

Disclaimer

The following is an unofficial translation into the English language, for convenience purposes only, of the quarterly report of Itamar Medical Ltd. (the “**Company**”) for the three months ended June 30, 2017 (the “Quarterly Report”) that originally were prepared in the Hebrew language.

The full, legal and binding version of the Quarterly Report for all purposes is the Hebrew version, filed by the Company with the Israel Securities Authority and published on the MAGNA website: www.magna.isa.go.il, on May 29, 2017

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

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

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

<https://www.magna.isa.gov.il/details.aspx?id=012311&reference=2017-01-069508#?id=012311&reference=2017-01-069508>



ITAMAR MEDICAL LTD.

QUARTERLY REPORT

AS OF JUNE 30, 2017

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ITAMAR MEDICAL LTD.

PART A

**SIGNIFICANT CHANGES AND NEW
ISSUES THAT HAVE OCCURRED IN
THE CORPORATE BUSINESS**

SIGNIFICANT CHANGES AND NEW ISSUES THAT HAVE OCCURRED IN THE CORPORATE BUSINESS IN THE QUARTER ENDED JUNE 30, 2017

Pursuant to Regulation 39a of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the “**Reports Regulations**”), details of the significant changes and new issues that have occurred in the business of Itamar Medical Ltd. (the “**Company**”) during the period of three months ended June 30, 2017 and up to the time of the publication of this report, are presented below.

The terms that follow shall have the meaning that is intended for them in the Company’s annual report for 2016, which was published on March 29, 2017 (Reference No. 2017-01-026932), which is included in this report by way of referral (the “**2016 Annual Report**”), unless otherwise stated.

This chapter of the quarterly report has been prepared with the assumption that the 2016 Annual Report is available to the reader.

1. Appointment of a Chief Financial Officer for the Company

On April 18, 2017, the Company reported the ending of the period of office of Mr. Joseph Tenne as the Company’s Chief Financial Officer and the appointment of Mr. Shy Basson as the Company’s Chief Financial Officer.

For additional details see the Company’s immediate reports dated April 18, 2017 (Reference No. 2017-01-032893 and 2017-01-032896), the information that is included in which is included in this report by way of the referral.

2. The extension of an exclusive marketing agreement with Medtronic

On April 27, 2017, the Company reported the extension of the marketing agreement dated March 2014, as amended and extended in April 2015 and April 2016, between the Company’s subsidiary, Itamar Medical Inc. and Medtronic, Inc. (“**Medtronic**”), the parent company of Medtronic International Technology, Inc. (which is deemed to be an interested party of the Company by means of its holdings), under the same conditions for an additional period ending on June 30, 2017, following which the agreement will be renewed for additional periods of 30 days each, unless one of the parties announces to the other that the agreement will not be renewed, at least 14 days in advance.

The Company has further reported that in the near future, the parties will conduct negotiations for the changing of the terms of the agreement, at the Company’s request.

For additional details regarding the agreement, see Section 12.3.2 of Part A of the Company’s 2016 Annual Report and for additional details regarding the extension of the agreement, see the Company’s immediate report dated April 27, 2017 (Reference No. 2017-01-035390), the information that is included in which is included in this report by way of the referral.

3. Annual general meeting of the Company’s shareholders

On May 14, 2017, an annual and extraordinary general meeting of the Company’s shareholders (in this section: the “**meeting**”) was convened, which approved:

- 3.1 The re-appointment of Dr. Giora Yaron, Martin Gerstel, Ilan Biran, Christopher M. Cleary, Jonathan Kolber and Sami Totah.
- 3.2 Grant of options in respect of the service of the directors, Jonathan Kolber and Sami Totah in respect of their term, which will begin at the annual general meeting in 2017 (for the year 2016) and in respect of their term that will begin at the annual general meeting that will be held in the year 2018 (for the year 2017).

- 3.3 The grant of a special bonus to Mr. Gilad Glick, the Company's President and Chief Executive Officer, in the amount of NIS 250,000 (less than three base monthly salaries) in respect of the special effort that he has invested and his special contribution to the realization and embedding of the Company's updated strategy during 2016.
- 3.4 The extension of the exercise period of the options that have been granted to the Company's President and Chief Executive Officer.
- 3.5 The extension of the consulting agreement with Dr. Giora Yaron, the Chairman of the Board of Directors.
- 3.6 The reappointment of the firm of Somekh Chaikin as the Company's independent auditor for 2017 and the empowering of the Company's Board of Directors to set their fees.

For additional details, see the report on the calling of a general meeting of the shareholders, dated, April 3, 2017 as amended and supplemented on April 20, 2017, as well as the immediate report regarding the results of the meeting, dated May 14, 2017 (Reference No. 2017-01-029983, 2017-01-033904 and 2017-01-048708), the information that is included in which is included in this report by way of the referral.

4. **Update on the intention of the AIM to update the guidelines for insurance coverage for for diagnosis of obstructive sleep apnea ("OSA") to include the PAT™ technology**

Further to the Company's immediate report of March 16, 2017 (under which the Company reported on the publication of the final and official version of the Clinical Practice Guide for Diagnosis of OSA by the American Academy of Sleep Medicine ("AASM"), which endorse the PAT (peripheral arterial tonometry) technology, which was developed by the Company and which is used by the WatchPAT device (the "AASM Guidelines"), see the Company's immediate report dated March 16, 2017, Reference No. 2016-01-110983), on June 22, 2017, the Company reported that it was informed by a reliable source at the AIM Specialty Health® ("AIM"), which is the body that manages the insurance coverage policy for some of the insurance companies and organizations that bear the costs of medical treatment under private medical insurance in the U.S (the "medical insurers"), that the AIM intends to recommend to its panel of experts on updating the AIM guidelines for medical insurers (the "AIM Guidelines"), so that they will include the changes in the AASM Guidelines described above. In the opinion of that reliable source the update of the Aim Guidelines will become effective during November 2017.

As described in the Company's immediate report, the Company estimates that as of today, the proportion of insureds who are not covered for the WatchPAT tests out of all private health insureds in the U.S. ranges from 15% to 20%, while in specific states (such as Massachusetts), insureds who are not covered as aforesaid, up to 60% of the insured population in private medical insurance (for additional details, see Section 8.2 in Part A of the Company's 2016 Annual, published by the Company on March 29, 2017, Reference No. 2017-01-026932).

In the Company's opinion, the expected change in the AIM Guidelines, if implemented, may lead to the inclusion of the WatchPAT test in the basket of medical examinations and procedures covered by some of the medical insurers who have not yet cover their insureds for this test, including medical insurers belonging to the large umbrella organization Blue Cross Blue Shield. Such a move could significantly increase the number of insured individuals in the U.S. who are entitled to coverage for home sleep tests performed through the WatchPAT device and may therefore contribute to an increase in the Company's revenues from this product in the U.S. as from 2018 (for additional details, see the Company's immediate report dated June 22, 2017, Reference No. 2017-01-052177).

The above information, and in particular the Company's assessments regarding the impact of the anticipated update of the AIM Guidelines on the inclusion of the WatchPAT test in the sleep screening basket covered by private health insurance in the U.S. and its possible impact on the Company's revenues, including forward-looking information as defined in the Israeli Securities Law, 1968. Forward-looking information is uncertain information about the future, based on information or assessments existing in the Company and includes intentions or evaluations of the Company as at the date of publication of this report, or is not dependent solely on the Company. It is possible that this information, in whole or in part, will not materialize or materialize differently, inter alia, in the event that the AIM Guidelines are not eventually updated or the update will take effect later than expected, or in the event that certain medical insurers decide not to include the WatchPAT test in the basket of tests eligible for coverage despite the update of the AIM Guidelines.

ITAMAR MEDICAL LTD.

**BOARD OF DIRECTORS' REPORT
ON THE STATE OF CORPORATE AFFAIRS
AS OF JUNE 30, 2017**

BOARD OF DIRECTORS' REPORT FOR THE THREE-MONTH PERIOD **ENDED JUNE 30, 2017**

We hereby present the Board of Directors' Report of Itamar Medical Ltd. (the "**Company**") and its subsidiaries (the "**Group**") as of June 30, 2017 and the Company's consolidated financial results for the six and three-month periods ended June 30, 2017 (the "**reported period**" and the "**quarter**", respectively), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report as of June 30, 2017 is provided with the assumption that the annual report for the year ended December 31, 2016, issued by the Company on March 29, 2017 (Reference No. 2017-01-026932) (the "**2016 Annual Report**") and the Board of Directors' Report as of March 31, 2017, issued on May 29, 2017 (Directors' Report as of March 31, 2015, issued on May 25, 2017 (Reference No. 2017-01-0046150) (the "**2017 First Quarter Report**"), are available to the reader.

Definitions:

"Series L Notes"	Company notes (Series L), issued in March 2013, which are listed for trading on the TASE and convertible into the Company's ordinary shares
"TASE"	The Tel Aviv Stock Exchange Ltd.
"dollar", "\$"	The U.S. dollar
The "Securities Law"	The Israeli 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 with international financial reporting standards ("**IFRS**"). The functional currency and the reporting currency of the financial statements is the dollar. For more information, see Note 2b to the Company's consolidated financial statements as of December 31, 2016, which are included in the 2016 Annual Report.

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

1. Summary description of the Company

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

The Company has two products: WatchPAT[™] ("**WatchPAT**") and EndoPAT[™] ("**EndoPAT**"). For more information about the Company's products, see Section 8 in Part A of the 2016 Annual Report.

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

As part of the Company's strategy, the U.S. subsidiary launched in January 2015 the "Total Sleep Solution" ("**TSS**"), which is a package of products and services providing a comprehensive solution which combines diagnosis and treatment of sleep apnea, including ancillary services' designed principally for cardiac medicine (clinics and departments around

hospitals). For more information on the TSS, see Section 8.56 in Part A of the 2016 Annual Report. Commencing with the 2017 First Quarter Report, the Company reports on the number of cardiologic customers; the number of such customers as of June 30, 2017 is 21% higher than as of June 30, 2016. As part of the TSS, in the third quarter of 2016 the Company started marketing and selling in the U.S. a solution for the treating of sleep apnea using PAP devices (positive airway pressure) and accessories.

As described above, in accordance with its strategic plan, the Company currently focuses on marketing the WatchPAT product and the TSS in the cardiology field, emphasizing the U.S. market, which is its principal total sleep solution market, using the TSS model, while continuing operations on the general sleep disorder market. At the same time, the Company continues its efforts to market the WatchPAT product on the Japanese, Chinese and the European markets, which the Company considers to be the markets with a material potential to increase its revenues, after the U.S. market. Under the TSS model, the Company is moving from a sale of devices and probes to a sale of tests. Under this model, the revenues are from sale of tests whereby the Company supplies the cardiologists the WatchPAT devices for no consideration and the Company's revenues are derived only from the tests, and the cost per test covers the use of the device. This model is a substantial component in the acceleration of gaining new customers.

The other product of the Company is EndoPAT, which is used to diagnose endothelial function (arterial function), which is a key indicator of potential cardio-vascular disease. Accordingly, the Company reports on a single area of activity - cardiology.

As of the date of this report, the selling and marketing efforts pertaining to this product are secondary to the efforts relating to the WatchPAT product. They are mainly focused on sales for the purpose of experiments in the pharmaceutical field (including in Japan).

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

For more information about the Company's strategy, see Section 31 in Part A of the 2016 Annual Report.

2. Major events during and after the reported period

In the first half and in the second quarter of 2017, the Company's revenues increased by approximately 13% and 9%, respectively, as compared to the corresponding periods last year. Revenues from Watch PAT (including PAP devices), which is the focus of the Company's strategy, increased by approximately 25% and 14%, respectively, as compared to the corresponding periods last year. This increase is a result the increase in sales of probes and medical tests. This increase was partially offset by the decrease in capital sales due to the transition from the equipment sales model to the sale of medical tests, in conformity with the business strategy described in Section 1 above and Section a below.

The Company has succeeded in preserving the high gross margin, which in the first half of 2017 was approximately 76%, as compared to approximately 74% in the corresponding period in 2016.

Likewise, on a non-IFRS basis, over the last six consecutive quarters the Company's operating loss has consistently decreased, from \$2.2 million in the first quarter of 2016 to \$1.0 million in the current quarter.

During the first half of 2017 the Company focused on several significant areas, as described below, in order to further support the growth trend in the current year:

- a. The Company continues its efforts to promote and improve the TSS in the United States, as described in Section 1 above, together with the sale of equipment and probes to sleep customers. In this context, the Company has continued the transition from the normal sales model (equipment and probe sales) to the sale of medical tests. In the first stage, the implementation of this model has caused a decline in revenues since these are only sales of test (whereby the cost per test includes the cost of the test, the probe, the proportionate cost of test the device itself and the cost of services provided using the cloud-based internet platform, CloudPAT™). The TSS model does not include capital sales of the equipment (WatchPAT), which characterized the Company's sales 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 this is likely to improve the Company's future revenues from sale of probes, and its ability to predict such revenues.

The revenues from sales of tests and probes and PAP devices (revolving sales) in North America in the first half of 2017 constituted approximately 64% of total revenues, as compared to approximately 54% in the first half of 2016, an increase of approximately 27%. Moreover, 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, the agreements with the Company's customers and the industry practice.

- b. In the framework of the Company's efforts to develop the diagnostic capabilities of the WatchPAT product, on February 24, 2017, the FDA approved an innovative and upgraded version of the WatchPAT product. The innovative version of the product integrates an SPB (Snoring and Body Position) chest sensor which, combined with the PAT signal and the advanced algorithms developed by the Company facilitates the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. Moreover, the FDA using the WatchPAT product would henceforth be used to diagnose central sleep apnea. Likewise, the Company has been allowed to include in the report automatically issued by the device the identification of Cheyne-Stoke breathing patterns characterizing heart failure patients. These new capabilities will endow the device another advantage in the cardiology market on which the Company is focusing, for which the identification and differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events is of utmost importance. The Company has also filed a request for the registration of a primary patent on the invention underlying those new capabilities. The Company launched this product during the second quarter of 2017. For further details about the grant and the terms thereof, see Section 8.2 in Part A of the 2016 Annual Report).
- c. In March 2017, the American Academy of Sleep Medication (the "AASM"), the leading American medical institution in the field of sleep disorders published the final, official version of the Clinical Practice Guide for Diagnosis of Obstructive Sleep Apnea ("OSA") in Adults in the Journal of Clinical Sleep Medicine (JCSM). These guidelines adopt for the first time and directly endorse the PAT technology. These guidelines are an important additional milestone in the continuing tendency of adoption of the home sleep tests in the U.S. in general, and of the, when the final version is published, the guidelines are likely to have a positive effect on the decisions of various private health insurers in the U.S. 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. For further information, see Section 8.2 in Part A of the 2016 Annual Report.

In June 2017, the Company was informed by a reliable source at the AIM Specialty Health® (“AIM”), which is the body that manages the insurance coverage policy for some of the insurance companies and organizations that bear the costs of medical treatment under private medical insurance in the U.S (the “**medical insurers**”), that the AIM intends to recommend to its panel of experts on updating the AIM guidelines for medical insurers (the “**AIM Guidelines**”), so that they will include the changes in the AASM Guidelines described above. In the opinion of that reliable source the update of the Aim Guidelines will become effective during November 2017. The Company estimates that the proportion of insureds who are not covered for the WatchPAT tests out of all private health insureds in the U.S. ranges from 15% to 20%, while in specific states (such as Massachusetts), insureds who are not covered as aforesaid, up to 60% of the insured population in private medical insurance. In the Company’s opinion, the expected change in the AIM Guidelines, if implemented, may lead to the inclusion of the WatchPAT test in the basket of medical examinations and procedures covered by some of the medical insurers who have not yet cover their insureds for this test, including medical insurers belonging to the large umbrella organization Blue Cross Blue Shield. Such a move could significantly increase the number of insured individuals in the U.S. who are entitled to coverage for home sleep tests performed through the WatchPAT device and may therefore contribute to an increase in the Company’s revenues from this product in the U.S. as from 2018.

- d. The revenues from EndoPAT continued to decline in the first quarter of 2017, primarily due to the decrease in the Company’s marketing efforts and due to the reduction in research find absence of an insurance reimbursement category I code in the United States. The current insurance reimbursement code restricts the ability of caregivers to receive insurance compensation for use of the device. The effort to increase EndoPAT sales in the secondary prevention field, as well as the continued marketing activity in the primary prevention field, focused primarily on Japan and China did not bring the desired results, as Nihon Kohden, the sole distributor of EndoPAT in Japan in the reported period, failed to achieve the annual order quota stipulated by the distribution agreement therewith. Consequently, in January 2017 the Company modified its business strategy so that the company would focus on marketing and sales of TSS in the cardiology field and reduce the EndoPAT marketing and selling activity in Japan. The Company will continue marketing and sales of the EndoPAT product and ancillary accessories to customers in the pharmaceutical research field worldwide (including in Japan). As part of this modified strategy, and in view of the failure of Nihon Kohden to meet the minimum order quota for 2016, undertaken thereby, the Company notified Nihon Kohden of the annulment of the latter’s exclusivity and took steps for the adaptation of its marketing and sales array in Japan, including a considerable reduction of operating expenses pertaining to the marketing and sales of that product in Japan. Upon the completion of these steps the Japanese subsidiary will be wound-up. For further details, see Sections 7.34, 8.3 and 12.33 in Part A of the 2016 Annual Report.

The Company will continue marketing and selling the WatchPAT product and its ancillary accessories in Japan through its sole distributor of that product in Japan, Philips Respironics GK, a material distributor of the Company’s products, the cooperation with which is fully satisfactory. It will also endeavor, through an exclusive representative, to find additional distributors and/or strategic partners for this product in Japan.

- e. Since the Series L Notes were not converted, on February 28, 2017, the Company discharged 50% of the par value of the Notes, in an amount of approximately NIS 38.1 million

(approximately \$10.4 million on the payment date). Discharge of the remaining 50% of the Notes is expected on February 28, 2018.

- f. In August 2017, the Company's Dutch subsidiary signed an agreement with Royal Free NHS Trust ("Royal Free") in the U.K., under which the parties determined the conditions for conducting home sleep tests using the WatchPAT product for patients in two hospitals which are operating under Royal Free. The company will provide Royal Free with the WatchPAT device free of charge, and the Company's revenue will derive from sleep tests. Royal Free has committed to a minimum number of tests.

The 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 AASM guidelines and the impact of the anticipated update of the AIM Guidelines on the inclusion of the WatchPAT test in the basket of tests and procedures reimbursable by private health insurers in the U.S. and its possible impact on the Company's revenues, constitute 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, among others, 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, or non-inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by health insurers for reasons unconnected to the AASM guideline and/or in the event that the AIM Guidelines are not eventually updated or the update will take effect later than expected, or in the event that certain medical insurers decide not to include the WatchPAT test in the basket of tests eligible for coverage despite the update of the AIM Guidelines.

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

Item	June 30, 2017	December 31, 2016	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
Cash and cash equivalents and investments in marketable securities available-for-sale	13,111	26,139	(50%)	Most of the decrease in the first half of 2017 stems from the repayment of Series L Notes and payment of interest in respect thereof, and from the cash flows used for operating activities in an amount of approximately \$4.0 million (including financial expenses and changes in asset and liability items, and the elimination of non-cash expense items, such as doubtful accounts and stock-based payments) (See Section 5 below).

Item	June 30, 2017	December 31, 2016	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
				On the other hand, these balances, held in Israeli currency, increased due to the approximately 9.1% devaluation in the dollar/NIS exchange rate in the first half of 2017.
Current assets	19,901	33,163	(40%)	The decrease is primarily due to the decrease in cash and cash equivalents, as described above.
Non-current assets	2,299	2,384	(4%)	There was no material change in this item.
Current liabilities	13,702	14,320	(4%)	The decrease is primarily due to a decrease in trade and other payables.
Non-current liabilities	4,012	15,986	(75%)	The decrease is primarily due to: (i) the reclassification of the second half of the principal of the Series L Notes redeemable in February 2018, in the amount of approximately \$9.7 million, from non-current liabilities to current liabilities; (ii) the approximately \$1.7 million decline in the value of the warrants embedded in the Series L Notes, resulting mainly from the approximately 19% decline in the price of the Company's shares (as of June 30, 2017, as compared to December 31, 2016) and to the shortening the life of the Series L Notes due to the passage of time and the repayment of one half of the principal thereof; and (iii) the approximately \$2.1 million decrease in the fair value of the warrants issued the Viola Fund in November 2015 and in February 2016 and the Series 4 warrants issued to the public as part of the rights offering at the end of December 2015 (as part of the Viola investment transaction), mainly resulting from the decline in the market value of the Company's shares as described above. For

Item	June 30, 2017	December 31, 2016	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
				information on the valuation of the said warrants and the warrants embedded in the Series L Notes, see Section 17 below.
Working capital	6,199	18,843	(67%)	The decrease in the working capital and in the current ratio is primarily due to the reclassification, as stated above, of half of the principal of the Series L Notes from long-term liabilities to short-term liabilities, and to a decrease in cash and cash equivalents and in investments in marketable securities available-for-sale resulting from the repayment of the first half of the Series L Notes and the financing of current operations.
Current ratio	1.5	2.3		
Equity	4,486	5,241	(14%)	The decrease in the equity is resulting mainly from the loss in the first half of 2017. For further information, see the analysis of results of operations 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:

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31
	2017	2016	2017	2016	2016
Revenues	9,403	8,599	5,058	4,473	18,440
Cost of revenues	<u>2,286</u>	<u>2,197</u>	<u>1,224</u>	<u>1,129</u>	<u>,4979</u>
Gross profit	7,117	6,402	3,834	3,344	13,461
Selling and marketing expenses	6,091	7,203	2,975	3,488	14,035
Research and development expenses	1,962	1,711	917	778	3,225
General and administrative expenses	<u>2,710</u>	<u>3,151</u>	<u>1,424</u>	<u>1,204</u>	<u>6,213</u>
Operating loss	<u>(3,646)</u>	<u>(5,663)</u>	<u>(1,482)</u>	<u>(2,126)</u>	<u>(10,012)</u>

Financial income (expenses) relating to cash and investments	1,454	524	362	(518)	716
Financial expenses relating to notes and loans	(3,291)	(2,296)	(1,092)	(749)	(4,760)
Gain (loss) from financial derivatives	3,835	(4,506)	1,086	(2,372)	(216)
Financial income (expenses), net	1,998	(6,278)	356	(3,639)	(4,260)
Loss before taxes on income	(1,648)	(11,941)	(1,126)	(5,765)	(14,272)
Taxes on income	(42)	(79)	(6)	(41)	(131)
Loss for the period	(1,690)	(12,020)	(1,132)	(5,806)	(14,403)

Summary of Non -IFRS operating results **:

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2017	2016	2017	2016	2016
Revenues	9,403	8,599	5,058	4,473	18,440
Cost of revenues	2,200	2,113	1,184	1,092	4,824
Gross profit	7,203	6,486	3,874	3,381	13,616
Selling and marketing expenses	5,548	6,873	2,782	3,392	13,460
Research and development expenses	1,908	1,515	932	723	2,920
General and administrative expenses	2,214	2,009	1,209	975	4,161
Operating loss	(2,467)	(3,912)	(1,049)	(1,710)	(6,925)
Financial income (expenses) relating to cash and investments	1,454	524	362	(518)	716
Financial expenses relating to notes and loans	(3,169)	(2,296)	(1,092)	(749)	(4,760)
Financial expenses, net	(1,715)	(1,772)	(730)	(1,266)	(4,044)
Loss before taxes on income	(4,182)	(5,684)	(1,779)	(2,976)	(10,969)
Taxes on income	(42)	(79)	(6)	(41)	(131)
Adjusted loss for the period*	(4,224)	(5,763)	(1,785)	(3,017)	(11,100)

Adjustments to loss for the period:

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2017	2016	2017	2016	2016
Loss for the period – under IFRS	(1,690)	(12,020)	(1,132)	(5,806)	(14,403)
Adjustments:					
Depreciation and amortization	239	196	113	95	434
Change in provision for doubtful and bad debt	84	437	25	44	849
Share-based payment	705	1,118	233	277	1,776
Expenses relating to aborted issuance	-	-	-	-	28
Expenses relating to reduction of manpower	273	-	62	-	-
Loss (gain) on financial derivatives	(3,835)	4,506	(1,086)	2,373	216
Total adjustments	(2,534)	6,257	(653)	2,789	3,303
Adjusted loss for the period*	(4,224)	(5,763)	(1,785)	(3,017)	(11,100)

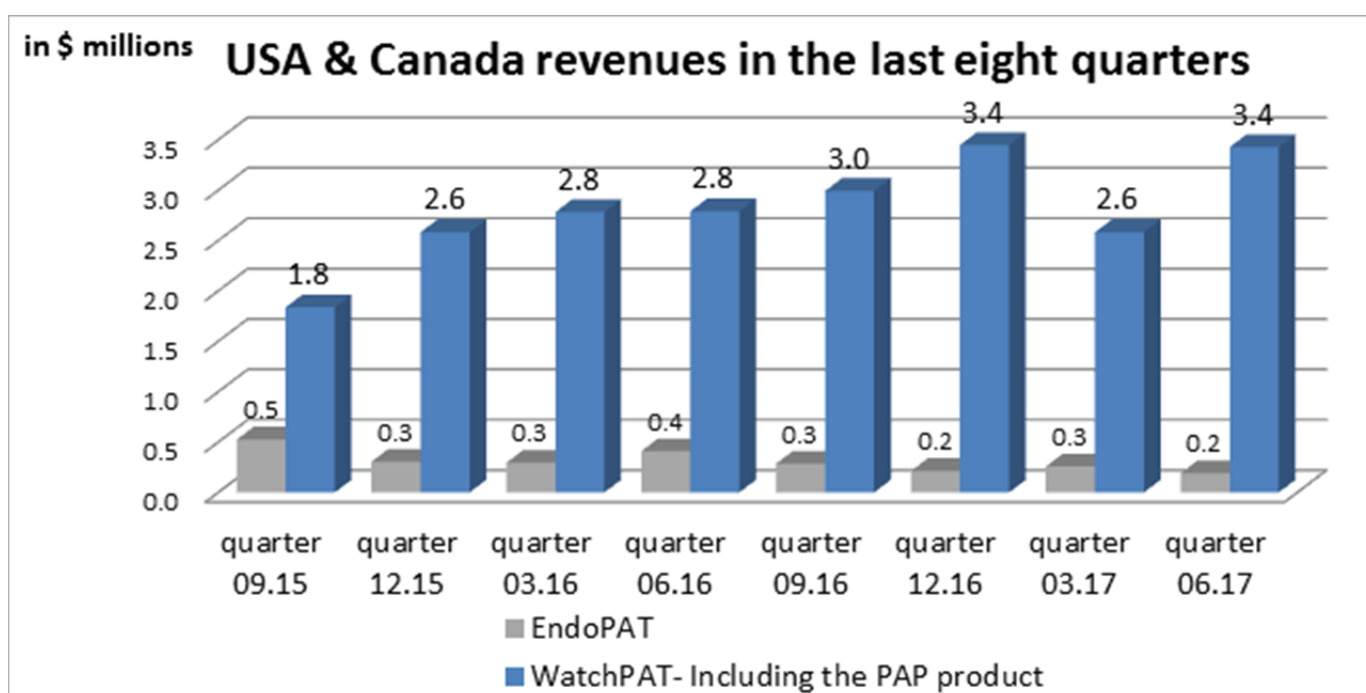
* Non-IFRS adjusted loss, which eliminates non-cash components and the effect non-recurring events.

** Adjusted non- IFRS information, which eliminates non-cash components and the effect non-recurring events.

Non-IFRS financial information is provided in addition to, and not as a substitute for, the financial information presented in accordance with IFRS. The Company presents such non-IFRS information since management believes that it is useful and can enhance the understanding of its ongoing economic performance. Therefore, management uses this non-IFRS information for evaluation of the Company's performance. The Company has chosen to provide this information to investors to facilitate better comparison of operating results in a manner similar to that applied by the Company.

Information about product revenues (dollars in thousands):

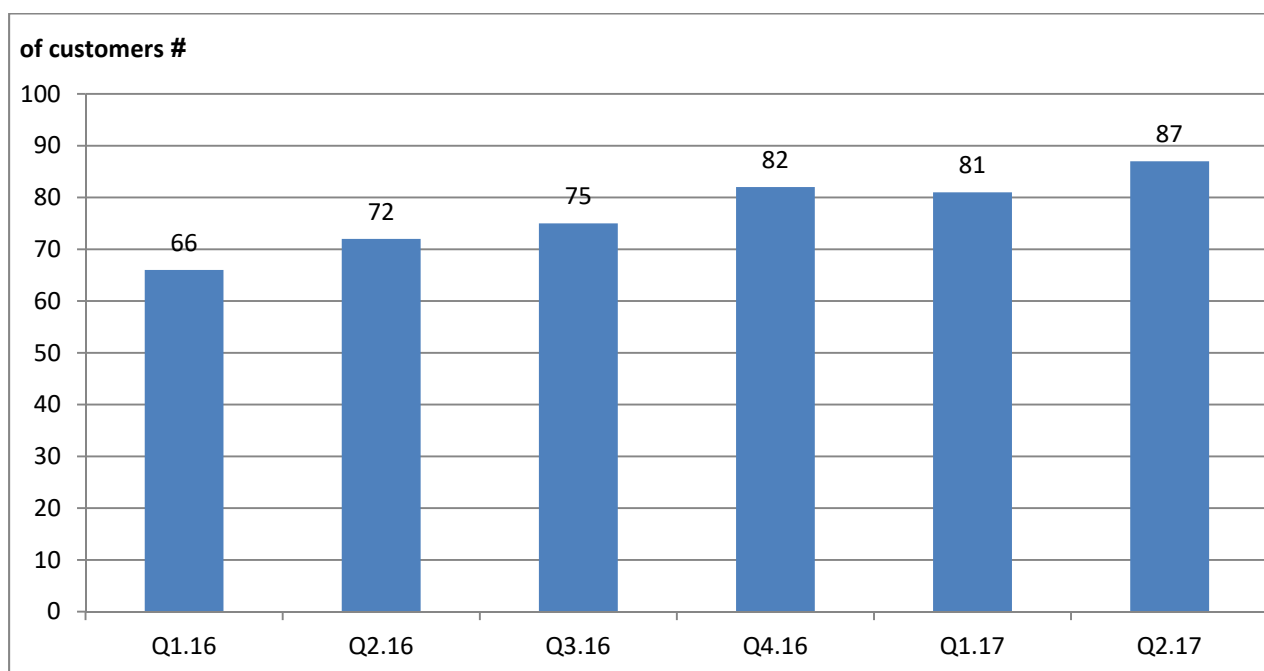
	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31
	2017	2016	2017	2016	2016
WatchPAT and PAP	8,210	7,211	4,646	3,703	15,697
EndoPAT	1,193	1,388	412	770	2,743
	9,403	8,599	5,058	4,473	18,440



Sales of WatchPAT (PAP devices) to cardiology customers in North America:

As explained above, the Company currently focuses on sale of the WatchPAT product and TSS in the cardiology field, with emphasis on the U.S. market. The following graph shows the development in the number of active cardiological customers.

NUMBER OF ACTIVE CARDIOLOGICAL CUSTOMERS IN NORTH AMERICA



Analysis of statement of operations data in first half of 2017

Item	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
Revenues	9,403	8,599	9%	The increase in revenues in the first half of 2017, compared to the corresponding period last year is mainly attributable to an increase of approximately 14% in revenues from the WatchPAT product, resulting also from an increase from sales of disposables (which are used in each test) sold in the U.S. (total revenues from the sale of the WatchPAT product in the U.S. increased by 8%, compared to the corresponding period last year), as well as from sales to the Company's distributor in Japan, Philips. It should be noted that this increase incurred despite the decrease in sales of equipment (WatchPAT devices) in North America due to the transition from the equipment sales model to the sale of medical tests, in conformity with the business strategy described in Section 2a above. This increase was offset by a decrease of approximately 36% in the revenues from sale of the EndoPAT device (approximately \$0.26 million)

Item	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				which is resulting from the trend of decrease in revenues from the sale of the EndoPAT product as described in Section 2d above.
Gross profit	7,117	6,402	11%	Gross margin in the first half of 2017 was approximately 76% of total revenues, compared to approximately 74% in the corresponding period last year. The improvement in gross margin on the Company's products is primarily attributable to the streamlining of the production processes in 2016 and 2017, despite the devaluation in the dollar/NIS exchange rate.
Selling and marketing expenses	6,091	7,203	(15%)	The decrease in selling and marketing expenses in the first half of 2017, compared to the corresponding period last year is mainly due to: (i) the decrease in payroll expenses, sales commissions and related expenses (including the stock option component) which resulted from the reduction in the management team of the U.S. subsidiary aimed at adaptation thereof to the new strategy of the Company; (ii) the manpower reduction brought about a decline in travel expenses of the U.S. subsidiary; and (iii) the decrease in expenses related to trade shows abroad.
Research and development expenses	1,962	1,711	15%	The increase in research and development expenses in the first half of 2017, compared to the corresponding period last year, was primarily due to a large-scale clinical study in the U.S. carried out in order to expand the acquaintance of the medical community with the PAT signal (this study is carried out in cooperation with the Faculty of Medicine of the John Hopkins University in Baltimore, Maryland).
General and administrative expenses	2,710	3,151	(14%)	The decrease in general and administrative expenses in the first half of 2017, compared to the corresponding period last year, resulted mainly from: (i) a decrease of approximately \$0.4 million

Item	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				in allowance for doubtful debts; and (ii) a decrease of approximately \$0.3 million in expenses pertaining to granting of stock options and restricted share units and the change of the terms of options granted to the CEO, officers, employees and directors.
Operating loss	(3,646)	(5,663)	(36%)	The decrease in operating loss in the first half of 2017, compared to corresponding period last year resulted mainly from the improved gross profit (both due to the increase in revenues and in the gross margin percentage) and from the decrease in selling and marketing and general and administrative expenses. It was partially offset by an increase in research and development expenses, as described above.
Financial income relating to cash and investments	1,454	524	177%	The increase in financial income relating to cash and investments in the first half of 2017, compared to the corresponding period last year is deriving mainly from the devaluation in the dollar/NIS exchange rate in the first half of 2017 (9.1%, compared to 1.5% in the first half of 2016). This increase was partially offset by the effect of the higher NIS balances of cash and cash equivalents and of available-for-sale marketable securities in the first half of 2016, compared to the first half of 2017. Devaluation in the dollar/NIS exchange rate results in an increase in financial income due to the increase in the dollar value of cash and cash equivalents and available-for-sale marketable securities.
Financial expenses relating to notes and loans	(3,291)	(2,296)	43%	The increase in financial expenses relating to notes and loans in the first half of 2017, compared to the corresponding period last year, is primarily due to the exchange differences resulting from devaluation in the dollar/NIS exchange rate, which led to an increase in financial expenses due to the increase in the dollar value of the Series L Notes. This increase was partially offset by the decrease in the principal

Item	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				amount of the Series L Notes as a result of the repayment of half of the principal in February 2017. Another increase in such financial expenses relates to the expenses relating to the credit facility with a commercial bank (for additional information, see Section 6.3 below).
Gain (loss) from financial derivatives	3,835	(4,506)		The transition from a loss from financial derivatives in the first half of 2016 to a gain in the first half of 2017 is mainly due to the change in the fair value (non-cash but affecting the statement of operations) of the warrants issued to the Viola Fund and of the warrants (Series 4) issued to the public. In the first half of 2016, the Viola warrants and the warrants (Series 4) were valued at the quoted price of the warrants (Series 4), and the Company recognized a loss of approximately \$6.2 million due to the appreciation of the market price of warrants (Series 4). In the current period, the value of those warrants was determined by an independent valuer and their fair value declined by approximately \$2.1 million (and a gain in a like amount was recognized), principally due to the approximately 19% decline in the price of the Company's shares (as of June 30, 2017, compared to December 31, 2016) and the reduction of the life of the warrants. In addition, in the current period, the Company recognized a gain of approximately \$1.7 million from derivative financial instruments, similar to the corresponding period last year (such gain significantly increased the gain from derivative financial instruments in the current period and partially offset the loss in the first half of 2016). The gain was mainly due to the decline in the fair value of warrants embedded in the Series L Notes, resulting mainly from: (i) the decline in the Company's share price; (ii) the devaluation in the dollar/NIS exchange rate; and (iii) the decline in the fair value of the warrants embedded in the Series L Notes due to reduction of the maturity period thereof by six months.

Item	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				For information on valuation of the warrants and the options embedded in the Series L Notes, see Section 17 below.
Loss	(1,690)	(12,020)	(86%)	The decrease in the loss in the first half of 2017, compared to corresponding period last year is mainly due to the transition from net financial expenses net financial income and a decrease in the operating loss.
Adjustments to loss	(2,534)	6,257		Most of the change in adjustments to loss in the first half of 2017, compared to the corresponding period last year derives from valuation of derivatives as described above. Moreover, in the current period share-based compensation expenses decreased by approximately \$0.4 million, and the allowance for doubtful accounts decreased by approximately \$0.4 million. Likewise, in the current period non-recurring expenses of approximately \$0.3 million pertaining to the reduction of manpower in the U.S. subsidiary were eliminated.
Adjusted loss	(4,224)	(5,763)	(27%)	The decrease in adjusted loss in the first half of 2017, compared to the corresponding period last year is mainly due to the decrease in the operating loss resulting from the increase in revenues, improvement in the gross profit and decrease in selling and marketing expenses, which was partially offset by the increase in research and development general and administrative expense.

Analysis of statement of operations data in the second quarter of 2017

Item	Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
Revenues	5,058	4,473	13%	The increase in revenues in the second quarter of 2017, compared to the corresponding quarter last year is mainly attributable to an increase of approximately 25% in revenues from the WatchPAT product, resulting from an

Item	Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				increase from sales of disposables (which are used in each test) sold in the U.S. (total revenues from the sale of the WatchPAT product in the U.S. increased by 23%, compared to the corresponding quarter last year), as well as from sales to the Company's distributor in Japan, Philips. It should be noted that this increase incurred despite the decrease in sales of equipment (WatchPAT devices) in North America due to the transition from the equipment sales model to the sale of medical tests, in conformity with the business strategy described in Section 2a above. This increase was offset by a decrease of approximately 47% in the revenues from sale of the EndoPAT device (approximately \$0.36 million) which is resulting from the trend of decrease in revenues from the sale of the EndoPAT product as described in Section 2d above
Gross profit	4,834	3, 834	15%	Gross margin in the second quarter of 2017 was approximately 76% of total revenues, compared to approximately 75% in the corresponding quarter last year. The improvement in gross margin on the Company's products is primarily attributable to the streamlining of the production processes in 2016 and 2017, despite the devaluation in the dollar/NIS exchange rate.

Item	Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
Selling and marketing expenses	2,975	3,488	(15%)	The decrease in selling and marketing expenses in the second quarter of 2017, compared to the corresponding quarter last year is mainly due to: (i) the decrease in payroll expenses, sales commissions and related expenses (including the stock option component) which resulted from the reduction in the management team of the U.S. subsidiary aimed at adaptation thereof to the new strategy of the Company; and (ii) the manpower reduction brought about a decline in travel expenses of the U.S. subsidiary. On the other hand, there was an increase in expenses for consultants, mainly due to the effort invested by the Company to increase the rate of insureds that will be entitled to reimbursement for use of the Company's products, mainly in the U.S.
Research and development expenses	917	778	18%	The increase in research and development expenses in the second quarter of 2017, compared to the corresponding quarter last year, was primarily due to the large-scale clinical study carried out in order to expand the acquaintance of the medical community with the PAT signal.
General and administrative expenses	1,424	1,204	18%	The decrease in general and administrative expenses in the second quarter of 2017, compared to the corresponding quarter last year, resulted mainly from an increase in payroll and related expenses.
Operating loss	(1,482)	(2,126)	(30%)	The decrease in operating loss in the second quarter of 2017, compared to corresponding quarter last year resulted mainly from the improved gross profit (both due to the increase in revenues and in the gross margin percentage) and from the decrease in selling and marketing expenses. It was partially offset by an increase in research and development and general and administrative expenses, as described above.
Financial income (expenses)	362	(518)		The transition from financial expenses in the second quarter of 2016 to financial

Item	Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
relating to cash and investments				income in the second quarter of 2017 is deriving mainly from the devaluation in the dollar/NIS exchange rate of 3.7% (as of June 30, 2017, compared to March 31, 2017), compared to an appreciation of 2//1% in the corresponding quarter last year (as of June 30, 2016, compared to March 31, 2016).
Financial expenses relating to notes and loans	(1,092)	(749)	46%	The increase in financial expenses relating to notes and loans in the second quarter of 2017, compared to the corresponding quarter last year, is primarily due to the exchange differences resulting from devaluation in the dollar/NIS exchange rate, which led to an increase in financial expenses due to the increase in the dollar value of the Series L Notes. This increase was partially offset by the decrease in the principal amount of the Series L Notes as a result of the repayment of half of the principal.
Gain (loss) from financial derivatives	1,086	(2,372)		The transition from a loss from financial derivatives in the second quarter of 2016 to a gain in the second of 2017 is mainly due to the change in the fair value (non-cash but affecting the statement of operations) of the warrants issued to the Viola Fund and of the warrants (Series 4) issued to the public. In the second quarter of 2016, the Viola warrants and the warrants (Series 4) were valued at the quoted price of the warrants (Series 4), and the Company recognized a loss of approximately \$3.2 million due to the appreciation of the market price of warrants (Series 4). In the current quarter, the value of those warrants was determined by an independent valuer and their fair value declined by approximately \$0.7 million (and a gain in a like amount was recognized), principally due to the approximately 6% decline in the price of the Company's shares (as of June 30, 2017, compared to March 31, 2017) and the reduction of the life of the warrants. In addition, in the current quarter, the Company recognized a gain of

Item	Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
				approximately \$0.4 million, mainly due to the decline in the fair value of warrants embedded in the Series L Notes, resulting mainly from: (i) a 6% decline in the Company's share price (as of June 30, 2017, compared to March 31, 2017); and (ii) the decline in the fair value of the warrants embedded in the Series L Notes due to reduction of the maturity period thereof by additional three months. In the corresponding quarter last year the Company recorded a gain of \$0/9 million in respect of Series L Notes.
Loss	(1,132)	(5,806)	(81%)	The decrease in the loss in the second quarter of 2017, compared to corresponding quarter last year is mainly due to the transition from net financial expenses net financial income and a decrease in the operating loss.
Adjustments to loss	(653)	2,789		Most of the change in adjustments to loss in the second quarter of 2017, compared to the corresponding quarter last year derives from transition from a loss of \$3.2 million from the revaluation of the warrants issued to the Viola Fund and of the warrants (Series 4) issued to the public in the second quarter of 2016 to a gain of \$0.7 million in the current quarter. This adjustment was partially offset by a decrease of \$0.5 million in the gain from the revaluation of the warrants embedded in the Series L Notes.
Adjusted loss	(1,785)	(3,017)	(41%)	The decrease in adjusted loss in the second quarter of 2017, compared to the corresponding quarter last year is mainly due to the decrease in the operating loss resulting from the increase in revenues, improvement in the gross profit and decrease in selling and marketing expenses and net financial expenses, which was partially offset by the increase in research and development and general and administrative expense.

5. Liquidity

In the reported period, the Company continued raising funds to finance its current operations, as follows: (i) by increasing WatchPAT sales in markets in which the Company's operations are focused, principally the U.S., Japan and Europe and (ii) funds received from the issuance of the Series L Notes in February 2013, from a private placement of shares to institutional investors in 2014 and funds raised from the Viola investment transaction and from issuance of rights to its shareholders in 2015 and 2016.

Analysis of cash flows for the first half of 2017

Activity Type	Six Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
Operating activities	(4,031)	(5,668)	(29%)	The decrease in the cash flows used in operating activities in the first half of 2017, as compared to the corresponding period last year is primarily due to: (i) the decrease in loss for the period (after elimination of non-cash financial expenses, allowance for doubtful accounts and expenses relating to share-based compensation); (ii) a decrease in accounts payable in the current period, compared to a decrease in the corresponding period last year; and (iii) an increase in trade receivables, compared to an increase in the corresponding period last year.
Investing activities	(145)	(105)	38%	The amounts of cash flows used in investing activities in the first half of 2017 are primarily applied to purchase of fixed assets and capitalization of a development project. In the corresponding period last year they were primarily applied to purchase of fixed assets.
Financing activities	(10,324)	1,098		Cash flows used in financing in the first half of 2017 were applied to the repayment of the first half of the Series L Notes. Cash flows provided by financing activities in the first half of 2016 resulted from the issuance of additional shares and warrants as part of the third stage of the Viola investment transaction.

Analysis of cash flows for the second quarter of 2017

Activity Type	For the Three Months Ended June 30,		Change Increase (Decrease) %	Company Explanations
	2017	2016		
	Dollars in thousands			
Operating activities	(801)	(2,426)	(67%)	The decrease in the cash flows used in operating activities in the first half of 2017, as compared to the corresponding quarter last year is primarily due to: (i) the decrease in loss for the quarter (after elimination of non-cash financial expenses, allowance for doubtful accounts and expenses relating to share-based compensation); (ii) an increase in trade payables and other accounts payable, compared to a decrease in the corresponding quarter last year; and (iii) a decrease in trade receivables, compared to an increase in the corresponding quarter last year. Such increase was partially offset by a more moderate increase in other accounts receivable in the current quarter, as compared to the corresponding quarter last year.
Investing activities	(40)	(16)	150%	The amounts of cash flows used in investing activities in the second quarter of 2017 are primarily applied to purchase of fixed assets and capitalization of a development project. In the corresponding quarter last year they were primarily applied to purchase of fixed assets.
Financing activities	53	15	253%	Cash flows used in financing in the first second quarter of 2017 and in the corresponding quarter last year were derived from the proceeds from exercise of stock options granted to employees and officeholders.

6. Financing sources

6.1 Overview

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

For more information about the Company's financing and grants received from the National Technological Innovation Authority of the Ministry of the Ministry of Economy and Industry (formerly – The Chief Scientist; the “**Innovation Authority**”), see Sections 24.3 and 18.3, respectively, in Part A of the 2016 Annual Report.

6.2 Exercise of convertible securities in the reported period

In the reported period, employees and officeholders exercised approximately 1,565,000 options, for a total consideration of approximately \$98,000.

6.3 Bank credit

In March 2017, the Company and an Israeli bank (the “**bank**”) reached an agreement (the “**credit agreement**”) whereunder the bank would grant the Company a credit line (the “**credit line**”) of up to \$10 million (which was not yet utilized), including a long-term loan (the “**long-term loan**”) amounting to \$6 million, and a short-term loan in the amount of up to \$4 million (the “**short-term loan**”). The short-term loan is designated to finance trade receivables by the Company and its U.S. and Dutch subsidiaries. The long-term loan may be drawn through February 28, 2018. The loan, principal and interest, is repayable in 12 quarterly installments over three years from the date of the draw. The loan bears annual interest of quarterly dollar LIBOR + 5.5%, payable quarterly. The short-term loan may be drawn through March 25, 2018, is renewable annually and bears annual interest of monthly dollar LIBOR + 4.25%. The right to draw the loan and the credit line is conditional on the Company’s having cash balances of not less than \$4 million in the bank. For further details regarding the credit agreement and the terms thereof, see Section 24.4 in Part A of the 2016 Annual Report and the immediate report of March 29, 2017 (Reference No. 2017-01-026776).

In addition, the Company has a credit line in the total amount of NIS 100,000 with another bank.

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

As of June 30, 2017, the Company has equity of approximately \$4,486,000.

As of June 30, 2017, the Group (on a consolidated basis) has cash and cash equivalents and investments in available-for-sale securities amounting to approximately \$13,111,000.

On February 28, 2017, the Company repaid the first installment (including interest) of \$10.4 million in respect of its Series L Notes.

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 Series L Notes).

6.5 Long- term notes (including current maturities)

The average balance of long-term notes in the first half of 2017 amounted to \$12,165,000, compared to \$16,020,000 in the corresponding period last year.

7. Summary of exposure to market risk and management thereof

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

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
NIS	(152)	(77)	(1,521)	77	152
Euro	25	13	247	(13)	(25)

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 Series L Notes	(2,915)	(318)	(147)	(11,735)	66	180	438

Sensitivity to changes in 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 Series L Notes	(153)	(111)	(11,735)	39	76

As of the report date, the policy on market risk management and actual risk management are aligned. For more information about the policy and actual risk management, see Section 8 of Part B in the 2016 Annual Report.

8. Significant events in the reported period

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

Chapter B – Exposure to Market Risks and Management Thereof

9. Exposure to market risks and management thereof

Company policy with regard to market risk management

In the reported period the exposure to market risks and the management thereof did not change materially from those described in Section 8 of Part B in the 2016 Annual Report.

10. Linkage basis report

The linkage terms of monetary balances are as follows:

	June 30, 2017						
	Dollar	NIS unlinked	NIS - linked to the Israeli CPI	Euro	Other currencies	Non- monetary items	Total
	Dollars in thousands						
Assets							
Cash and cash equivalents	1,809	8,113	-	57	30	-	10,009
Available-for-sale marketable securities	-	1,674	1,428	-	-	-	3,102
Trade receivables (including long-term)	4,412	161	-	313	-	-	4,886
Other accounts receivable (including prepaid expenses)	182	48	-	2	-	552	784
Inventories	-	-	-	-	-	1,740	1,740
Restricted long-term deposits	107	189	-	-	-	-	296
Fixed assets	-	-	-	-	-	1,090	1,090
Intangible assets	-	-	-	-	-	293	293
Total assets	6,510	10,185	1,428	372	30	3,675	22,200
Liabilities							
Trade payables	456	381	3	-	-	-	840
Employee benefits	-	-	-	-	-	498	498
Provisions	-	-	-	-	-	175	175
Other accounts payable (including accrued expenses)	1,312	827	-	122	17	368	2,646
Convertible notes	-	9,727	-	-	-	-	9,727
Derivatives	-	2,965	-	-	-	-	2,965
Non-current liabilities	835	-	28	-	-	-	863
Total liabilities	2,603	13,900	28	125	17	1,041	17,714
Balance, net	3,907	(3,715)	1,400	247	13	2,634	4,486

December 31, 2016

	<u>Dollar</u>	<u>NIS unlinked</u>	<u>NIS - linked to the CPI</u>	<u>Euro</u>	<u>Other currencies</u>	<u>Non- monetary items</u>	<u>Total</u>
Dollars in thousands							
Assets							
Cash and cash equivalents	4,266	18,371	-	680	41	-	23,358
Available-for-sale marketable securities	-	1,460	1,321	-	-	-	2,781
Trade receivables (including long-term)	4,687	104	-	358	-	-	5,149
Other accounts receivable (including prepaid expenses)	193	40	-	2	5	683	923
Inventories	-	-	-	-	-	1,784	1,784
Restricted long-term deposits	108	179	-	-	-	-	287
Fixed assets	-	-	1,321	1,040	46	1,008	1,008
Intangible assets	-	-	-	-	-	257	257
Total assets	9,254	20,154	1,321	1,040	46	3,732	35,547
Liabilities							
Trade payables	803	501	-	20	-	-	1,324
Employee benefits	-	-	-	-	-	354	354
Provisions	-	-	-	-	-	167	167
Other accounts payable (including accrued expenses)	1,538	1,069	-	47	19	337	3,010
Convertible notes	-	17,791	-	-	-	-	17,791
Derivatives	-	6,800	-	-	-	-	6,800
Non-current liabilities	836	-	24	-	-	-	860
Total liabilities	3,177	26,161	24	67	19	858	30,306
Balance, net	6,077	(6,077)	1,297	973	27	2,874	5,241

11. Sensitivity analysis

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

11.1 Sensitivity to changes in exchange rates

- Excess of assets over liabilities (linked and unlinked) in the Israeli CPI indexation report amounts to \$2,317,000.
- Excess of assets over liabilities in the Euro indexation report, amounts to \$247,000.

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

This sensitivity analysis is based on the exchange rate as of June 30, 2017 - \$0.2860 = NIS 1.

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	811	406	8,113	(406)	(811)
Marketable securities available-for-sale	310	155	3,102	(155)	(310)
Trade receivables	16	8	161	(8)	(16)
Other receivables	5	2	48	(2)	(5)
Restricted long-term Deposits	19	9	189	(9)	(19)
Trade payables	(38)	(19)	(381)	19	38
Other accounts payable	(51)	(26)	(514)	26	51
Derivatives	(297)	(148)	(2,965)	148	297
Convertible Series L Notes	(927)	(464)	(9,274)	464	927
Total	(152)	(77)	(1,521)	77	152

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

This sensitivity analysis is based on the exchange rate as of June 30, 2017 - \$1.1401 = 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	6	3	57	(3)	(6)
Trade receivables	31	16	313	(16)	(31)
Other receivables	-	-	2	-	-
Trade payables	-	-	(3)	-	-
Other accounts payable	(12)	(6)	(122)	6	12
Total	25	13	247	(13)	(25)

11.2 Sensitivity to change in the market price

11.2.1 Sensitivity to change in the 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
Convertible Series L Notes	(2,915)	(318)	(147)	(11,735)	66	180	438

On November 18, 2008, the price of the Company shares declined by approximately 28%, and on February 2009 such price appreciated by approximately 68%.

11.2.2 Sensitivity to change in 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 Series L Notes	(153)	(111)	(11,735)	39	76

Chapter C - Corporate Governance Aspects

12. Charitable donations

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

13. Directors with accounting and financial expertise

As of the report date, the Board of Directors has not changed its resolution regarding the appropriate minimum required number of directors with accounting and financial expertise as stated the 2016 Annual Report.

14. Independent directors

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

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

15. Internal Auditor of the Company

As of the date of this report, there was no change in the details of the internal auditor as reported in Chapter B of the 2016 Annual Report.

- The meeting of the audit committee held on March 17, 2017, discussed the risk exposure review.
- The meeting of the audit committee held on March 17, 2017, discussed the fraud and embezzlement survey.

During the reported period, the following material transactions¹ occurred:

¹ As defined in Section 5(f) to the Fourth Schedule to the Regulations.

- Grant of options in respect of the service of the directors, Jonathan Kolber and Sami Totah in respect of their term, which will begin at the annual general meeting in 2017 (for the year 2016) and in respect of f their term that will being at the annual general meeting that will be held in the year 2018 (for the year 2017).
- Grant of a special bonus to Mr. Gilad Glick, the Company's President and Chief Executive Officer, in the amount of NIS 250,000 (less than three base monthly salaries) in respect of the special effort that he has invested and his special contribution to the realization and embedding of the Company's updated strategy during 2016.
- Extension of the exercise period of the options that have been granted to the Company's President and Chief Executive Officer.
- Extension of the consulting agreement with Dr. Giora Yaron, the Chairman of the Board of Directors.

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

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

16. Subsequent events mentioned in the financial statements

There were no subsequent events affecting the financial statements.

17. Valuation of the warrants embedded in convertible Series L Notes

Identification of the subject of valuation	Fair value of the warrants component of the convertible Series L Notes for accounting reporting purposes
Valuation date	June 30, 2017
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 3,483,000
Value of the subject of valuation based on the appraisal	NIS 1,926,000
Identification of the valuer:	
Name of the valuer	PricewaterhouseCoopers Consulting Ltd.
The person rendering the appraisal	Shalom Sofer, CPA (Isr.), Partner in Kesselman & Kesselman PricewaterhouseCoopers Israel

Education	BA in accounting and economics summa cum laude and MA in economics summa cum laude, both from the Tel-Aviv University
Appraising experience	About 14 year experience in economic and financial consulting
Dependence on the contractee	No dependence
Indemnification agreements with the appraiser	There is an indemnification agreement
Valuation model applied by the appraiser	Binomial model generally accepted for option valuation
Assumptions upon which the valuation is based	
Risk-free unlinked interest	0.11%
Maximum life span of the warrants	0.67 years
Yield to redemption of the straight notes	46.34%

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 convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2016	2,237	1,567	148.7	57.9%	46.62%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of June 30, 2017	551	1,686	120.1	57.2%	46.34%

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 for NIS 13,700,000 par value 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 on the valuation date.
- (2) Effect on operating results for the reported period in dollars in thousands.

Valuation of options and warrants issued to Viola as part of the investment transaction

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

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

Identification of the subject of valuation	Fair value of the Series 4 warrants and the warrants issued to Viola for accounting reporting purposes
Valuation date	June 30, 2017
Date of agreement with the external valuer	November 5, 2016
Value of the subject of valuation shortly before the valuation date had accounting principles, including depreciation and amortization, not required the change in value thereof based on appraisal	NIS 0.28 -0.29
Value of the subject of valuation shortly before the valuation date, had the generally accepted accounting principles, including depreciation and amortization, not required the modification of value based on valuation	NIS 0.21-NIS 0.22
Identification of the valuer	
Name of the valuer	PricewaterhouseCoopers Consulting Ltd.
The person rendering the appraisal	Shalom Sofer, CPA (Isr.), Partner in Kesselman & Kesselman PricewaterhouseCoopers

Education	BA in accounting and economics summa cum laude and MA in economics summa cum laude, both from the Tel-Aviv University
Appraising experience	About 14 year experience in economic and financial consulting
Dependence on the contractee	No dependence
Indemnification agreements with the appraiser	There is an indemnification agreement
Valuation model applied by the appraiser	Binomial model generally accepted for option valuation
Assumptions upon which the valuation is based	
Maximum life span of the warrants	1.8 years
Dividend yield	0%
Expected volatility	57.16%
Risk-free interest rate	0.24%

Valued item	Valuer	Valuation date	Number of warrants	Valuation ⁽¹⁾	Effect on results ⁽²⁾	Series 4 warrants price	Share price	Standard deviation	Discount rate
Viola Fund warrants	Pricewaterhouse Coopers Consulting Ltd.	Effective as of November 5, 2015	31,950	4,848	-	Don't exist	151	59.9%	0.61%
Viola Fund warrants + Series 4 warrants	Market value ⁽³⁾	Effective as of December 31, 2015	38,389	2,696	2,604	27.4	Not relevant		
Viola Fund warrants + Series 4 warrants	Pricewaterhouse Coopers Consulting Ltd.	Effective as of December 31, 2016	39,877	4,563	(1,873)	134.1	148.7	57.9%	0.43%
Viola Fund warrants + Series 4 warrants	Pricewaterhouse Coopers Consulting Ltd.	Effective as of June 30, 2017	39,877	2,414	2,149	61.7	120.1	57.2%	0.24%

November 5, 2015 was the date of allocation of the warrants to Viola. It should be noted that additional 1,488,074 warrants, with the same terms, were allotted to Viola on February 1, 2016. As of January 3, 2016 options (series 4) are traded in the stock exchange.

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

(2) Effect on operating results for the reported period in dollars in thousands.

- (3) Series 4 warrants price as of the first trading day, which is January 3, 2016.

For further information on the valuation of the warrants embedded in the Series L Notes and the non-marketable warrants issued to Viola and Series 4 warrants, see the valuation reports attached to this Report.

18. Warning signs

The Company's Board of Directors, at its meeting held on August 10, 2017, 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 end of the reported year (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 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 Series L Notes; (v) the sources of financing at the Company's disposal, as detailed in Section 6 above. and (vi) should the Company fail in reaching the estimated revenues and/or obtaining sources of financing, as part of its efforts it will take steps for the reduction of its activities and of a part of its operating expenses so as to enable it to meet its liabilities.

Management presented to the Board of Directors a plan whereunder, should the Company fail in reaching the estimated revenues, it would reduce operating expenses so as to be able to meet its liabilities and continue operations.

As of June 30, 2017, the Company had cash and cash equivalents, short-term bank deposits and available-for-sale securities of approximately \$13,111,000.

Chapter E – Specific Disclosure for Noteholders

19. Additional information with regard to outstanding convertible Series L Notes

As of the date of this report, there have been no significant changes in debt securities issued by the Company as compared to the description in Section 19 of the 2016 Annual Report, other than those detailed below:

	Convertible Series L Notes
Par value as of June 30, 2017:	NIS 38,127,631
Par value (according to linkage terms) as of June 30, 2017:	NIS 38,127,631
Accrued interest as of June 30, 2017:	\$315,000
Fair value in the financial statements as of June 30, 2017:	\$10,593,000 (this amount includes \$551,000 with respect to the conversion component, including accrued interest).
Value on the TASE as of August 7, 2017:	NIS 40,225,000 (for NIS 38,128,000 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: August 10, 2017

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

ITAMAR MEDICAL LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

AS OF JUNE 30, 2017

(UNAUDITED)

ITAMAR MEDICAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

(UNAUDITED)

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ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	10,009	28,762	23,358
Marketable securities available-for-sale	3,102	2,788	2,781
Trade receivables	4,377	3,892	4,490
Other receivables	673	369	750
Inventories	1,740	1,609	1,784
Total current assets	19,901	37,420	33,163
Non-current assets			
Restricted deposits	296	179	287
Prepaid expenses	111	149	173
Long-term trade receivables	509	728	659
Fixed assets	1,090	755	1,008
Intangible assets	293	241	257
Total non-current assets	2,299	2,052	2,384
Total assets	22,200	39,472	35,547

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31
	2017	2016	2016
	(Unaudited)	(Unaudited)	(Audited)
Liabilities	U.S. dollars in thousands		
Current liabilities			
Trade payables	840	638	1,324
Short-term employee benefits	314	282	198
Current maturities of convertible notes	9,727	8,817	9,621
Provisions	175	243	167
Accrued expenses	998	791	939
Other accounts payable	1,648	2,117	2,071
Total current liabilities	13,702	12,888	14,320
Non-current liabilities			
Convertible notes, net of current maturities	-	7,548	8,170
Derivative instruments	2,965	11,091	6,800
Long-term employee benefits	184	114	156
Other long-term accounts payable	863	761	860
Total non-current liabilities	4,012	19,514	15,986
Total liabilities	17,714	32,402	30,306
Equity			
Ordinary share capital	683	679	679
Additional paid-in capital	104,443	104,348	104,350
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 marketable securities available-for-sale	88	(46)	(45)
Accumulated deficit	(101,870)	(99,053)	(100,885)
Total equity	4,486	7,070	5,241
Total liabilities and equity	22,200	39,472	35,547

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Shy Basson, Chief Financial Officer

Date of approval date of the financial statements: August 10, 2017

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

ITAMAR MEDICAL LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

	Six Months Ended		Three Months Ended		Year Ended
	June 30,		June 30,		December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
U.S. dollars in thousands (except per share data)					
Revenues	9,403	8,599	5,058	4,473	18,440
Cost of revenues	2,286	2,197	1,224	1,129	4,979
Gross profit	7,117	6,402	3,834	3,344	13,461
Selling and marketing expenses	6,091	7,203	2,975	3,488	14,035
Research and development expenses	1,962	1,711	917	778	3,225
General and administrative expenses	2,710	3,151	1,424	1,204	6,213
Operating loss	(3,646)	(5,663)	(1,482)	(2,126)	(10,012)
Financial income (expenses) relating to cash and investments	1,454	524	362	(518)	716
Financial expenses relating to notes and loans	(3,291)	(2,296)	(1,092)	(749)	(4,760)
Gain (loss) from derivatives instruments, net	3,835	(4,506)	1,086	(2,372)	(216)
Financial income (expenses), net	1,998	(6,278)	356	(3,639)	(4,260)
Loss before income taxes	(1,648)	(11,941)	(1,126)	(5,765)	(14,272)
Income taxes	(42)	(79)	(6)	(41)	(131)
Loss for the period	(1,690)	(12,020)	(1,132)	(5,806)	(14,403)
Basic loss per share (In U.S. dollars)	(0.01)	(0.05)	(0.00)	(0.03)	(0.05)
Diluted loss per share (In U.S. dollars)	(0.01)	(0.05)	(0.01)	(0.03)	(0.05)

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

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

	<u>Six Months Ended</u>		<u>Three Months Ended</u>		<u>Year Ended</u>
	<u>June 30,</u>		<u>June 30,</u>		<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>(Unaudied)</u>		<u>(Unaudied)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>				
Loss for the period	<u>(1,690)</u>	<u>(12,020)</u>	<u>(1,132)</u>	<u>(5,806)</u>	<u>(14,403)</u>
Other comprehensive loss items that will not be carried to the statement of operations					
Actuarial gains (losses) of defined benefit plan, net of tax	-	-	-	-	(107)
Total other comprehensive loss for the period that will not be carried to the statement of operations, net of tax	-	-	-	-	(107)
Other comprehensive income items, which, after preliminary recognition in comprehensive income (loss), were or will be carried to the statement of operations					
Net change in fair value of marketable securities available-for-sale, net of tax	133	8	42	(17)	9
Total other comprehensive income items which, after initial recognition in comprehensive income (loss), were or will be carried to the statement of operations, net of tax	133	8	42	(17)	(98)
Other comprehensive income (loss) for the period	<u>133</u>	<u>8</u>	<u>42</u>	<u>(17)</u>	<u>(98)</u>
Total comprehensive loss for the period	<u>(1,557)</u>	<u>(12,012)</u>	<u>(1,090)</u>	<u>(5,823)</u>	<u>(14,501)</u>

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

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

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of marketable securities available-for- sale	Accumulated deficit	Total
U.S. dollars in thousands							
For the six months ended June 30, 2017 (Unaudited)							
Balance as of January 1, 2017	679	104,350	1,151	(9)	(45)	(100,885)	5,241
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(1,690)	(1,690)
Other comprehensive income for the period, net of tax	-	-	-	-	133	-	133
Total comprehensive loss for the period	-	-	-	-	133	(1,690)	(1,557)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	4	93	-	-	-	-	97
Share-based payment	-	-	-	-	-	705	705
Balance as of June 30, 2017 (Unaudited)	683	104,443	1,151	(9)	88	(101,870)	4,486
For the six months ended June 30, 2016 (Unaudited)							
Balance as of January 1, 2016	670	103,344	1,151	(9)	(54)	(88,151)	16,951
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(12,020)	(12,020)
Other comprehensive income for the period, net of tax	-	-	-	-	8	-	8
Total comprehensive loss for the period	-	-	-	-	8	(12,020)	(12,012)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	1	14	-	-	-	-	15
Private issuance of ordinary shares	8	990	-	-	-	-	998
Share-based payment	-	-	-	-	-	1,118	1,118
Balance as of June 30, 2016 (Unaudited)	679	104,348	1,151	(9)	(46)	(99,053)	7,070

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

	<u>Ordinary share capital</u>	<u>Additional paid-in capital</u>	<u>Capital reserve in respect of transactions with shareholders</u>	<u>Capital reserve in respect of currency translation adjustments</u>	<u>Capital reserve in respect of marketable securities available-for- sale</u>	<u>Accumulated deficit</u>	<u>Total</u>
	U.S. dollars in thousands						
For the three months ended June 30, 2017 (Unaudited)							
Balance as of April 1, 2017	681	104,392	1,151	(9)	46	(100,971)	5,290
Total comprehensive profit for the period:							
Profit for the period	-	-	-	-	-	(1,132)	(1,132)
Other comprehensive income for the period, net of tax	-	-	-	-	42	-	42
Total comprehensive loss for the period	-	-	-	-	42	(1,132)	(1,090)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	2	51	-	-	-	-	53
Share-based payment	-	-	-	-	-	233	233
Balance as of June 30, 2017 (Unaudited)	683	104,443	1,151	(9)	88	(101,870)	4,486
For the three months ended June 30, 2016							
Balance as of April 1, 2016 (Unaudited)	678	104,334	1,151	(9)	(29)	(93,524)	12,601
Total comprehensive profit for the period:							
Loss for the period	-	-	-	-	-	(5,806)	(5,806)
Other comprehensive loss for the period, net of tax	-	-	-	-	(17)	-	(17)
Total comprehensive loss for the period	-	-	-	-	(17)	(5,806)	(5,823)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	1	14	-	-	-	-	1
Share-based payment	-	-	-	-	-	277	277
Balance as of June 30, 2016 (Unaudited)	679	104,348	1,151	(9)	(46)	(99,053)	7,070

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

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

	<u>Ordinary share capital</u>	<u>Additional paid-in capital</u>	<u>Capital reserve in respect of transactions with shareholders</u>	<u>Capital reserve in respect of currency translation adjustments</u>	<u>Capital reserve in respect of securities available-for- sale</u>	<u>Accumulated deficit</u>	<u>Total</u>
U.S. dollars in thousands							
For the year ended December 31, 2016 (Audited)							
Balance as of January 1, 2016 (Audited)	670	103,344	1,151	(9)	(54)	(88,151)	16,951
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	(14,403)	(14,403)
Other comprehensive income (loss) for the year, net of	-	-	-	-	9	(107)	(98)
Total comprehensive loss for the year	-	-	-	-	9	(14,510)	(14,501)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	1	16	-	-	-	-	17
Private issuance of ordinary shares	8	990	-	-	-	-	998
Share-based payment	-	-	-	-	-	1,776	1,776
Balance as of December 31, 2016 (Audited)	<u>679</u>	<u>104,350</u>	<u>1,151</u>	<u>(9)</u>	<u>(45)</u>	<u>(100,885)</u>	<u>5,241</u>

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Six Months Ended		Three Months Ended		Year Ended
	June 30,		June 30,		December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
Loss for the period	(1,690)	(12,020)	(1,132)	(5,806)	(14,403)
Adjustments for:					
Depreciation and amortization	239	196	113	95	434
Share-based payment	705	1,118	233	277	1,776
Loss from sale of fixed assets	(8)	-	(15)	-	-
Change in provision for doubtful and bad debt	84	437	25	44	849
Net financial cost	1,639	1,791	668	1,273	4,110
Loss (gain) from revaluation of derivatives	(3,835)	4,506	(1,086)	2,373	216
Decreases (increase) in trade receivables	179	(607)	(121)	(266)	(1,548)
Decreases (increase) in other accounts receivable	139	248	56	322	(157)
Decreases (increase) in inventories	(113)	(117)	-	(97)	(430)
Increase (decrease) in trade payables	(524)	(378)	255	(218)	289
Increase (decrease) in accounts payable and accrued expenses	(118)	(24)	134	(270)	188
Increase (decrease) in employee benefits	144	38	76	(96)	(111)
Increase (decrease) in provisions	8	5	5	11	(71)
Income tax expense (credit)	42	79	6	(7)	131
Taxes paid during the period	(39)	(116)	(24)	(68)	(228)
Interest received during the period	18	17	6	7	41
Interest paid during the period	(901)	(841)	-	-	(1,716)
Net cash used in operating activities	(4,031)	(5,668)	(801)	(2,426)	(10,630)
Cash flows from investing activities					
Purchase of fixed assets and intangible assets and capitalization of development expenses	(152)	(105)	(65)	(16)	(455)
Investment in restricted deposits	7	-	25	-	(113)
Net cash used in investing activities	(145)	(105)	(40)	(16)	(568)
Cash flows from financing activities					
Issuance of share capital	-	998	-	-	998
Issuance of warrants	-	85	-	-	85
Repayment of notes	(10,421)	-	-	-	-
Issuance of shares due to exercise of stock options	97	15	53	15	17
Net cash provided by (used in) financing activities	(10,324)	1,098	53	15	1,100
Decrease in cash and cash equivalents	(14,500)	(4,675)	(788)	(2,427)	(10,098)
Cash and cash equivalents at beginning of period	23,358	33,019	10,560	31,728	33,019
Effect of exchange rate fluctuations on balances of cash and cash equivalents	1,151	418	237	(539)	437
Cash and cash equivalent balance at end of period	10,009	28,762	10,009	28,762	23,358

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

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NOTE 1 – GENERAL

a. Reporting entity and the Company’s financial position

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

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

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

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

As part of the Company’s strategy, the U.S. subsidiary launched in January 2015 the total sleep solution (“**TSS**”), which is a package of products and services providing a comprehensive solution which combines diagnosis and treatment of sleep apnea, including ancillary services’ designed principally for cardiac medicine (clinics and departments around hospitals). As part of the TSS, in the third quarter of 2016, the Company also began to market and sell in the U.S. a solution for treating sleep apnea, which includes distribution of PAP devices (Positive Airway Pressure) and accompanying accessories.

In February 2017, the FDA approved an innovative and upgraded version of the WatchPAT product. The innovative version of the product integrates an SPB (Snoring and Body Position) chest sensor which, combined with the PAT signal and the advanced algorithms developed by the Company facilitates the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. The Company made the first sales of this product during the second quarter of 2017.

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

The condensed financial statements of the Company and its subsidiaries (the “**Group**”) as of June 30, 2017 and for the periods ended on that date include the financial statements of the Company and its subsidiaries.

The Company’s total equity as of June 30, 2017 amounted to \$4,486 thousand, and it had negative cash flows from operating activities in the six months ended June 30, 2017 totaled \$4,031 thousand.

In February 2017, the Company repaid principal and interest of convertible notes in the total amount of approximately \$11.3 and is expecting to repay a similar amount in February 2018.

As mentioned in Section c below, in March 2017, the Company received a credit facility from a bank in the total amount of \$10 million.

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

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b. Closure of the operations of the subsidiary in Japan

In January 2017, the Company modified its business strategy so that the Company would focus on marketing and sales of Total Sleep Solutions in the cardiology field and reduce the EndoPAT marketing and selling activity in Japan. As part of this modified strategy, and in view of the failure of Nihon Kohden (the Company's exclusive Endo PAT distributor in Japan) to meet the minimum order quota undertaken thereby in the three-year distribution agreement signed in June 2014, the Company notified Nihon Kohden of the annulment of the latter's exclusivity

As a result of the abovementioned decision, the Company is taking action to close the operations of the subsidiary in Japan.

c. Credit facility with a Bank

On March 29, 2017, the Company and an Israeli Bank reached an agreement whereunder the bank would grant the Company a long-term loan (the "loan") and a credit line against trade accounts receivable, based on specific customer invoices (the "credit line") in a total amount of up to \$10 million. The loan, amounting to \$6 million, may be drawn through February 28, 2018. The principal of the loan is repayable in equal quarterly installments over three years from the date of the draw. The loan bears annual interest of quarterly dollar LIBOR plus 5%, payable quarterly. The credit line, in the amount of up to \$4 million, is renewable annually and bears annual interest of monthly dollar LIBOR plus 4.25%. The right to draw the loan and the credit line is conditional on the Company's having cash balances of not less than \$4 million. As security for the repayment of the loan and the credit line the Company will register a fixed and a floating charge on all its assets in favor of the bank. As long as the Company has not drawn the entire amount of the loan and the credit line, it is to pay the bank an annual credit allotment charge of 0.6% of the unutilized balance. In addition, the Company will allot the bank 798,088 warrants exercisable for purchase of 798,088 of its shares at the exercise price of NIS 1.36 per share.

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

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

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International Financial Reporting Standards ("IFRS")

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". Accordingly, they do not contain all the information required in full annual financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial Statements as of December 31, 2016 and for the year then ended (the "Annual Financial Statements"). In addition, these financial statements have been prepared in accordance with Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

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The condensed interim consolidated financial statements were approved by the Board of Directors on August 10, 2017.

b. Use of estimates, assumptions and judgments

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these interim condensed consolidated financial statements are the same as those applied by the Group in its 2016 consolidated financial statements.

New standards and interpretations not yet adopted

IFRS 15, Revenue from Contracts with Customer (in this section : the "Standard")

Further to the disclosure regarding new standards and interpretations not yet adopted in the Note on Significant Accounting Policies in the Annual Financial Statements, the Group examined the implications of implementing the Standard on the financial statements, as follows:

Application of the Standard

The Group intends to adopt the Standard as from January 1, 2018 using the cumulative effect approach, while adjusting the retained earnings as of January 1, 2018.

Reliefs

The Group is considering the following reliefs on the transition date:

- (a) the implementation of the provisions of the Standard only for contracts that have not yet been completed as of the transition date; and
- (b) an examination of the aggregate effect of changes in a contract that occurred prior to the beginning of the earliest period presented, instead of examining each change separately and repositioning those contracts.

Changes and expected effects on revenue recognition

Incremental costs of obtaining a contract with a customer

Incremental costs of obtaining a contract with a customer, such as agent sales commissions, which are currently recognized in profit or loss, will be recognized in accordance with the Standard as an asset if the Group expects to recover those costs. Such costs will be recognized as an asset and will be amortized to the statement of operations on a systematic basis consistent with the transfer of the products or services to which the asset relates. The Group examined the expected effect on the financial statements and in its opinion, this is not a material amount.

In addition, the Group has examined the expected effects of the implementation of the Standard and it does not expect that the implementation of the Standard will have a material impact on its operating results.

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

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NOTE 4 – FINANCIAL INSTRUMENTS

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

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

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

	June 30, 2017		June 30, 2016		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	U.S. dollars in thousands					
	(Unaudited)				(Audited)	
Non-current liabilities (including current maturities)						
Convertible notes (including accumulated interest and the conversion component)	<u>10,593</u>	<u>11,735</u>	<u>19,014</u>	<u>21,770</u>	<u>20,616</u>	<u>21,062</u>

* Based on the quoted market price.

b. Fair value hierarchy of instruments measured at fair value

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

The different levels were defined as follows:

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

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

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

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

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	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets -				
Available-for- sale securities	2,827	-	-	2,827
Financial liabilities -				
Derivative instruments	932	4,839	2,947	8,718
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Audited)			
Financial assets -				
available-for- sale securities	2,781	-	-	2,781
Financial liabilities -				
Derivative instruments	-	-	6,800	6,800

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

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

The fair value of the warrants issued to Viola and the warrants (Series 4) Through September 31, 2016 was measured at quoted market value of the warrants (Series 4), on the basis of the warrants' rate every cut-off date.

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

In connection with said provisions, the position of the Company is that as of the end of 2016 there is no "active market" for the traded warrants (Series 4) primarily due to an ongoing gradual decline in the frequency and volume of trading in the traded warrants, so that the total of units traded over the fourth quarter of 2016 and the first quarter of 2017 constitute 1.7%, 0.5% and 0.5%, respectively, of the total existing units with significant variance in the transactions prices without a corresponding material change in the share price.

Consequently, the Company estimated the value of warrants issued to Viola and the warrants (Series 4) as of march 31, 2017 and December 31, 2016 on the basis of an accepted option pricing model, with the

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

NOTE 5 – SHARE-BASED PAYMENT

a. Grant of options

- 1) In March 2017, the Company's Board of Directors approved a grant of 540,000 options to two grantees, as follows:

<u>The grant date and the entitled employees</u>	<u>The instrument conditions</u>	<u>The number of instruments</u>	<u>Vesting conditions</u>	<u>Contractual duration of the options (years)</u>
Grant of options to Viola Growth Management 2 Ltd. (“ Viola Management ”) in respect of the service of the directors Jonathan Kolber and Sami Totah (the “ directors ”) (with service conditions only) on March 21, 2017 (the grant was approved by the Company's shareholders on May 14, 2017)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of which will be determined on the beginning of the vesting period. The exercise price of the options relating to the first tranche is NIS 1.54*	440,000	The options granted to directors will be divided into two equal portions of 220,000 options each. The vesting period for the first tranche for the first term will begin on May 14, 2017 (the date of the Company's 2017 shareholders' meeting); the vesting period for the second tranche for the second term will begin on the date of the Company's 2018 shareholders' meeting; each tranche will vest in four equal portions (55,000 options each) annually over four years, subject to extension of the term of the directors.	5 years from the start of vesting of each tranche
Grant of options to a consultant on March 21, 2017 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.36	100,000	25% will vest and become exercisable on May 15, 2017. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., August 15, November 15, February 15 and May 15). The first quarterly tranche will vest on August 15, 2017.	5 years from date of grant
		<u>540,000</u>		

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* The exercise price of each option is NIS 1.54 (based on the weighted average of the closing share price on the TASE in the last 30 trading days prior to the date of approval of the grant by the Board of Directors, March 21, 2017 plus 10%).

2) The fair value at the time of grant of the options, which were granted to Viola Management within the context of the first tranche, has been estimated using the binomial model for option pricing. The second tranche of the options that were granted to Viola Management contain an additional amount payable on exercise, which has not yet been determined and accordingly the fair value of that tranche has been estimated using a Monte-Carlo Simulation. The fair value of the options that have been granted to Viola Management (in respect of both of the tranches) is \$207 thousand. Both of these models, which are accepted models for option pricing, have been calculated using the closing price of the Company's shares on the TASE on May 14, 2017 (the date on which the grant was approved by the shareholders), which was NIS 1.16 per share and in accordance with the assumptions that are detailed below:

Expected volatility	57.3%
Risk free interest rate	1.18%
Expected dividends rate	0%
Exercise price (in NIS)	NIS 1.54 (the exercise price for the second tranche may be different from the price that is mentioned above).

3) The fair value at the time grant of the options, which were granted to a consultant, has been estimated using the Black-Scholes pricing model. The fair value of the options for the consultant is \$14 thousand. The model took into account the closing price of the Company's shares on the Stock Exchange on March 28, 2017 (the prior to the approval of the grant by the Board of Directors), which was NIS 1.29 per share and in accordance with the assumptions that are detailed below:

Expected volatility	57.6%
Risk free interest rate	0.47% - 0.84%
Expected dividends rate	0%
Exercise price (in NIS)	NIS 1.36

4) The exercise price in respect of 330,000 options for three directors, which constitutes the second tranche of three tranches, the awarding of which was approved by the Company's shareholders on May 25, 2016, was actually determined in May 14, 2017, upon the renewal of their term by the Company's shareholders at that time, at NIS 1.39 (the average closing price for the Company's shares on the TASE in the 30 trading days preceding that time, plus

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10%). An additional director left the Board of Directors and accordingly he was not granted the second tranche.

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

b. Extension of the exercise period of options granted to the Chief Executive Officer and to officers and key employees of the Company and its subsidiaries

On March 29, 2017, the Company's Board of Directors resolved to extend by five years till January 20, 2026, the exercise period of the options granted to the Chief Executive Officer and to officers and key employees of the Company and its subsidiaries. There will be no change in the other terms of the options, including the exercise price and the vesting terms. The new exercise period is in line with the Company's compensation policy which allows an exercise period of up to ten years. The extension of the exercise period of the options granted to the Chief Executive Officer were approved by the Company's shareholders on May 14, 2017)

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

	<u>Service options</u>	<u>Performance options</u>
Expected volatility	57.6%	57.6%
Average lifetime (in years)	4.8 – 5.9	8.8
Risk free interest rate	0.91% - 1.36%	2.0%
Expected dividends rate	0%	0%
Exercise price (in NIS)	NIS 1.55	NIS 1.40

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NOTE 6 - SUBSEQUENT EVENTS

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

On August 10, 2017, the Company’s Board of Directors approved a grant of 2,387,718 options and 362,858 RSUs to 13 grantees, as follows:

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of options to an office holder (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.28	367,548	25% will vest and become exercisable on April 30, 2018. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2018.	10 years from January 21, 2016
Grant of options to a senior employee (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.28	27,566	25% will vest and become exercisable on February 28, 2017. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on March 31, 2017.	10 years from January 21, 2016
Grant of options to an office holder (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.17	1,529,864	The options will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to a senior employee (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.17	114,740	The options will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to employees (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise	248,000	2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in 4 equal quarterly portions, at the end of each calendar	5 years from date of grant

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The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
	price of NIS 1.28		quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2019.	
Grant of options to a consultant on March 21, 2017 (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.28	100,000	25% will vest and become exercisable after one year from the date of grant. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2018.	5 years from date of grant
Total options		<u>2,387,718</u>		
Grant of RSUs to an office holder (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	337,542	The RSUs will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of RSUs to a senior employee on October 13, 2016 (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	25,316	The RSUs will vest at the end of four years from January 21, 2016 if the share price will be at least NIS 2.13 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total RSUs		<u>362,858</u>		

The fair value on the grant date of the options with service conditions only granted to employees and to the consultant was estimated using the Black-Scholes option pricing model.

Due to the complexity of the terms of the options with market conditions and due to the complexity of the conditions of the restricted share units, the fair value of these securities is estimated on the grant date by applying the Monte-Carlo Simulation.

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The following parameters were used in calculating the fair value at the grant date of share-based payment plans:

	Service options	Performance options	RSUs
Fair value on the date of grant date (dollars in thousands)	93	142	40
Number of shares that will derive from the exercise of the securities (in thousands)	743	1,645	3 63
The parameters used in calculating the fair value:			
Share price on the grant date (in NIS)	1.08	1.08	1.08
Exercise price (in NIS)	1.28	1.17	0.00
Expected volatility (weighted average)	56.9%	56.9%	56.9%
Average lifetime (in years)	3 – 6	5.5	N/A
Risk free interest rate	0.4% - 1.1%	0.9%	0.9%
Expected dividends rate	0%	0%	0%

The expected volatility was determined on the basis of historical volatility of share prices. The expected life of the options is determined in accordance with management's estimate regarding the period of holding of the employees therein, taking into consideration their position in the Company and the Company's past experience regarding the departure of employees. The risk-free interest rate is determined based on shekel government bonds, with the balance of their term equal to the expected life of the options.