THE TRENDLINES GROUP LTD.

INDEPENDENT AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE TRENDLINES GROUP LTD. AND ITS SUBSIDIARIES FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 AND FOR THE INTERIM FINANCIAL PERIOD FROM JANUARY 1, 2015 TO JUNE 30, 2015

(U.S. dollars in thousands)

INDEPENDENT AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE TRENDLINES GROUP LTD. AND ITS SUBSIDIARIES FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 AND FOR THE INTERIM FINANCIAL PERIOD FROM JANUARY 1, 2015 TO JUNE 30, 2015

THE TRENDLINES GROUP LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 AND FOR THE INTERIM FINANCIAL PERIOD FROM JANUARY 1, 2015 TO JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE TRENDLINES GROUP LTD. AND ITS SUBSIDIARIES FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 AND FOR THE INTERIM FINANCIAL PERIOD FROM JANUARY 1, 2015 TO JUNE 30, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Trendlines Group Ltd.

We have audited the accompanying consolidated financial statements of The Trendlines Group Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of June 30, 2015, and as of December 31, 2014, 2013 and 2012, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months ended June 30, 2015, and for each of the years ended December 31, 2014, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of June 30, 2015, and as of December 31, 2014, 2013 and 2012, and its financial performance and cash flows for the six months ended June 30, 2015, and for the years ended December 31, 2014, 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matters

The interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months ended June 30, 2014, were not audited and our opinion does not relate to the interim consolidated financial statements for that period.

This report is made solely to you as a body and for the inclusion in the prospectus to be issued in relation to the proposed offering of the shares of the Company in connection with the Company's listing on the Singapore Exchange Securities Trading Limited.

Haifa, Israel
October 19, 2015

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Consolidated Statements of Financial Position

U.S. dollars in thousands

	Note	June 30, 2015	December 31, 2014	2013	2012
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents		10,843	1,536	3,272	1,690
Restricted short-term deposits	13(A)(6)	398	228	439	638
Short-term investments	8	2,807	1,546	223	590
Accounts and other receivables	3	753	836	1,070	958
Short-term loans to portfolio companies	4	302	246	760	625
Total Current Assets		15,103	4,392	5,764	4,501
NON-CURRENT ASSETS:					
Long-term investment	8	–	962	–	–
Investments in Portfolio Companies	8	82,000	75,623	72,214	43,855
Investments in companies accounted for under the equity method	7	195	129	110	20
Property, plant and equipment, net	5	561	592	654	366
Total Non-Current Assets		82,756	77,306	72,978	44,241
Total Assets		97,859	81,698	78,742	48,742

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

Consolidated Statements of Financial Position

U.S. dollars in thousands

	Note	June 30, 2015	December 31, 2014	2013	2012
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Trade and other payables	9	759	1,370	881	675
Deferred revenues	2(B)(12)	2,726	3,274	3,087	2,168
Total Current Liabilities		3,485	4,644	3,968	2,843
LONG-TERM LIABILITIES:					
Deferred revenues	2(B)(12)	710	1,203	1,340	730
Loans from the Israeli Chief Scientist	10	4,102	4,493	4,955	4,231
Convertible debentures and warrants	16	10,686	1,545	–	–
Other long-term liabilities		14	14	4	398
Deferred taxes, net	12(D)	16,145	14,102	13,032	6,846
Total Long-Term Liabilities		31,657	21,357	19,331	12,205
EQUITY:					
Equity Attributable to Equity Holders of the Company:					
Share capital	14	112	100	96	87
Share premium		27,723	21,404	19,628	15,208
Receipts on account of shares, net	14(B)	–	1,398	–	–
Reserve from share-based payment transactions	15	3,737	2,900	1,701	1,418
Retained earnings		30,643	27,053	29,867	13,912
Total		62,215	52,855	51,292	30,625
Non-Controlling Interests		502	2,842	4,151	3,069
Total Equity		62,717	55,697	55,443	33,694
Total Liabilities and Equity		97,859	81,698	78,742	48,742

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

Consolidated Statements of Profit or Loss and Other Comprehensive Income

U.S. dollars in thousands, except share data

	Note	Six months ended June 30,		Year ended December 31,		
		2015	2014	2014	2013	2012
			Unaudited			
Income:						
Gain from change in fair value of investments in Portfolio Companies	2(B)(4)	5,674	8,562	1,879	23,494	8,637
Income from services to Portfolio Companies	2(B)(12)	2,225	2,282	4,433	3,601	4,027
Group's share of losses of companies accounted for under the equity method, net	7(B)	(128)	–	–	(738)	(434)
Gain from disposal of investment accounted for under the equity method		–	–	–	1,269	–
Income from contracted R&D services	2(B)(12)	194	753	1,364	1,621	1,238
Financial income	17(D)	710	1	160	201	33
Other income		321	158	717	259	267
Total income		8,996	11,756	8,553	29,707	13,768
Expenses:						
Operating, general and administrative expenses	17(A)	3,152	3,104	9,085	4,679	3,946
Marketing expenses		149	199	320	315	139
R&D expenses, net	17(B)	284	573	1,065	1,244	869
Financial expenses	17(C)	82	812	938	560	204
Total expenses		3,667	4,688	11,408	6,798	5,158
Income (loss) before income taxes		5,329	7,068	(2,855)	22,909	8,610
Income taxes	12(E)	(1,979)	(2,360)	(1,355)	(6,186)	(2,642)
Net income (loss) and total comprehensive income (loss)		3,350	4,708	(4,210)	16,723	5,968
Net income (loss) and total comprehensive income (loss) attributable to:						
Equity holders of the Company		3,590	5,393	(2,814)	15,955	5,827
Non-Controlling Interests		(240)	(685)	(1,396)	768	141
		3,350	4,708	(4,210)	16,723	5,968
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):	18					
Basic net earnings (loss)		$0.09	$0.14	$(0.07)	$0.43	$0.17
Diluted net earnings (loss)		$0.08	$0.13	$(0.07)	$0.40	$0.16

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

Consolidated Statements of Changes in Equity

U.S. dollars in thousands

	Attributable to equity holders of the Company						
	Share capital	Share premium	Reserve from share-based payment transactions	Retained earnings	Total	Non-Controlling Interests	Total equity
Balance as of January 1, 2012	**82**	**13,071**	**831**	**7,997**	**21,981**	**2,728**	**24,709**
Net income and total comprehensive income	–	–	–	5,827	5,827	141	5,968
Cost of share-based payments	–	–	587	–	587	–	587
Issuance of shares, net (see Note 14(B))	5	2,137	–	–	2,142	–	2,142
Sales of shares to Non-controlling interests (see Note 19(A)(3))	–	–	–	88	88	12	100
Issuance of shares to Non-controlling interests	–	–	–	–	–	188	188
Balance as of December 31, 2012	**87**	**15,208**	**1,418**	**13,912**	**30,625**	**3,069**	**33,694**
Net income and total comprehensive income	–	–	–	15,955	15,955	768	16,723
Cost of share-based payments	–	–	283	–	283	–	283
Issuance of shares, net (see Note 14(B))	8	4,341	–	–	4,349	–	4,349
Exercise of warrants (see Note 14(D)(1))	1	79	–	–	80	(80)	–
Issuance of shares to Non-controlling interests	–	–	–	–	–	166	166
Deconsolidation of subsidiaries (see Note 7(A)(2))	–	–	–	–	–	228	228
Balance as of December 31, 2013	**96**	**19,628**	**1,701**	**29,867**	**51,292**	**4,151**	**55,443**

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

Consolidated Statements of Changes in Equity

U.S. dollars in thousands

	Attributable to equity holders of the Company							
	Share capital	Share premium	Receipts on share account	Reserve from share-based payment transactions	Retained earnings	Total	Non-Controlling Interests	Total equity
Balance as of January 1, 2014	**96**	**19,628**	**–**	**1,701**	**29,867**	**51,292**	**4,151**	**55,443**
Net loss and total comprehensive loss	–	–	–	–	(2,814)	(2,814)	(1,396)	(4,210)
Cost of share-based payments	–	–	–	2,323	–	2,323	–	2,323
Receipts on account of shares, net (see Note 14(B))	–	–	1,398	–	–	1,398	–	1,398
Exercise of options (see Note 15(D)	3	1,124	–	(1,124)	–	3	–	3
Conversion of Convertible Debentures (see Note 16)	1	652	–	–	–	653	–	653
Issuance of shares to Non-controlling interests	–	–	–	–	–	–	83	83
Deconsolidation of subsidiaries (see Note 7(A)(2))	–	–	–	–	–	–	4	4
Balance as of December 31, 2014	**100**	**21,404**	**1,398**	**2,900**	**27,053**	**52,855**	**2,842**	**55,697**
Net income and total comprehensive income	–	–	–	–	3,590	3,590	(240)	3,350
Cost of share-based payments				847	–	847	–	847
Issuance of shares, net	6	3,510	(1,398)	–	–	2,118	–	2,118
Forfeiture of options (see Note 15(F)	–	10	–	(10)	–	–	–	–
Conversion of Convertible Debentures (see Note 16)	1	704	–	–	–	705	–	705
Acquisition of non-controlling interests by issuance of shares (see Note 14B)	5	2,095	–	–	–	2,100	(2,100)	–
Balance as of June 30, 2015	**112**	**27,723**	**–**	**3,737**	**30,643**	**62,215**	**502**	**62,717**

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

Consolidated Statements of Changes in Equity

U.S. dollars in thousands

	Attributable to equity holders of the Company						
	Share Capital	Share premium	Reserve from share-based payment transactions	Retained earnings	Total	Non-Controlling Interests	Total equity
	Unaudited						
Balance as of January 1, 2014	**96**	**19,628**	**1,701**	**29,867**	**51,292**	**4,151**	**55,443**
Net income and total comprehensive income	–	–	–	5,393	5,393	(685)	4,708
Cost of share-based payments			711	–	711	–	711
Exercise of options	4	1,124	(1,124)	–	4	–	4
Issuance of shares to Non-controlling interests	–	–	–	–	–	162	162
Deconsolidation of a subsidiary	–	–	–	–	–	4	4
Balance as of June 30, 2014 (unaudited)	**100**	**20,752**	**1,288**	**35,260**	**57,400**	**3,632**	**61,032**

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
CASH FLOW FROM OPERATING ACTIVITIES:					
Net income (loss)	3,350	4,708	(4,210)	16,723	5,968
Adjustments to reconcile net income to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation	52	56	105	83	75
Income taxes	1,979	2,360	1,355	6,186	2,642
Gains from changes in fair value of investments in Portfolio Companies	(5,674)	(8,562)	(1,879)	(23,494)	(8,637)
Investments in Portfolio Companies	(328)	(305)	(1,814)	(1,187)	(3,076)
Proceeds from sale of investments in Portfolio Companies	–	358	358	–	524
Financial expenses (income), net	(673)	774	351	553	134
Income from services to Portfolio Companies	(2,100)	(2,050)	(4,042)	(3,188)	(3,417)
Share-based payments	847	711	2,323	283	587
Non-cash issuance expenses of convertible debentures	–	31	31	–	–
Group's share of earnings of companies accounted for under the equity method, net	128	–	–	738	434
Gain from disposal of investment accounted for under the equity method	–	–	–	(1,269)	–
Changes in asset and liability items:					
Decrease (increase) in short-term loans to Portfolio Companies	(56)	6	349	(134)	(155)
Decrease (increase) in accounts and other receivables	433	(591)	56	(148)	(358)
Increase (decrease) in trade and other payables	(602)	(222)	(208)	316	(36)
	(5,994)	(7,434)	(3,015)	(21,261)	(11,283)
Cash paid and received during the year for:					
Interest paid	(54)	–	(75)	–	–
Interest received	–	–	–	–	2
Dividend received	718	–	295	494	–
	664	–	220	494	2
Net cash used in operating activities	(1,980)	(2,726)	(7,005)	(4,044)	(5,313)

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
CASH FLOWS FROM INVESTMENT ACTIVITIES:					
Purchase of property, plant and equipment	(21)	(20)	(43)	(371)	(210)
Purchase of (proceeds from) bank deposits and short-term investments, net	292	–	(1,323)	367	1,360
Purchase of shares of investments in companies accounted for under equity method	(194)	–	–	(787)	(434)
Withdrawal from (increase in) restricted deposits	(170)	(713)	211	198	520
Proceeds from sale of short-term investments	–	–	2,639	–	–
Proceeds from sale of investments in companies accounted for under the equity method	–	–	–	1,318	–
Net cash provided by investing activities	(93)	(733)	1,484	725	1,236
CASH FLOW FROM FINANCING ACTIVITIES:					
Receipts on account of shares, net	–	–	1,398	–	–
Issuance of shares, net	2,118	–	–	4,349	2,142
Deferred IPO costs	(349)	–	–	–	–
Exercise of options	–	4	3	–	–
Issuance of shares to non-controlling interests	–	162	83	166	188
Sales of shares to Non-controlling interests	–	–	–	–	100
Loans from the Israeli Chief Scientist	–	152	218	386	2,547
Loans from others	–	–	–	–	380
Issuance of convertible debentures, net	9,664	2,095	2,126	–	–
Repayment of convertible debentures	(53)	–	(43)	–	–
Net cash provided by financing activities	11,380	2,413	3,785	4,901	5,357
Increase (decrease) in cash and cash equivalents	9,307	(1,046)	(1,736)	1,582	1,280
Cash and cash equivalents at the beginning of the period	1,536	3,272	3,272	1,690	410
Cash and cash equivalents at the end of the period	10,843	2,226	1,536	3,272	1,690
Significant non-cash transactions					
Receipt of shares in consideration for sale of investments in Portfolio Company (See Note 8(B)(3))	–	3,974	3,974	–	–
Repayment by third party of loans from the Israeli Chief Scientist (See Note 8(B)(3))	–	513	513	–	–
Conversion of Debentures into shares (See Note 16)	705	–	653	–	–
Receivable from sale of short-term investment	–	2,619	–	–	–
Acquisition of non-controlling interests by issuance of shares	2,100	–	–	–	–

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

NOTE 1:– GENERAL

A. Corporate information

The Trendlines Group Ltd. (the "Company") is engaged in creating and investing in innovation, primarily carried out through its 2 subsidiaries: Trendlines Agtech – Mofet Ltd. ("Agtech") and Trendlines Medical – Misgav Ltd. ("Medical") which are technological incubators, and which represent one business segment for management reporting purposes. The Group investments and other assets are all located within Israel. Trendlines Agtech and Trendlines Medical (collectively: the "Trendlines Incubators") are incubators operating under franchise agreements with the State of Israel, through the Office of the Chief Scientist of the Ministry of Economy ("OCS"), which were due to expire on December 31, 2014. On August 4, 2014, the OCS advised the Trendlines Incubators that due to a delay in publishing the new competitive bid process for the incubator franchises, it is willing to extend the franchise period of the Trendlines Incubators without a competitive bid process. The Trendlines Incubators each submitted formal requests for this extension which were approved by the OCS on September 4, 2014 and November 13, 2014, and accordingly, the OCS extended the franchise period of Trendlines Medical until June 30, 2015 and extended the franchise period of Trendlines Agtech until June 30, 2016, respectively, without a competitive bid process.

On March 29, 2015, the OCS advised Trendlines Medical that due to a new competitive bid process in the Trendlines Medical region, the OCS is willing to extend the Trendlines Medical franchise period following a formal request for this extension. On March 31, 2015, Trendlines Medical submitted such a formal request and on April 21, 2015, the OCS approved an extension of the franchise period until March 31, 2016.

Subsequent to the reporting period, on July 15, 2015, Trendlines Medical submitted the documents for the competitive bid. On September 7, 2015, Trendlines Medical received a letter from the OCS announcing that it was elected as the winning bidder in the aforesaid competitive bid process for the operation of a technological incubator under periphery incubator conditions, which franchise period shall begin no later than March 1, 2016. In accordance with New Directive 8.3 of the Director General of the Ministry of Economy of the State of Israel, the franchise period is 8 years. The franchise awarded to Trendlines Medical is subject to compliance with certain conditions by February 1, 2016, as set forth in the letter, including, among others, procuring an amount of NIS 10 million (approximately $2,650) by means of liquid assets, to the satisfaction of the OCS. In addition, Trendlines Medical shall be subject to certain milestones during the franchise period. Such milestones include, among others, the minimum number of new portfolio companies to operate under Trendlines Medical during specified time periods from the beginning of the

NOTE 1:– GENERAL (cont.)

A. Corporate information (cont.)

franchise period (at least: 6 within a period of 24 months; 12 within a period of 48 months; and 18 within a period of 72 months) as well as demonstration of additional fundraising by Trendlines Medical and/or the Company, within a period of 24 months from the beginning of the franchise period, for the benefit of incubator operations, in the amount of at least $10,000, with sufficient liquidity, to the satisfaction of the OCS.

In addition, the Company internally develops new technologies, mainly in the area of medical devices, through its "Trendlines Labs" operations.

The Company's headquarters is located at 17 T'chelet Street, Misgav Business Park, M.P. Misgav 2017400, Israel.

B. Approval of consolidated financial statements

These financial statements of the Group were approved by the board of directors on October 19, 2015.

C. Since its inception, the Group has had negative cash flows from operations. Accordingly, the Group is still dependent on external financing to fund its activities. During the six months period ended June 30, 2015, the Company raised an aggregate of $2,118 upon the issuance of 2,342,446 Ordinary shares. In addition, as part of the Company's contemplated IPO on the Singapore stock exchange ("SGX-ST"), the Company raised approximately $10,300 upon the issuance of Redeemable Convertible Loans ("RCL") from certain pre-IPO investors (see Note 16B). The Group management believes that these funds, together with its existing financial resources, are sufficient for the Group to meets its obligations as they come due at least for a period of twelve months from the date of approval of the financial statements.

D. Definitions

The Company	–	The Trendlines Group Ltd.
The Group	–	The Company and its consolidated subsidiaries.
Subsidiaries	–	Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Associates	–	Companies in which the Company has significant influence.

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 1:– GENERAL (cont.)

D. Definitions (cont.)

Investees	–	Subsidiaries and associates.
Medical	–	Trendlines Medical – Misgav Ltd. (Formerly: Misgav Venture Accelerator Ltd.), a technological incubator – subsidiary of the Company.
Agtech	–	Trendlines Agtech – Mofet Ltd. (Formerly: Mofet B'Yehuda – Industrial Research and Development in Judea Ltd.), a technological incubator – subsidiary of the Company.
Trendlines Incubators/ Incubators	–	Two technological incubators – Medical and Agtech in which the Company exercises control and whose statements are consolidated with those of the Company (see Note 7).
Peripheral Incubator	–	Technological incubator that is situated in a national priority region. Agtech is a Peripheral Incubator.
Project/Portfolio Company	–	A company in which the Incubators invested and is not a subsidiary.
OCS	–	Office of the Chief Scientist of the Israeli Ministry of Economy (formerly the Ministry of Industry, Trade and Labour).
Directive 8.2	–	Directive 8.2 of the Director General of the Ministry of Economy effective regarding the Incubators from August 22, 2001 through August 31, 2007, when the Incubators functioned as non-profit companies.
Old Directive 8.3	–	Directive 8.3 of the Director General of the Ministry of Economy – Technology Entrepreneurship Centres – Pilot Incubators, effective regarding the Incubators from September 1, 2007 (when the Incubators started to function as for-profit companies under the control of The Trendlines Group) through December 31, 2010.

NOTE 1:– GENERAL (cont.)

D. Definitions (cont.)

New Directive 8.3	–	Directive 8.3 of the Director General of the Ministry of Economy for Centres of Technology Innovations and Incubators; replaced the Old Directive 8.3, effective regarding the Incubators from January 1, 2011, onwards.
Related parties	–	As defined in IAS 24.
Dollar	–	US dollar.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

A. Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for financial assets and liabilities that are accounted for at fair value through profit or loss.

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. See Note 2(C).

Basis of consolidation

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company ("Subsidiaries"), including Portfolio Companies in which the Company can exercise control. Control is achieved when:

- The Company has power over the investee;
- The Company is exposed, or has rights, to variable returns from its involvement with the investee;
- Has the ability to affect those returns through its power over the investee.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. Basis of preparation (cont.)

Basis of consolidation (cont.)

The Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including: contractual arrangements with other vote holders of the investee, rights arising from other contractual arrangements and the Company's potential voting rights.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. Basis of preparation (cont.)

Investments in Associates and Portfolio Companies

Associates are companies in which the Group has significant influence over the financial and operating policies without having control.

In accordance with IAS 28, when the Group has an investment in an associate, a portion of which is held indirectly through the Incubators, which are investment entities, the Group measures that portion of the investment in the associate at fair value through profit or loss in accordance with IAS 39 regardless of whether the Incubators have significant influence over that portion of the investment. The Group applies the equity method to any remaining portion of its investment in an associate that is not held through the Incubators.

Investment accounted according to Equity method

The Group's investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in the associate is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income (loss) of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the Group and of the associate are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the associate are uniform and consistent with the policies applied in the financial statements of the Group.

Losses of an associate in amounts which exceed its equity are recognised by the Group to the extent of its investment in the associate.

The equity method is applied until the loss of significant influence in the associate or classification as held-for-sale.

On the date of loss of significant influence, the Group measures any remaining investment in the associate at fair value and recognises in profit or loss the difference between the fair value of any remaining investment plus any proceeds from the sale of the investment in the associate and the carrying amount of the investment on that date.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies

1. Functional currency, presentation currency and foreign currency

a. Functional currency and presentation currency:

The Group's consolidated financial statements are presented in US dollars, which is also the Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group's performance and liquidity are evaluated and managed in US dollars. Therefore, the US dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

b. Foreign currency translations:

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

3. Short-term deposits

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

4. Financial instruments

a. Financial assets

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

Financial assets at fair value through profit or loss upon initial recognition:

Gains and losses of investment in Portfolio Companies at fair value through profit or loss includes changes in the fair value of financial assets and liabilities designated upon initial recognition as at fair value through profit or loss.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group includes in this category amounts relating to other short-term receivables. After initial recognition, loans are measured based on their terms at amortised cost plus directly attributable transaction costs using the effective interest method, and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

The Group has not designated any financial asset upon initial recognition as held to maturity investments or available for sale financial assets.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

4. Financial instruments (cont.)

b. Financial liabilities

Financial liabilities are initially recognised at fair value.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

Financial liabilities at amortised cost less directly attributable transaction costs

After initial recognition, short term liabilities are measured based on their terms at cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include convertible debentures and loans received from the OCS designated upon initial recognition at fair value as they are evaluated by management on a fair value basis and the fair value information about them is provided to the Group's key management personnel.

Embedded derivatives in a host contract that is a financial liability measured at fair value through profit or loss is not separated from the host contract and the fair value of the embedded derivative is included in the fair value of the host contract.

c. Derecognition

Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset as follows:

(a) the Group has transferred substantially all the risks and rewards of the asset, or

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

4. Financial instruments (cont.)

c. Derecognition (cont.)

Financial assets (cont.)

(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

d. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

5. Fair value measurement

The Group measures its investments in Portfolio Companies and other interest bearing investments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price, without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

5. Fair value measurement (cont.)

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

6. Loans from the Office of the Chief Scientist

Loans received from the OCS are designated upon initial recognition at fair value through profit and loss. Fair value is calculated based on the present value of expected amounts to be repaid to the OCS, discounted at a rate reflecting the level of risk of the Portfolio Companies. Changes in fair value of these loans are included in profit or loss. These loans were received as part of Old Directive 8.3, see also Note 13(A)(4).

7. Leases

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee:

Operating leases:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

8. Property, plant and equipment

Property, plant and equipment are measured at cost, including direct attributable costs, less accumulated depreciation and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Leasehold improvements (according to the lease term)	10-12.5	10%
Office furniture and equipment	6-15	7%
Computers and peripheral equipment	15-33	33%

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) or the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

9. Research and development expenditures

Research and development ("R&D") expenditures in respect of contracted service agreements are recognised in profit or loss when incurred.

10. Income taxes

Current or deferred taxes are recognised in profit or loss, except to the extent that they relate to items which are recognised in other comprehensive income or equity.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

10. Income taxes (cont.)

a. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

b. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilised. Temporary differences for which deferred tax assets had not been recognised are reviewed at each reporting date and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

11. Share-based payment transactions

The Group's employees and directors are entitled to remuneration in the form of equity-settled share-based payments.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

The cost of equity-settled transactions is recognised in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest.

12. Revenue recognition

Revenues are recognised in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Group acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. When the Group acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

12. Revenue recognition (cont.)

Following are the specific revenue recognition criteria which must be met before revenue is recognised:

a. Revenues from rendering of services

Revenues from rendering of services to Portfolio Companies and others are recognised by reference to the stage of completion at the reporting date.

b. Dividend income

Dividend income is recognised on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Group's right to receive the payment is established. Dividend income is presented in "gain from change in fair value in investments in Portfolio Companies".

c. Income from services to Portfolio Companies

The Group, through its Incubators, provides the Portfolio Companies with services in the area of technology development, business development, capital raising, access to OCS grants and administrative support. In consideration for the Incubators' obligation pursuant to OCS Directive 8.3 to provide these services to the Portfolio Companies over the two year incubation period, the Group receives equity interests in the Portfolio Companies. The Group recognises in its consolidated financial statements, deferred revenue in respect of the fair value of the benefit of these shares received from the OCS. Such deferred revenue is recognised over the two years of the incubation of the Portfolio Company. Under the Old Directive 8.3, upon obtaining an OCS loan, the benefit's value is computed as the difference between the amount of the loan from the OCS and its fair value, and under the New Directive 8.3, the benefit's value is computed as the difference between the fair value of the investment Portfolio Company and the supplementary funding invested by the Incubators (see Note 13(A)(3)).

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Summary of significant accounting policies (cont.)

12. Revenue recognition (cont.)

c. Income from services to Portfolio Companies (cont.)

In addition, in accordance with OCS regulations, the Group receives monthly capped overhead reimbursement from the Portfolio Companies.

d. Income from contracted R&D services

The Company recognises revenues from contracted R&D services upon achievement of milestones as defined in the contracts.

13. Earnings per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares (options, warrants and other convertible securities) are included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

14. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

1. Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Determination of control

The Group assesses whether it controls a company in which it holds the majority or less than the majority of the voting rights by reference to, among others, the size of its holding of voting rights relative to the size and dispersion of holdings of the other vote holders including voting patterns at previous shareholders' meetings, its ability to direct the relevant activities of a company, including any significant operating and financial activities as well as the appointment of key management personnel, its ability to appoint the majority of the board of directors, and consideration of substantive rights of the other vote holders. See also Note 2(A) "Basis for Consolidation".

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group utilised its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. Significant accounting judgements, estimates and assumptions (cont.)

2. Estimates and assumptions (cont.)

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as growth rates, operating margins, discount rates and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument when available. To assess the significance of a particular input to the entire measurement, the Group performs sensitivity analysis or stress testing techniques. For further information – see Notes 6 and 8.

D. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements and that may have a material impact on the Group are listed below. The Group intends to adopt applicable standards when they become effective.

1. IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. Standards issued but not yet effective (cont.)

1. IFRS 15 – Revenue from Contracts with Customers (cont.)

   Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

   Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

   Step 5: Recognise revenue when the entity satisfies a performance obligation over time or at a point in time.

   IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of the comparative periods will be required as long as the disclosures regarding prior periods required by IFRS 15 are included.

   The Group is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

2. IFRS 9 Financial Instruments – Classification and Measurement

   In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

   According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortised cost only if both of the following conditions are met:

   – the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. Standards issued but not yet effective (cont.)

2. IFRS 9 Financial Instruments – Classification and Measurement (cont.)

   – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

   Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognised in profit or loss or in other comprehensive income (loss), in accordance with the election by the Group on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

   According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

   According to IFRS 9, changes in fair value of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

   IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

   The Group is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

3. Amendments to IFRS 10 and IAS 28 regarding sale or transfer of assets between an investor and its associate or joint venture

   In September 2014, the IASB issued amendments to IFRS 10 and IAS 28 ("the amendments") regarding the accounting treatment of the sale or transfer of assets (an asset, a group of assets or a subsidiary) between an investor and its associate or joint venture.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. Standards issued but not yet effective (cont.)

3. Amendments to IFRS 10 and IAS 28 regarding sale or transfer of assets between an investor and its associate or joint venture (cont.)

According to the amendments, when the investor loses control of a subsidiary or a group of assets that are not a business in a transaction with its associate or joint venture, the gain will be partially eliminated so that the gain to be recognised is the gain from the sale to the other investors in the associate or joint venture. According to the amendments, if the remaining rights held by the investor represent a financial asset as defined in IFRS 9, the gain will be recognised in full.

If the transaction with an associate or joint venture involves loss of control of a subsidiary or a group of assets that are a business, the gain will be recognised in full.

The amendments are to be applied prospectively for transactions occurring in annual periods beginning on or after January 1, 2016. Early adoption is permitted.

NOTE 3:– ACCOUNTS AND OTHER RECEIVABLES

	June 30, 2015	December 31, 2014	2013	2012
Deferred IPO costs	349	–	–	–
Trade receivables(*)	129	552	841	762
Government authorities	61	128	65	9
Others	214	156	164	187
	753	836	1,070	958

(*) Trade receivables are non-interest bearing and are generally on terms of 90 days. As of June 30, 2015, and December 31, 2014, 2013 and 2012, trade receivables were neither past due or impaired.

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 4:– SHORT-TERM LOANS

	June 30, 2015	December 31, 2014	2013	2012
To Portfolio Companies – related parties[1]	302	246	760	491
To Associate – related party	–	–	–	107
To others	–	–	–	27
	302	246	760	625

(1) The loans bear interest of 4%-6% per annum.

NOTE 5:– PROPERTY, PLANT AND EQUIPMENT, NET

	Leasehold improvements	Office furniture and equipment	Computers and peripheral equipment	Total
Cost:				
Balance as of January 1, 2012	223	113	104	440
Additions	154	19	37	210
Disposals	–	(16)	(5)	(21)
Balance as of December 31, 2012	377	116	136	629
Additions	278	73	20	371
Balance as of December 31, 2013	655	189	156	1,000
Accumulated depreciation:				
Balance as of January 1, 2012	133	27	49	209
Depreciation	33	8	34	75
Disposals	–	(16)	(5)	(21)
Balance as of December 31, 2012	166	19	78	263
Depreciation	42	18	23	83
Balance as of December 31, 2013	208	37	101	346
Depreciated cost:				
Balance as of December 31, 2013	447	152	55	654
Balance as of December 31, 2012	211	97	58	366

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 5:– PROPERTY, PLANT AND EQUIPMENT, NET (cont.)

	Leasehold improvements	Office furniture and equipment	Computers and peripheral equipment	Total
Cost:				
Balance as of January 1, 2014	655	189	156	1,000
Additions	18	6	19	43
Balance as of December 31, 2014	673	195	175	1,043
Additions	4	5	12	21
Balance as of June 30, 2015	677	200	187	1,064
Accumulated depreciation:				
Balance as of January 1, 2014	208	37	101	346
Depreciation	62	20	23	105
Balance as of December 31, 2014	270	57	124	451
Depreciation	26	13	13	52
Balance as at June 30, 2015	296	70	137	503
Depreciated cost:				
Balance as of June 30, 2015	381	130	50	561
Balance as of December 31, 2014	403	138	51	592

NOTE 6:– FAIR VALUE MEASUREMENT

A. The following table presents the fair value measurement hierarchy for the Group's investments, loans and debentures.

	June 30, 2015			December 31, 2014		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial assets						
Short-term investments(*)	1,253	1,554	2,807	1,296	–	1,296
Investments in Portfolio Companies	654	81,346	82,000	517	75,106	75,623
Long-term investment	–	–	–	–	962	962
	1,907	82,900	84,807	1,813	76,068	77,881
Financial liabilities						
Loans from OCS	–	4,102	4,102	–	4,493	4,493
Convertible debentures and warrants	–	10,686	10,686	–	1,545	1,545
	–	14,788	14,788	–	6,038	6,038

	December 31,					
	2013			2012		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial assets						
Investment in Portfolio Companies	155	72,059	72,214	170	43,685	43,855
Financial liabilities						
Loans from OCS	–	4,955	4,955	–	4,231	4,231

(*) Excludes deposits in banks at amortised cost of $250 as of December 31, 2014 and $223 as of December 31, 2013, and $590 as of December 31, 2012.

NOTE 6:– FAIR VALUE MEASUREMENT (cont.)

B. Valuation process and techniques

Valuations are the responsibility of the Group's management and the board of directors of the Company.

1. Publicly traded investment in Associates – Level 1

When fair values of publicly traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy.

2. Investment in privately held Portfolio Companies – Level 3

The valuation of significant Portfolio Companies is performed by an external independent valuator.

The valuations are also subject to quality assurance procedures performed by Group's management. The Group's management verifies the major inputs applied in the latest valuation by comparing the information in the valuation computation to relevant documents and market information. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations of the two preceding annual periods. If fair value changes (positive or negative) are more than certain thresholds set, the changes are further considered by the Group's management.

The Group's management considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen.

C. General Overview of Valuation Approaches used in the Valuation

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are four valuation methodologies available which were used in the valuation of the Portfolio Companies: income approach, market approach, cost approach and option pricing model. A brief discussion of each methodology follows.

NOTE 6:– FAIR VALUE MEASUREMENT (cont.)

C. General Overview of Valuation Approaches used in the Valuation (cont.)

1. Income Approach

The income approach utilises a procedure generally known as the discounted cash flow ("DCF") method of valuation. The DCF method measures value by reference to an enterprise's expected future debt-free cash flows from business operations. This typically involves a projection of income and expense and other sources and uses of cash, the assignment of a terminal (or residual) value at the end of the projection period that is reasonably consistent with the key assumptions and long-term growth potential of the business, and a determination of an appropriate discount rate that reflects the risk of achieving the projections. Factors that form the basis for expected future financial performance include:

- Historical and projected growth rates;
- Business plans or operating budgets for the enterprise in question;
- Prevailing relevant business conditions and industry trends, including growth expectations in light of general market growth, competitive environment and market position;
- Anticipated needs for working and fixed capital;
- Historical and expected levels and trends of operating profitability.

Typically, a five year projection period of annual free cash flows plus an estimated terminal value, which represents the value of the business enterprise beyond the projection period, are discounted to present value through the application of a discount rate that reflects the weighted average cost of capital for the enterprise.

The present value of aggregate annual free cash flows plus the terminal value represents the total capital or the net asset value of the operating entity, which equals the combined debt and equity capital or enterprise value of the company.

NOTE 6:– FAIR VALUE MEASUREMENT (cont.)

C. General Overview of Valuation Approaches used in the Valuation (cont.)

2. Market Comparable Approach

The market comparable approach examines either publicly traded companies or acquisitions of privately held companies within the same industry as the subject business entity. Market-derived multiples based on such measures as earnings, book value, cash flow and revenues are typically applied to the appropriate financial indicators of the subject entity to determine a range of total capital values for the business.

Companies might typically be considered comparable even though their product mixes or corporate sizes differ, so long as valuation ranges are rationalised in terms of relative financial performance and capital structure considerations such as:

- Historical and prospective growth;
- Absolute and relative profit margins and cost determinants;
- Capital structure (leverage);
- Liquidity.

3. Cost Approach

The underlying premise when using the cost approach is that the book value or cost of an asset is equal to its fair value. Certain adjustments are made to assets on a case-by-case basis if this premise does not hold true. This approach is an important tool for determining the fair value of companies in a very preliminary development stage, particularly when reliable data relating to revenue forecasts are not available.

4. Option Pricing Model ("OPM")

The OPM is a generally accepted valuation model used in evaluating companies with different classes of shares. The OPM considers the various terms of the stockholder agreements that would affect the distributions to each class of equity upon a liquidity event, including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations. In addition, the method implicitly considers the effect of the liquidation preference as of the future liquidation date, not as of the valuation date. The OPM (or a related hybrid method) is the most appropriate method to use when specific future liquidity events are difficult to forecast.

NOTE 6:– FAIR VALUE MEASUREMENT (cont.)

C. General Overview of Valuation Approaches used in the Valuation (cont.)

4. Option Pricing Model ("OPM") (cont.)

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investments in Portfolio Companies	DCF	Long-term growth rate for cash flows for subsequent years	1% – 3% (3%)	Increase (decrease) in the growth rate would result in increase (decrease) in fair value
		Long-term operating margin	23% – 34% (29%)	Increase (decrease) in the operating margin would result in increase (decrease) in fair value
		Weighted average cost of capital (WACC)	30%	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
	Market Comparable Approach	Revenue Multiplier	1.09 – 5.74 (3.04)	Increase (decrease) in the revenue multiplier would result in increase (decrease) in fair value
		Weighted average cost of capital (WACC)	30% – 60% (40%)	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
	Cost Approach	Weighted average cost of capital (WACC)	50% – 60% (54%)	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
Loans from OCS	Black and Scholes formula for option pricing	Value of pledged shares (NIS)	0.0 – 7.34 (2.18)	
		Expected term (years)	2.5 – 4.3 (3)	Increase (decrease) in the parameter would result in decrease (increase) in fair value
		Expected volatility (annual)	45% – 118% (106%)	
		Risk free interest rate	-1.1% – 0.9% (-0.4%)	
	Present value of the expected cash flows	Risk adjusted discount rate	5.5% – 8.1% (6.8%)	

NOTE 6:– FAIR VALUE MEASUREMENT (cont.)

D. Reconciliation of fair value measurements that are categorised within Level 3 of the fair value hierarchy in financial instruments:

	Investment in Portfolio Companies	Loans from OCS
As of January 1, 2013	$43,685	$(4,231)
Total unrealised gains (losses) recognised in profit or loss(*)	23,558	(405)
Additions	5,310	(319)
Dividend received from Portfolio Company	(494)	–
As of December 31, 2013	$72,059	$(4,955)

	Investment in Portfolio Companies	Long & Short Term Investment	Loans from OCS	Convertible Debentures and Warrants
As of January 1, 2014	$72,059	–	$(4,955)	–
Total realised gains (losses) recognised in profit or loss(*)	3,288	–	(459)	–
Total unrealised gains (losses) recognised in profit or loss(*)	(1,409)	13	127	(115)
Additions	5,710	949	281	(2,126)
Conversion to shares	–	–	–	653
Disposals/repayments	(4,542)	–	513	43
As of December 31, 2014	75,106	962	(4,493)	(1,545)
Total unrealised gains (losses) recognised in profit or loss(*)	4,956	592	391	216
Additions	1,353	–	–	(10,180)
Conversion to shares	–	–	–	705
Disposals/repayments	(69)	–	–	118
As of June 30, 2015	81,346	1,554	(4,102)	(10,688)

(*) Realised and unrealised gains on investments in Portfolio Companies are recorded in "gain from change in fair value of investments in Portfolio Companies" and realised and unrealised gains (losses) on loans from OCS and unrealised losses on convertible debentures and warrants are recorded in "Financial expenses".

NOTE 7:– INVESTMENT IN INVESTEES

A. Investments in subsidiaries:

1. Summarised financial data of a subsidiary with material non-controlling interests:

   The following information is related to Agtech of which 4% is held by non-controlling interests (26% at December 31, 2014, 2013 and 2012):

	June 30,	December 31,		
	2015	2014	2013	2012
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):				
Current assets	365	281	993	1,019
Non-current assets	17,542	18,253	23,940	15,319
Current liabilities	(3,671)	(3,137)	(3,005)	(1,629)
Non-current liabilities	(3,777)	(4,302)	(5,532)	(3,524)
Total equity	10,459	11,095	16,396	11,185

NOTE 7:– INVESTMENT IN INVESTEES (cont.)

A. Investments in subsidiaries: (cont.)

1. Summarised financial data of a subsidiary with material non-controlling interests: (cont.)

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
The subsidiary's operating results (as presented in the subsidiary's financial statements):					
Total revenues	(165)	(2,714)	(5,638)	8,154	3,563
Net income (loss)	(628)	(2,624)	(5,267)	4,551	1,905
Net cash provided by (used in) operating activities	64	110	(150)	909	(1,563)
Net cash provided by investment activities	–	–	–	–	–
Net cash provided by (used in) financing activities	–	–	251	(913)	1,630
Net change in cash and cash equivalents	64	110	101	(4)	67

NOTE 7:– INVESTMENT IN INVESTEES (cont.)

A. Investments in subsidiaries: (cont.)

1. Summarised financial data of a subsidiary with material non-controlling interests: (cont.)

	June 30,	December 31,		
	2015	2014	2013	2012
Balances of non-controlling interests	418	2,679	4,128	2,751

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Income (loss) attributable to non-controlling interests	(164)	(684)	(1,369)	1,216	618

2. Other information:

In 2013, the Group lost control of two subsidiaries that were held by the Incubators. As a result, the Group ceased to consolidate these two subsidiaries and began recording it at fair value through profit or loss. As a result of the re-measurement to fair value, the Group recorded a gain of $3,088 which is included in "gain from change in fair value of investments in Portfolio Companies".

In 2014, the Group lost control of a subsidiary that was held by Medical. As a result, the Group ceased to consolidate this subsidiary and began recording it at fair value through profit or loss. As a result of the re-measurement to fair value, the Group recorded a gain of $1,181 which is included in "gain from change in fair value of investments in Portfolio Companies".

In June 2015, the Company signed an agreement with the non-controlling shareholders of Trendlines Agtech – see also Note 14(B).

NOTE 7:– INVESTMENT IN INVESTEES (cont.)

B. Investments in associates

Additional information on Associates:

	Principal place of business	Company's equity and voting rights	Carrying amount	Fair value of publicly traded equity
		%	US in thousands	
June 30, 2015:				
E.T.View:	Israel	20.75%		
Shares			–	2,500(*)
Warrants			195	
			195	
Maryland Israel/ Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			195	
December 31, 2014:				
E.T.View:	Israel	19.73%		
Shares			–	1,742(*)
Warrants			129	
			129	
Maryland Israel/ Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			129	

(*) The shares are listed on the Tel-Aviv Stock Exchange.

NOTE 7:– INVESTMENT IN INVESTEES (cont.)

B. Investments in associates (cont.)

	Principal place of business	Company's equity and voting rights	Carrying amount	Fair value of publicly traded equity
		%	US in thousands	
December 31, 2013:				
E.T.View:	Israel	22.31%		
Shares			–	920(*)
Warrants			110	
			110	
Maryland Israel/ Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			110	
December 31, 2012:				
E.T.View:	Israel	13.00%		
Shares			–	309(*)
Warrants			20	
			20	
FlowSense:	Israel	19.72%		
Shares			–	629(*)
Maryland Israel/ Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			20	

(*) The shares are listed on the Tel-Aviv Stock Exchange.

NOTE 8:– INVESTMENTS IN PORTFOLIO COMPANIES

A. Information on Portfolio Companies

The following is the number of Portfolio Companies and fair value:

	June 30, 2015		December 31, 2014	
	Number of Companies	Fair Value	Number of Companies	Fair Value
Companies in Incubation Period	14	$11,731	18	$14,178
Incubator Graduate Companies[1]	29	69,615	24	60,928
Public Companies	1	654	1	517
	44	$82,000	43	$75,623

	December 31, 2013		December 31, 2012	
	Number of Companies	Fair Value	Number of Companies	Fair Value
Companies in Incubation Period	14	$ 9,739	13	$ 9,817
Incubator Graduate Companies[1]	30	62,320	29	33,868
Public Companies	1	155	1	170
	45	$72,214	43	$43,855

(1) Includes one Portfolio Company whose fair value amounts to approximately $39,868 at June 30, 2015 and $36,000 at December 31, 2014 and to approximately $26,852 as of December 31, 2013, and $12,227 as of December 31, 2012.

NOTE 8:– INVESTMENTS IN PORTFOLIO COMPANIES (cont.)

B. Sale transactions

1. In May 2013, InnoLap Ltd. ("InnoLap") sold its assets to a third party.

   InnoLap received $3,033 net proceeds from the sale. In addition, the buyer paid all of the shareholders $337 in consideration for a non-compete agreement for a period of 24 months from the closing.

   As a result of the transaction, InnoLap paid to its shareholders $1,585 in dividends, from which Medical received approximately $789. The gain resulting from this transaction has been included in gain from change in fair value of investments in Portfolio Companies in 2012.

   In respect of the consideration for the non-compete agreement, Medical received approximately $182 which was recorded as deferred revenues and is recognised over a period of 24 months from the closing.

2. In August, 2013 the Company sold its investment in FlowSense.

   The net proceeds from the sale were $1,269. The gain on this investment, which was accounted for under the equity method, amounted to $1,269 and is included in gain from disposal of investment accounted for under the equity method.

3. On April 17, 2014, Inspiro Medical Ltd. ("Inspiro"), a Portfolio Company held by Medical, was acquired by OPKO Health Inc. ("OPKO"), a public company traded on the New York Stock Exchange. Upon closing, Medical received approximately $358 in cash and approximately $3,974 in shares of the purchaser. Of the shares received, 20% are being held in escrow for 24 months to secure indemnification obligations and are presented in short-term investments. In addition, the purchaser repaid all obligations to the OCS in connection with the transaction, including the Medical's loan to the OCS in the amount of $513 including accrued interest.

   As a result of the sale transaction, the Group recorded a gain of approximately $3,455 which is included in gain from change in fair value of investments in Portfolio Companies.

   On June 25, 2014, the Group sold, in an out of-market transaction, the OPKO shares, other than those held in escrow as described above, for cash consideration approximating their carrying amount of approximately $2,619, net of transaction costs.

NOTE 8:– INVESTMENTS IN PORTFOLIO COMPANIES (cont.)

B. Sale transactions (cont.)

4. On July 30, 2014, the shareholders of E.T.View Medical Ltd. ("E.T.View") approved the investment agreement between E.T.View and Medical according to which E.T.View issued to Medical 347,594 Ordinary shares in consideration of NIS 1,300,000 (approximately $380). As a result, the ownership interest of Medical in E.T.View increased to 5% (see also Note 7(B)).

5. On November 6, 2014, a Portfolio Company held by Medical, signed an Asset Purchase Agreement with a third party strategic partner (the "Licensee"), structured as an asset acquisition for the Portfolio Company's developed medical device product (the "Product"), for cash consideration and for royalties on future net sales. The Portfolio Company is bound to a confidentiality agreement and therefore additional details of the agreement cannot be disclosed. In February 2015, Medical received a dividend distribution from the Portfolio Company in the amount of approximately $718 representing Medical's share of a portion of the cash consideration received from the Licensee.

   The fair value of this Portfolio Company as of June 30, 2015, is approximately $39,868, which fair value is based on the DCF method. Following are certain factors that could have a significant impact on the valuation.

   The Product is in a highly competitive market with significant barriers to entry. The leading manufacturers have been active in this market for a number of years and currently control over 85%-90% of the revenues in the market. The Product has distinct technical advantages over the products of competitors and initial studies have shown that a product of this type has a high preference rate among current users. Furthermore, the Product has performed as intended in clinical trials. However, there is no assurance that the Product will be accepted and perform as well with patients on a mass scale.

   The Product has obtained regulatory clearance in certain major markets. In order for the Product to be successful, the patients will need to be adequately reimbursed in those markets. Although the risk of not getting adequate reimbursement is considered to be low due to the pricing strategy of parity with products of competitors, the process of arranging to ensure adequate reimbursement requires time and could delay entry into the major markets.

NOTE 8:– INVESTMENTS IN PORTFOLIO COMPANIES (cont.)

B. Sale transactions (cont.)

The Group is presently not aware of any existing product of competitors that incorporates the advantageous technological features of the Product. However, it is possible that an alternative product with such features is presently under development or could be fully developed in a period of time which could adversely affect the market share of the Product.

The ultimate success of the Product in penetrating the market and achieving market share is dependent on, among others, an investment in significant resources and management commitment by the Licensee. The Licensee is a large multinational company with financial and other resources that the Group believes will be sufficient to support the launch and commercialisation of the Product. Also, the Licensee is a current player in the market with knowledge of the market and existing infrastructure to support the sales of the Product. Although there are indications that the Licensee is currently committed to invest the necessary resources, neither the Group nor the Portfolio Company have any control over the activities of the Licensee in respect of the Product and actual investments in resources could be lower than expected which could have an adverse effect on the valuation.

Due to the interrelationship of all of the above factors, it is impracticable to identify and isolate the effects of any reasonably possible change, either positive or negative, in any one of the significant inputs to the valuation. However, any such changes would likely have a material impact on the valuation with a corresponding material effect on profit or loss and equity.

6. In February and April 2015 the Company invested in E.T.View Medical Ltd. an additional $194 ("E.T.View"), and the ownership interest of the Company in E.T.View increased to 20.75%

7. On July 16, 2015 subsequent to the reporting period Medical invested an additional $345 in E.T.View Medical Ltd. As a result, the total ownership interest of the Group in E.T.View increased to 26.2%.

NOTE 8:– INVESTMENTS IN PORTFOLIO COMPANIES (cont.)

C. Short-term investments

	June 30, 2015	December 31, 2014	2013	2012
Restricted shares (See Note 8(b)(3))	1,554	–	–	–
Short-term bank deposits	–	250	–	–
Marketable securities	1,253	1,296	223	590
	2,807	1,546	223	590

NOTE 9:– TRADE AND OTHER PAYABLES

	June 30, 2015	December 31, 2014	2013	2012
Trade payables	21	78	228	181
Employees and payroll accruals	195	231	331	328
Accrued vacation pay	242	205	137	100
Other payable and accrued expenses	301	856	185	66
	759	1,370	881	675

NOTE 10:– LOANS FROM THE ISRAELI CHIEF SCIENTIST

Composition of Loans from the OCS:

	June 30, 2015	December 31, 2014	2013	2012
8.2 Loans (see Note 13(A)(7))	–	–	142	515
Old 8.3 Loans (see Note 13(A)(5))	3,140	3,145	3,892	3,079
Operation Loans (see Note 13(A)(6))	962	1,348	921	637
	4,102	4,493	4,955	4,231

NOTE 11:– FINANCIAL INSTRUMENTS

A. Financial risk management objectives and policies:

The Group's activities expose it to various financial risks such as market risk and liquidity risk. The Group focuses on activities that reduce to a minimum any possible adverse effect on the Group's financial performance.

Liquidity risk:

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

As of June 30, 2015:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Trade and other payables	749	–	–	–	–	–	749
Loans from Chief Scientist(*)	–	558	2,124	2,066	3,559	1,327	9,634
Convertible Debentures and warrants	–	11,512	–	–	–	–	11,512
	749	12,070	2,124	2,066	3,559	1,327	21,895

As of December 31, 2014:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Trade and other payables	1,370	–	–	–	–	–	1,370
Loans from Chief Scientist(*)	–	–	–	554	2,033	9,080	11,667
Convertible Debentures and warrants	137	137	1,510	–	–	–	1,784
	1,507	137	1,510	554	2,033	9,080	14,821

NOTE 11:– FINANCIAL INSTRUMENTS (cont.)

A. Financial risk management objectives and policies: (cont.)

As of December 31, 2013:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Trade and other payables	881	–	–	–	–	–	881
Loans from Chief Scientist(*)	–	–	–	–	673	17,931	18,604
	881	–	–	–	673	17,931	19,485

As of December 31, 2012:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Trade and other payables	675	–	–	–	–	–	675
Loans from Chief Scientist(*)	–	–	–	–	593	15,508	16,101
	675	–	–	–	593	15,508	16,776

(*) The amounts presented represent the full liability based on the principal amounts and future interest. As mentioned in Note 13(A)(5), the loans can be settled by surrendering the pledged shares of the Portfolio Companies.

B. Fair Value:

Management believes that the carrying amount of cash, short-term restricted deposits, short-term investments, trade receivables, trade payables and other current liabilities approximate their fair value due to the short-term maturities of these instruments.

NOTE 12:– TAXES ON INCOME

A. Tax rates applicable to the Group:

The Israeli corporate tax rate is 26.5% in 2014 and thereafter, and 25% in 2012 and 2013.

B. Final tax assessments:

The Company and its subsidiaries have not received final tax assessments since their incorporation, however, self-assessments are deemed final through the 2010 tax year.

C. Carry forward losses for tax purposes:

Carry forward operating tax losses of the Group total approximately $15,193 as of June 30, 2015. There is no expiration date for the utilisation of the carry forward losses. Deferred tax assets of approximately $1,724 relating to these losses were recognised in the financial statements.

Deferred tax assets of approximately $2,235 relating to carry forward operating losses were not recognised because their utilisation in the foreseeable future is not probable.

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 12:– TAXES ON INCOME (cont.)

D. Deferred taxes:

	Statements of financial position				Statements of profit or loss				
		December 31,			Six months ended June 30,		Year ended December 31,		
	June 30, 2015	2014	2013	2012	2015	2014	2014	2013	2012
						Unaudited			
Deferred tax liabilities:									
Investment in Portfolio Companies at fair value	15,185	13,542	12,743	5,868	1,643	1,335	799	6,875	2,055
Loans from OCS	3,288	3,010	3,452	2,915	278	(96)	(442)	537	537
Long term investment	377	222	–	–	155	176	222	–	–
	18,850	16,774	16,195	8,783	2,076	1,415	579	7,412	2,592
Deferred tax assets:									
Carryforward tax losses	1,724	1,307	1,841	967	(417)	(478)	534	(874)	(369)
Deferred revenues due to loans from OCS	911	1,180	1,275	913	269	(430)	95	(362)	325
Employee benefits	12	22	22	16	10	5	–	(6)	(7)
Other	58	163	25	41	105	(43)	(133)	16	(1)
	2,705	2,672	3,163	1,937	(33)	(945)	496	(1,226)	(52)
Deferred tax expenses					2,043	2,360	1,075	6,186	2,540
Deferred tax liabilities, net	16,145	14,102	13,032	6,846					

NOTE 12:– TAXES ON INCOME (cont.)

D. Deferred taxes: (cont.)

The deferred taxes are reflected in the statement of financial position as follows:

	June 30, 2015	December 31, 2014	2013	2012
Non-current liabilities	16,145	14,102	13,032	6,846

The deferred taxes are computed at the tax rate of 26.5% based on the tax rates that are expected to apply upon realisation.

E. Taxes on income included in profit or loss:

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Deferred taxes (see also Note 12(D) above)	2,043	2,360	1,075	5,774	2,540
Adjustment of deferred tax balances following a change in tax rates	–	–	–	412	–
Taxes in respect of previous years	(64)	–	–	–	102
Current tax expenses	–	–	280	–	–
	1,979	2,360	1,355	6,186	2,642

NOTE 12:– TAXES ON INCOME (cont.)

F. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Income (loss) before taxes on income	5,329	7,068	(2,855)	22,909	8,610
Statutory tax rate	26.5%	26.5%	26.5%	25%	25%
Tax computed at the statutory tax rate	1,412	1,873	(757)	5,727	2,153
Increase (decrease) in taxes on income resulting from the following:					
Non-deductible expenses for tax purposes	244	205	635	115	160
Group's share of losses of companies accounted for at equity	34	–	–	105	109
Exempt income	(190)	–	–	(125)	–
Unrecognised temporary differences	(17)	(53)	232	168	(49)
Increase in unrecognised tax losses	352	120	903	–	52
Adjustment of deferred tax balances following a changes in tax rates	–	–	–	412	–
Utilisation of previously unrecognised tax losses	–	–	–	(173)	–
Differences in measurement basis	(74)	11	–	(189)	(33)
Taxes in respect of previous years	(64)	–	–	–	102
Other	282	204	342	146	148
Taxes on income	1,979	2,360	1,355	6,186	2,642

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES

A. Medical and Agtech – Incubators operating under the OCS Regulations:

1. The Israeli Research and Development Law

The OCS is responsible for implementing the Israeli government's policy of encouraging and supporting industrial research and development in Israel through the R&D Law. Any entity receiving funding from the OCS is subject to the Israeli Law for Encouragement of Industrial Research and Development, 5744-1984 (the "R&D Law").

The OCS provides a variety of support programmes within the framework of directives issued by the Director-General of the Israeli Ministry of Economy. Under the R&D Law, R&D projects that meet certain specified criteria and are approved by the OCS designated committee are eligible for grants.

In most of the OCS sponsored programmes the recipient company repays the grants through royalty payments from revenues generated by the sale of products and/or services developed in the framework of the approved R&D programme. Royalties are payable to the OCS in order to cover the amount of the grant, and are repaid with interest at the LIBOR rate, as prescribed under the R&D Law.

The R&D Law places strict constraints on the transfer of know-how and/or manufacturing rights, and all such transfers are subject to the absolute discretion of an OCS designated committee. Any such transfers require prior written approval of such committee and may entail additional payment at the discretion of the OCS.

2. Incubator Activity Under New Directive No. 8.3

The key material provisions of New Directive 8.3 are as follows:

Government funding is granted directly to the Portfolio Companies and not as a loan to the Incubators (as with Old Directive 8.3) in an amount equal to 85% of the approved budget.

The Incubators are required to invest the supplementary funding (15% of the approved budget), in the Project Company in exchange for shares in the Project Companies.

Repayment of the grants by the Portfolio Companies is through royalties from sales of the Portfolio Companies, according to the R&D Law and the related regulations (see Note 13(A)(1)).

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES (cont.)

A. Medical and Agtech – Incubators operating under the OCS Regulations: (cont.)

2. Incubator Activity Under New Directive No. 8.3 (cont.)

Typically, the approved budget per new Project Company that operates in the Incubator programme is approximately NIS 2,000 (approximately $515). Project Companies in Agtech, a Peripheral Incubator, and Medical, an Incubator that focuses on medical device projects, are entitled to higher budgets of approximately NIS 2,500 (approximately $640).

The Incubators are obligated to fund the fixed operating costs of each Incubator in an amount of approximately $330 per year (see Note 13(A)(7) below).

In exchange for its investment, for the funds brought by the Incubator from the OCS, and for support, the incubators can receive up to 50% equity in a Project Company, (and up to 85% for a Project Company based on a technology licensed from a research institution).

3. Incubator Obligations and Rights Related to Portfolio Companies under Old Directive No. 8.3

Under Old Directive 8.3, the OCS provided the Trendlines Incubators with a loan of up to 85% of the approved budget per Portfolio Company (the "government funding") for investment in each Portfolio Company.

In addition, the Trendlines Incubators invested the 15% supplementary funding in each Portfolio Company.

In exchange for the government funding and for financing the Portfolio Companies, the Trendlines Incubators received 25% – 65% of the share capital of each Portfolio Company.

Additionally, in exchange for financing the overhead operation expenses of the Trendlines Incubators, the Trendlines Incubators received up to 5% of the shares of each Portfolio Company admitted into the Incubator ("Operating Shares").

The OCS has a first lien over 50% of these operating shares as security for the operations loans received by Agtech (see Note 13(A)(6) below).

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES (cont.)

A. Medical and Agtech – Incubators operating under the OCS Regulations: (cont.)

4. Return of OCS Loans for Project Companies by Trendlines Incubators Under Old Directive 8.3

The terms of the loans which were granted to the Trendlines Incubators for Portfolio Companies according to the Old Directive 8.3 are:

(a) Upon sale of shares of a Portfolio Company, the Incubator Companies will repay the State of Israel the lower of 25% of the consideration received or the balance of the loan for the Portfolio Company.

(b) Upon receipt of dividends from Portfolio Companies, the Incubator Companies will repay the State of Israel the lower of 25% of the dividend or the balance of the loan for the Portfolio Company.

(c) The Incubator Companies shall repay the loan plus interest as set out by the "Adjudication of Interest and Linkage Law – 1961" four years following the end of the incubator period of the Portfolio Company ("Repayment Date"), except for the following:

1. A loan Repayment Date may be extended annually by an additional year, to the later of (1) December 31, 2014 or (2) eight years following the end of the incubator period of the Portfolio Company.

2. In consideration for prolonging the Repayment Dates of loans when their Repayment Dates are up to December 31 of a certain year, the Incubator Companies shall pay the State of Israel, until March 1 of the following year, 1% of the balance of those loans, but not to exceed NIS 200 (approximately $55) linked to the Consumer Price of July 2011.

In the event that the loans are not repaid as mentioned above, the OCS will have the right to exercise the lien on the pledged shares of the Portfolio Company in order to settle the balance of the Government Funding for the Portfolio Company (see Note 13(A)(7) below).

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES (cont.)

A. Medical and Agtech – Incubators operating under the OCS Regulations: (cont.)

5. Return of Loans for Incubator Operations Under Directive 8.3

Agtech, which is situated in a national priority region, benefits from its status of Peripheral Incubator. For the purpose of operating the incubator, Agtech is entitled to a loan for each year of activity in an amount not to exceed approximately $176.

The Operations Loans will be returned to the State as follows:

(a) Operations Loans that were granted under New Directive 8.3 – Agtech will repay 25% of the proceeds from the sale of shares of a Portfolio Company, until the Operations Loan is repaid in full, including interest.

(b) Operations Loans that were granted under Old Directive 8.3 – Agtech will repay the loans to the OCS upon the earlier of the following dates:

1. After seven years from the start of the agreement period (i.e., September 1, 2014).

2. Upon the sale of shares of a Portfolio Company that was established during the agreement period, Agtech will repay the Operations Loan from proceeds from the sale of the Operating Shares of such sale, until full repayment of the Operations Loan, including interest.

3. In the case where Agtech does not return the Operations Loan within the period specified by the State, the State may exercise its lien on the Operating Shares to receive shares in the project company. See Note 13(A)(7) for description of the liens.

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES (cont.)

A. Medical and Agtech – Incubators operating under the OCS Regulations: (cont.)

6. Pledges and Liens According to Directive 8.3

a. In the framework of the Incubator Programme, the Trendlines Incubators are obligated to fund annual operating expenses of approximately $330 for each incubator. In order to secure this commitment, the Trendlines Incubators provided a bank guarantee for the benefit of the State of Israel in an amount equal to 100% of the investment amount (approximately $330) in Medical and 51% (approximately $168) of the investment amount in Agtech. This guarantee is in effect until the end of the three months following the termination of the agreement.

b. As security for the government funding, the Portfolio Companies, and the fixed expenses for operation of Agtech under Old Directive 8.3, the State of Israel has first lien over the shares in the Portfolio Companies held by the Trendlines Incubators. This lien does not include the supplementary funding shares held by the Trendlines Incubators, 50% of the operational shares held by Agtech and 100% of the Medical operational shares. Accordingly, in the case where the investment in a Portfolio Company is written-off, the Government Funding for the Portfolio Company will be written-off as well and the pledged shares of the Portfolio Company will be available to the State of Israel.

7. Incubator Activity Under Directive No. 8.2

The Trendlines Incubators functioned as non-profit entities until August 31, 2007. Under Directive 8.2 the OCS committed a grant of up to 100% of the approved budgetary finance for the operation of each Incubator.

In the event that the Incubator sells its shares in the Project Companies (admitted under Directive 8.2), the Incubator will refund 25% of its consideration from the sale of the said Project Company shares to the Israeli government, not to exceed the amount of the Israeli government Grant for each Incubator.

The balance of the proceeds of the sale must be invested in the Incubator for the purpose of increasing its operating budget, including investments in Project Companies.

As of June 30, 2015 there are three active Project Companies in Medical and one active Project Company in Agtech that were admitted under Directive 8.2.

NOTE 13:– COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES (cont.)

B. Operating lease agreements:

The Company and the Incubators lease their premises for various periods, the latest of which ends in 2018.

The total lease costs amounted to approximately$180 for the six months ended June 30, 2015 and $380, $394, and $184 for the years ended December 31, 2014, 2013 and 2012, respectively.

The future minimum lease payments as of June 30, 2015, are as follows:

First year	$302
Second year	125
Third year	125
Fourth year	114
	$666

To secure the Company's and the Incubators' lease commitments:

a. Agtech pledged 75 of its ordinary shares of Levgum Ltd., a Portfolio Company.

b. Trendlines signed bank guarantees in the amount of $107. The guarantees expire in 2015.

C. Other agreements:

The Company holds 50% in Maryland Israel/Trendlines Fund GP LLC ("GP"), which is the general partner of Maryland Israel/Trendlines Fund LP ("MITF"), a venture capital fund of approximately $4,300 of committed capital raised from various limited partners. The GP is entitled to receive 20% of MITF's net profit, to be paid only after the limited partners' capital is paid back by way of distributions by MITF to its limited partners. To date, MITF has not yet made distributions.

As part of MITF's formation in 2011, the Company entered into a full sponsorship and management agreement with the GP according to which the GP assigned it rights to management fees in the amount of 2% of the aggregate capital commitments to the Company.

The total management fees amounted to approximately$22 for the six months ended June 30, 2015 and $86, $87 and $104 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 14:– EQUITY

A. Composition of Equity:

	June 30, 2015		December 31, 2014	
	Authorised	Issued	Authorised	Issued
	Number of shares			
Ordinary shares NIS 0.01 par value	100,000,000	44,414,042	100,000,000	39,742,452

	December 31, 2013		December 31, 2012	
	Authorised	Issued	Authorised	Issued
	Number of shares			
Ordinary shares NIS 0.01 par value	100,000,000	37,941,958	100,000,000	34,127,830

B. In 2012, the Company issued 1,663,442 Ordinary shares in consideration of $2,142 (net of issuance expenses of approximately $60).

In 2013 the Company issued 3,300,216 Ordinary shares in consideration of $4,349 (net of issuance expenses of approximately $82).

In 2014 the Company received $1,398 (net of issuance expenses of approximately $34), as receipts on account of shares. In 2015, the Company issued 950,068 Ordinary shares in consideration of the above mentioned receipts.

During the six months period ended June 30, 2015, the Company issued 1,392,378 Ordinary shares to new and existing investors in a total consideration of $2,118 (net of issuance expenses of approximately $72). In addition, the Company issued 12,430 warrants as issue expenses to an advisor, which were exercised to 12,430 Ordinary shares immediately.

Following a dividend distribution in February 2015 and a change in the Debenture conditions, as further described in Note 16, several Debenture holders decided to convert their Debentures into Ordinary shares of the Company and other Debenture holders decided to receive cash as a repayment for part of the Debentures. As a result, Debentures with a par value of CND $862 (approximately $690) were converted into 506,050 Ordinary shares of the Company and an amount of approximately CND $146 (approximately $117) was paid or expected to be repaid by the Company to the Debentures holders.

NOTE 14:– EQUITY (cont.)

In June 2015, the Company signed an agreement with the non-controlling shareholders of Trendlines Agtech ("Share Exchange Agreement"), following which, the Company purchased substantially all of the shares held by the Trendlines Agtech non-controlling (excluding shares, representing 4% of Agtech's total Ordinary shares, held by an employee share trust on behalf of 4 employees), in exchange for 1,810,664 Ordinary shares of the Company.

In addition subject to the consummation of an initial public offering (an "IPO"), within a period of 12 months from the date of the Share Exchange Agreement and the fulfilment of certain other conditions (the "Other Conditions"), the Company shall purchase all of the shares held by the employee share trust in exchange for 327,886 Ordinary shares of the Company. The Other Conditions include obtaining a tax ruling from the Israeli Tax Authority.

In the event the Other Conditions are not satisfied upon the occurrence of an IPO, the Share Exchange shall occur as soon as practicable thereafter, provided that if the Other Conditions are not satisfied within 6 months following the occurrence of the IPO, the Employee Share Exchange Agreement will automatically terminate. In the event the Share Exchange has not been consummated prior to the lapse of 12 months from the date of the Employee Share Exchange Agreement, the parties shall discuss the extension of said 12 month period by an additional 12 month period.

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 14:– EQUITY (cont.)

C. Movement in share capital:

Issued and outstanding shares:

	Number of shares
Balance at January 1, 2012	32,464,388
Issue of shares	1,663,442
Balance at December 31, 2012	34,127,830
Issue of shares	3,300,216
Exercise of warrants	495,564
Exercise of employees' options	18,348
Balance at December 31, 2013	37,941,958

	Number of shares
Balance at January 1, 2014	37,941,958
Exercise of warrants	26,274
Exercise of employees' options	1,307,556
Conversion of convertible debentures	466,664
Balance at December 31, 2014	39,742,452
Issuance of shares	2,342,446
Exercise of warrants	12,430
Acquisition of non-controlling interest by issuance of shares	1,810,664
Conversion of convertible debentures	506,050
Balance at June 30, 2015	44,414,042

NOTE 14:– EQUITY (cont.)

D. Warrants:

As of June 30, 2015, the Company has 960,228 warrants outstanding:

1. 585,446 of these warrants are part of a Put/Call Agreement ("Agreement") signed in July 2007 between the Company and certain shareholders of a Subsidiary. According to the Agreement, certain shareholders of a Subsidiary holding together 169 shares of the Subsidiary have an option to sell their shares to the Company at any time ("Put" option) in exchange for 585,446 Ordinary shares of the Company. In addition, according to the Agreement, under certain circumstances as defined in the Agreement, the Company has a right to call for those 169 shares of the Subsidiary ("Call" option) and purchase them in exchange for 585,446 Ordinary shares of the Company.

2. A grant, for no consideration, of a warrant to purchase 46,896 Ordinary shares of the Company to "Tmura", the Israeli public service venture fund (a not-for-profit organisation which receives donations of equity from Israeli companies), at an exercise price of $1.476 per share. This warrant may be exercised, in whole or in part, at any time during the period ending 3 years from the date of grant (June 2, 2014).

   The grant date fair value of the warrant in the amount of $22 was determined using the binomial option pricing model.

   The Company recorded share-based payment expense in the amount of $4 for the six months ended June 30, 2015.

3. 327,886 of these warrants are part of the Share exchange agreement as described in Note 14(b).

4. Following the issuance of shares to new and existing investors during 2014, as further described in Note 14(b) above, on October 27, 2014, the Company granted the private placement agent 6,767 compensation warrants ("October 2014 Compensation Warrants"). Each of the October 2014 Compensation Warrants is exercisable only once to acquire one (1) Share at a price of US$1.50 per share until October 27, 2016.

NOTE 14:– EQUITY (cont.)

E. On September 19, 2014, the Company's board of directors approved the purchase of 999 shares of Medical in consideration for $55 from a non-controlling shareholder. As a result of the purchase, the Company holds 100% in Medical.

F. Capital management:

The Company's objectives for managing capital are:

- To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

- To maintain risk-free financial leverage.

NOTE 15:– SHARE-BASED PAYMENT

A. Expenses recognised in the financial statements:

The expense in respect of equity-settled share-based payment plans recognised in the financial statements is shown in the following table:

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Operating, general and administrative expenses	816	698	2,241	209	411
R&D expenses	31	13	82	74	176
	847	711	2,323	283	587

NOTE 15:– SHARE-BASED PAYMENT (cont.)

B. Employees Stock Option Plan:

In 2011 the Company adopted the Trendlines Group Ltd. 2011 Global Incentive Option Plan (the "2011 Plan").

Under the 2011 Plan, options may be granted to the Group's officers, directors, employees and consultants. The number of shares of Ordinary shares authorised for issuance under the 2011 Plan amounted to 2,920,792. Any options that are cancelled or forfeited before expiration become available for future grants.

As of June 30, 2015, 354,692 shares are available for future grant.

Under the 2011 Plan, the grantee may exercise its options to acquire Ordinary shares at an exercise price as determined by the board of directors at the grant date.

Options generally vest on a monthly basis over a period of between 33 and 44 months (vesting period) from the "commencement date" as determined in each grant. The term of the options is ten (10) years.

The fair value for options granted during 2014 was estimated using the binomial option pricing model with the following assumptions:

Dividend yield (%)	0
Expected volatility of the share prices (%)	45
Risk-free interest rate (%)	0.10 – 1.53
Expected life of share options (years)	10

Based on the above inputs, the fair value of these options was determined at $1,768 at the grant date.

NOTE 15:– SHARE-BASED PAYMENT (cont.)

C. On January 6, 2014, the Company's board of directors approved an increase in the number of the Ordinary shares reserved under the 2011 plan by 217,335 Ordinary shares, such that the aggregate number of Ordinary shares reserved for issuance under the 2011 Plan shall be 3,138,127 (see also Note 15(e)(1)).

In addition, on January 6, 2014, the Company's board of directors approved a grant of 437,877 options to purchase Ordinary shares of the Company to three employees of the Company at an exercise price of $1.09. The options vest over a period of 3 years on a monthly basis.

The grant date fair value of the options in the amount of $363 was determined using the binomial option pricing model.

The Company recorded share-based payment expense in the amount of $36 for the six months ended June 30, 2015.

D. In March 2014, two officers of the Company exercised 1,307,556 options into 1,307,556 Ordinary shares of the Company for a total consideration of approximately $3.

E. On June 2, 2014, the Company's board of directors approved the following grant:

1. An increase in the number of the Ordinary shares reserved under the Company's 2011 Plan by 5,156,869 Ordinary shares, such that the aggregate number of Ordinary shares reserved for issuance under the 2011 Plan (following all previous exercises of options) shall be 6,987,440.

2. A grant of 4,863,800 options to purchase Ordinary shares of the Company to employees of the Company and the Trendlines Incubators at an exercise price of $1.476 per share. The options vest over a period of 3 years. The grant includes 3,318,232 options to two officers of the Company, the Co-Chairmen and Co-Chief Executive officers, which grant was subject to further approval of the shareholders of the Company, which approval was obtained on July 24, 2014.

   The grant date fair value of the options in the amount of $4,047 ($2,787 in respect of the options granted to two officers of the Company) was determined using the binomial option pricing model. The Group recorded share-based payment expense in the amount of $811 ($606 in respect of the options granted to two officers of the Company) for the six months ended June 30, 2015.

NOTE 15:– SHARE-BASED PAYMENT (cont.)

F. Movement during the Year:

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans:

	June 30, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		U.S dollars		U.S dollars
Options outstanding at beginning of year	6,694,371	1.35	2,700,250	0.5
Issuance of options during the year	–	–	5,301,677	1.44
Options exercised during the year	–	–	(1,307,556)	0.003
Options forfeited during the period	(82,456)	–	–	–
Options outstanding at end of year	6,611,915	1.35	6,694,371	1.35
Options exercisable at end of year	3,186,781	1.224	2,257,429	1.224

NOTE 15:– SHARE-BASED PAYMENT (cont.)

F. Movement during the Year: (cont.)

	December 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		U.S dollars		U.S dollars
Options outstanding at beginning of year	2,718,598	0.5	2,718,598	0.5
Options exercised during the year	(18,348)	0.003	–	–
Options outstanding at end of year	2,700,250	0.5	2,718,598	0.5
Options exercisable at end of year	2,135,081	0.5	1,460,057	0.5

G. The weighted average remaining contractual life for the share options outstanding as of June 30, 2015 was 8.5 years (as of December 31, 2014 – 9 years; as of December 31, 2013 – 8 years).

H. The range of exercise prices for share options outstanding as of June 30, 2015 and December 31, 2014, was $0.003 – $1.476 (as of December 31, 2013 – $0.003 – $1.09).

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS

A. Convertible debentures

On April 30, 2014, the Company issued an aggregate of Canadian dollar ("CND") CND $2,316 (approximately $2,100) principal amount of 10% unsecured convertible debentures (the "Debentures").

The Debentures bear interest at a rate of 10% per annum which accrues daily and is compounded on a quarterly basis (the "Interest Rate").

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS (cont.)

A. Convertible debentures (cont.)

The Debentures and outstanding accrued interest will automatically convert into Ordinary shares upon completion of an initial public offering ("IPO") and listing on a "recognised exchange" (as such term is defined in the Debentures agreement) pursuant to which at least CND $10 million is raised on such IPO at a conversion price equal to a 20% discount from the price of the IPO (the "IPO Price").

In the event the Group has an Exit (which, as defined in the Debentures agreement, includes all cash distributions made to the Company and its subsidiaries, including from share or asset sales of Portfolio Companies and all dividends, distributions and returns of capital from Portfolio Companies), each of the Debentures holders will be required to elect one of three options within ten (10) Business Days of receiving the Exit Notice by providing notice of such election to the Company: (i) convert the principal amount of debentures and accrued interest into Ordinary shares at a share price based on the Group's net asset value ("NAV") as of December 31, 2013; (ii) receive pro rata 25% of the cash received from the Exit as a return on part of the Debentures; (iii) retain the Debentures (not available after the "Liquidity Target Date" which was September 30, 2014). In the event the holder has not provided its election notice to the Company within ten (10) Business Days of the date of the Exit Notice, the holder shall be deemed to have elected the third (iii) option, provided the option is available. If the third (iii) option is unavailable, the holder shall be deemed to have elected the second (ii) option.

Interest accrues on the Debentures from the date of issuance of the Debentures until the earlier of (i) the IPO; or (ii) the Liquidity Target Date. If an IPO has not occurred on or prior to the Liquidity Target Date, the Company shall make a payment on the Liquidity Target Date of all accrued and unpaid interest in cash. From and after the Liquidity Target Date, interest on the outstanding Debentures shall accrue and will be paid in cash quarterly in arrears at the Interest Rate.

In the event that no IPO occurs on or prior to the date that is 14 days prior to April 30, 2017 (the "Maturity Date"), the principal amount of the Debenture shall by increased by 10% of the then-outstanding balance of the Debentures up to a maximum of CND $1,100 per Debenture (with a par value of CND $1,000) if there have been no prepayments, and paid to holders thereof in cash on the Maturity Date, together with any accrued and unpaid interest.

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS (cont.)

A. Convertible debentures (cont.)

The Debentures include a conversion component which is an embedded derivative. The combined instrument is designated upon initial recognition at fair value through profit and loss. After initial recognition the Company re-measures the Debentures at fair value each period.

Upon the issuance of the Debentures, the Company recorded a liability in the amount of $2,095. Issuance expenses in the amount of $47 were recorded in profit or loss.

Following the sale of Inspiro Medical Ltd., as described in Note 8(b)(3), (the "First Exit"), on July 9, 2014, several Debenture holders decided to convert their Debentures into Ordinary shares of the Company. As a result, Debentures with a par value of CND $354 (approximately $338) were converted into 239,375 Ordinary shares of the Company.

As further described in Note 8(b)(3), following the sale of OPKO shares (the "Second Exit"), in August 2014, several Debenture holders decided to convert their Debentures into Ordinary shares of the Company and other additional Debenture holders decided to receive pro rata 25% of the cash received from the Exit as a return on part of the Debentures. As a result, Debentures with a par value of CND $335 (approximately $318) were converted into 227,289 Ordinary shares of the Company and an amount of approximately CND $52 (approximately $43) was repaid by the Company to the Debentures holders.

As part of the issuance of the Debentures, the Company granted the private placement agent and selling group members an aggregate of 117.58 compensation warrants. Each compensation warrant is exercisable to acquire one Debenture at a purchase price equal to CND $1,000 per Debenture until April 30, 2016.

The compensation warrants are in the scope of IFRS 2, and constitute cash settled share based payment transaction which is measured at fair value. Upon initial recognition, given the Debentures were designated at "fair value through profit and loss", the Company recognised the compensation warrants as issuance expenses of the Debentures, also in profit or loss. The liability is re-measured at each reporting date until settlement, with any changes in fair value recognised in profit or loss. For the six months period ended June 30, 2015, the Company recorded financial income in the amount of $6.

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS (cont.)

A. Convertible debentures (cont.)

The fair value of the outstanding Debentures at June 30, 2015 is $364 (including the fair value of the compensation warrants in the amount of $18). For the six months period ended June 30, 2015, a gain of $216 in respect of the change in the fair value of the Debentures and warrants was recorded in profit or loss.

In February 2015, following the Asset Purchase Agreement with the Licensee, as further described in Note 8(b)(5), several Debenture holders decided to convert their Debentures into Ordinary shares of the Company and other additional Debentures holders decided to receive pro rata 25% of the cash received from the Exit as a return on part of the Debentures. As a result, Debentures with a par value of CND $164 (approximately $131) were converted into 96,911 Ordinary shares of the Company and an amount of approximately CND $66 (approximately $53) was repaid by the Company to the Debentures holders.

Pursuant to Amendment No. 1 to the Debenture Certificates dated May 25, 2015 ("Amendment No. 1"), the following changes were made in the Debentures: (i) the term "recognised exchange" was amended to include the Catalist Board of the Singapore Exchange Securities Trading Limited; (ii) the indebtedness incurred by the Company in connection with the Pre-IPO Investment was permitted – see note 16(b) below; (iii) the holders of outstanding Debentures were afforded the right to elect, within a period of 14 days after the Company provides notice with respect to completion of the Pre-IPO indebtness ("Option Notice"), the following:

(i) Convert the principal amount of Canadian $ Debentures and accrued interest into ordinary shares of the Company at a share price based on the December 31, 2013 NAV;

(ii) Further amend the Canadian $ Debentures to the terms of the debentures issued on the Pre-IPO Financing (the "RCL");

(iii) Obtain full repayment of the Canadian $ Debentures after at least US$5M is raised by the Company in equity and/or debt including on the Pre-IPO Financing; or

(iv) Continue to hold the Canadian $ Debentures in accordance with their existing terms.

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS (cont.)

A. Convertible debentures (cont.)

In June 2015, following Amendment No. 1 and the issuance of the Option Notice, several Debentures holders decided to convert their Debentures into Ordinary shares of the Company, other additional Debentures holders decided to obtain full repayment of the Debenture, subject to the conditions as defined in Amendment No. 1 and other additional Debenture holders decided to convert their respective principal amounts and accrued interest as of the June 24, 2015 into Redeemable Convertible Loans denominated in Singapore dollars at the same terms of the Pre-IPO Redeemable Convertible Loans and are accordingly bound by the terms and provisions of the Pre-IPO Redeemable Convertible Loan Agreement as of June 24, 2015. As a result, Debentures with a par value of CND $698 (approximately $569) were converted into 409,139 Ordinary shares of the Company, an amount of approximately CND $81 (approximately $65) were classified as Payables and are expected to be paid, subject to the conditions as defined in Amendment No. 1 and an amount of approximately CND $177 (approximately $142) were converted into Redeemable Convertible Loans in Singapore dollars.

B. Pre-IPO Redeemable convertible loans ("RCL")

In June 2015, the Company raised an aggregate amount of Singapore Dollar ("SGD") $13,700,000 from the issuance of redeemable convertible loans ("RCL") to certain Pre-IPO investors, based on the terms and conditions set out in the Redeemable Convertible Loan Agreement executed with them ("RCL Agreement").

The proceeds from the RCL are intended to be used for investments, activities related to supporting portfolio companies and general working capital purposes.

The RCL will be automatically converted in connection with the initial public offering of the Company on the Catalist Board ("Catalist") of the Singapore Exchange Securities Trading Limited ("SGX-ST") or other recognised securities exchange agreed between the Company and the lenders who hold the majority of the RCL (the "Listing") based on the following price per share: (i) if the Listing occurs prior to the lapse of one (1) year from the issuance of the RCL – at a 35% discount to the Listing price (and if the NAV of the Group is lower than US$57,611,000 – at a 40% discount), subject to a maximum post-IPO valuation of SGD $168 million; (ii) if the Listing occurs following the lapse of one (1) year from the issuance of the RCL – at a 40% discount to the Listing price (and if the NAV of the Group is lower than US$57,611,000 – at a 40% discount), subject to a maximum post-IPO valuation of S$168 million.

NOTE 16:– CONVERTIBLE DEBENTURES AND WARRANTS (cont.)

B. Pre-IPO Redeemable convertible loans ("RCL") (cont.)

If the RCL are not converted and the Company undertakes a trade sale through a merger or acquisition in consideration for cash only, the Company shall redeem the RCL, with a premium of an additional amount according to the formula set forth in the RCL Agreement.

The outstanding RCL shall be payable in one lump sum following 24 months after their issuance, subject to earlier repayment rights of the lenders in connection with default events (as defined in the RCL Agreement). In addition, the RCL are subject to early repayment if within 12 months from the date of issuance of the RCL, the following conditions have not been satisfied: (i) the Company has submitted the pre-admission notification in relation to the Company's proposed listing on Catalist to the SGX-ST and (ii) PrimePartners Corporate Finance Pte. Ltd. remains mandated as the full sponsor and placement agent in relation to the Company's proposed listing on Catalist.

The parties can agree on conversion instead of repayment in cash, at a price per share of US$1.866.

Repayment in cash of the RCL will be together with 8% annual interest (or 10% if the NAV of the Group is lower than US$57,611,000).

The Company may not make an early repayment.

In the event that (i) the Listing does not take place by December 31, 2015, and (ii) the Group has an Exit (including sale of portfolio companies) on or after December 31, 2015, any lender shall have the right to request repayment. The total amount available for such repayment shall be determined by the Company, in its sole discretion, provided that such amount is at least 25% of the proceeds generated from the Exit (including dividends from portfolio companies, but less all sums due or payable to the OCS and any and all fees, expenses and taxes paid or to be paid by the Company in respect to the Exit).

The RCL include a conversion component which is an embedded derivative. The combined instrument is designated upon initial recognition at fair value through profit and loss. After initial recognition the Company re-measures the RCL at fair value each period.

Upon the issuance of the RCL at the end of June 2015, the Company recorded a liability in the amount of $10,322. Issuance expenses in the amount of $507 were recorded in profit or loss.

NOTE 17:– SELECTED STATEMENTS OF OPERATIONS DATA

A. Operating general and administrative expenses

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Salaries and related expenses (including share-based payment)	2,154	2,164	5,196	2,410	2,313
Professional services	53	25	30	94	104
Rent and maintenance	202	134	469	688	369
Aborted IPO costs	–	–	1,540	–	–
Consulting	288	200	352	393	240
Communications and offices	98	154	289	245	228
Vehicle maintenance	108	112	222	204	197
Travel abroad	19	133	248	203	181
Depreciation	53	53	120	26	21
Miscellaneous	177	129	619	416	293
	3,152	3,104	9,085	4,679	3,946

B. R&D expenses, net

Salaries and related expenses (including share-based payment)	262	242	551	694	698
Subcontractors and materials	20	294	462	581	278
Others	2	37	52	171	145
	284	573	1,065	1,446	1,121
Less – OCS grants	–	–	–	202	252
	284	573	1,065	1,244	869

NOTE 17:– SELECTED STATEMENTS OF OPERATIONS DATA (cont.)

C. Financial expenses

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Interest and revaluation of convertible debentures and warrants	(216)	23	194	–	–
Debenture issuance expenses	507	–	–	–	–
Commissions and interest, net	19	11	173	155	35
Interest and revaluation expense (income) on loans from the OCS	(249)	389	332	405	117
Short term loans	–	253	–	–	–
Exchange rate differences, net	21	136	239	–	52
	82	812	938	560	204

D. Financial income

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Interest on deposits and loans	23	1	5	–	–
Gain from long and short-term deposit	687	–	155	17	33
Exchange rate differences, net	–	–	–	184	–
	710	1	160	201	33

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 18:– NET EARNINGS (LOSS) PER SHARE

A. Details of the number of shares and income used in the computation of earnings per share:

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
			Unaudited							
	Weighted number of shares	Net income (loss) attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net loss attributable to equity holders of the Company	Weighted number of shares	Net income (loss) attributable to equity holders of the Company	Weighted number of shares	Net income (loss) attributable to equity holders of the Company
	In thousands	U.S in thousands	In thousands	U.S in thousands	In thousands	U.S in thousands	In thousands	U.S in thousands	In thousands	U.S in thousands
For the computation of basic net earnings	41,164	4,341	38,822	5,393	39,494	(2,814)	37,363	15,955	33,522	5,827
Effect of potential dilutive Ordinary shares	1,836	(358)	3,057	49	–	–	2,366	(94)	2,442	(247)
For the computation of diluted net earnings	43,000	3,983	41,880	5,442	39,494	(2,814)	39,729	15,861	35,964	5,580

NOTE 18:– NET EARNINGS (LOSS) PER SHARE (cont.)

B. To compute diluted net earnings per share for the year 2014 and 2013, 6,694,371 and nil options to employees under share-based payment plan and warrants, respectively, have not been taken into account since their conversion increases the basic earnings per share or decreases the basic loss per share (anti-dilutive effect).

NOTE 19:– RELATED PARTIES TRANSACTIONS

A. Balances and transactions:

1. The following table summarises balances with related parties in the consolidated statements of financial position:

	June 30, 2015		December 31, 2014	
	Portfolio Companies	Associates	Portfolio Companies	Associates
Trade receivables	108	–	78	–
Short-term loans	302	–	246	–

	December 31, 2013		December 31, 2012	
	Portfolio Companies	Associates	Portfolio Companies	Associates
Trade receivables	22	–	80	–
Short-term loans	760	–	491	107

Notes to the Consolidated Financial Statements

U.S dollars In thousands, except share data

NOTE 19:– RELATED PARTIES TRANSACTIONS (cont.)

A. Balances and transactions: (cont.)

2. The following table summarises the transactions with related parties in the consolidated statements of profit or loss and other comprehensive income:

	Six months ended June 30,				Year ended December 31,					
	2015		2014		2014		2013		2012	
			Unaudited							
	Portfolio Companies	Associates and other related parties	Portfolio Companies	Associates and other related parties	Portfolio Companies	Associates and other related parties	Portfolio Companies	Associates and other related parties	Portfolio Companies	Associates and other related parties
Income from services to Portfolio Companies	2,225	–	2,282	–	4,433	–	3,601	–	4,027	–
Other income	–	65	–	83	–	177	–	223	–	267
Operating general and administrative expenses	–	(31)	–	(29)	–	(64)	–	(37)	–	(33)

3. In September 2012, Medical sold 19,900 of its shares in LapSpace Ltd. ("LapSpace") to a related party in consideration of approximately $100. No profit or loss was recognised.

4. The Group rendered services to Associate companies, which include rent, local taxes, receptionist services, communications services, utilities, computer system, office insurance and chairmanship.

NOTE 19:– RELATED PARTIES TRANSACTIONS (cont.)

B. Compensation of key management personnel of the Group:

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
		Unaudited			
Salaries and related expenses	709	793	1,618	1,504	1,350
Share based payment	773	45	1,735	210	523
	1,482	838	3,353	1,714	1,873

NOTE 20:– SUBSEQUENT EVENTS

On October 19, 2015, the Board of Directors resolved the following:

1. To approve the draft preliminary offer document (the "Preliminary Offer Document") to be dated on or about October 26, 2015, to be issued by the Company in connection with the Company's proposed initial public offering by way of Placement in Singapore of issued Ordinary Shares in the capital of the Company (the "Placement") with a view to listing of the Company's Shares on the Official List of Catalist (the "Catalist") of the Singapore Exchange Securities Trading Limited (the "SGX-ST") (the "Proposed Listing").

2. Subject to the approval of the Shareholders at the Special General Meeting of Shareholders, to approve the increase of the Company's authorized (registered) capital from NIS 1,000,000 to NIS 10,000,000. Following such increase, the authorized share capital of the Company shall be as follows: NIS 10,000,000 divided into 1,000,000,000 Ordinary shares with a par value of NIS 0.01 per share (the "Share Increase").

3. Subject to and effective following the approval of the Share Increase as set forth above and immediately prior to registration of the Final Offer Document, to approve and authorize in principle, the allotment and issuance of Ordinary shares of the Company as bonus shares to the current Shareholders of the Company (without consideration paid by the Shareholders) (the "Bonus Shares"), credited as fully paid-up, in such aggregate number of Shares and at such ratio ("Bonus Shares Issuance Ratio"), to be concluded by the Co-Chairmen and Co-Chief Executive Officers together with the placement agent.

NOTE 20:– SUBSEQUENT EVENTS (cont.)

Further resolved, that the allotment and issuance of the exact number of Bonus Shares to the Company's existing Shareholders shall be brought before the Board for its final approval.

4. Subject to the approval of the Shareholders at the Special General Meeting of Shareholders, to approve and adopt the "2015 Global Share Option Plan" (the "2015 Plan") and the Sub-Plan for grantees subject to Israeli Taxation (the "2015 Israeli Sub-Plan"), effective immediately prior to the Proposed Listing. Under the 2015 Plan, options may be granted to the Group's officers, directors and employees.

   Further resolved, that, effective immediately prior to the Proposed Listing, subject to and contingent upon Shareholders' Approval being obtained, no new options shall be granted under the 2011 Plan, and no additional Ordinary shares shall be reserved for issuance under the 2011 Plan.

5. Subject to and effective following the approval of the Shareholders at the Special General Meeting of Shareholders, to approve and authorize the entry into and execution by the Company of a new employment agreement effective as of the date of the Proposed Listing, between the Company and each of Mr. Dollinger and Mr. Rhodes, the Chairmen and Chief Executive Officers (each the "Executive" or collectively: the "Executives"). The term of the Executive's employment shall continue for a period of three years from the date of the Proposed Listing ("Initial Term"), provided however, that each of the parties shall be entitled to bring the Executives' employment to an end, at any time, including during the Initial Term, for any reason by providing a written notice 6 months prior to the termination of the Employment Agreement. Upon termination of Executive's employment by the Company other than in circumstances of Termination for Cause or upon resignation of the Executive for Good Reason (as set forth in the Employment Agreement), the Executive shall be entitled (in addition to the prior notice and any statutory payment) to receive from the Company a termination adjustment payment equal to an amount representing his then current monthly Salary multiplied by 6. After the Initial Term, the Executive's employment shall be automatically renewed for successive 12 month periods under the same terms of employment, unless terminated in accordance with the terms contained in the Employment Agreement. Under the terms of the respective Employment Agreements (which are identical), each of the Executives is entitled to a gross monthly salary of NIS 85,500, or approximately $22.5 ("Salary"), an increase of approximately $8.5 in relation to the current salary, as well as an annual bonus in accordance with the provisions of the compensation policy (as shall be adopted and determined, from time to time, by the Company's Remuneration Committee).