the Partnership holds approximately 14.3% of the Company's issued and outstanding share capital. Medtronic holds 51% of the holdings in the General Partner in the Partnership. Medtronic transferred to the Partnership the Company's shares that were issued to it as part of the private offering.

NOTE 7 – REVENUES

The Company operates in one business sector.

The following is a breakdown of revenues according to product groups:

| | Six Months Ended June 30, 2018 | Three Months Ended June 30, 2018 |
|--|---|---|
| U.S. dollars in thousands (unaudited) | | |
| WatchPAT and related products | 10,651 | 5,612 |
| EndoPAT | 895 | 464 |
| | 11,546 | 6,076 |

The following is a breakdown of revenues on the basis of geographical regions (based on the geographical location of the customer):

| | Six Months Ended June 30, 2018 | Three Months Ended June 30, 2018 |
|--|---|---|
| U.S. dollars in thousands (unaudited) | | |
| United States and Canada | 7,963 | 4,505 |
| Japan | 2,257 | 1,049 |
| Europe | 801 | 423 |
| Asia Pacific (excluding Japan) | 316 | 13 |
| Israel | 162 | 52 |
| Others | 47 | 34 |
| | 11,546 | 6,076 |