

ITAMAR MEDICAL LTD.
QUARTERLY REPORT
AS OF SEPTEMBER 30, 2016

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Disclaimer

Set out below is an unofficial translation into the English language, for convenience purposes only, of the financial statements of Itamar Medical Ltd. (the “**Company**”) for the nine and three-month period ended September 30, 2016 (the “**Financial Statements**”) that originally were prepared in the Hebrew language.

The full, legal and binding version of the Financial Statements for all purposes is the Hebrew version, filed by the Company with the Israel Securities Authority and published on the MAGNA website: www.magna.isa.go.il, on August 8, 2016

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

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

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

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

http://maya.tase.co.il/bursa/report.asp?report_cd=1051586

http://maya.tase.co.il/bursa/report.asp?report_cd=1051586-01&CompCd=1411&Type=Pdf

ITAMAR MEDICAL LTD.

PART A

**SIGNIFICANT CHANGES AND REVISIONS
IN THE COMPANY'S BUSINESS**

Significant Changes and Innovations in Corporate Business in the Quarter Ended September 30, 2016 and Subsequent thereto

Due to the Company's compliance with the conditions listed in the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (henceforth: "Report Regulations") with regard to its being a "small corporation", the Company Board of Directors decided on March 18, 2014 to adopt all the reliefs determined in the Report Regulations regarding small corporations in the following subjects: a) combining the financial reports of an affiliated company; b) an effectiveness of internal audit report on financial reporting; c) attach a very significant valuation; and d) details of exposure to market risks.

As of January 1, 2016, and in accordance with the instructions of the Report Regulations, the Company does not yet meet the definition of the term "small corporation". Therefore, according to the provisions of Regulation 5e(c) of the Report Regulations, the Company will continue to apply the above reliefs up to and including the Company's quarterly report for the three months ending September 30, 2016 (see the Company's immediate report from January 7, 2016 (Reference No. 2016-01-005152)).

According to regulation 39a of the Report Regulations, details of significant changes and innovations that occurred in the transactions of Itamar Medical Ltd. (henceforth: "**The Company**") for the three-month period ending on September 30, 2016 and up to the date of this report's issue follow. Terms used below shall have the meaning given to them in the Company's periodic report for the year 2015 included in this report by way of reference (henceforth: "**the Periodic Report for the year 2015**"), unless specifically indicated otherwise.

This chapter of the periodic report was prepared under the assumption that the reader has the chapter describing the company's business in the periodic report for the year 2015, as well as the update thereof in the Company's quarterly report as of March 31, 2016, published on May 15, 2016 (ref. No. 2016-01-034392).

1. Reduction of the minimum age approved by the FDA for use of WatchPAT

On July 27, 2016, the Company announced that the US Food and Drug Administration (the FDA) confirmed that the original approval given to the WatchPAT product was extended, so that the product may now be used starting with age 12, rather than 17 in the original approval. This expands the target population for the product.

This approval has been received in addition to similar approvals in Europe (CE approval) and in Japan.

For further details, see the Company's immediate report issued on July 27, 2016 (ref. No. 2016-01-091213) and included in this report by reference.

2. Publication of guidelines of the AASM for clinical diagnostic tests of sleep apnea in adults

Further to the Company's immediate report issued on March 2011 (ref. No. 2011-01-072918) regarding the recognition of the Company's WatchPAT™ product as a

validated method for diagnosing obstructive sleep apnea (hereafter - OSA) by an appropriate task force of the American Academy of Sleep Medicine (AASM). On August 28, 2016, the Company announced that the AASM published a draft Clinical Practice Guide for Diagnosis of OSA in Adults for comments.

These guidelines adopt for the first time the recommendations of the task force, and directly endorse the peripheral arterial tonometry (hereafter – PAT™) used in the WatchPAT device. The draft guidelines WatchPAT™ also stipulate that home sleep apnea tests must be carried out by a recognized Sleep Center and supervised by a certified sleep physician or a clinician with a like training.

These AASM guidelines are an important additional milestone in the continuing tendency of adoption of the home sleep tests in the US in general, and of the WatchPAT in particular. The Company estimates that the guidelines are likely to have a positive effect on the decisions of various American health schemes which so far have not included WatchPAT in the basket of tests and procedures covered thereby. They are also likely to assist in the efforts to turn home sleep tests into the accepted practice of physicians, patients and insurers in the US.

The above information, in particular the assumptions regarding the effect of the updated guidelines on the inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by private health insurers, contains The Company's forecasted cash flow and aforementioned information constitute forward-looking information, as defined in the Securities Act. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report. 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, inter alia due to the following: Changes in the guidelines following public comments, a delay in official publication of the guidelines due to administrative reasons, or non-inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by health insurers for reasons unconnected to the AASM guidelines.

For further details, see the Company's immediate report issued on August 28, 2016 (ref. No. 2016-01-110983) and included in this report by reference.

3. Further to the resolutions of the shareholders meeting held on May 25, 2016, on July 23, 2006 the Company granted to six of its directors, two of whom are external directors, 879,999, non-negotiable options exercisable into 879,999 ordinary shares of the Company, as detailed in its immediate report on changes in the holdings of interested parties and senior office holders published on August 2, 2016 (ref. No. 2016-01-096541) and included in this report by reference.

For further details of the said grant, see the report on convening the annual general and special meeting published on April 14, 2016, its supplemental reports from May 3, 2016 and May 19, 2016 and the immediate report regarding the results of the meeting published May 25, 2016, as amended by a report published June 6, 2016 (reference

Nos.: 2016-01-049288, 2016-01-057808, 2016-01-029871, 2016-01-034068 and 2016-01-0454,respectively), included in this report by reference.

4. On August 8, 2016, the Board of Directors authorized an unexceptional and immaterial private placement of 1,144,129 non-negotiable options, exercisable to acquire 1,144,129 ordinary shares of the Company, and 72,545 restricted non-negotiable share units, exercisable into 72,545 ordinary shares of the Company. The above options and units were to be allotted, at no consideration, to nineteen (19) employees (who are not office holders) of the Company and its subsidiaries. The consent of the Tel-Aviv Stock Exchange to list the resulting ordinary shares for trade was received on September 15, 2016, and the allotment was made on....

For further details, see the Company's immediate report on the unexceptional and immaterial private placement published on August 8, 2016 (ref. No. 2016-01-099662) and the supplemental immediate report of September 8, 2016 (ref. No. 2016-01-119794), and included in this report by reference.

ITAMAR MEDICAL LTD.

PART B

**REPORT OF THE BOARD OF DIRECTORS
ON THE STATE OF COMPANY'S AFFAIRS
AS OF SEPTEMBER 30, 2016**

Board of Directors' Report for the Nine -month Period Ended September 30, 2016

We hereby present the Board of Directors' Report of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company**") and its subsidiaries (the "**Group**") as of September 30, 2016 (the "**report date**"), and the Company's consolidated financial results for the nine and three-month periods ended September 30, 2015 (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 September 30, 2015, is provided with the assumption that the annual report for the year ended December 31, 2015, issued by the Company on March 31, 2016 (ref. No. 2016-01-22878; hereafter - the "**Annual Report**"), the Directors' Report as of March 31, 2016, issued on May 25, 2016 (ref. no. 2016-01-34392; hereafter - the "**Q1 2016 Report**"), and the Directors' Report as of June 30, 2016, issued on August 8, 2016 (ref. no. 2016-01-099700; hereafter - the "**Q2 2016 Report**"), are available to the reader.

Definitions:

Series L Notes	Company notes (Series L), listed for trading on the TASE in June 2013 and convertible into the Company's ordinary shares
Stock Exchange	The Tel Aviv Stock Exchange Ltd. (" TASE ")
Dollar	U.S. dollar
The Securities Law	The Securities Law 1968

Preparation of the financial statements

The financial statements enclosed in Part C of this report are prepared in conformity with the Regulations and international financial reporting standards ("**IFRS**"). The functional currency and the reporting currency of the financial statements is dollar. For more information, see Note 2b to the Company's consolidated financial statements.

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

1. Summary description of the Company

The Company is engaged in research and development, marketing, sales and leasing of non-invasive diagnostic medical devices based on the PATTM ("**PAT**") signal platform and other devices, and associated support services, for diagnosis and treatment of various diseases, in particular – sleep apnea, with emphasis on cardio-vascular conditions.

The Company has two products: WatchPATTM ("**WatchPAT**") and EndoPATTM ("**EndoPAT**"). For more information about the Company's products, see Section 8 of Part A of the annual report for the year 2015.

WatchPAT is the company's principal product and the basis of the company's present strategy (see also below). This product diagnoses sleep apnea, which has been proven, inter alia, to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart.

The other product of the company, EndoPAT, which is used to diagnose endothelial function (arterial function), which is a key indicator of potential cardio-vascular disease. Hence, the Company reports on one operating segment, the Cardiology Segment.

Both products have CE approval in Europe and FDA approval in the United States.

In accordance with its strategic plan, the Company currently focuses on marketing its products (EndoPAT and WatchPAT) in the Cardiology field (while continuing its activities in the sleep breathing disorder field using its WatchPAT device), emphasizing the U.S., Japanese and Chinese markets, and recently – also the European market, which the Company considers to be the main markets for its products, with a potential to increase its revenues.

The WatchPAT selling and marketing efforts are mainly focused on the American market, the principal market for comprehensive sleep solution.

The EndoPAT selling and marketing efforts are only secondary and are mainly focused on Far Eastern markets.

For more information about the Company's strategy, see Section 31 of Part A of the annual report for the year 2015.

2. Major events during and after the reported period

In the current quarter and the first nine months of 2016 the Company's revenues increased by approximately 26% and 7%, respectively, compared to the corresponding periods last year, revenues from Watch PAT, which is the focus of the strategy, increasing by approximately 57% and 24%, respectively, improving the gross margin from approximately 73% in the first nine months of 2015 to approximately 75% in the first nine months of 2016. Such an increase in revenue for the WatchPAT was achieved despite the decline in sales of this product in Europe, while its sales in the US increased by over 40% and from move in the US from an ordinary sale model (sale of equipment and sensors) to the sale of tests, as explained in Section a below. Revenues for the current quarter include revenues from initial sales of the PAP device under the agreement described in b. below.

In the first nine months of 2016, the Company focused on several material areas, as described below, aspiring to continue the growth in the current year as well:

- a.** The Company continues to promote and perfect in the U.S. the Total Sleep Solution (TSS) reported in January 2015, which is a family of products and services treating Sleep Apnea and providing cardiology solutions (clinics and departments around hospitals), improving the Company's business model and turning it from a manufacturer and marketer of medical products to a supplier of comprehensive solutions of: products, training and services as part of patient care. The first agreement under this model 'was reached with the Montefiore Medical Center of New York in the United States. For more information, see Section 8.4 of Part A of the 2015 Annual Report and the Company's immediate report of May 4, 2015 (reference number – 2015-01-011139). In addition, in respect of the addition of a treatment solution, see section b below.

In this context, the Company made a transition from the normal sales model (equipment and sensor sales) to the sale of medical tests. In the first stage, the implementation of this model has caused a decline in sales revenues resulting from sales of testing alone (sensors) without the equipment (WatchPAT), as in the past. This means that the Company recognizes the

service revenues over a longer period, as compared to recognition of revenues from sales of equipment, but the Company expects that in the long-term might improve future revenues from sales of sensors, as well as the company's ability to predict those revenues.. In addition, a considerable portion of information on consumption pattern of clients 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.

- b. In May 2016, the Company signed a binding principles agreement with Drive de Vibiss, a US manufacturer of medical devices for the treatment of sleep apnea (hereafter – the manufacturer), whereby the Company shall serve as the US distributor of medical devices intended for the treatment of sleep apnea, including PAP devices, masks and accessories, with limited exclusivity in the US cardiology market. For more information, see section 9 of Part A of the Q1 2016 report. The company commenced sales of the PAP devices in the third quarter of 2016.
- c. Focusing the Company's operations in accordance with the Company's strategy was expressed in the support and promotion of material distribution agreements for key target markets: the US and Japan. For more information, see Section 12.3 of Part A of the annual report for 2015.
- d. In June 2016, the Company submitted an innovative and upgraded version of WatchPAT for the approval of the US Food and Drugs Administration. The innovative version of the product integrates an SPB (Snoring and Body Position) chest sensor which, combined with the PAT TM signal and the advanced algorithms developed by the Company facilitates the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. Moreover, the upgraded version makes it possible to identify Cheyne-Stoke breathing patterns characterizing heart failure patients. At the same time, the Company has filed a preliminary patent registration request for the new invention, based on the new capabilities of the product.

The submission was based on comprehensive clinical studies in several sites in the US, Europe and Israel, in which the Company's product was compared to polysomnographic tests, considered the gold standard in the United States. The studies were successful and the results thereof sported the submission. The study results were presented to the convention of the American Sleep Association, held in June 2016 in Denver, Colorado, by Prof. Thomas Penzel of the Berlin, Germany Charite University.

The new capabilities will give the device an added advantage in the cardiology market, on which the Company is focused, since differentiation between the various types of sleep apnea is very important in that field.

- e. As reflected in the results for the first nine months of 2016 and for 2015, the decrease in the EndoPAT product revenues continues, due primarily to a reduction in research funding to research institutes, purchasing the EndoPAT product, as well as a delay, and even halt, in the process of obtaining the US insurance indemnification code (category I) for this product. The current insurance indemnification code for this product reduces the possibility of therapists to receive insurance reimbursement for use of the device. Accordingly, at this stage the Company has decided to focus its marketing efforts for the EndoPAT in Japan, where governmental insurance indemnification for the product is available, and China, and to reduce expenses related to this product in other areas.

- f. In July 2016, the FDA confirmed that the original approval given to the WatchPAT product was extended, so that the product may now be used starting with age 12, rather than 17 in the original approval. This expands the target population for the product. This approval has been received in addition to similar approvals in Europe (CE approval) and in Japan.
- g. In August 2016, further to its immediate report issued on March 2011 (ref. No. 2011-01-072918) regarding the recognition of the Company's WatchPAT™ product as a validated method for diagnosing obstructive sleep apnea (hereafter - OSA) by an appropriate task force of the American Academy of Sleep Medicine (AASM), the leading American medical institution in the field of sleep disorders, the Company announced that the AASM published a draft Clinical Practice Guide for Diagnosis of OSA in Adults for comments.

These guidelines adopt for the first time the recommendations of the task force, and directly endorse the peripheral arterial tonometry (hereafter – PAT™) used in the WatchPAT device. The draft guidelines WatchPAT™ also stipulate that home sleep apnea tests must be carried out by a recognized Sleep Center and supervised by a certified sleep physician or a clinician with a like training.

These AASM guidelines are an important additional milestone in the continuing tendency of adoption of the home sleep tests in the US in general, and of the WatchPAT in particular. The Company estimates that the guidelines are likely to have a positive effect on the decisions of various American health schemes which so far have not included WatchPAT in the basket of tests and procedures covered thereby. They are also likely to assist in the efforts to turn home sleep tests into the accepted practice of physicians, patients and insurers in the US.

Information provided above with regard to continued growth of the Company and improvement in its future revenue flow, and the assumptions regarding the effect of the updated guidelines on the inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by private health insurers, constitutes forward-looking information, as this term is defined in the Israeli Securities Law. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, inter alia, to delay in negotiations with distributors and/or delay in research and development and/or change in market structure and requirements or market competition and/or financing difficulties which could impact the development of Company business, as well as changes in the guidelines following public comments, a delay in official publication of the guidelines due to administrative reasons, or non-inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by health insurers for reasons unconnected to the AASM guidelines.

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

Item	September 30, 2016	December 31, 2015	Change Increase (decrease)	Company explanations
	Dollars in thousands		%	
Cash and cash equivalents and investments in securities available for sale	29,041	35,729	(19%)	The decrease during the first nine months of 2016 stems from the application of approximately \$ 8.5 million for current operations, including payment of interest for L Series bonds. On the other hand these balances increased by approximately \$ 1.1 million as a result of the completion in February 2016 of the third and final stage of the Viola transaction. Another reason for the increase was the approximately 3.7% in the first nine months of 2016.
Current assets	35,544	41,609	(14%)	The decrease is primarily due to the decrease in cash and cash equivalents and in investments in securities available for sale, as described above.
Non-current assets	2,387	2,131	(8%)	There was no significant change in non-current assets.
Current liabilities	13,391	4,620	187%	The increase is primarily due to the reclassification of half of the principal of the Series L notes redeemable in February 2017, in the amount of approximately \$ 9.4 million, from non-current liabilities to current liabilities.
Non-current liabilities	22,742	22,169	3%	The increase is primarily due to an increase of approximately \$ 9.1 million in the fair value of the warrants issued the Viola Fund in November 2015 and the listed series 4 warrants issued under the rights offering at the end of December 2015 under the second stage of the Viola investment transaction and an increase of approximately \$0.5 million deriving from additional issuance of options the Viola Fund (as part of the third stage of the

Item	September 30, 2016	December 31, 2015	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
				<p>investment transaction). This increase was partly offset</p> <p>as stated above, by the decrease of \$ due to the reclassification of half of the principal of the Series L notes redeemable in February 2017, amounting to approximately 9.4 million, from non-current liabilities to current liabilities. In addition, there was a decrease of approximately \$ 2.3 million in the value of the warrants embedded in the L Series notes, due mainly to the approximately 16% decline in the price of Company's shares (as of September 30, 2016 compared to December 31, 2015) and as a result of the shortening the life of the L Series notes due to the passage of time.</p>
Working capital	22,153	36,989	(40%)	<p>The decrease in working capital and the current ratio is primarily due to the reclassification, as stated above, of half of the fund of the Series L bonds from long-term liabilities to short-term liabilities. Additional decrease, as stated above, occurred due to a decrease in cash and cash equivalents and in investments in securities available for sale resulting from the financing of current operations.</p>
Current ratio	2.7	9.0		
Shareholders' equity	1,798	16,951	(89%)	<p>The decrease in equity is primarily due to the loss recorded by the Company in the first nine months of 2016 It was partially offset by an additional investment by Viola in the amount of \$ 1 million in the Company shares. Loss for the first nine months of 2016 includes an amount of \$ 9.5 million (non-cash) in respect of the increase in the fair value of options issued to the Viola Fund and of the warrants (series 4) issued to the public.</p>

Item	September 30, 2016	December 31, 2015	Change Increase (decrease)	Company explanations
	Dollars in thousands		%	
				For more information, see the analysis of operating results in section 4 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:

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31
	2016	2015	2016	2015	2014
Revenues	13,477	12,648	4,878	3,865	16,807
Cost of revenues	3,387	3,407	1,190	901	4,401
Gross profit	10,090	9,241	3,688	2,964	12,406
Selling and marketing expenses	10,639	8,012	3,436	2,687	10,684
Research and development expenses	2,426	2,121	715	715	2,831
General and administrative expenses	4,668	3,275	1,517	1,168	4,350
Operating loss	(7,643)	(4,167)	(1,980)	(1,606)	(5,459)
Financial income (expenses) relating to cash and investments	1,140	(326)	616	(136)	(354)
Financial expenses relating to notes	(3,858)	(3,065)	(1,562)	(444)	(4,229)
Gain (loss) from financial derivatives	(7,204)	5,197	(2,698)	2,696	7,930
Financial income (expenses), net	(9,922)	1,806	(3,644)	2,116	3,347
Loss before taxes on income	(17,565)	(2,361)	(5,624)	510	(2,112)
Taxes on income	(105)	(93)	(26)	(22)	(135)
Loss for the period	(17,670)	(2,454)	(5,650)	488	(2,247)

Summary of Non -IFRS operating results **:

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
Revenues	13,477	12,648	4,878	3,865	16,807
Cost of revenues	3,266	3,298	1,153	870	4,254
Gross profit	10,211	9,350	3,725	2,995	12,553
Selling and marketing expenses	10,177	7,818	3,304	2,653	10,408
Research and development expenses	2,175	2,011	660	720	2,674
General and administrative expenses	3,274	2,696	1,264	860	3,714
Operating loss	(5,415)	(3,175)	(1,503)	(1,238)	(4,244)
Financial income (expenses) relating to cash and investments	1,140	(326)	616	(136)	(354)
Financial expenses relating to notes and loans	(3,858)	(3,065)	(1,562)	(444)	(4,229)
Gain (loss) from financial derivatives	-	-	(1)	-	(32)
Financial expenses, net	(2,718)	(3,391)	(947)	(580)	(4,615)
Loss before taxes on income	(8,133)	(6,566)	(2,449)	(1,818)	(8,859)
Income tax credit (expense)	(105)	(93)	(26)	(22)	(135)
Adjusted loss for the period*	(8,238)	(6,659)	(2,475)	(1,840)	(8,994)

Adjustments to loss for the period:

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
Loss for the period – under IFRS	(17,560)	(2,454)	(5,540)	488	(2,247)
Adjustments:					
Depreciation and amortization	293	273	97	104	367
Change in	472	74	35	42	52

provision for doubtful accounts					
Share-based payment	1,463	277	345	(146)	428
Expenses relating to aborted issuance	-	368	-	368	368
Revaluation of embedded warrants	7,204	(5,197)	2,697	(2,696)	(7,962)
	<u>9,432</u>	<u>(4,205)</u>	<u>3,174</u>	<u>(2,328)</u>	<u>(6,747)</u>
Adjusted loss for the period*	<u>(8,128)</u>	<u>(6,659)</u>	<u>(2,366)</u>	<u>(1,840)</u>	<u>(8,994)</u>

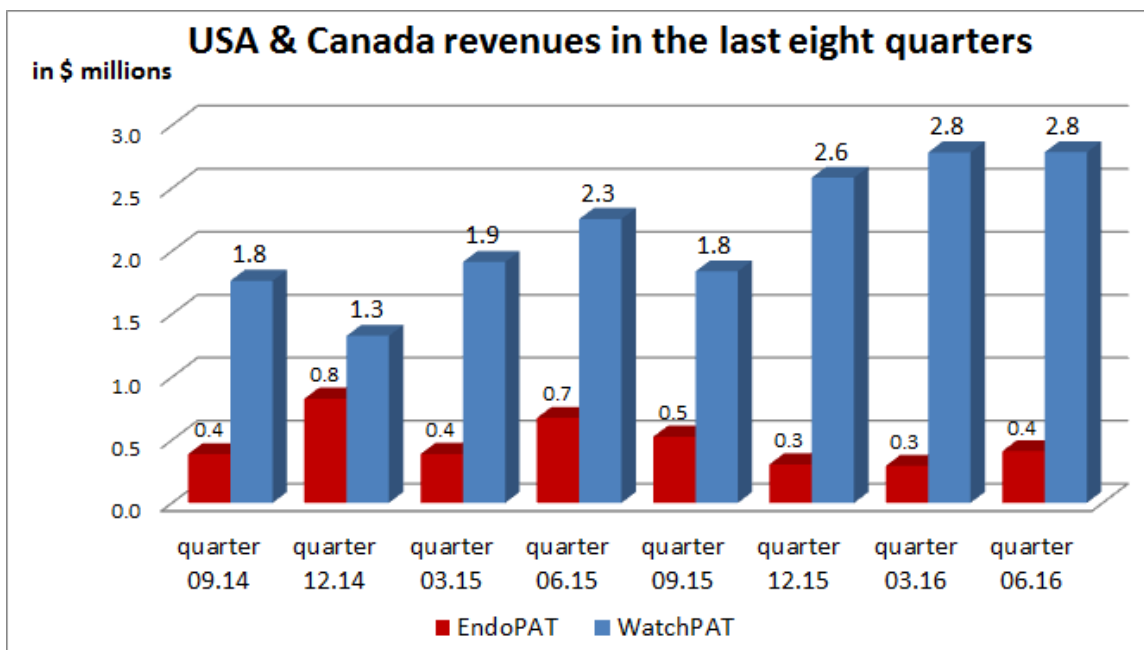
* Non-IFRS adjusted loss, which eliminates non-cash components and the effect non-recurring events.

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

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):

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31
	2016	2015	2016	2015	2015
WatchPAT	11,155	9,000	3,944	2,509	12,414
EndoPAT	2,322	3,648	934	1,356	4,393
	<u>13,477</u>	<u>12,648</u>	<u>4,878</u>	<u>3,865</u>	<u>16,807</u>



Analysis of statement of operations data for the first nine months of 2016

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Revenues	13,477	12,648	7%	The increase in revenues in the first nine months of 2016 compared to the corresponding last year is due to the increase of approximately 24% in revenues from the WatchPAT product, resulting, among other things, from an increase in the quantity of products sold in the United States (total WatchPAT revenues in the Unites States increased by approximately 41% over those in the corresponding period in the preceding year) and from an increase in the quantity of products sold under the distribution agreement with Philips Japan. This increase was partly offset by the approximately 36% decline in revenues from sales of the EndoPAT product as compared to the corresponding period in 2015, which is a continuation of the downwards trend in revenues from that product for the reasons explained in item 2e above. In the first nine months of 2015, revenues from the sales of that product were \$ 0.8 million, under the distribution agreements with distributors in China and in Japan.

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Gross profit	10,090	9,241	9%	Gross margin in the first nine months of 2016 is approximately 75% of Group's revenues compared with approximately 73% in the corresponding period in the previous year. Most of the change resulted from streamlining of production and of higher percentage of sales of the new product WatchPAT 200U, the cost of manufacture of which is significantly lower than of the old product.
Selling and marketing expenses	10,639	8,012	33%	The increase in selling and marketing expenses in the first nine months of 2016 compared to the corresponding period of last year is mainly due to the recruitment of sales and support staff in the US (increase in the cost of wages, sales commissions and salary related expenses), in line with the Company's strategic plans, described in detail in the annual report for 2015. The increase in manpower caused an increase in travel expenses (mainly of sales personnel). Marketing expenses additionally increased because of expenses in respect of exhibitions and publications as well as because of an increase of \$ 240,000 related to the allotment of options and restricted share units and the change the terms of options granted to employees and officers (for more information see the outline published on February 4, 2016, reference number: 2016-01-023689 ,as amended on March 8, 2016, ref. No. 2016-01-001791, and on March 21, 2016, ref., No. 2016-01-010950).
Research and development expenses	2,426	2,121	14%	The increase in research and development expenses in the first nine months of 2016 compared to the corresponding period in the previous year was mainly due to the recruitment of research and development personnel for the development of a new generation of products as well as for assistance in the conduct of clinical trials, application development and changes to existing products (increase in salaries and

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				related expenses). Also, there was an increase in payments to consultants and subcontractors for new developments. A further increase of about \$ 130,000 resulted from granting of options and restricted share units and the change of the terms of options granted to employees and officers. That increase was partially offset by a decrease in expenses pertaining to clinical tests.
General and administrative expenses	4,668	3,275	43%	The increase in general and administrative expenses in the first nine months of 2016 compared to the corresponding period in the previous year is mainly due to an increase in of approximately \$ 0.4 million in provision for doubtful debts (approximately \$ 0.2 million of which in respect of a single customer), and to expenses pertaining to moving the subsidiary's office from Franklin, Massachusetts to Atlanta, Georgia. A further increase of approximately \$ 0.8 million in expenses resulted from granting of options and restricted share units and the change of the terms of options granted to the CEO, officers, employees and directors (for more information see the Company's outline dated February 4, 2016) and the report on the convening of the general shareholders' meeting (reference number 2016-01-023746), as amended on March 8, 2016 (reference number 2016-01-002070) and on March 13, 2016 (reference number: 2016-01-005169). In the corresponding period last year, the company recorded expenses in respect of an aborted share issuance.
Operating loss	(7,643)	(4,167)	83%	The increase in operating loss in the first nine months of 2016, compared to the corresponding period in the previous year, despite the improvement of gross profit, is mainly attributable to an increase in selling , marketing expenses, research and development expenses and general and administrative expenses, as described above.

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Financial income (expenses) relating to cash and investments	1,140	(326)		The transition from financing expenses in the first nine months of the previous year to financial income in the current period is primarily due to a loss of approximately \$0.5 million in respect of Israeli currency money market funds incurred in the first nine months of 2015 (resulting from the steep appreciation in the dollar-Israeli shekel exchange rate from date of acquisition in mid-2013 and the realization date. In the current period there was an approximately 3.7% depreciation in the dollar-Israeli currency exchange rate (as opposed to a 0.9% appreciation in the corresponding period last year), which resulted in an increase in financial income due to the increase in the dollar value of cash and cash equivalents and available-for-securities.
Financial expenses relating to notes and loans	(3,858)	(3,065)	26%	The increase in financial expenses on notes and loans in the first nine months of 2016 compared to half of 2016 compared to the corresponding period in the previous year was mainly due to the depreciation of the dollar/NIS exchange rate as described above which led to an increase in financial expenses due to the increase in the dollar value of the series L notes. This increase was partly offset by expenses incurred in the corresponding period in the previous year due to repayment of shareholders' loans following the Viola investment agreement.
Gain (loss) from financial derivatives	(7,204)	5,197		The transition to a loss from derivatives in the first nine months of 2016 from gain from derivative financial instruments in the corresponding period in the previous year is due to the approximately \$ 9.5 million increase in the fair value (non-cash but affecting the income statement) of the options issued to the Viola Fund and of the warrants (series 4) issued to the public. The value of these options and warrants increased in the first nine months

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				of 2016 by approximately 320%, from 27.4 agorot on December 31, 2015 to 116.0 agorot as of September 30, 2016. These losses were partly offset by the gain from derivative financial instruments resulting from the approximately \$0.6 million decline in the fair value of the options embedded in the Company's series L notes due to: (a) the approximately 16% decline in the Company's share price (as of September 30, 2016 compared to December 31, 2015), and (b) shortening the life of the bonds by nine months. The gain in the corresponding period of 2015 was mainly due to non-cash flow change in the fair value of warrants embedded in the Series L notes. derived mainly from: (a) shortening the life of the bonds by nine months; (b) the appreciation of the dollar against the shekel; and (c) the approximately 27% decline in the Company's share price (as of September 30, 2015 compared to December 31, 2014).
Loss	(17,670)	(2,454)	620%	The increase in loss in the first nine months of 2016, is due mainly to the increase in net financial expenses, in selling and marketing expensed, in research and development expenses and in general and administrative expenses.
Adjustments to loss	9,432	(4,205)		The main change in adjustments to loss in the first nine months of 2016 compared to the corresponding period in the previous year is mainly due to the net loss from the revaluation of the various warrants and the options recorded in the current period. In addition, in the current period share-based payments increased to approximately \$ 1.5 million in the compared to approximately \$ 0.3 million in the corresponding period in the previous the year, and the provision for doubtful debts increased by approximately \$ 0.4 million.
Adjusted loss	(8,238)	(6,659)	24%	The increase in the adjusted loss in the

Item	Nine-Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				first nine months of 2016 compared to the corresponding period in the previous year despite an improvement in gross profit is due mainly to the increase in selling and marketing expenses, research and development expenses and general and administrative expenses.

Analysis of statement of operations data for the third quarter of 2016

Item	For the Three Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Revenues	4,878	3,865	26%	The increase in revenues in the third quarter of 2016 compared to the corresponding last year is due to the approximately 63% increase in revenues from the WatchPAT product, resulting, from an increase in the quantity sold in the United States (total WatchPAT revenues in the Unites States increased by approximately 63% over those in the corresponding period in the preceding year) and the quantity of products sold under the distribution agreement with Philips Japan. That increase was partly offset by the approximately 31% decline in revenues from sales of the EndoPAT product as com which is a continuation of the downwards trend in revenues from that product, for the reasons explained in item 2e above.
Gross profit	3,688	2,964	24%	Gross margin in the third quarter of 2016 is approximately 76% of Group's revenues, compared with approximately 77% in the corresponding period in the previous year. The decrease in the percentage of gross margin compared with the corresponding period in the previous year is due to: (a) a slightly higher average exchange rate in the corresponding quarter of the previous year, and (b) non-recurring events in the third quarter of 2015 which improved the gross profit.

Item	For the Three Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Selling and marketing expenses	3,436	2,687	28%	The increase in selling and marketing expenses in the third quarter of 2016 compared to the corresponding period of last year is mainly due to the recruitment of sales and support staff in the US (increase in the cost of wages, sales commissions and salary related expenses), in line with the Company's strategic plans, described in detail in the annual report for 2015. Marketing expenses increased because of increase in travel expenses resulting from the increase in manpower (mainly sales personnel).
Research and development expenses	715	715	0%	No significant change occurred in research and development expenses in the third quarter of 2016 compared to the corresponding period in the previous year.
General and administrative expenses	1,517	1,168	30%	The increase in general and administrative expenses in the third quarter of 2016 compared to the corresponding period in the previous year is mainly due to: (a) an increase of approximately \$ 0.3 million from granting of options and restricted share units to the CEO, officers, employees and directors, and (b) expenses pertaining to moving the subsidiary's office from Franklin, Massachusetts to Atlanta, Georgia. In the corresponding period last year, the company recorded expenses in respect of an aborted share issuance.
Operating loss	(1,980)	(1,606)	23%	The increase in operating loss in the third quarter of 2016 compared to the corresponding period in the previous year despite the improvement in gross margin is mainly attributable to an increase in selling and marketing expenses and general and administrative expenses, as described above.
Financial income (expenses) relating to cash and investments	616	(136)		The transition from financial expenses relating to cash and investments in the third quarter of the previous year to financial income in the current period resulted primarily from the nearly 2.3% depreciation of the dollar/Israeli currency

Item	For the Three Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				exchange rate (as of September 30, 2016 compared to June 30, 2016), as opposed to the appreciation of the dollar relative to Israeli currency (as of September 30, 2015 compared to June 30, 2015). The depreciation of the dollar relative to Israeli currency increases the dollar value of cash, deposits and investments, thus causing financial income (an appreciation of such exchange rate has an opposite effect).
Financial expenses relating to notes and loans	(1,562)	(444)	252%	The increase in financial expenses relating to cash and investments in the third quarter of 2016 as compared to the third quarter of the previous year resulted primarily from the said change in the dollar/NIS exchange rate on the series L notes. The depreciation of the dollar relative to Israeli currency increases the book of value the series L notes (which causes an increase of current and non-current liabilities in the statements of financial position), thus causing financial expenses. In addition, in the third quarter of 2015 the Company also incurred financial expenses in respect of private shareholders' loans repaid as part of the Viola transaction.
Gain (loss) from financial derivatives	(2,698)	2,696		The transition to a loss from derivatives in the third quarter of 2016 from gain from those instruments in the corresponding period in the previous year is due to the approximately \$ 3.3 million increase in the fair value (non-cash but affecting the income statement) of the options issued to the Viola Fund and of the warrants (series 4) issued to the public. In the third quarter of 2016, the value of these options and warrants increased by approximately 33%, from 87 agorot on June 30, 2016 to 116 agorot as of September 30, 2016. These losses were partly offset by the gain from derivative financial instruments resulting from the approximately \$ 0.6 million decline in the fair value of the options embedded in the Company's series L notes

Item	For the Three Months Ended September 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				due to: (a) the approximately 4% decline in the Company's share price (as of September 30, 2016 compared to June 30, 2016); and (b) shortening the life of the notes by three months. In the corresponding period of the preceding year, most of the gain derived from the approximately \$ 2.7 million change in the fair value of the options embedded in the series L notes (mainly due to an approximately 17% decline in the share price in the third quarter of 2015 resulting from the appreciation of the dollar relative to Israeli currency). 75
Income (loss)	(5,650)	488		The transition from income in the third quarter of 2015 to loss in the third quarter of 2016, is due mainly to the change from net financial income in the corresponding quarter last year to net financial expenses in the current.
Adjustments to income (loss)	3,174	(2,328)		Most of the change in adjustments to loss in the third quarter of 2016 compared to the corresponding period in the previous year is mainly due to: (a) the approximately \$3.3 million increase in value of the options issued to Viola and of the warrants (series 4) issued to the public, and (b) the current increase of approximately \$0.5 million. In the corresponding quarter last year the adjustment included adjustment of expenses relating to aborted share issuance.
Adjusted loss	(2,476)	(1,840)	35%	Most of the increase in the adjusted loss in the third quarter of 2016 compared to the corresponding period in the previous year is due y to the increase in net financial expenses. In the current quarter gross profit improved compared to the corresponding quarter of last year, but that improvement was more than fully offset by the increase in selling and marketing expenses and general and administrative expenses.

5. Liquidity

In the reported period, the Company continued raising funds to finance its current operations, as follows: (i) by increasing sales and marketing effort in markets on which Company operations are focused: U.S., Japan and China; and (ii) Funds received from the Company against issuance of the bonds (Series L) in February 2013, from a private placement of shares to institutional investors in 2014 and the funds received from the Viola Fund Investment Transaction in the Company and the rights issue to shareholders.

Analysis of cash flows for the first nine months of 2016

Activity type	For the Nine Months Ended September 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
Operating activities	(8,470)	(7,348)	15%	The increase in cash flows used in operating activities in the first nine months of 2016 compared to the corresponding period in the preceding year stems mainly from: (a)increase in the loss for the current period (after neutralizing the non-cash financial expenses, provisions for doubtful accounts and share-based payments); and (b) a sharper decrease in trade and other accounts payable compared to the corresponding period in the preceding year. Such increase was partly offset by: (a) an increase in trade accounts receivable and in inventories compared to the corresponding period in the preceding year; (b) a more moderate increase in inventories in the current period; and (c) decrease in interest payments, mainly due to the repayment of shareholders' loans as part of the Vila investment transaction.
Investing activities	(400)	5,720		Cash flows used in investing activities in the first nine months of 2016 were primarily applied to purchase of fixed assets and to deposits pledged as security for payment of rent in the US following moving the subsidiary's office to Atlanta. In the corresponding period of the previous year, the cash flows from investing activities were primarily derived from realization of an investment in Israeli currency money market funds.
Financing activities	1,100	27		Cash flows from financing activities in the first nine months of 2016 resulted primarily from the issuance of additional shares and options as part of the third and

Activity type	For the Nine Months Ended September 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
				final phase of the Viola Investment Transaction. In the corresponding period of the previous year, cash flows from financing activities were derived from the exercise of options granted to employees.

Analysis of cash flows for the third quarter of 2016

Activity type	For the Three-Months Ended September 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
Operating activities	(2,426)	(1,955)	24%	The increase in cash flows used for operating activities in the third quarter of 2016 compared to the corresponding quarter of the preceding year stems mainly from: (a)increase in accounts receivable as compared to a decrease in the third quarter last year; and (b) an increase in inventories as compared to a decrease in the third quarter last year. That increase was partly offset by, mainly, an increase in accounts payable as compared to a decrease in the third quarter last year.
Investing activities	(295)	(13)		Cash flows used investing activities in the third quarter of 2016 were mainly applied to purchase of fixed assets and to deposits pledged as security for payment of rent in the US following moving the subsidiary's office to Atlanta.
Financing activities	2	5		Cash flows from financing activities in the third quarter of 2016 and in the corresponding quarter in the previous year were derived from the exercise of options granted to employees and office holders.

6. Financing sources

6.1 Overview

Since its initial public offering in June 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.

For more information about the Company's financing and grants received from the Bureau of Chief Scientist of the Ministry of Economic Affairs and Industry, see Sections 3, 24 and 18.3, respectively, in Part A of the Annual Report for 2015.

6.2 Investment transaction with Viola

In February 2015, the Company concluded all three stages the investment transaction of Viola Fund, thereby raising a total (gross) of approximately \$30 million (approximately \$25.2 million from Viola and approximately \$4.8 million by the rights issuance). As of the date of conclusion of the transaction, Viola held approximately 25.5% of the Company's issued and paid-up share capital and the Company considers Viola to be its controlling shareholder.

6.3 Exercise of convertible securities in the course of the report period

In the report year, employees and office-holders exercised approximately 356,000 options. The total proceeds from such exercise were approximately \$ 16,000.

6.4 Line of credit from a bank

The Company has a line of credit from a bank in the total amount of NIS 100,000.

6.5 Irrecoverable undertaking to provide a credit facility

In January 2015, the Company received an irrecoverable undertaking to provide a credit facility from three of its shareholders in the total amount of to NIS 9.1 million (approximately \$2.3 million) between January 2017 and February 28, 2017. For more information, see Section 24.4 of Part A of the Annual Report for 2015 .

6.6 Equity, cash balances, deposits and securities and future raising of capital

As of September 30, 2016, the Company's equity capital was approximately \$1,798,000.

As of September 30, 2016, the Group's cash, cash equivalents and investments in securities available for sale amounted to approximately \$29,041,000.

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

6.7 Long-term loans (including current maturities)

The average balance of long-term notes and loans in the first nine months of 2016 amounted to approximately \$16,376,000, compared to approximately \$15,702,000 in the corresponding period in the previous year.

7. Summary of exposure to market risk and management thereof

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

Assets and liabilities	Gain (loss) from change		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	(692)	(345)	(6,922)	345	692
EURO	68	44	680	(44)	(68)

Sensitivity to changes in the Company share price

	Gain (loss) from change			Fair value	Gain (loss) from change		
	68% increase in share price	10% increase in share price	5% increase in share price		5% decrease in share price	10% decrease in share price	28% decrease in share price
Convertible notes (series L)	(4,842)	(497)	152	(21,468)	280	400	932

Sensitivity to changes in the Company's standard deviation

	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in standard deviation	5% increase in standard deviation		5% decrease in standard deviation	10% decrease in standard deviation
Convertible notes (Series L)	(170)	(84)	(21,468)	105	306

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

8. Significant events during the quarter

For details of significant events during the quarter, in conformity with Regulation 39a of the Regulations, 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 reported period ended September 30, 2016, there was no significant change in exposure to market risk and management thereof, compared to the description provided in the Company's 2015 Annual Report, issued on June 30, 2016.

10. Linkage basis report

Below are the linkage terms of the monetary balances:

Consolidated	September 30, 2016						Total
	Dollar	Un-linked NIS	Index linked NIS	Euro	Other curre ncies	Non- monet ary items	
	Dollars in thousands						
	Assets						
Cash and cash equivalents	4,417	21,293	-	406	76	-	26,192
Available-for sale securities	-	1,503	1,346	-	-	-	2,849
Trade receivables	4,753	95	-	272	-	-	5,120
Other receivables (including prepaid expenses)	156	59	-	2	6	494	717
Inventories	-	-	-	-	-	1,658	1,658
Long-term restricted deposit	-	291	-	-	-	-	291
Fixed assets	-	-	-	-	-	881	881
Intangible assets	-	-	-	-	-	223	223
Total assets	9,326	23,241	1,346	680	82	3,256	37,931
Liabilities							
Trade payables	462	243	-	-	-	-	705
Employee benefits	-	-	-	-	-	390	390
Provisions	-	-	-	-	-	241	241
Other accounts payable and accrued expenses	1,660	705	-	-	92	290	2,747
Loans from shareholders	-	-	-	-	-	-	-
Convertible notes	-	17,445	-	-	-	-	17,445
Derivative instruments	-	13,789	-	-	-	-	13,789
Long-term accounts payable	816	-	-	-	-	-	816
Total liabilities	2,938	32,182	-	-	92	921	36,133
Carrying amount, net	6,388	(8,941)	1,346	680	(10)	2,335	1,798

Consolidated**As at December 31, 2015**

	Dollar	Un-linked NIS	Index linked NIS	Euro	Other currencies	Non-monetary items	Total
Dollars in thousands							
Assets							
Cash and cash equivalents	4,392	28,197	-	383	47	-	33,019
Available-for sale securities	-	1,467	1,243	-	-	-	2,710
Trade receivables	3,943	117	-	390	-	-	4,450
Other receivables (including prepaid expenses)	119	21	-	5	5	616	766
Inventories	-	-	-	-	-	1,580	1,580
Long-term restricted deposit	-	177	-	-	-	-	177
Fixed assets	-	-	-	-	-	755	755
Intangible assets	-	-	-	-	-	283	283
Total assets	8,454	29,979		778	52	3,234	43,740
Liabilities							
Trade payables	591	448	-	16	-	-	1,055
Employee benefits	-	-	-	-	-	358	358
Provisions	-	-	-	-	-	238	238
Other accounts payable and accrued expenses	1,664	1,050	-	50	49	324	3,137
Loans from shareholders	-	-	-	-	-	-	-
Convertible notes	-	14,906	-	-	-	-	14,906
Derivative instruments	-	6,500	-	-	-	-	6,500
Long-term accounts payable	595	-	-	-	-	-	595
Total liabilities	2,850	22,904	-	66	49	920	26,789
Carrying amount, net	5,604	7,075	1,243	712	3	2,314	16,951

11. Sensitivity analysis

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 on:

11.1 Sensitivity to changes in exchange rates

- Excess of liabilities over assets in the NIS-linked statement of financial position (linked and not linked) amounts to \$ 7,595,000.

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	2,129	1,065	21,293	(1,065)	(2,129)
Securities	285	142	2,849	(142)	(285)
Trade receivables	10	5	95	(5)	(10)
Other receivables	6	3	59	(3)	(6)
Deposits	29	15	291	(15)	(29)
Trade payables	(24)	(12)	(243)	12	24
Other accounts payable	(55)	(27)	(546)	27	55
Derivatives	(1,379)	(689)	(13,789)	689	1,379
Convertible notes (series L)	(1,693)	(847)	(16,931)	847	1,693
Total	(692)	(345)	(6,922)	345	692

- Excess of assets over liabilities in the Euro linked statement of financial position, amounts to \$ 680,000.

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

This sensitivity analysis is based on the dollar to shekel exchange rate as of September 30, 2016 - \$0.2661 per NIS 1.

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

This sensitivity analysis is based on the dollar to Euro exchange rate as of September 30, 2016 - \$1.1184 per 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	41	20	406	(20)	(41)
Trade receivables	27	14	272	(14)	(27)
Other receivables	-	-	2	-	-
Trade accounts payable	-	-	-	-	-
Other accounts payable	-	-	-	-	-
Total	68	34	680	(34)	(68)

11.2 Sensitivity to change in the market value

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

	Gain (loss) from change			Fair value	Gain (loss) from change		
	68% increase in share price	10% increase in share price	5% increase in share price		5% decrease in share price	10% decrease in share price	28% decrease in share price
Notes (series L)	(4,842)	(497)	(152)	(21,468)	280	400	932

On November 18, 2008 the price of the Company's share declined by approximately 28%; on February 18, 2009, the price of the Company's share increased by approximately 68%.

11.2.2 Sensitivity to change in the Company standard deviation (dollars in thousands):

	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in standard deviation	5% increase in standard deviation		5% decrease in standard deviation	10% decrease in standard deviation
Convertible notes (Series L)	(170)	(84)	(21,468)	105	306

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

At the reporting date, the Board has not changed its determination regarding the minimum number of directors with accounting and financial expertise, compared with the provisions of the 2015 Annual Report.

14. Independent directors

The Company's bylaws do not include a provision concerning the number of independent directors.

Currently, there are nine directors in the Company, two of which are independent directors (Dr. Samuel Morry Blumenfeld and Mr. Ilan Biran) and two external directors.

15. Internal Auditor of the Company

Until May 25, 2016, Mr. Doron Cohen, CPA, a partner in Fahn Kanne Control Management Ltd. (a member firm of the Grant Thornton group) served as the Company's internal auditor. As of the report date, there was no significant change to the information about the Company's Internal Auditor, compared to the description provided in section 15 in Part B of the Company's 2015 Annual Report.

On May 25, 2016, upon the recommendation of the Company's Audit Committee, the Board of Directors resolved to appoint Mr. Yehuda Gevirtz, CPA, also a partner in Fahn Kanne Control Management Ltd., as the internal auditor of the Company instead of Mr. Doron Cohen, with the latter's consent. This did not result in a change in the details of the internal auditor as compared with the information provided in item 15 in Part B of the 2015 annual report, except for the following:

Item	Details
Name	Mr. Yehuda Gevirtz, CPA – partner in Fahn Kanne Control Management Ltd. (a member firm of Grant Thornton).
Commencement of term in office	May 25, 2016
Reasons for appointment	On May 25, 2016, the Company's Board of Directors appointed Mr. Yehuda Gevirtz, CPA as the Company's Internal 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.

The meeting of the Audit Committee held on August 4, 2016, discussed the internal auditor's reports regarding the implementation of his recommendations as to the maintenance of bank accounts, investments and cash flows, disaster recovery plan and the information technology.

The meeting of the Audit Committee held on November 16, 2016, discussed the internal auditor's reports regarding the Japanese subsidiary.

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

16. Subsequent events mentioned in the financial statements

For subsequent events in the financial statements, see Note 6 to the Company's financial statements as of September 30, 2016.

17. Valuation

The Company includes in this report the valuation of the options embedded in bonds (Series L), which is considered a very material valuation in a small corporation, as this term is defined in Article 5d (b) (1) of the Reports Regulations. The following are additional details in connection with the valuation, as required under the provisions of Article 8 (b) (1) and (2), 8 (d) and 8 (i) of the Reports Regulations.

Valuation of warrants in convertible notes (Series L)

Subject of valuation	Fair value of the warrants component of the convertible series L notes for accounting reporting purposes
Valuation date	September 30, 2016
Date of agreement with the external valuer	March 7, 2013
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 7,964,000
Value of the subject of valuation based on the appraisal	NIS 5,564,000
Identification of the valuer:	
Name of the valuer	PricewaterhouseCoopers Management 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, The Tel-Aviv University, MA in economics, The Tel-Aviv University
Appraising experience	About 14 year experience in economic and financial consulting
Dependence on the contractee	There is no dependence between the valuer and the Company
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	
Risk-free unlinked interest	0.08%
Maximum life span of the warrants	1.41 years
Yield to redemption of the straight notes	33.84%

Valued item	Valuator	Valuation date	Valuation ⁽¹⁾	Resulting effect ⁽²⁾	Share price	Standard deviation	Discount rate
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of February 28, 2013	7,450	-	153.7	66.1%	13.80%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of March 12, 2013	1,692	-	156.9	65.9%	13.63%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2013	13,019	(3,877)	203.7	63.0%	13.86%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2014	9,162	3,857	190.9	62.1%	16.78%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2015	3,804	5,358	142.9	60.0%	21.17%
Equity component of	PricewaterhouseCoopers Consulting Ltd.	Effective as of September	1,481	2,323	119.8	58.49%	33.84%

Valued item	Valuator	Valuation date	Valuation ⁽¹⁾	Resulting effect ⁽²⁾	Share price	Standard deviation	Discount rate
convertible notes		30, 2016					

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

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

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

For more information regarding the valuation of embedded options in bonds Series L see attached valuation report to this quarterly report.

18. Warning signs

The Company's Board of Directors, at its meeting held on November 22, 2016, discussed the provisions of Regulation 10(b)(14) of the Regulations regarding warning signs. When such warning signs occur within the corporation, a reporting entity should enclose a disclosure of the forecasted cash flow with details of existing and anticipated liabilities of the corporation over the two years following the date of the financial statements (the "**forecasted cash flow statement**" and the "**forecasted cash flow statement period**", respectively) The only such warning sign which occurs at the Company is continuous negative operating cash flow.

Nevertheless, the Company's Board of Directors has determined that the said warning sign does not indicate any liquidity issue and that there is no reason to suspect that in the projected cash flow period, the Company will become unable to meet its existing and expected obligations in a timely manner, for the following reasons:

At the Board of Directors' meeting, the following matters were discussed, amongst others: (i) the Company's business plan, which includes updated targets and options to align the Company with the markets in which it does business and at which it targets its products; (ii) data with regard to estimated sales volume by the Company for the forecasted cash flow period (including estimates by the Company with regard to continued proceedings for adoption of insurance reimbursement in the U.S. for the Company's products by private insurers); (iii) total Company expenses for the period, adjusted for the Company's economic and business environment; (iv) the Company's current and anticipated liabilities over the forecasted cash flow period, including with respect to the notes (Series L); and (iv) the sources of financing at the Company's disposal, as detailed in item 6 above.

As of September 30, 2016, the Company had cash and cash equivalents and marketable securities of approximately \$29,041,000.

The Company's Board of Directors continues to review, from time to time, the need for taking additional measures, including fund raising and/or streamlining measures.

Chapter E – Specific Disclosure for Noteholders

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

At the reporting date, there was no change in the notes issued by the Company, compared to the provisions of section 21 of Part II of the Annual Report for 2015, except as described below:

	Convertible notes (Series L)
Par value as of September 30, 2016:	NIS 76,255,261
Par value (according to linkage terms) as of September 30, 2016:	NIS 76,255,261
Accrued interest :	\$159,000
Fair value in the financial statements as of September 30, 2016:	\$19,0844,000 (includes \$1,481,000 with respect to the conversion component, including accrued interest).
Value on the TASE as of November 17, 2016:	NIS 80,831,000 (for NIS 76,255,000 par value).

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 CEO

Date: November 22, 2016

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2015

ITAMAR MEDICAL LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

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ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	September 30, 2016 <u>(Unaudited)</u>	September 30, 2015 <u>(Unaudited)</u>	December 31 2015 <u>(Audited)</u>
	<u>U.S.D in thousands</u>		
Assets			
Current assets			
Cash and cash equivalents	26,192	7,850	33,019
Securities available for sale	2,849	2,698	2,710
Trade receivables	4,332	3,400	3,677
Other receivables	513	553	623
Inventories	<u>1,658</u>	<u>1,706</u>	<u>1,580</u>
Total current assets	<u>35,544</u>	<u>16,207</u>	<u>41,609</u>
Non-current assets			
Restricted deposits	291	177	177
Prepaid expenses	204	135	143
Long term trade receivables	788	704	773
Fixed assets	881	687	755
Intangible assets	<u>223</u>	<u>306</u>	<u>283</u>
Total non-current assets	<u>2,387</u>	<u>2,009</u>	<u>2,131</u>
Total assets	<u><u>37,931</u></u>	<u><u>18,216</u></u>	<u><u>43,740</u></u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	December 31 2015 (Audited)
	U.S.D in thousands		
Liabilities			
Current liabilities			
Trade payables	705	992	1,055
Short-term employee benefits	264	206	190
Current maturities of convertible notes	9,434	-	-
Provisions	241	356	238
Short-term loans from shareholders	-	1,652	-
Payable expenses	940	1,253	1,257
Other accounts payable	1,807	1,373	1,880
Total current liabilities	13,391	5,832	4,620
Non-current liabilities			
Convertible notes, net of current maturities	8,011	14,267	14,906
Derivative instruments	13,789	3,965	6,500
Long-term employee benefits	126	89	168
Other long-term accounts payable	816	576	595
Total non-current liabilities	22,742	18,897	22,169
Total liabilities	36,133	24,729	26,789
Equity (equity deficiency)			
Ordinary share capital	679	467	670
Additional paid-in capital	104,350	80,269	103,344
Capital reserve in respect of transactions with shareholders	1,151	1,151	1,151
Capital reserve in respect of currency translation adjustments	(9)	(9)	(9)
Capital reserve in respect of securities available-for-sale	(15)	(47)	(54)
Accumulated deficit	(104,358)	(88,344)	(88,151)
Total equity (equity deficiency)	1,798	(6,513)	16,951
Total liabilities and capital (less equity deficiency)	37,931	18,216	43,740

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Joseph Tenne, Chief Financial Officer

Date of approval date of the financial statements: November 22, 2016

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

	Nine Months Ended September 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S.D in thousands				
Revenues	13,477	12,648	4,878	3,865	16,807
Cost of revenues	3,387	3,407	1,190	901	4,401
Gross profit	10,090	9,241	3,688	2,964	12,406
Sales and marketing expenses	10,639	8,012	3,436	2,687	10,684
Research and development expenses	2,426	2,121	715	715	2,831
General and administrative expenses	4,668	3,275	1,517	1,168	4,350
Operating loss	(7,643)	(4,167)	(1,980)	(1,606)	(5,459)
Financial income (expenses) relating to cash and investments	1,140	(326)	616	(136)	(354)
Financial expenses relating to notes, loans and others	(3,858)	(3,065)	(1,562)	(444)	(4,229)
Gain (loss) from derivatives instruments	(7,204)	5,197	(2,698)	2,696	7,930
Financial income (expenses), net	(9,922)	1,806	(3,644)	2,116	3,347
Income (loss) before income tax	(17,565)	(2,361)	(5,624)	510	(2,112)
Income taxes	(105)	(93)	(26)	(22)	(135)
Income (loss) for period	(17,670)	(2,454)	(5,650)	488	(2,247)
Basic loss per share (In USD)	(0.07)	(0.01)	(0.02)	0.00	(0.01)
Diluted loss per share (In USD)	(0.07)	(0.02)	(0.02)	(0.01)	(0.02)

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

ITAMAR MEDICAL LTD.
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
INCOME**

	Nine Months Ended		Three Months Ended		Year Ended
	September 30,		September 30,		December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S.D in thousands				
Income (loss) for the period	(17,670)	(2,454)	(5,650)	488	(2,247)
Other comprehensive loss items that will not be carried to the Statement of Income					
Remeasurement of defined benefit plan, net of tax	-	-	-	-	(72)
Total other comprehensive loss for the period that will not be carried to the Statement of Income, net of tax	- -	- -	- -	- -	(72)
Other comprehensive income (loss) items, which, after preliminary recognition in comprehensive profit, were carried or will be carried to profit or loss					
Net change in fair value of marketable securities available-for-sale, net of tax	39	(116)	31	(53)	(123)
Net change in fair value of securities available for sale, net of tax, carried to profit and loss	-	523	-	-	523
Total other comprehensive income (loss) items which, after initial recognition in comprehensive profit, were transferred or will be transferred to profit and loss, net of tax	39 -	407 -	31 -	(53) -	400
Other comprehensive income (loss) for the period	39	407	31	(53)	328
Total comprehensive income (loss) for the period	(17,631)	(2,047)	(5,619)	435	(1,919)

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (EQUITY DEFICIENCY)

	<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 nine months ended September 30, 2016							
Balance as of January 1, 2016 (audited)	670	103,344	1,151	(9)	(54)	(88,151)	16,951
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(17,670)	(17,670)
Other comprehensive income for the period, net of tax	-	-	-	-	39	-	39
Total comprehensive loss for the period	-	-	-	-	39	(17,670)	(17,631)
Transactions with owner recognized directly in							
Exercise of options	1	16	-	-	-	-	17
Private issuance of ordinary shares	8	990	-	-	-	-	998
Share-based payment	-	-	-	-	-	1,463	1,463
Balance as of September 30, 2016 (unaudited)	679	104,350	1,151	(9)	(15)	(104,358)	1,798
For the nine months ended September 30, 2015							
Balance as of January 1, 2015 (audited)	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(2,454)	(2,454)
Other comprehensive income for the period, net of tax	-	-	-	-	407	-	407
Total comprehensive loss for the period	-	-	-	-	407	(2,454)	(2,047)
Transactions with owner recognized directly in							
Exercise of options	*-	27	-	-	-	-	27
Share-based payment	-	-	-	-	-	277	277
Balance as of September 30, 2015 (unaudited)	467	80,269	1,151	(9)	(47)	(88,344)	(6,513)

* Representing an amount of less than USD 1 thousand.

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN CAPITAL DEFICIENCY

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for- sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the three months ended September 30, 2016							
Balance as of July 1, 2016 (unaudited)	679	104,348	1,151	(9)	(46)	(99,053)	7,070
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(5,650)	(5,650)
Other comprehensive income for the period, net of tax	-	-	-	-	31	-	31
Total comprehensive loss for the period	-	-	-	-	31	(5,650)	(5,619)
Transactions with owner recognized directly in equity:							
Exercise of options	*-	2	-	-	-	-	2
Share-based payment	-	-	-	-	-	345	345
Balance as of September 30, 2016 (unaudited)	679	104,350	1,151	(9)	(15)	(104,358)	1,798
For the three months ended September 30, 2015							
Balance as of July 1, 2015 (unaudited)	467	80,264	1,151	(9)	6	(88,686)	(6,807)
Total comprehensive profit for the period:							
Profit for the period	-	-	-	-	-	488	488
Other comprehensive loss for the period, net of tax	-	-	-	-	(53)	-	(53)
Total comprehensive profit for the period	-	-	-	-	(53)	488	435
Transactions with owner recognized directly in equity:							
Exercise of options	*-	5	-	-	-	-	5
Share-based payment	-	-	-	-	-	(146)	(146)
Balance as of September 30, 2015 (unaudited)	467	80,269	1,151	(9)	(47)	(88,344)	(6,513)

* Representing an amount of less than USD 1 thousand.

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN CAPITAL DEFICIENCY

	<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, 2015							
Balance as of January 1, 2015 (audited)	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	(2,247)	(2,247)
Other comprehensive income (loss) for the year, net of	-	-	-	-	400	(72)	328
Total comprehensive loss for the year	-	-	-	-	400	(2,319)	(1,919)
Transactions with owner recognized directly in							
Exercise of options	5	149	-	-	-	-	154
Private issuance of ordinary shares	198	22,953	-	-	-	-	23,151
Share-based payment	-	-	-	-	-	428	428
Early repayment of loan from shareholders	-	-	-	-	-	(93)	(93)
Balance as of December 31, 2015 (audited)	<u>670</u>	<u>103,344</u>	<u>1,151</u>	<u>(9)</u>	<u>(54)</u>	<u>(88,151)</u>	<u>16,951</u>

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Nine Months Ended		Three Months Ended		Year Ended
	September 30,		September 30,		December
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
profit (Loss) for the period	(17,670)	(2,454)	(5,650)	488	(2,247)
Adjustments for:					
Depreciation and amortization	293	273	97	104	367
Share-based payment	1,463	277	345	(146)	428
Change in provision for doubtful and bad debt	472	74	35	42	52
Net financial cost	2,762	3,302	971	572	4,591
Loss (profit) from revaluation of derivatives	7,204	(5,197)	2,698	(2,696)	(7,962)
(Increase) Decrease in trade receivables	(1,142)	(983)	(535)	332	(1,307)
(Increase) Decrease in other accounts receivable	49	(84)	(199)	141	(51)
(Increase) Decrease in inventories	(210)	(371)	(93)	82	(268)
Increase (Decrease) trade payables	(290)	(79)	88	(9)	5
Increase (Decrease) in other accounts payable and accrued expenses	293	(421)	317	(192)	(412)
Increase (Decrease) in employee benefits	32	70	(6)	(30)	61
Increase (Decrease) in provisions	3	6	(2)	-	(112)
Income tax expenses	105	123	26	27	179
Taxes paid during the period	(146)	(30)	(30)	(5)	(44)
Interest received during the period	28	7	11	3	11
Interest paid during the period	(1,716)	(1,861)	(875)	(933)	(1,901)
Net cash used in operating activities	(8,470)	(7,348)	(2,802)	(2,220)	(8,610)
Cash flow from investing activities					
Sale of securities available-for-sale	-	6,079	-	-	6,080
Purchase of fixed assets and intangible assets and capitalization of development expenses	(287)	(315)	(182)	(13)	(562)
Investment in pledged deposits	(113)	(44)	(113)	-	(44)
Net cash (used in) from investing activities	(400)	5,720	(295)	(13)	5,474
Cash flow from financing activities					
Proceeds from issuance of share capital	998	-	-	-	23,151
Proceeds from issuance of warrants	85	-	-	-	5,300
Repayment of shareholders' loan	-	-	-	-	(1,765)
Proceeds from exercise of share options	17	27	2	5	154
Net cash provided by financing activities	1,100	27	2	5	26,840
(Decrease) Increase in cash and cash equivalents	(7,770)	(1,601)	(3,095)	(2,228)	23,704
Cash and cash equivalents at beginning of	33,019	9,417	28,762	10,243	9,417
Effect of exchange rate fluctuations on balances of cash and cash equivalents	943	34	525	(165)	(102)
Cash and cash equivalent balance at end of	26,192	7,850	26,192	7,850	33,019

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

ITAMAR MEDICAL LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

NOTE 1 – GENERAL

a. The reporting entity

Itamar Medical Ltd. (hereinafter: the “**Company**”) is a company resident in Israel, incorporated on January 15, 1997; the Company’s address of record is 9 Halamish Street, Northern Industrial Zone, Caesarea. The Company’s securities are listed for trading on the Tel Aviv Stock Exchange Ltd.

The Company and its subsidiaries are engaged in research, development, manufacturing, marketing, sale and leasing of non-invasive diagnostic medical devices and associated support services for such devices, mainly for the purpose of diagnosing cardio-vascular conditions and sleep breathing disorders. The unique technology developed by the Company can monitor the Peripheral Arterial Tone – PAT® (hereinafter: “**PAT**”). The PAT signal accurately measures 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 diagnoses the patient’s medical condition.

The Company develops and markets two PAT-signal based products: WatchPAT™ (hereinafter: “**WatchPAT**”) and EndoPAT™ (hereinafter: “**EndoPAT**”). The WatchPAT product diagnoses sleep breathing disorders which were established as, inter alia, significant risk factors in cardiovascular diseases, and treatment of which improves the patient's cardiovascular condition. The EndoPAT product diagnoses endothelial dysfunction, established as a predictor of cardiovascular diseases.

The condensed financial statements of the Company and its subsidiaries (hereinafter: the “**Group**”) as of September 30, 2016 and the periods ended on that date, include the financial statements of the Company and its subsidiaries.

b. Completion of the investment agreement with an entity of the Viola Fund Group

On February 1, 2016, the Company completed the third and last stage of the investment transaction with the Viola Fund, in which the Company allocated to the Viola Fund 2,976,148 ordinary shares and 1,488,074 options in consideration for a total amount of 1.1 million United States Dollars (hereinafter: “**USD**”).

The Viola Fund investment transaction was performed in three stages, in the period of November 2015 to February 2016, and in it the Company allocated to the Viola Fund shares and nonnegotiable options of the Company in consideration for a total amount of approximately USD 25.2 million, this simultaneously with the execution of an issue of rights to shareholders under similar terms and for a consideration at the amount of an additional USD 4.8 million, so that the total consideration for the transaction in all its stages amounted to approximately USD 30 million. Upon the completion of the transaction as foregoing, the Viola Fund held approximately 25.5% of the Company's issued and paid-up share capital.

For information on the accounting policy of the private placement to the Viola Fund and the issue of rights carried out in 2015, see Note 16a to the 2015 Consolidated Financial Statements.

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International Financial Reporting Standards (“IFRS”)

These Condensed Consolidated Interim 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 statements should be read in conjunction with the Audited Consolidated Financial Statements as of December 31, 2015 and for the year then ended (hereinafter: 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), 5730 - 1970.

The financial statements were approved by the Board of Directors on November 22, 2016.

ITAMAR MEDICAL LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2016
(UNAUDITED)

b. Use of estimates and judgments

The preparation of the consolidated interim financial statements in conformity with IFRS requires the management to exercise judgment in estimates, appraisals and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. It is clarified that actual results may differ from such estimates.

The management's 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 condensed consolidated interim financial statements are the same as those applied by the Group in its 2015 Consolidated Financial Statements:

NOTE 4 – FINANCIAL INSTRUMENTS

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

The book value of cash and cash equivalents, trade receivables, other receivables, bank deposits, pledged deposits, supplier and service provide liabilities and other accounts payables, are identical or proximate to their fair value, due to the life of these items.

The fair values of other financial assets and liabilities in the books, shown in the Statement of Financial Position, are as follows:

	As of September 30, 2016		As of September 30, 2015		As of December 31, 2015	
	Value	Fair value	Value	Fair value	Value	Fair value
	U.S. dollars in thousands					
	(Unaudited)				(Audited)	
Current liabilities						
Loans from shareholders (included accrued interest)	-	-	1,668	1,537	-	-
Non-current liabilities						
Notes convertible into shares (including accumulated interest and conversion component)	19,085	* 21,468	18,384	* 22,004	19,289	* 22,181

* measured by the quoted market value

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: Unadjusted quoted prices in active markets for identical instruments.

Level 2: Observable data, whether directly or indirectly, which are not included in Level 1 above.

Level 3: Data not based on observable market data.

ITAMAR MEDICAL LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets -				
available-for- sale securities	<u>2,849</u>	<u>-</u>	<u>-</u>	<u>2,849</u>

Financial liabilities -				
embedded warrants	<u>1,987</u>	<u>10,321</u>	<u>1,481</u>	<u>13,789</u>

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets -				
available-for- sale securities	<u>2,698</u>	<u>-</u>	<u>-</u>	<u>2,698</u>

Financial liabilities -				
embedded warrants	<u>-</u>	<u>-</u>	<u>3,965*</u>	<u>3,965</u>

* Reclassified

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Audited)			
Financial assets -				
available-for- sale securities	<u>2,710</u>	<u>-</u>	<u>-</u>	<u>2,710</u>

Financial liabilities -				
embedded warrants	<u>-</u>	<u>2,696</u>	<u>3,804</u>	<u>6,500</u>

* Reclassified

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

The fair value of the option component embedded in the convertible notes was measured on the basis of directly or indirectly observable market data, according to the binomial model, on the basis of relevant parameters of the terms of notes identified as necessary in order to evaluate the option component. The assumptions and variables of the model include: the base asset (market price of the share), the exercise price of the option, the conversion ratio, exercise addition, option life, expected volatility of the base assets (price share), risk-free interest rate and repayment rate of return for the bond.

The fair value of the options issued to Viola was measured by the quoted market value of the warrants (Series 4), in light of the fact that the options issued to Viola and the warrants (Series 4) in essence have identical terms.

ITAMAR MEDICAL LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2016
(UNAUDITED)

NOTE 5 – SHARE BASED PAYMENT

On March 16, 2016, the Company allocated to the Company's CEO 3,620,834 new options, replacing all old options yet to mature.

On March 28, 2016, the Company allocated 3,755,847 new options to replace all options given in the past which have not yet matured, to 16 senior employees of the Company (of whom 6 are officeholders), and the terms of 741,314 options allocated in 2014 or afterwards to 65 offerees were updated, so that their exercise terms were cancelled and their vesting period was extended.

The replacements are treated as changing conditions pursuant to the provisions of IFRS 2. The incremental value measured at the date of exchange is not significant.

In addition, during March 2016 employees and officeholders were allocated 14,985,957 additional options and 3,465,761 new restricted stock units. During May 2016 directors were allocated 1,759,999 additional options. Also, during October 2016 employees were allocated 1,114,129 options and 72,545 new restricted stock units.

The following table details the new grants and replacements in the period:

<u>Grant date and entitled employees</u>	<u>Terms of the instrument</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual duration of the options (in years)</u>
Options granted to the Company's CEO and senior employees on January 21 2016 (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.55.	4,183,792 (1,869,467 options replacing old options and 2,314,325 new options) to senior employees.	25% will mature and be exercisable one year after the grant date. The other 75% will mature and be exercisable in 12 equal portions on a quarterly basis, at the end of each calendar quarter starting from the maturing of the first portion (i.e. on March 31, June 30, September 30 and December 31). The first quarterly portion will mature on March 31, 2017).	5 years from the grant date.
Options granted to the Company's CEO and senior employees on January 21, 2016 (at terms of service and market conditions cost)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.40.	17,177,846 (5,507,214 options replacing old options and 11,670,632 new options).	The options will mature after 4 years, if the share price is at least NIS 2.13 per share, in which case a quantity of 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.
Options granted to employees on January 21, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	671,000	2/3 will mature and become exercisable two years after the grant date, and the remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on March 31, 2018.	5 years after the grant date.

ITAMAR MEDICAL LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

<u>Grant date and entitled employees</u>	<u>Terms of the instrument</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual duration of the options (in years)</u>
Options granted to consultants on January 21, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	250,000	25% will mature and become exercisable one year after the grant date. The remaining 75% will mature and become exercisable in 4 equal portions on a quarterly basis at the end of each calendar quarter from the maturing of the first portion (i.e. on March 31, June 30, September 30 and December 31). The first quarterly portion will mature on March 31, 2017.	5 years after the grant date.
Options granted to 3 directors on March 16, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	330,000	The options will mature in four equal portions on January 21 of each year from 2017 to 2020.	5 years after the grant date.
Options granted to 4 directors on May 25, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.48 (for the first portion of the 219,999 options). The exercise addition for the 880,000 options that will be granted for the term of the second and the third year service will be determined in the beginning of their vesting period.	1,099,999	The options granted to the directors will be divided as follow: first portion of 219,999 options, second and third portion of 440,000 options, each one. The vesting period of the first portion, for the term of the first year service started on May 25, 2016; The vesting period of the second portion, for the term of the second year service will start on May 25, 2017; The vesting period of the third portion, for the term of the third year service will start on May 25, 2018; Each portion will mature in four equal portions each year upon 4 years.	5 years after the grant date of each grant.
Options granted to 2 external directors on June 17, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.48.	660,000	The options granted to the directors will be divided as follow: first portion of 219,999 options, second and third portion of 440,000 options each one. The vesting period of the first portion, for the term of the first year service started on May 25, 2016; The vesting period of the second portion, for the term of the second year service will start on May 25, 2017; The vesting period of the third portion, for the term of the third year service will start on May 25, 2018; Each portion will mature in four equal portions each year upon 4 years.	5 years after the grant date of each grant.

ITAMAR MEDICAL LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

<u>Grant date and entitled employees</u>	<u>Terms of the instrument</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual duration of the options (in years)</u>
Options granted to senior employee on October 13 (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.41.	81,447	25% will mature and be exercisable one year after the grant date. The other 75% will mature and be exercisable in 12 equal portions on a quarterly basis, at the end of each calendar quarter starting from the maturing of the first portion (i.e. on March 31, June 30, September 30 and December 31). The first quarterly portion will mature on September 30, 2017).	5 years from the grant date.
Options granted to senior employee on October 13 (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.33.	337,682	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.
Options granted to employees on October 13 (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.41.	695,000	2/3 will mature and become exercisable two years after the grant date, and the remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on September 30, 2018.	5 years from the grant date.
Total share options		25,486,766 (7,376,681 replacing old options and 18,110,085 new options)		
Restricted stock units granted to the Company's CEO on January 21, 2016	Each restricted stock unit is convertible into an ordinary share of NIS 0.01 in nominal value with an exercise addition of NIS 0.30.	1,692,312	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years after the grant date.
Restricted stock units granted to senior employees on January 21, 2016	Each restricted stock unit is convertible into an ordinary share of NIS 0.01 in nominal value without any exercise addition.	1,773,449	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years after the grant date.

ITAMAR MEDICAL LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

<u>Grant date and entitled employees</u>	<u>Terms of the instrument</u>	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual duration of the options (in years)</u>
Restricted stock units granted to senior employee on October 13 (at terms of service and market conditions cost)	Each option is exercisable into a share with a nominal value of NIS 0.01, with no exercise addition.	72,545	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.
Total restricted stock units		3,538,306		
Change of option terms:				
Change of option terms to employees, for exercise conditions granted in 2014 and 2015.	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition as determined on the original grant date (in the range of between NIS 1.57 and NIS 2.13)	741,314	2/3 will mature and become exercisable two years after the change date, which is January 21, 2016. The remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on March 31, 2018.	10 years after the original grant date.

The fair value on the grant date of the options at terms of service cost only that were granted to directors, the CEO, employees and consultants as foregoing, was assessed using the Black-Scholes model for pricing options. Except for the options that were granted to directors in May and June 2016 (second and third portion).

The fair value of options at terms of market conditions cost and restricted stock units were assessed on the grant date using the Monte Carlo simulation. In addition, the second and third portion of the options that were granted to directors in May and June 2015, include an expected exercise addition, therefore they were assessed on the grant date using the Monte Carlo simulation.

The parameters used to measure fair value on the grant date of share-based payment plans are presented below:

	<u>Option at terms of service cost only</u>	<u>Options at terms of service and market condition cost</u>	<u>Restricted stock units</u>
Fair value on the grant date (in thousands dollars)	821	1,580	612
Number of exercisable shares (in thousands)	6,102	12,008	3,538
Parameters taken into account when calculating fair value:			
Share price (on the grant date) (in NIS)	1.080 – 1.338	1.311 – 1.338	1.311 – 1.338
Exercise price (in NIS)	1.31 – 1.55	1.33 - 1.40	0.00 – 0.30

ITAMAR MEDICAL LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2016
(UNAUDITED)

	Option at terms of service cost only	Options at terms of service and market condition cost	Restricted stock units
Expected volatility (weighted average)	58.7% - 59.7%	58.5% - 59.5%	58.5% - 59.5%
Expected duration (weighted average)	3 – 6.5 years	4.3 years	4.3 years
Risk-free interest rate	0.3% - 1.45%	0.78% - 0.82%	0.78% - 0.82%
Expected dividend rate	0%	0%	0%

The expected volatility was determined on the basis of the historical volatility of the share price. The expected duration of options was determined pursuant to the management's evaluation of the period of employees' holding of them, taking into consideration their position in the Company and the Company's past experience regarding resigning employees. The risk-free interest rate was determined on the basis of NIS government bonds, when their remaining period is equal to the expected duration of the options.

ITAMAR MEDICAL LTD.

**CONDENSED INTERIM FINANCIAL DATA
FROM CONSOLIDATED FINANCIAL STATEMENTS
ATTRIBUTED TO THE COMPANY SOLO**

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

ADDITIONAL SOLO FINANCIAL DATA

AS OF SEPTEMBER 30, 2016

(UNAUDITED)

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ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF FINANCIAL POSITION

	September 30, 2016	September 30, 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	25,060	6,654	32,207
Securities available-for-sale	2,849	2,698	2,710
Trade receivables	1,605	1,557	1,169
Subsidiaries current account	4,144	3,586	3,783
Other receivables	305	428	430
Inventories	1,083	1,194	1,196
Total current assets	35,046	16,117	41,495
Non-current assets			
Restricted deposits	184	177	177
Prepaid expenses	60	49	59
Investment in subsidairies	132	178	350
Fixed assets	449	355	424
Intangible assets	197	279	255
Total non-current assets	1,022	1,038	1,265
Total assets	36,068	17,155	42,760

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF FINANCIAL POSITION

	September 30, 2016	September 30, 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Liabilities			
Current liabilities			
Trade payables	403	857	942
Short-term employee benefits	151	146	144
Current maturities of convertible debentures	9,434	-	-
Provisions	73	104	79
Short-term loans from shareholders	-	1,652	-
Payable expenses	691	1,162	1,145
Other accounts payable	744	732	1,237
Total current liabilities	11,496	4,653	3,547
Non-current liabilities			
Convertible notes, net of current maturities	8,011	14,267	14,906
Derivative instruments	13,789	3,965	6,500
Long-term employee benefits	126	89	168
Subsidiaries current account	32	118	93
Other long-term accounts payable	816	576	595
Total non-current liabilities	22,774	19,015	22,262
Total liabilities	34,270	23,668	25,809
Capital deficiency			
Ordinary share capital	679	467	670
Additional paid-in capital	104,350	80,269	103,344
Capital reserve in respect of transactions with shareholders	1,151	1,151	1,151
Capital reserve in respect of currency translation	(9)	(9)	(9)
Capital reserve in respect of securities available-for-sale	(15)	(47)	(54)
Accumulated deficit	(104,358)	(88,344)	(88,151)
Total equity (equity deficiency)	1,798	(6,513)	16,951
Total liabilities and capital (less equity)	36,068	17,155	42,760

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF INCOME

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Revenues from external parties	3,856	4,428	1,574	1,460	5,720
Revenues from inter-company sales	4,761	3,883	1,844	1,017	5,014
Total revenues	8,617	8,311	3,418	2,477	10,734
Cost of revenues	(3,212)	(3,225)	(1,180)	(803)	(4,155)
Gross profit	5,405	5,086	2,238	1,674	6,579
Sales and marketing expenses	1,962	2,001	566	672	2,621
Transfer pricing adjustments	5,312	2,713	1,739	1,187	3,552
Research and development expenses	2,426	2,121	715	715	2,831
General and administrative expenses	2,810	2,361	856	829	3,184
Operating loss	(7,105)	(4,110)	(1,638)	(1,729)	(5,609)
Financial income (expenses) relating to cash and investments	988	73	562	149	(530)
Financial expenses relating to notes, loans and others	(3,796)	(2,133)	(1,528)	(1,251)	(4,131)
Gain (Loss) from derivatives instruments	(7,204)	5,197	(2,698)	2,696	7,930
Financial income (expenses), net	(10,012)	1,731	(3,664)	2,068	3,269
Income (Loss) before income taxes	(17,117)	(2,379)	(5,302)	339	(2,340)
Income taxes	-	2	-	-	2
Income (Loss) from investees	(553)	(77)	(348)	149	91
Net loss attributable to equity holders of the Company	(17,670)	(2,454)	(5,650)	488	(2,247)

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Nine Months Ended		Three Months Ended		Year Ended
	September 30,		September 30,		December 31,
	2016	2015	2015	2014	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income (loss) for the period	(17,670)	(2,454)	(5,650)	488	(2,247)
Other comprehensive loss items that will not be carried to the Statement of Income					
Remeasurement of defined benefit plan, net of tax	-	-	-	-	(72)
Total	-	-	-	-	(72)
Other comprehensive income (loss) items, which, after preliminary recognition in comprehensive profit, were carried or will be carried to profit or loss					
Net change in fair value of marketable securities available-for-sale, net of tax	39	(116)	31	(53)	(123)
Net change in fair value of securities available for sale, net of tax, carried to profit and loss	-	523	-	-	523
Total	39	407	31	(53)	400
Total other comprehensive income (loss) for the period, net of tax	39	407	31	(53)	328
Total comprehensive income (loss) for the period	(17,631)	(2,047)	(5,619)	435	(1,919)

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF CASH FLOWS DATA

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
Loss for the period	(17,670)	(2,454)	(5,650)	488	(2,247)
Adjustments for:					
Depreciation and amortization	171	164	55	53	217
Change in provision for doubtful and bad debt	19	30	(1)	(6)	(4)
Net financial cost	2,776	3,290	972	560	4,591
Loss (Gain) from revaluation of derivatives	7,204	(5,197)	2,698	(2,696)	(7,962)
Loss (Gain) with respect to investee	553	77	348	(149)	(91)
Share-based payment	1,067	179	225	(143)	302
Decrease (Increase) in trade receivables	(455)	(464)	(289)	26	(42)
Decrease (Increase) in other accounts receivable	124	21	(54)	153	9
Decrease (Increase) in current balances with investee	(161)	(1,293)	(628)	19	(1,790)
Decrease (Increase) in inventories	92	(171)	131	92	(172)
Increase (Decrease) trade payables	(495)	(103)	(86)	(65)	3
Increase (Decrease) in other accounts payable and accrued expenses	(305)	(448)	(22)	(63)	(431)
Decrease in other long-term accounts payable	-	2	-	14	-
Increase (Decrease) in employee benefits	(35)	31	(33)	(53)	36
(Decrease) Increase in provisions	(6)	(2)	(3)	(4)	(27)
Income tax expenses	-	(2)	-	-	(2)
Interest received during the period	28	7	11	3	11
Interest paid during the period	(1,716)	(1,861)	(875)	(933)	(1,901)
Net cash provided by current operations with respect to transactions with investee	(200)	500	-	-	800
Net cash used in operating activities	(9,009)	(7,696)	(3,201)	(2,717)	(8,700)
Cash flow from investing activities					
Sale of securities available-for-sale	-	6,079	-	-	6,080
Purchase of fixed assets and intangible assets and capitalization of development expenses	(161)	(278)	(74)	(6)	(399)
Investment in pledged deposits	(6)	(44)	(6)	-	(44)
Net cash from (used in) investing activities	(167)	5,757	(80)	(6)	5,637
Cash flow from financing activities					
Proceeds from issuance of share capital	998	-	-	-	23,151
Payment of shareholders' loan	-	-	-	-	(1,765)
Proceeds from exercise of share options	17	27	2	5	154
Proceeds from issuance of warrants	85	-	-	-	5,300
Net cash provided by financing activities	1,100	27	2	5	26,840
Increase (Decrease) in cash and cash equivalents	(8,076)	(1,912)	(3,279)	(2,718)	23,777
Cash and cash equivalents at beginning of period	32,207	8,532	27,815	9,537	8,532
Effect of exchange rate fluctuations on balances of cash and cash equivalents	929	34	524	(165)	(102)
Cash and cash equivalent balance at end of period	25,060	6,654	25,060	6,654	32,207

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.
ADDITIONAL SOLO FINANCIAL DATA
AS OF SEPTEMBER 30, 2016

NOTE 1 – GENERAL

Basis for preparing financial data from the Company's consolidated financial statements as at September 30, 2016.

The separate interim financial information is presented in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and the tenth addendum to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 with respect to separate financial information of an entity. The separate interim financial information should be read together with the consolidated condensed financial statements as of December 31, 2015 (the “**consolidated financial statements**”).

Definitions

- | | | |
|-----------------|---|--|
| (1) The Company | - | Itamar Medical Limited |
| (2) Subsidiary | - | Company, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company. |

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policy in this separate interim financial information is accordingly to the general the policy of the accountants which were specified in the financial separate information as of December 31, 2015.

ITAMAR MEDICAL LTD.

PART D

CHIEF EXECUTIVE OFFICER'S
CERTIFICATION ACCORDING TO REGULATION 38C(D)(1)

I. Gilad Glick, certify that:

- (1) I have reviewed the quarterly report of Itamar Medical Ltd., (the “**Company**”) for the third quarter of 2016 (the “**Reports**”).
- (2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports.
- (4) I have disclosed to the independent auditor, the Board of Directors and the Audit Committee of the Company’s Board of Directors any fraud, whether or not material, that involves the Chief Executive Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company’s internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

November 22, 2016

Gilad Glick,
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S
CERTIFICATION ACCORDING TO REGULATION 38C(D)(2)

I. Joseph Tenne, certify that:

- (1) I have reviewed the interim financial statements and other financial information comprised in the interim periodical statements of Itamar Medical Ltd., (the “**Company**”) for the third quarter of 2016 (the “**Reports**”).
- (2) Based on my knowledge, the interim financial statements and other financial information contained in the interim reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the reports for the interim period fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports.
- (4) I have disclosed to the independent auditor, the Board of Directors and the Audit Committee of the Company’s Board of Directors any fraud, whether or not material, that involves the Chief Operating Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company’s internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

November 22, 2016

Joseph Tenne,
Chief Financial Officer