BioLight Israeli Life Sciences Investments Ltd.

Annual Report 2014

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Bio Light Israeli Life Sciences Investments Ltd.

Chapter A - Description of the Company's Business

The following is a description of Bio Light Israeli Life Sciences Investments Ltd. (the "**Company**") as well as as its eye cluster and cancer diagnostics cluster companies (as defined below) ("**the Group**") and the development of the Group's business in 2014 (the "**Reporting Period**") and as of the date of this report, in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (in this chapter "**the Report**").

As of the report date, the Company is a "small corporation" in accordance with the conditions stipulated in Regulation 5c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulations"). According to the decision of the Company's Board of Directors, the Company adopts and applies (to the extent that such application is relevant or will be relevant to the Company) several easements prescribed in the Regulations as follows:

- **A. Attachment of very material valuations, attached only for valuations beyond a material threshold of 20%;[1]**
- **B. Statements of material associated companies will be attached to the intermediate financial statements only for those beyond a combination threshold of 40% (the combination threshold of the annual financial statements (remaining) is 20%);[2]**
- **C. Exemption from adopting the provisions of the Second Addendum to the Regulations (details regarding exposure to market risks and their management (The Galai Report));[3]**
- **(D) Non-publication of the report on internal control and the auditor's report on internal control, attaching only limited executive statements.[4]**

[1] Regulation 5 d (b) (1) of the Regulations: In accordance with legal decision SLB 105-23 of the Securities Authority Staff, as amended on July 16, 2014, concerning the examination of the materiality of an evaluation of a "very material valuation in a small corporation" is defined as a valuation which:

a. The subject of the valuation constitutes at least 20% of the total assets of the company; Or
b. The influence of the changes in fair value on net profit or total profit, as applicable, constitutes at least 20% of the net profit, or total profit, as applicable, and, the influence of the abovementioned change constitutes at least 10% of the equity of the corporation.

[2] Regulation 5d(b)(2) to the Regulations

[3] Regulation 5d(b)(3) to the Regulations

[4] Regulation 5d(b)(4) to the Regulations

Chapter A - Description of the Corporation's Business

Given the nature of the Company as a company that is engaged, by itself and/or through subsidiaries and/or related companies, in life sciences investments and R&D, and in view of the uncertainty involving the successful development of any of the products of the Group's companies and/or obtaining the necessary approvals from the competent regulatory authorities for marketing and selling the products and/or introducing them into the relevant market, in the event of failure in the technological development of any of products of the Group's companies and/or failure to obtain the necessary approvals from the competent regulatory bodies for marketing and selling any one of the abovementioned products and/or introducing them to the relevant market, the Company's investment in the development of these products may be lost. Furthermore, the Company cannot guarantee that certain anticipated and/or forecasted results in connection with the preclinical and/or clinical trials of the Group's companies and/or collaborations with which it is connected, will indeed materialize and to what extent. In addition, as a Company that is itself, and/or through subsidiaries and/or related companies, engaged in investment and in R&D, the Company is required to raise capital to create permanent positive cash flows from the sale of the products of the Group's companies in order to finance current expenses.

In this report the Company has included, with respect to itself and to corporations held by it, forward-looking information, as this term is defined in the Israeli Securities Law, 1968. Such forward-looking information is uncertain and is based on the Company's existing information as of the report date and on its assessments, forecasts and estimates of future events and conditions in the markets in which it operates, regarding economic and business developments in the markets in which it operates or intends to operate and its business expectations and intentions based on said assessments, forecasts and estimates. Actual developments, and consequently the Company's actual operating results, may be materially different from the estimated operating results based on existing information held by the Company on the date of preparation of this report ("forward-looking information"). Forward-looking information does not represent substantiated fact and is solely based on the Company's management's subjective assumptions which rely, among others, on the analysis of general information available to it on the date of preparing this report, including publications, studies and surveys which do not guarantee the correctness, accuracy or integrity of the information included therein and which have not been independently reviewed by the Company's management. It should be noted that there is no linkage between the research entities (if any) mentioned in this report and the Company, the controlling shareholder and/or any officers therein. Any forward-looking information is specifically identified in this report by reference to the principal facts and data underlying the information and to the major factors which the Company estimates may lead to the non-materialization of such forward-looking information. The non-materialization of forward-looking information may arise, among others, from developments in the general environment and external factors which affect the Company's operations or from the realization of any of the risk factors detailed in paragraph 5.13 below of this report.

1. Part 1 – General

Following is a glossary of specific terms used in this chapter. The description of the projects under development by the Company through subsidiaries and/or related companies includes a separate glossary per project:

ViSci	- ViSci Ltd., a private Israeli company
XL Vision	- XL Vision Sciences Ltd., a private Israeli company
OphRx	- OphRx, a private Israeli company.
IOPtima	- IOPtima Ltd., a private Israeli company
Bio-Gene	- Bio-Gene Ltd., a private Israeli company
BioMarCare	- BioMarCare Technologies Ltd., a private Israeli company
Financial statements	- The Company's audited annual consolidated financial statements as of December 31, 2014
Dollar	- U.S. dollar.
DiagnosTear	- DiagnosTear Ltd., a private Israeli company
The TASE	- The Tel-Aviv Stock Exchange Ltd.
The Company	- BioLight Israeli Life Sciences Investments Ltd.
The Group	- The Company, the eye cluster companies and the cancer diagnostics cluster companies
Zetiq	- Zetiq Technologies Ltd., a private Israeli company
The eye cluster companies	- XL Vision, IOPtima, ViSci, DiagnosTear and OphRx
The cancer diagnostics cluster companies	- Micromedic, Bio-Gene, Zetiq and BioMarCare
The Companies Law	- The Israeli Companies Law, 1999, as amended from time to time
The Securities Law	- The Israeli Securities Law, 1968, as amended from time to time
Micromedic	- Micromedic Technologies Ltd., a public Israeli company
The Authority	- The Israel Securities Authority
NIS	- New Israeli Shekel
Report date	- March 30, 2015
Balance sheet date	- December 31, 2014
Reporting period	- The twelve-month period ended December 31, 2014
Financial Statement Regulations	- Israeli Securities Regulations (Annual Financial Statements), 2010
Reporting Regulations	- Israeli Securities Regulations (Periodic and Immediate Reports), 1970

2. Part 2 – Description of the General Development of the Company's Business

2.1 The Corporation's activities and description of its business development

2.1.1 General

The Company was incorporated in Israel on April 20, 2005 as a private company limited by shares pursuant to the Companies Law. On December 27, 2005, following the listing of the Company's shares for trade on the TASE, the Company became a public company. The Group operates in the field of research and development and commercialization of Biomed solutions while the implementing of a new strategy for building and managing clusters of Biomed companies grouped around a defined medical condition while sharing knowhow and creating knowledge and cost synergies that their combination is potentially conducive to accelerate innovation and maximizing value.

As of the report date, the Company has two different operating clusters which are reported in the financial statements as operating segments as follows:

A. **The eye cluster** – as of the reporting date, the eye cluster consists of mainly three mainly technologies:

- The technology of **IOPtima** which develops and markets a non-penetrating CO_2 laser assisted filtration surgery technology for treating glaucoma[5];
- The technology of **ViSci** which is engaged in R&D of a sub-conjunctival drug insert technology for the controlled release of ophthalmic medications;
- The technology of **DiagnosTear** which is developing a product for diagnosis, companion diagonsic and monitoring of dry eye syndrome by examining the composition of the tear fluid[6];
- In addition, in early January 2015, the Company (through XL Vision) signed an agreement for investing in new ophtalmic technology which includes investment in a new company named OphRx that was established to develop medications to treat eye diseases using a drug delivery technology platform for ocular uses developed at the Hebrew University[7]

DiagnosTear, ViSci and IOPtima (and the new company mentioned above) are all held through a wholly-owned subsidiary, XL Vision, which was founded for coordinating the activities in this cluster, For further details, see paragraph 4a below.

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5 A medical condition in which fluid pressure within the eye rises, causing damage to the optic nerve and leading to partial loss of vision or blindness.

6 A chronic condition caused by decreased tear production or increased tear film evaporation, leading to discomfort or even eye damage.

7 See the Immediate Report of the Company dated January 12, 2015 (Reference No.: 2015-01-009352), included herein by way of reference.

B. **The cancer diagnostics cluster** – the cancer diagnostics cluster consists of mainly 5 projects for developing medical solutions for cancer diagnostics. The cluster companies operating in this segment include Micromedic and its subsidiaries: (a) Zetiq, which has developed a color differentiating diagnostic technology, CellDetect®, for the staining and detection of cancer and pre-cancer cells with several cancer indications; Micromedic also has two other activities which are not incorporated into subsidiaries- (b) one of developing and commercializing a predictive genetic (SNP) test for identification of individuals with Bisphosphonate Related Osteonecrosis of the Jaw (BRONJ), a devastating side effect following treatment with Bisphosphonate drugs, (c) and the other of participating in the funding of the NCBI's Nofar study of predictive biochemical-markers for the development of brain metastases from lung cancer.

In addition Micromedic also has the following two activities: (d) Searching for strategic partner for continuing the development of an innovative diagnostic kit for identifying carriers of deletrious BRCA mutations which increase the risk of breast and ovarian cancer. This effort is conducted by Bio Gene, a subsidiary of Micromedic. (e) Searching for a strategic partner for completion of R&D and marketing of a diagnostic kit for early identification of CRC using a q-PCR based blood test common molecular method used in diagnostics.
For further details, see paragraph 4b below.
As of the report date, and based on its business strategy, the Company is searching for additional technologies to scale-up the cancer diagnostic and eye cluster portfolios.

2.1.2 **Business strategy and goals**

As discussed above, the Company deals with encouraging and realizing Biomed innovations through R&D and commercialization of products by implementing a new strategy of encouraging innovation and accelerating value creation by building and managing clusters of Biomed companies operating around common defined medical conditions while sharing knowhow and creating knowledge and cost synergies ("**the cluster strategy**").

The Company's business model is based on grouping together a cluster of Biomed companies that are engaged in the same medical field from various aspects (for example, the cancer diagnostics cluster set up by the Company represents a combination of cancer diagnostics companies that utilize different technologies such as histochemical staining techniques, biomarkers etc. while developing different diagnostic stage products such as screening tests, diagnostic tests, monitoring tests (monitoring the recurrence of the illness) and medical care coordination tests).

The objectives of this model are as follows:

- Generating value by reducing the time to market of technologies, saving related costs, managing risk over a wide portfolio that focuses on

predefined sectors and mitigating the risk by specializing in specific medical fields.

- Generating value through synergies which the Company believes arise from practicing an overall observation of the medical condition from different standpoints, encouraging the sharing of knowledge and interactions between the cluster members that treat common and overlapping areas. The Company estimates that such knowledge sharing is bound to lead to scientific innovation and to gaining a comprehensive view of the condition by each cluster member (as opposed to only focusing on each company's relevant angle).

- Creating a scientific and business environment that enhances innovation by creating clusters of different specializing technologies and researchers who approach different aspects of a predetermined medical condition.

- Creating a focal point of exposure for new ideas.

- Challenging new and existing methods from a comprehensive perspective.

- Interdisciplinary brainstorming at technological and business decision-making crossroads.

- Gathering a critical mass of content to encourage participation of world renowned experts.

- Designing and managing an interactive environment for managers, researchers and other professionals deliberating on similar issues.

- Gaining a wider familiarity with the potential market, the risk factors, potential competition and leading entities in the field.

- Offering far more opportunities for strategic collaborations and for raising capital.

The Company estimates that this model has numerous benefits at the individual cluster company level, at the entire cluster level and at the Company level, as elaborated below:

Benefits at the Company level – the Company anticipates that developing a unique expertise in building and managing Biomed clusters will allow it to enhance its chances of succeeding in the R&D of medical products and drugs and generate value for investors, among others, by attracting global strategic collaborations, enhancing innovation from knowledge sharing and synergies and creating a unique investment portfolio for hedging risks and leveraging opportunities.

Benefits at the cluster level – the Company believes that the benefits that will be experienced at the cluster level derive both from the maximization of the aggregate value of the cluster companies, while managing risks and

optimizing opportunities, and from the added value of sharing knowledge and resources among the cluster companies as well as scalability benefits such as:

- The different cluster companies' exposure to new ideas while providing a platform for additional innovation beyond the individual company level.

- Gaining different perspectives on a given medical condition or field which has the potential of contributing to an overall treatment of the condition.

- Achieving a critical mass of content that encourages sharing with world renowned experts.

- Offering a platform for initiatives and innovations.

- Allowing abundant opportunities for strategic and financial collaborations at the cluster level.

Benefits at the individual cluster company level – the model allows retaining the individual cluster company's independent identity as follows:

- Each cluster company has specialized groups of researchers.

- The cluster company owns the patent rights or owns the exclusive right to make use of the patents.

- Each cluster company is independently able to raise capital and form business partnerships.

In addition to retaining their independent identity, the Company believes that that the chances of the individual companies to succeed are intensified by their grouping into cluster which enables each individual company to:

- Benefit from an executive leadership with vast knowledge and proven experience in the industry.

- Receive close strategic and operative monitoring and guidance.

- Interact with an extensive network of leading researchers and managers in their field.

- Gain exposure to world renowned industrial experts and consultants.

- Gain access to funding from leading pharma companies and investors.

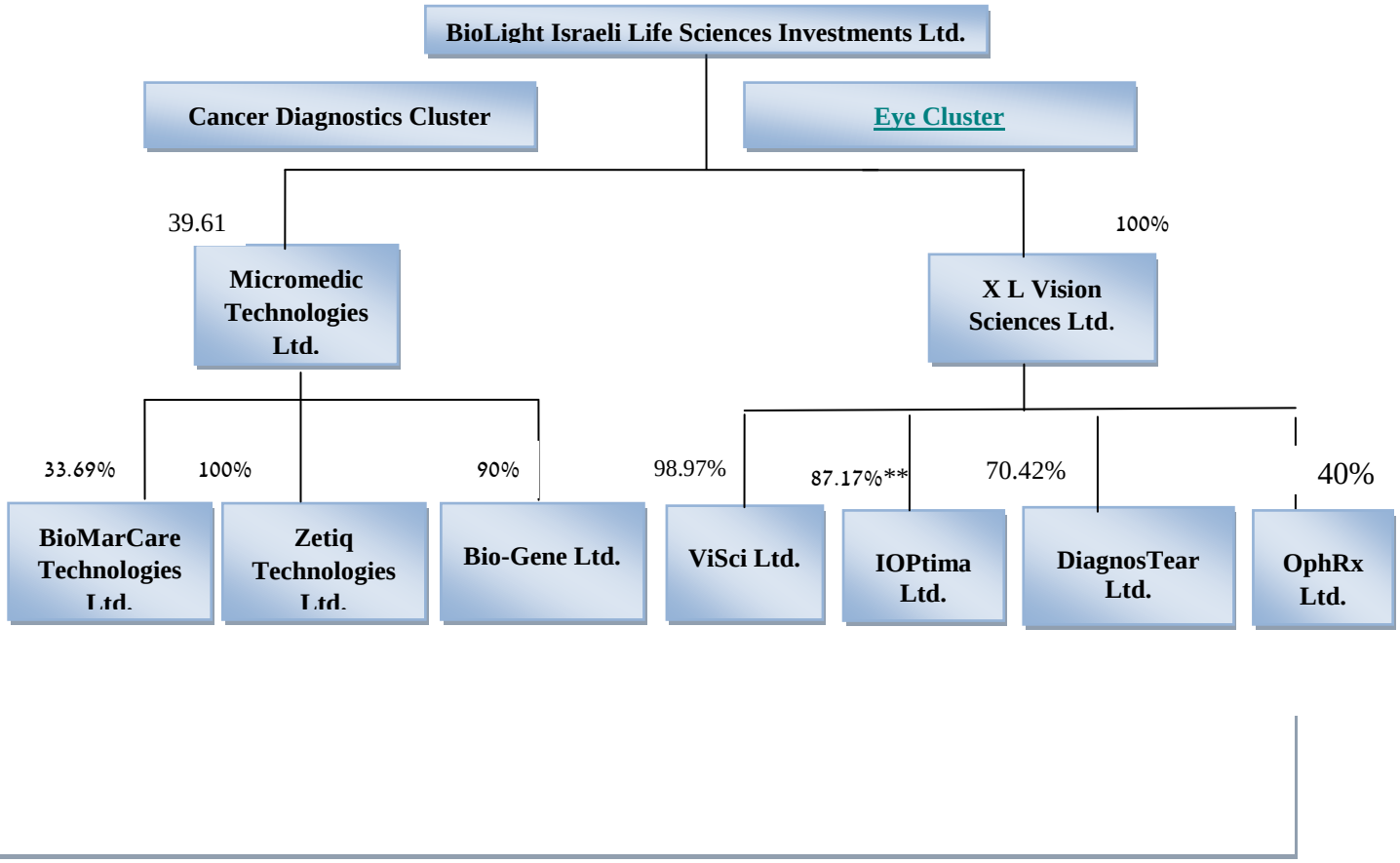
- Gain greater exposure to business opportunities and cost-saving from sharing resources.

The Company is of the opinion that all the benefits mentioned above will lead to shortening market penetration times and optimizing the use of resources which in turn will allow maximizing the return on the investment.

Forward Looking Statement - The Company's assessments and expectations regarding the cluster strategy and the continued implementation of the cluster strategy, the establishment of new clusters and the benefits underlying the cluster approach, including forecasts, milestones, assessments and/or the Company's plans thereof, all represent forward-looking information as defined in the Securities Law, which is based on the analysis of data held by the Company as of the date of this report. Therefore, there is no certainty that these evaluations and expectations will be realized at all or will be realized in the originally assessed or anticipated manner, and that their realization is dependent on many factors and variables that are not controlled by the Company, *inter alia*, difficulties in locating suitable new cluster companies, absence of budgets for funding the acquisition of new technologies and challenges in leveraging the synergies of the cluster companies as well the materialization of any of the risk factors specified in paragraph 5.12 of this report which may have a material impact, jointly and severally, on the abovementioned assessments of the Company. See more details of difficulties in realizing the cluster strategy in paragraph 5.12.3 below.

2.1.3 **The Company's holding structure**[8]

The following is a diagram of the Company's holding structure[9]:



*We clarify that X.L. Vision's holdings in Oph.Rx shall be forfeited to the extent that monies are not invested according to the milestones stipulated in the investment agreement and in the rates stipulated in said agreement. See section 4.5.1 below regarding the agreement to invest in Oph.Rx.
** From said rates, approximately 3% are held in trust in accordance with the provisions of the agreement, as detailed in section 4.2.16.2 below.
*** As of the date of the report, Micromedic holds **BioMarCare Technologies Ltd.**, whose activities are classified by Micromedic as activities held for sale, and as terminated activities as of the second quarter of 2014. As of the date of this report, Micromedic has holdings in **Bio-Gene Ltd.** at a rate of 90.25% of the issued and outstanding equity of Bio Gan Ltd. The remaining shares in Bio Gan are held by Asher Shalmon (approximately 4.75%); Tamar Peretz (approximately 4.25%); and Hadasit Medical Research and Development Services Ltd. (approximately 0.75%).

[8] The percentage holdings reflect actual holdings in the Group's companies (namely, actual holding of issued equity and voting rights), irrespective of convertible securities (options) allocated by the Group's companies. In addition, the Company and Micromedic have holdings in additional companies that are not conducting routine business operations as of the reporting date.

[9] The breakdown of the holdings is as of the date of this report. In addition, the breakdown of the holdings does not include subsidiaries that were voluntarily dismantled and liquidated and also does not include holdings in several other companies, which as of the date of this report, have no business activity and/or are under voluntary liquidation proceedings: Alergica Ltd., Micro Vascular Ltd., Bio-Mark Ltd, Micro Wrap Ltd. Biomed Technologies Ltd.

2.1.4 **Structural changes in the Company**

2.1.4.1 Changes in the structure of holdings of the Company

To the best knowledge of the Company, as of the date of this report, there is no person or body in the Company defined as a "controlling shareholder" in the Company, as this term is defined in the Securities Law.

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In this context it should be noted that on April 21, 2011, Messrs. Israel Makov, Yochanan Korman, Gadi Fraiman and Ron Weissberg ("**Makov Group**") acquired 24% of the issued and outstanding capital of the Company and of its voting rights (approximately 47% fully diluted), and was defined at that time as the controlling shareholder of the Company pursuant to an agreement of cooperation between them regarding the voting rights ("**Cooperation Agreement**").

Since the first half of 2014 the cooperation agreement between the parties is no longer valid.[10]

2.1.4.2 Establishment of XL Vision

In order to consolidate the eye cluster activities into a single company, on January 2, 2013, the Company founded the subsidiary XL Vision which is wholly owned (100%) by the company as of the reporting date. For further details on XL Vision, see paragraph 4.1 of Chapter A of this report below.

2.1.4.3 Investment agreement in DiagnosTear

On January 17, 2013, the Company, through XL Vision, entered into an investment agreement in DiagnosTear, which is developing a product for diagnosis, customized treatment and monitoring of the dry eye syndrome by testing the composition of the tear fluid. For further details of the investment agreement in DiagnosTear, see paragraph 5.8.2.1 in this section below. At the reporting date the Company holds, through XL Vision, 70.42% of the issued and outstanding shares of DiagnosTear (approximately 70% fully diluted). For further details on DiagnosTear and its operations, see paragraph 4.4 of this report below.

2.1.4.4 Transfer of holding in ViSci

[10] For details of the agreement to acquire control of the Company in 2011, see the Transaction Report (Revised) dated 8 March 2011 [Reference No,073863-01-2011], included herein by way of reference. For details of the notices of Messrs. Korman Weissberg and Fraiman, see Immediate Reports dated January 9, 2014 [Reference No. 2014-01-010981] and of May 28, 2014 [Reference No. 2014-01-076128], respectively, included herein by way of reference.

On May 1, 2013, the Company transferred its holdings in ViSci to XL Vision in exchange for the provision of a "**Seller Loan**" in accordance with a loan agreement. For details of the above loan agreement, see paragraph 5.7.3 below. As a result of this transfer, and at the reporting date, the Company holds, through XL Vision, 98.97% of the issued and paid up capital of ViSci (approximately 96.96% fully diluted). For further details on ViSci and and its operations, see paragraph 4.3 of this report below.

2.1.4.5 Transfer of holding in IOPtima

In accordance with an agreement signed on October 6, 2013 between the Company and XL Vision, the Company transferred to XL Vision all its holdings in IOPtima (which constituted, as of the abovementioned date, approximately 87% of the issued and paid-up capital (approximately 77% fully diluted) of IOPtima against an allocation of shares of XL Vision (which constituted, on the date of allocation, 61.9% of the issued and paid up capital of XL Vision) to the Company. As a result of the change in the structure, and at the reporting date, the Company holds, through XL Vision, approximately 87% of the issued and outstanding shares of IOPtima (approximately 77% fully diluted).
For further details on IOPtima and its operations, see paragraph 4.2 of this report below.

2.2 **The Company's areas of activity**

The following is a description of the Company's areas of activity as of the report date (also reported in the financial statements as activity segments):

2.2.1 **Eye cluster**

As discussed above, as of the report date, the eye cluster consists of three different technologies that are developed in this cluster under three subsidiaries: IOPtima, ViSci and DiagnosTear.

2.2.1.1 IOPtima

IOPtima develops and markets a device based on CO_2 laser technology enabling surgery to be performed for the treatment of glaucoma without penetrating the inner section of the eyeball. For further details of IOPtima's operations, see paragraph 4.2 below.

2.2.1.2 ViSci

ViSci holds an exclusive option ("**the Option**") to receive an exclusive, transferable global license to make any use of the technology underlying a sub-conjunctival drug insert for the controlled release of ophthalmic medications ("**the insert**"), including for purposes of R&D, commercialization, manufacture, licensing,

export, distribution, marketing, sales and services, based on an agreement signed on October 30, 2012 between ViSci and Novaer. For details on the option, its terms of use and period, see paragraph 4.3.12.1 below. According to the provisions of said agreement, until the option is exercised by ViSci, if exercised, ViSci will act to continue the insert's R&D activity based on the predetermined work plan. For further details, see paragraph 4.3 below.[11]

2.2.1.3 DiagnosTear

DiagnosTear is developing a product for diagnosis, customized treatment and monitoring of the dry eye syndrome by examining the composition of the tear fluid.
For further details on DiagnosTear's operations, see paragraph 4.4 below.

2.2.1.4 OphRx - new technology in the field of eye medication insertion:

In addition, in early January 2015, the Company entered into an additional agreement (through XL Vision) to invest in new technology in the field of eye care. The agreement includes investment in a new company that will be established and will develop medications for the treatment of eye disease using medication insertion technology developed at the Hebrew University.[12]
For further details, see paragraph 4.5 below.

As of the report date, the Company is investigating several technologies which it believes might be integrated in the eye cluster and is considering expanding the activity into other ophthalmologic fields.

Forward looking statement - The Company's evaluations of adding new technologies to the eye cluster and expanding the R&D activities into new ophthalmologic fields as discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company as of the date of this report. Therefore, there is no certainty that these evaluations will be realized, among others, due to difficulties in locating suitable new cluster companies, the absence of budgets for acquiring such companies and challenges in materializing the synergies between the cluster companies and the materialization of any one of the risk factors, as specified in paragraph 5.13 of this report, which may have a material impact, jointly and severally, on the abovementioned assessments.

2.2.2 **The cancer diagnostics cluster**

The cancer diagnostics cluster consists of 5 projects for developing medical

[11] See also Immediate Reports of the Company dated June 19, 2012, [Reference No. 2012-01-160065], October 30, 2012, [Reference No. 2012-01-267252] and October 31, 2012, [Reference No. 2012-01-268896], included herein by way of reference.
[12] See Immediate Report of the Company dated 12 January 2015, [Reference No. 2015-01-009352,] included herein by way of reference.

solutions for cancer diagnostics. The cluster companies operating in this segment include Micromedic and its subsidiaries: (a) Zetiq, which has developed a color differentiating diagnostic technology, CellDetect®, for the staining and detection of cancer and pre-cancer cells with several cancer indications; Micromedic also has two other activities which are not incorporated into subsidiaries- (b) one of developing and commercializing a predictive genetic (SNP) test for identification of individuals with Bisphosphonate Related Osteonecrosis of the Jaw (BRONJ), a devastating side effect following treatment with Bisphosphonate drugs, (c) and the other of participating in the funding of the NCBI's Nofar study of predictive biochemical-markers for the development of brain metastases from lung cancer.

In addition Micromedic also has the following two activities: (d) Searching for strategic partner for continuing the development of an innovative diagnostic kit for identifying carriers of deletrious BRCA mutations which increase the risk of breast and ovarian cancer. This effort is conducted by Bio Gene, a subsidiary of Micromedic. (e) Searching for a strategic partner for completion of R&D and marketing of a diagnostic kit for early identification of CRC using a q-PCR based blood test common molecular method used in diagnostics.
For further details, see paragraph 4b below.

For further details, see paragraphs 4.7-4.11 below.

As of the report date, and based on its business strategy, Micromedic is searching for additional technologies to scale-up the cancer diagnostic and eye cluster portfolios.

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The Company's evaluations of adding new technologies to the cancer diagnostics cluster discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company as of the date of this report. Therefore, there is no certainty that these evaluations will be realized, among others, due to difficulties in locating suitable new cluster companies and the absence of budgets for acquiring such companies.

2.2.3 **The following are the principal details, as of this date, of the companies of the eye cluster and the cancer diagnostics cluster (for further details, see paragraphs 4.2 - 4.10 below)**

	Company name	Rate of holdings in issued and outstanding share capital[13]	Representation on the Board	Product targets	Product rights	Development status and expected completion	Forecasted required development costs in 2015 (NIS in thousands)[14]	Regulatory status
1.	IOPtima	87% [15]	4 of 4 directors	Laser-assisted surgical device for reducing elevated intraocular pressure in Glaucoma patients without penetrating the inner eyeball.	Full ownership	The development process of the OT-134, OT-135P and OT-135P2 models of the IOPtiMate ™ system has been completed. The Company intends to start development of the Vision model.	1,124	Regulatory approvals for marketing the a medical instrument in Europe, Mexico, China and Israel have been received. As of the date of this report, IOIPtima is preparing for discussions regarding the regulatory pathway in the United States. As of the date of this report, IOPtima is acting to obtain additional regulatory approvals in Taiwan, Canada, Peru and Belarus.i
2.	ViSci	98.97%	3 of 3 directors	Sub-conjunctival drug insert for the controlled release of ophthalmic medications	Global Exclusive option for an exclusive license[16]	Human clinical trials. Expected development completion - 2019	6,276	The Company is performing Phase I / IIa clinical trials on humans in the United

[13] The holding in this column is through a chain of holdings, through XL Vision or Micromedic, as applicable.

[14] Excluding cost of sales, marketing and general and administrative expenses

[15] 3% of the abovementioned holding are held in trust, according to the agreement specified in paragraph 2.1.4.5 below.

[16] ViSci holds an exclusive option from Novaer LLC to receive an exclusive, global, transferable license to make any use of the technology underlying the ocular insert for the controlled release of medication. See paragraph 4.3 below

								States in order to obtain FDA regulatory approval.
3.	DiagnosTear	70.49%	2 out of 3	Diagnostic product for the diagnosis, customized treatment and monitoring of dry eye syndrome by analyzing the tear fluid	Full ownership	The development of the diagnostic product is in the clinical trials stage. Completion of development is expected during 2016	2,553	Regulatory proceedings have not yet been initiated. The Company aims to discuss a 510K regulatory track with the FDA.
4.	Micromedic (BRONJ)	39.61% held by the Company through Micromedic	2 out of 6	kit ("**the kit**") for detecting a unique genetic profile that enhances the risk of cancer patients and others to develop BRONJ as a side effect of being treated for cancer with drugs of the bisphosphonate family	License to make, manufacture and sell products and processes in connection with the kit's research and development.	Continuity trail with the results of the trail conducted at Tel Hashomer on an independent population.	1,600	Irrelevant at this stage
5.	Zetiq	100% held by Micromedic	3 out of 3	Detecting and identifying cancer and pre-cancer cells using a unique staining technology	Owned by Zetiq	Zetiq completed developing a kit for detecting and identifying cervical cancer and initiated the kit's commercialization process. Zetiq received positive results in a clinical trial for proving the ability to monitor the recurrence of bladder cancer. See details in paragraph 4.7 below. Zetiq has completed the development of the kit for monitoring the recurrence of bladder cancer in the beginning of 2015. Please note that the technology underlying the products is a platform that may be adapted to detect different types of cancer. Zetiq is considering developing products for other indications based on this technology.	6,130	Regulatory approval in Europe and Israel for marketing the kit as a supplementary test for assisting in the detection of cervical cancer. Regulatory approval of marketing in China

6.	Bio-Gene	90.25% held by Micromedic	2 out of 2	Functional diagnostic test based on a matrix of about twenty genes for diagnosing women who are at risk to be carries of deleterious BRCA1/BRCA2 mutations and are therefore at increased risk to develop breast and/or ovarian cancer	License to develop, manufacture, market, distribute and sell products, processes or materials based on or related to Hadasit's R&D results	Preliminary proof of concept has been achieved by the researcher. At this stage, Micromedic is acting to find a strategic partner for continued product development	62	Irrelevant at this stage

Forward looking statement - The Company's evaluations of the expected dates of completion of development, forecasted costs and filing regulatory applications as discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company and/or the cancer diagnostics cluster and/or the eye cluster companies as of the date of this report and there is no certainty that these evaluations will be realized. Actual results may differ from said evaluations and expectations, among others, due to factors which are not under the Company's control, including failure of or delays in product development and/or failure to receive or delays in receiving the required regulatory approvals for marketing the products and the materialization of any one of the risk factors, as specified in paragraph 5.13 of this report, which may have a material impact, jointly and severally, on the abovementioned assessments.

2.3 Investments in the Company's share capital and transactions of its shares

The following are the details of investments in the Company's share capital in the past two years and at the date of this report, as well as any other off-exchange material transactions effected by an interested party in the Company in the shares of the Company. Additional investment undertakings, if any, (including details of the investment phases, milestones, cost and terms) will also be listed, as will additional details related to the Company's equity (if relevant):

2.3.1 Investments in the Company's share capital

Date of change	Nature of change	Transaction/Investment Manner	Number of shares allocated	Share price determined on the date of the transaction/investment (in accordance with stock exchange instructions, if relevant)
March 6, 2014	Public offering	Standard public offering in accordance with a Shelf Prospectus and shelf Offering Report by tender for the unit price [Each unit consists of 1,000 shares, 500 options (Series 7) and 500 options (Series 8)]	83,774,000 ordinary shares, with 41,887,000 options (Series 7) and 41,887,000 options (Series 8)	Effective price per share (based on stock exchange instructions): NIS 0.192
March 31, 2014	Private placement	Private Placement for several institutional investors	95,350,000 shares and 95,350,000 options (Series 8)	Effective price per share (based on stock exchange instructions): NIS 0.179 - NIS 0.184

2.3.2 Material off-market transactions in the Company's shares with interested parties

Name of interested party	Nature of interest	Date	Nature and method of transaction	Number of shares/ securities	Security TASE no.	Share price (NIS)	Overall Proceeds (NIS)
Ron Weisberg	Director On the date of the sale was a member of the controlling group in the Company	June 27, 2013	Off-market sale of shares	5,100,000 Ordinary shares	1095223	0.195	994,500
			Off-market sale of options	510,000 non-marketable options (series 6)	1123553	0	0
			Off-market sale of options	510,000 4/11 non-marketable options	1123561	0	0

		September 1, 2013	Off-market sale of shares	5,309,288 Ordinary shares	1095223	0.225	1,194,589.80
			Off-market sale of options	400,000 non-marketable options (series 6)	1123553	0	0
			Off-market sale of options	400,000 4/11 non-marketable options	1123561	0	0

In March 2014, the Company received approval regarding the extension of the validity of the Shelf Prospectus of the Company to May 28, 2015.[17]

2.3.3 **Listing of ADR's for over-the-counter-trading on the stock exchange in the United States**[18]

2.3.3.1 Based on the decision of the Company's Board of August 27, 2013, the Company acted to accomplish the registration of its level 1 American Depository Receipts ("**ADRs**") for over-the-counter trading in the U.S. subject to completing all the necessary proceedings. The ADR instrument is designated to expose the securities of the Company to U.S. and other foreign investors.

2.3.3.2 On January 10, 2014, the Company filed a Form F-6 with the SEC for the registration of its ADRs and on January 23, 2014 announced that it has received the SEC's approval and the start of the ADR trading.

2.3.3.3 Each abovementioned ADR consists of 100 ordinary shares of the Company which are traded over-the-counter (OTC) in the United States under the symbol BLGTY. On February 20, 2014 the Company announced that as of that date trading will begin on the Company's ADR trading in the OTCQX trading arena in the United States.

3.3.2.4. During the first quarter 2014, as part of the Company's operations in the global capital markets in general and specifically within the United States, OTC trading in the United States began on the Company's level 1 ADR. The trading is performed in the OTCQX

[17] See Immediate Report of the Company dated March 6, 2014, Reference No. 2014-01-008127, included herein by way of reference.

[18] For more information about the ADR registration, see Immediate Reports published by the Company on January 10 and January 23, 2014, and on February 20, 2014 (Reference No's. 2014-01-011434, 2014-01-022645 and 2014-01-043399). For further details of the public placement specified above, see Supplementary Report to the Shelf Offering dated March 2, 2014 (Reference No. 2014-01-003096), and Offering Results Report dated March 6, 2014 (Reference No. 2014-01-006771). For further details of the private offering specified above, see Immediate Report regarding an extraordinary private placement published on March 23, 2014 (Reference No. 2014-01-020514), and on March 27, 2014 (Reference No. 2014-01-025986) and an Immediate Reports of the Company dated March 31, 2014 (Reference No. 2014-01-031005 and 2014-01-031065).

in the United States.

2.3.2.5. Simultaneously with the abovementioned activity, the Company is continuing its PR and IR within its primary capital market in Israel and also abroad (mainly in the United States) with the assistance of companies which specializes in PR and IR.

2.3.4 **TASE indexes**

2.3.4.1. As of June 15, 2014 the Company is included in the TA-Biomed and TA Blue Tech index.

2.4 Distribution of dividends

The Company has not distributed any dividends from the date of its incorporation through the report date. As of the report date, the Company has not adopted a dividend policy and has no distributable profits, as defined in the Companies Law.

3. **Part 3 – Other information**

3.1 **Financial information on the Company's operating segments**

The following is financial information regarding the Company's operating segments. These data are identical to the data presented in the Company's consolidated financial statements as of December 31 of the report year and for the two preceding years thereof.

Financial information according to operating segments in 2014 (NIS in thousands):

2014 (NIS in thousands)		Eyes	Cancer diagnostics	Expenses not attributed to segments	Consolidated
Revenues		824	117	-	941
		-	-	-	-
Income from ordinary operations attributed to equity holders of the parent company					
Income from ordinary operations attributed to non-controlling interests					
Operating loss		13,490	13,005	7,111	33,606
Total assets attributed to operating segment		1,864	12,981	25,589	40,434
Total liabilities attributed to operating segment		5,252	7,406	2,038	14,696

Financial information according to operating segments in 2013 (NIS in thousands):

2013 (NIS in thousands)		Eye	Cancer diagnostics	Expenses not attributed to segments	Consolidated
Revenues					
		53	29		82
		53	29		82

Income from ordinary operations attributed to equity holders of the parent company					
Income from ordinary operations attributed to non-controlling interests					
Operating loss		(11,925)	(10,245)	(6,272)	(28,442)
Total assets attributed to operating segment		3,145	25,337	5,850	34,332
Total liabilities attributed to operating segment		(4,262)	(6,544)	(1,417)	(12,223)

Financial information according to operating segments in 2012 (NIS in thousands)

2012 (NIS in thousands)		Eye	Cancer diagnostics	Expenses not attributed to segments	Consolidated
Revenues		52	-	-	52
		-	-	-	-
F			-	-	52
o		-	-	-	-
r		-	-	-	-
		-	-	-	-
		-	-	-	-
a					
d					
d					
Income from ordinary operations attributed to equity holders of the parent company		-	-	-	-
I					
n					
Income from ordinary operations attributed to non-controlling interests		-	-	-	-
O					
p					
Operating loss		(9,888)	(11,846)	(7,112)	(28,846)
Total assets attributed to operating segment		2,113	18,189	29,514	49,816
T					
Total liabilities attributed to operating segment		(3,042)	(5,990)	(1,498)	(10,530)

For financial information on the Company's operating segments, see Note 21 to the financial statements attached to Chapter C of this report and the Board of Directors report attached to Chapter B of this report.

For the description of the developments in each operating segment's separate financial information, see paragraph 2 to Chapter B, the directors' report, below.

3.2 The general environment and the effect of external factors on the Company's activities

Both the Company's business opportunities and the risks underlying its activities arise from factors that are specific to the segments and to the Company, as detailed in paragraph 5.12.3 below. Nevertheless, there are certain factors in the Company's macroeconomic environment which might affect the Company's activities as discussed below.

3.2.1 Development in global market

3.2.1.1 General

- The global economy - In 2014 the global economy recorded a growth of 2.6% compared to a growth of 2.5% in 2013. The growth was recorded due to an improvement in the US and UK markets in the face of the faltering recovery of the Euro zone and Japan and a controlled slowdown of the Chinese economy. In 2015, the World Bank predicts a global growth of only 3%, while indicating that the problems in the Euro zone and in the emerging markets will exceed the improvement in the US economy and the drop in oil prices. The World Bank's forecasts for the high-income countries indicate a growth of 2.2% in 2015-2017, compared with a growth of 1.8% in 2014. Regarding developing countries, the World Bank predicts acceleration in growth from 4.4% in 2014 to an estimated growth of 4.8% in in 2015 and 5.4% by 2017.

- The Israeli economy - The Israeli economy grew by 2.6% last year and the Bank of Israel expects an acceleration of growth to 3.2% in 2015 and 3% in 2016. This is a slowdown compared to a growth of about 3.3% in 2013. The slowdown in the growth of the Israeli economy is probably due to the continuing global recession which has led to a reduction in demand for Israeli products.

3.2.1.2 The effect of the economic situation on cluster strategy –

- The developments in the global markets may have an effect on the realization of the cluster strategy. The companies that are to be integrated into the clusters in the future may be companies that are in need of external financial sources. The developments may affect both the Company's ability to finance the daily operations of these companies and the continued development of the technology which they have developed as well as the ability of these companies themselves to raise financing for their ongoing activities. If the required financing is not available, these companies may have to cease operations and this could harm the Company's return on investment.

- The effect of the economic situation on the development of medical products:

A. A recession may result in both a decrease in demand for the purchase of new technologies and products in markets that are in crisis, and a decrease in the prices they would be willing to pay for the abovementioned products and technologies. All of this may affect the profitability of the Company.
B. Part of the Group's companies have regulatory approvals to sell their products in Europe and part are in the process of obtaining regulatory approvals in other markets. The financial crisis affecting the countries of the world may influence the Group's ability to market its products in these countries. This effect can result in a deceleration of the introduction of these products to the markets in these countries and a decrease in receipts from sales of products in these countries.
C. Part of the Group's companies have started marketing their products in emerging markets, including markets such as China and India. Economic crises in these markets may affect the ability of these companies to realize their sales targets in the abovementioned markets.

3.2.2 Merging of activities of companies operating in the field: In recent years, the worldwide market in which the group operates is undergoing a process of mergers between the companies which operate in the field. This trend is leading, on the one hand, to an ongoing and increasing need by large companies in the field to find and acquire products under development which possess high marketing potential and/or companies which are developing attractive products, and on the other hand, it is leading to the creation of large entities competing in the market. With progress in clinical trials, companies in the field of pharmaceuticals are in the practice of entering into license agreements or collaboration agreements for the purpose of manufacturing, marketing, and commercialization of these products.

3.2.3 Fluctuations in exchange rates - The Company's financial results may be affected by future changes in currency exchange rates in countries in which the products will be marketed, if marketed, in the future.

3.2.4. Israeli identification - The sale of the Company's products may be affected by the international status of the State of Israel. In some cases, Israeli identification is used for promoting sales (due to the recognition of Israel's technological supremacy), while in other cases this may be a disadvantage and can even lead to cancellation of transactions. As of the date of this report, the Company is not aware of any event in which the Israeli identification of the Company affected the deliberations of the purchasers of its products.

3.2.4. National security situation - In recent years, the Middle East has known considerable political instability. As of the report date, the Company is unable to estimate the impact of the political and social turmoil in the region on global economy but assesses that these political tremors will adversely affect financial markets and prices of global commodities and natural resources.

3.2.5. U.S. OTC trading – The over the counter trading in the United States of company stock through level 1 American Depository Receipts (ADR) may expose the Company and its technologies to a wider audience of investors but

will also lead to greater Company exposure and responsibility.

4. Part 4 – Description of the Corporation's business according to operating segments

As of the date of this report, the Company has two operating segments which are reported in the financial statements as activity segments: in the field of eyes and in the field of cancer diagnostics.

Paragraphs 4.1-4.11 below provide a description of the Company's business activities in each of the eye and cancer diagnostic segments, excluding issues which pertain to the Company's entire areas of activity, as specified in paragraph 5 below.

A. Eye cluster

General

As of the report date, the eye cluster consists of three main technologies:

(1) the IOPtiMate™ technology, a non-penetrating CO_2 laser-assisted filtration surgery technology for treating glaucoma, as defined in paragraph 4.2 below;

(2) the EyeD™ technology - a sub-conjunctival drug insert for the controlled release of ophthalmic medications; and

(3) the TearRX™ technology, a product designed to perform a diagnosis, match treatment and monitor dry eye syndrome by analyzing the composition of the tear fluid., as defined in paragraph 4.4 below, And monitoring of disease progression and treatment efficacy by assessing the tear fluid.

In addition, in early January 2015, the Company invested in new eye technology, which included investment in a new company to be established to develop medication for the treatment of eye diseases through medication insertion technology developed at the Hebrew University.

The development and commercialization of these technologies are performed by the subsidiaries, IOPtima, ViSci and DiagnosTear, which are held through the subsidiary XL Vision, which was founded for coordinating the activities in this cluster and whose entire issued and outstanding share capital is held by the Company.

As of the report date, the Company is exploring other technologies which it estimates might be combined in the eye cluster and is considering expanding the activity into other eye-related areas.

Forward looking information - The Company's evaluations of adding new technologies into the eye cluster and expanding the activities in the cluster to other eye-related areas as discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company as of the date of this report. Therefore, there is no certainty that these evaluations will be materialized, among others, due to difficulties in locating suitable new cluster companies and/or technologies, the absence of budgets for acquiring such companies and challenges in implementing the synergy between the cluster companies.

4.1 **XL Vision Sciences Ltd.**

On January 2, 2013, XL Vision was founded in order to consolidate the activities of the eye cluster into a single company. Accordingly, during the reporting period, the Company entered into an investment agreement with DiagnosTear, through XL Vision, as described in paragraph 5.8.2.1 below and transferred the activities of ViSci and IOPtima to XL Vision, as discussed in paragraphs 2.1.4.4-2.1.4.5 above.

4.1.1 On February 13, 2013, the Company signed an agreement with XL Vision for the provision of services (in this paragraph, "**the service agreement**") according to which the Company provides XL Vision various management and consulting services, including administrative services (CEO, CFO, legal advisor and strategic advisor), and bookkeeping. According to the service agreement, XL Vision is entitled to provide the services it receives to all of its subsidiaries or related companies. .

In addition to the services, XL Vision was granted a right to use the Company's offices for its activities and for the activities of its subsidiaries or related companies.

The service term was set for 12 months from the date of signing and will be automatically renewed for additional 12-month periods each unless either of the parties provides the counterparty an advance 90-day notice of termination.

4.1.3 XL Vision appointed an Scientific Advisory Board (SAB) consisting of four key opinion leaders in the field of ophthalmology who provide professional scientific consulting services to IOPtima ViSci and DiagnosTear for consultation fees.

4.2 IOPtima

Following is a glossary of professional terms used in the description of IOPtima's operations:

Ophthalmology	- The branch of medicine that deals with the anatomy, physiology and diseases of the eye.
Ophthalmic	- Of or relating to the eye; ocular.
Glaucoma	- Glaucoma is a condition that causes damage to the eye's optic nerve and gets worse over time. The known cause for the optic nerve damage is related to an elevated pressure inside the eye which is a result of the eye's inability to drain it's forming fluid normally.
Anterior chamber	- The fluid-filled space inside the eye between the iris and the cornea's innermost surface, the endothelium.
Sclera	- Also known as the white of the eye, is the opaque, fibrous, protective, outer layer of the eye containing collagen and elastic fiber.
Ophthalmic microscope	- An ophthalmic microscope is specifically designed to magnify parts of the eye's anatomy during microsurgery. This device allows the surgeon to easily treat the smallest parts and structures of the eye and is used in most eye surgeries performed today.

4.2.1 General

As of the report date, the Company, through the subsidiary XL Vision, holds 87%[19] of IOPtima's issued and outstanding share capital. IOPtima is a private company which develops and markets a device based on laser CO_2 technology enabling surgery to be performed for the treatment of glaucoma without penetrating the anterior chamber ("**the IOPtiMate™ system**" or "**the System**").

4.2.2 General information of the operating segment

4.2.2.1 The structure of the operating segment and changes in scope and profits therein

Glaucoma is mostly prevalent among the older populations and usually involves the uncontrolled increase in intraocular pressure (IOP) mainly caused by damage to the intraocular fluid drainage through the trabecular meshwork although glaucoma may occur under normal pressure as well. Generally the

[19] As of the date of this report about 3% of the abovementioned percentage is being held in trust, in accordance with the agreement specified in paragraph 2.1.4.5 below.

increased pressure, which occurs without the patient's notice, causes damage to the optic nerve in the back part of the eye and if left untreated, causes irreversible atrophic changes in the optic nerve and eventually to irreversible blindness.. Glaucoma is more common among older people, ranging from 1% among people over 40 to 2%-8% among people over 60. According to common estimates, there are currently some 67 million people around the world with glaucoma[20]. Glaucoma is generally a chronic disease which requires lifelong treatment. The overall medicinal and surgical glaucoma global market is estimated at approximately $ 5 billion a year[21].

In 2010-2011, the patent protection of the majority of molecule-based drugs that had been used for years to treat glaucoma expired and generic versions of these drugs were launched around the globe. This change led to significant loss of income and earnings for the pharmaceutical companies that originally marketed the drugs. Today, to the best of the Company's knowledge, these pharmaceutical companies are exploring related products for the optimal use of their sales and marketing platforms, attempting to achieve a better market position in terms of competition and create alternative income generating channels.

To the best of the Company's knowledge, in recent years, no new molecules have been introduced for treating the disease and there are several companies that have been trying to develop such molecules.

4.2.2.2 Restrictions, legislation, regulations and special limitations applicable to the operating segment

For details of legislative restrictions, regulations and special constraints, see paragraph 5.1 below.

4.2.2.3 Changes in the scope of activities and profitability of the operating segment

To the best of the Company's knowledge, in recent years, several drainage devices that are implanted in patient's eye with risk of glaucoma during cataract surgery have been developed and commercialized. This family of devices is known as Micro Invasive Glaucoma Surgery ("**MIGS**") for treating very early stage glaucoma. The efficacy of these devices among patients with high pressure who need specific surgery is low. To the best of the Company's knowledge, at this stage there is no other

[20] Based on data from http://www.ahaf.org/glaucoma/about.

[21] http://www.reuters.com/article/2015/02/10/us-health-glaucoma-idUSKBN0LE0DG20150210
http://www.foxnews.com/health/2015/02/10/new-wave-drugs-poised-to-shake-up-glaucoma-treatment/
http://www.inmedpharma.com/i/pdf/presentations/presentation.pdf

product apart from the IOPtiMate™ that enables performing the procedure without penetrating into the anterior chamber.

4.2.2.4 Developments in the operating segment markets or changes in the nature of customers

The percentage of patients with glaucoma increases with natural population growth and the increase in life expectancy of the population as well as increase in the background illnesses which cause glaucoma. However, most glaucoma patients are still undiagnosed, a fact which is especially noticeable in undeveloped or developed markets. Health systems which understand that it is better to treat the disease sooner than later are seeking effective and relatively cheap solutions to examine and diagnose large populations, while on the other hand, there is an increase in the need for accessible medication and surgical treatment while decreasing the complexity thereof. Therefore, we are now starting to see new medication which is a combination of existing molecules that combines two or more medications into a single medication with a once-daily dosage (which helps to maintain the medication taking regimen). These medications were approved for use in Europe but are not as common in the United States. However, many glaucoma doctors today state that glaucoma is an illness that requires operating and it is therefore necessary to handle the lowering of pressure with surgery that can create a long-term effect with minimal complications. Consequently, there is a large regeneration in the glaucoma surgical field and several companies are working on surgical approaches that are supposed to be simpler and safer. However, since most are still in the development stages, the majority of surgeons still use traditional methods.[22] To the best of the Company's knowledge, IOPtima is one of the few companies that market a product that simplifies the surgical procedure and makes it safer.

4.2.2.5 Technological changes which might have a material impact on the operating segment

To the best of the Company's knowledge, due to the inherent challenges of taking medication for treating glaucoma (mainly eye drops) that consist of the patients' failure to comply with this regimen, side effects etc., several attempts have been made to identify and develop surgical technologies for treating glaucoma in the early stages of the illness. To date, no surgical technology has been adopted as a standard alternative treatment instead of medication.

4.2.2.6 The critical success factors in the operating segment and changes therein

[22] Glaucoma Devices: Progress on Multiple Fronts, Michael Lachman, MedTech Inside, April 2013

According to the Company's estimates, the critical success factors underlying IOPtima's operations in the countries where it has begun marketing or regulatory activities include engaging with experienced resellers which will be able to market and sell IOPtima's products on a commercial basis and in significant volumes, obtaining regulatory approvals, complying with medical reimbursement programs, enhancing awareness to the process and its benefits, collecting long-term clinical data, designing a flexible business model, locating financial resources and getting key opinion leaders (KOLs) to adopt the system.

4.2.2.7 The main barriers to entry and exit in the operating segment and changes therein

The barriers to entry in IOPtima's market of operations consist of the need to obtain appropriate regulatory approvals, be included in the drug reimbursement scheme in the product's target countries (mainly in connection with public and not private health services), the necessary financial investments to ensure surgical devices placement in operating theaters, educate physicians regarding the use of the IOPtiMate™, which is an innovative form of treatment compared to current treatments, conduct clinical trials for an extended period with a significant financial impact (mainly in connection with US market) which requires a suitable volume of financing, manage an efficient technical and professional service system,and the adoption of the technology by physicians, especially key opinion leaders in the field.

4.2.2.8 Alternatives to the operating segment's products and changes therein

The currently available common treatments for glaucoma include:

(1) Medications, usually eye drops, have the largest market share of treating glaucoma in terms of monetary scope. The objective of eye drops is to reduce the rate of intraocular fluid production or enhance its absorption rate. This treatment involves applying a large number of eye drops during the day and in many cases more than one kind of drops every day for the rest of the patient's life.

The efficacy of this medicinal treatment is limited and potentially has numerous side effects. Coupled with the difficulty and nuisance of having to administer eye drops several times a day for a lifetime, patients' compliance with the medicinal treatment is rather low. Moreover, since the disease cannot be noticed by the patient in early stages, the fact that the patients do not feel any intraocular pressure and they do not experience any

visual damage, they fail to adhere to the daily regimen of the drugs thereby significantly reducing their efficacy.

As mentioned above, in 2010-2011, most of the patents protecting the original glaucoma drugs expired and the cost of medications dropped significantly.

(2) Laser treatment (ALT, SLT) – laser trabeculoplasty is designed to increase intraocular fluid outflow through the application of a laser beam to burn areas of the trabecular meshwork, located near the base of the iris. To the best knowledge of the Company, these treatments are only effective for a limited period.

(3) Glaucoma drainage implant surgery – these procedures are costly, are in part quite complicated to perform and are only effective for early stage glaucoma. See details regarding MIGS in paragraph 4.2.2.3 above.

(4) Trabeculectomy – a surgical procedure used in the treatment of glaucoma to relieve intraocular pressure by removing part of the eye's trabecular meshwork. It is the most common glaucoma surgery performed and allows drainage of fluid from within the eye. The surgery has the risk of leading to numerous complications such as inflamed blebs and hypotony due to the full penetration into the eye.

(5) Non-penetrating deep sclerectomy (NPDS) – a manual procedure which is used in order to reduce intraocular pressure. This procedure is quite intricate and requires great skill from the surgeon since it involves extremely thin sclera tissue removal. Therefore, only a small group of experts around the world have adopted this method, despite its relative advantages.

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(6) An additional alternative are various types of drains used as glaucoma drainage devices (GDDs). This method has limitations arising from its high costs, potential side effects which characterize treatment using part of these drains and the complexity of the surgical procedure.

4.2.2.9 <u>The structure of the competition in the operating segment and changes therein</u>

See details of the structure of the competition in this operating segment in paragraph 4.2.7 below.

4.2.3 **Products and services**

The IOPtiMate™ is indicated for surgical treatment of glaucoma. It provides a simple solution for relieving intraocular pressure without penetrating the anterior chamber of the eyeball.

The IOPtiMate™ system utilizes a CO_2 laser to locally thin the scleral tissue to a level that allows diffusion of the intraocular fluid out of the eye. It allows a safe and controlled laser-assisted ablation of scleral tissue (up to about 30 micron at a time) for preventing perforation and iris prolapse through the underlying thin residual tissue. By not perforating the eyeball, the system significantly reduces the majority of side effects and complications relating to the other procedures described in paragraph 4.2.2.8 above.

In addition to the CO_2 laser's effective ablation of thin layers of scleral tissue, the CO_2 laser's energy is highly absorbed in aqueous solution to inhibit further ablation of scleral tissue once it comes in contact with the intra-ocular percolating fluid. The IOPtiMate™ system is comprised of the following main part:

a. A control unit consisting of a user interface and LCD screen for controlling the scanner pattern dimensions, switching from active to standby, turning on and off the pair of diodes towards the scanning focus;

b. BMU – Beam Manipulating Unit consisting of a scanner, a subsystem that allows exact positioning of the laser beam on the scleral tissue, a mirror for precisely directing the beam to the treated area and a microscope adjuster.

c. The system operates using a medical grade CO_2 laser which IOPtima purchases from various external manufacturers and is compatible for use with the other components.

The IOPtiMate™ system can be connected to any ophthalmic microscope in ophthalmology operating rooms. The system has been upgraded to the OT-135P2 model which offers improved ergonomic benefits to both physicians and the medical staff.

As part of IOPtima's action plan for the coming years, the Company is working towards collaborating with a strategic partner with a high development and production capacity to develop the next generation of the IOPtiMate™ system which is planned to be a single unit including both the laser, control unit and the scanner with improved ergonomics that is easier to use and cheaper to produce.

The following table summarizes the information on IOPtima's product under development

Medical product under development	Medical product's indications	Medical product's development stage	Expected milestones in the next 12 months	Nearest milestone and expected completion date	Estimated cost of nearest milestone completion	Potential target market size (no. of patients or procedures) and annual monetary scope of the medical product's potential target market at report date	Estimated date of initial marketing activities of the medical product in R&D	Estimated market share of the medical product, assuming marketing approval is received
IOPtiMate™ OT-135P2	Device used to perform CO_2 laser assisted non-perforating glaucoma surgery	Development completed	-	-	-	Global market estimated at about 1.5 million procedures a year. Annual monetary scope of potential product target market estimated at $1.5 billion	Marketing commenced in 2014	About 5% up to 2021 assuming marketing approvals are obtained as per the company's expectations
IOPtiMate™ Vision		The next generation of the system - is in the process of development since Q1 2015.	Develop prototype with strategic partner	Prototype development - Q4 2015	NIS200,000		Q2 2016	

Forward looking information - The Company's evaluations regarding the system as presented in this paragraph represent forward-looking information as defined in the Securities Law, based on data held by the Company and/or IOPtima as of the report date and there is no certainty that they will be materialized.

4.2.4 Breakdown of revenues and profits of products and services

The IOPtiMate™ system is in the preliminary commercialization stages. As of December 31, 2014 and the report date IPOtima recorded initial revenues from system sales.

4.2.5 Customers

As of the report date, IOPtima is in early stages of marketing its technology and the establishment of a sales infrastructure in various countries. The Company has made its first sales as well as installations for the purpose of sales promotion. It should be noted that IOPtima's customers include hospitals that perform eye surgeries as well as private clinics with operating rooms. As mentioned above, in the last quarter of the year IOPtima sold several systems and is working to broaden the user base in the first stage mainly with reputable experts that can assist in including the product in the list of government reimbursed product and its adoption by the medical community.

4.2.6 Marketing and distribution

4.2.6.1 IOPtima is acting to market and distribute the system using local distributors, agents and direct contact with medical centers, and offers market-tailored and customer-tailored business models..

As of the report date, IOPtima offers its customers two main business models based on the requirements of the relevant territory as follows:

a. Model for sale of the medical system as capital equipment

b. Pay Per Procedure model - In countries in which this type of model matches the insurance payment policy.

IOPtima's method of settling of accounts with the distributors is based on an existing pricelist for the various business models with certain adjustments that are made in each market with respect to the specific market's structure and competition, economic environment and monetary reimbursement. In principle, the model of selling the system as a medical device is more commonly used in the public sector whereas in the private sector, IOPtima intends to market the product using the pay per procedure method. IOPtima's pricing strategy consists of offering a pay per procedure price that is equivalent to the market price of competing products (no additional cost), mainly GDDs (glaucoma drainage devices) whose monetary reimbursement ranges between $ 500 and $1,000.

4.2.6.2 Most of the clinical research performed and being performed by IOPtima takes place in Europe where they have a good

relationship with the leading distributors and physicians in the European markets. The Company has also obtained CE approval for sales in Europe. All of the above, together with the relative geographic proximity of the European markets to Israel form the basis of the Company's decision to establish commercial operations in Europe. The Company has already signed preliminary distribution or cooperation agreements in several selected markets and has already made its initial sales and intends to enter additional European markets at a later stage. IOPtima has allocated special resources to development marketing activities in emerging markets, led by Asia, as part of the Company's strategy to focus on large markets where there is a real need for effective and safe solutions for glaucoma treatments.[23].Based on a strategic analysis prepared by IOPtima, there is a growing need for an effective easy to use solution with few or no side effects in developing markets where there is no available solution for large numbers of glaucoma patients. IOPtima has decided to focus its short term marketing efforts in these markets including, *inter alia*, China and India. IOPtima believes that the system it markets might serve as an effective solution for thousands of patients in these markets.

4.2.6.3 In the majority of cases, IOPtima cooperates with local distributors and therefore direct relationship with the end customers, patients or medical centers is minimal. Nevertheless, in certain cases, IOPtima sustains a direct relationship with the physicians who use the system simultaneously with collaborating with the local distributors (such as Israel and France) in order to enhance its clinical-marketing activity.

4.2.6.4 The following are the marketing activities IOPtima has and is carrying out:

a. **China**. On February 28, 2014, approval was received from the Chinese food and Drug Administration – CFDA, for the IOPtiMate™ system, which enables IOPtima to market and sell the system in China. In May 2014, IOPtima entered into an agreement with a Chinese distributor ("**the Distributor**") For details of the distribution agreement, see paragraph **4.2.6.5** below. In the third quarter of 2014 IOPtima started its marketing activities aimed at physicians and leading medical centers in the Chinese market which is considered the world's largest glaucoma market and a key market in the Company's strategy. In the fourth quarter of 2014, the distributor purchased two systems which are being used for the training and practice of surgeons in leading hospitals in China.

b. **Hong Kong and Singapore**. During the period of the report, IOPtima installed two systems in leading

[23] Company's Immediate Report dated September 9, 2014 (Reference No. 2014-01-154188).

ophthalmology hospitals in Hong Kong and Singapore. The systems were installed on a test basis. The pilot period atthe Hong Kong Medical Center was completed and the first sale of the IOPtiMate ™ system was made in Hong Kong to the University Medical Center in Hong Kong. The system was supplied in November 2014. It should be noted that as part of this activity, in November 2014 IOPtima installed an additional system on a trial basis in an additional medical center in Hong Kong. Furthermore, simultaneously the Company signed a distribution agreement in Hong Kong and the distributor purchased a system as a demonstration model for other medical centers. At the request of the medical center in Singapore, their pilot period was extended until the end of 2014, and the medical center suppose to announce IOPtima if it has the budget for purchasing the system.

c. **Europe**. IOPtima is continuing its marketing and clinical activities in Europe in accordance with the CE approval to market the products in respect of which the approval was obtained (as stated in paragraph 4.2.15 below). In this framework, in November 2014 IOPtima made its first sale of the IOPtiMate™ system in Poland. The system was acquired by the medical center after the ophthalmologists had used the system during the pilot that was conducted in the center. Simultaneously, IOPtima signed a distribution agreement with a distributor in Poland specializing in the ophthalmic field for the purpose of promoting the marketing and sale of the system in Poland. It also signed a similar agreement with a Hungarian distributor.

d. **Mexico.** On July 15, 2013, approval was received from Mexico's Federal Commission for Protection against Health Risks (COFEPRIS) granted its approval for the marketing and sale of the IOPtiMate™ system in Mexico. The approval was obtained in the name of a local representative (in this sub-paragraph, "**the representative**") based on an agreement signed between IOPtima and the representative. However, since IOPtima decided to focus on European and Asian markets, commercial activity was postponed to a later stage. IOPtima is preparing for future marketing activities while the distributor conducts clinical experiences in two eye centers in Mexico.

e. India. The Company has signed a memorandum of understanding with an Indian company for commercialization of the IOPtiMate ™ system in India. As of the report date, the Indian company has started initial marketing activities with opinion leaders and is preparing for the start of commercial activities**.**

f. Israel. In accordance with the approval received from the Registrar of Medical Devices and Accessories for the IOPtiMate ™ system, as specified in section 4.2.15.5 below, IOPtima installed a number of systems (in public and private hospitals) and training on the system was conducted during the report period. The Israeli distributor is simultaneously working towards obtaining the approvals to include the procedure in the list of reimbursed products and the supplementary insurances. As of the report date, the application is still pending approval.

4.2.6.5 Following is a description of the distribution agreements signed by IOPtima in respect of the system:

a. Distribution agreement in Israel:

On September 9, 2013, IOPtima signed a distribution agreement with Tradis Gat Ltd. which to the best of the Company's knowledge imports and markets medical products in Israel, representing leading brands in the diagnosis and treatment of eye diseases, whose customers include doctors, sick funds and medical institutions across Israel (in this paragraph, "**the agreement**" and "**the distributor**", respectively). According to the agreement, the distributor was granted an exclusive right to distribute the IOPtiMate™ system in Israel for a period of three years (in this paragraph, "**the original agreement term**"). The agreement will be extended by additional three-year periods each provided that the distributor meets the minimum purchase target of the product and/or its parts, as determined in the agreement. The distributor has committed to purchase at least eight systems during the original agreement term. Also according to the agreement, the distributor will act to obtain monetary reimbursement for the unique medical procedure performed using the product and carry out the entire marketing, sale and advertising activities of the product in Israel, install the product at the customer's site (hospitals, medical centers and clinics) and provide training and support services.

b. Distribution agreement in Taiwan:

On December 30, 2013, IOPtima signed a distribution agreement with a Taiwanese distributor which to the best of the Company's knowledge specializes in distributing ophthalmologic devices (in this paragraph, "**the agreement**" and "**the distributor**", respectively).
According to the agreement, the Taiwanese distributor was granted an exclusive right to distribute the IOPtiMate™ system in Taiwan for a period of three years

from the date of receipt of a regulatory approval for the system from the Taiwanese Health Department (in this paragraph, "**the original agreement term**" and "**the regulatory approval**", respectively). The distributor was granted an option to renew the agreement for an additional three-year period after meeting certain minimum purchase quotas as defined in the agreement.

According to the agreement, the distributor has undertaken to purchase at least six systems. The Company estimates that IOPtima's revenues from the sale of the systems in Taiwan during the original agreement term are likely to aggregate to NIS 1,500,000.

Also according to the agreement, the distributor will bear the costs of obtaining the regulatory approval and the monetary reimbursement of the unique medical procedure performed using the product and will also bear the marketing, sale and advertising expenses of the product in Taiwan, install the product at the customer's site and provide training and support services. Further to the distribution agreement the Taiwan distributor filed a registration file with the relevant regulatory authority and QSD [Quality System Documentation] was received which advances IOPtima towards the receipt of regulatory approval in this market. The distributor believes that regulatory approval to market the system in Taiwan is expected to be received in the first half of 2015.

c. Distribution agreement in Canada:

On February 27, 2014, IOPtima signed a new distribution agreement in Canada, with a Canadian company, which to the best of the Company's knowledge manufactures, imports and markets ophthalmologic products in Canada, representing leading brand names in eye disease therapies, whose customers include doctors and medical institutions across Canada (in this paragraph, "**the agreement**" and "**the distributor**", respectively).

According to the agreement, the distributor was granted an exclusive right to distribute the IOPtiMate™ system in Canada for a period of three years from the date of receipt of a regulatory approval for the system's marketing in Canada (in this paragraph, "**the regulatory approval**"). The agreement will be extended by additional three-year periods each if the distributor meets minimum purchase targets for the product and/or its parts as determined in the agreement (in this paragraph, "**minimum purchases**"). According to the agreement, the distributor will bear the costs of obtaining the regulatory approval. The distributor has undertaken to purchase at least 13 systems and 1,600 procedures during the original term of the agreement. IOPtima's revenues

from the sale of the systems in Canada during the original agreement term are likely to aggregate to 1,300,000 USD. According to the agreement, the distributor will act to obtain monetary reimbursement for the unique medical procedure performed using the product and will also conduct all the marketing, sale and advertising activities in connection with the product in Canada, install the product at the customer's site (hospitals, medical centers and clinics) and provide training and support services. The Canadian distributor estimates that regulatory approval in Canada is expected towards mid-2015

d. Distribution agreement in China

On 29 May 2014 IOPtima entered into a distribution agreement with a Chinese company, which to the best knowledge of the Company, is a distributor and marketer of ophthalmic products in China, representing leading brands in the field of diagnosis and treatment of ophthalmic illnesses and its customers are physicians and medical institutions in China (in this paragraph: "**Distribution Agreement**" and "**Distributor**", respectively). In accordance with the distribution agreement, the distributor was awarded exclusive distributions rights in China of the IOPtiMate™ system for a period of four years. The distribution agreement will be extended for additional periods of four years each, if the distributor meets his minimum product sale targets and/or part thereunder as provided in the distribution agreement, including the purchase of at least 100 systems during the first period of the agreement.[24] During the second quarter of 2014 the Company worked closely with the Chinese distributor on the translation of all the materials into Chinese and contracting with physicians to open training centers in leading ophthalmology centers. The first procedures were conducted in the fourth quarter of 2014 and in 2015 the intention is to establish clinical-marketing activities and perform initial sales.

e. Distribution agreements in Hong Kong, Peru, Belarus, Poland and Hungary.

Towards the end of 2014 and the beginning of 2015 IOPtima entered into separate distribution agreements with various distributors in Hong Kong, Peru, Belarus, Poland and Hungary (in this sub-paragraph: "**Distribution Agreements**" and "**Distributors**", respectively). In accordance with the distribution agreements, the distributors were awarded exclusive

[24] For further details of IOPtima's distribution agreements, see Immediate Report dated May 29, 2014 (Reference No. 2014-01-078492), included herein by way of reference.

rights to distribute the IOPtiMate™ system in the abovementioned territories for a period of three years. The distribution agreements will be extended for additional periods of three years each, if the distributors meet their minimum sale targets of the product and/or part thereunder as provided in the distribution agreement, including the purchase of a minimum number of systems during the period of the first agreement.[25] The first procedures are expected to begin in 2015. It should be noted that the start of sales in Peru and Belarus is subject to obtaining the appropriate regulatory approval.

f. India

IOPtima entered into a binding memorandum of understanding for a distribution agreement with a prospective distributor in India for the purpose of promoting the marketing and sales of the system in India. As of the report date, no final agreement has been signed between IOPtima and the Indian distributor.

g. Pilot in Italy and Turkey

In the report period IOPtima started a pilot in Italy and Turkey together with the local distributors which specialize in the field of Ophthalmology. In both territories, the Company has decided to extend the pilot period by several months during which it is possible that the first sales will be made to local glaucoma specialists. The purpose of the pilot is to enter into future distribution agreements with these distributors under terms of which the main points were agreed upon in advance.

h. Pilot in Thailand

In November 2014 IOPtima entered into an agreement to perform a pilot of the system in Thailand. The pilot period is expected to be several months. The purpose of the pilot is to lead to a future distribution agreement in Thailand. The pilot is expected to begin in the second quarter of 2015.

IOPtima had signed an agreement for the distribution of the system in Canada on July 8, 2010, which is no longer effective as of the report date.

The information regarding the marketing of the abovementioned system, expected revenue from sales, and its potential of offering a solution to thousands of patients as discussed above represents forward-looking information as defined in the Securities Law, based on the data held by the Company and/or IOPtima as of the report date, and there is no certainty that it will be materialized.

4.2.7 Competition

To the best knowledge of the Company, the following table summarizes the data on the Company's evaluations regarding the system compared to the main competitors:

	Product developed by IOPtima	Competing product A	Competing product B
Product features	**IOPtiMate ™ system:** Designed for the surgical treatment of glaucoma, provides a simple easy to use solution for enhanced drainage of intraocular fluid through surgery that does not penetrate the eyeball a. Use of the device – The procedure performed by using the IOPtiMate system does not penetrate to the anterior chamber of the eyeball (non-penetrating) and carried out by a glaucoma specialist. b. Side effects and risks from the use of device – significant reduction of number of complications compared to competitors due to the non-penetrating nature of the procedure. The list of possible complications includes hypotony, iris incarceration, hyphema, early wound leak, choroidal detachment and cystic blebs. c. Cost of use of the device – The Company estimates the cost at about NIS 3,500 in excess of the cost of the trabeculectomy procedure (which is currently priced at NIS 4,563 in Israel) d. Ease of use of the device – non-recurring procedure lasting about 30 minutes e. Potential reimbursement by medical insurers, insurance companies or others in Israel As of the report date, the device is not currently included in the list of reimbursed products. The product is covered by most private insurance companies. The company is taking steps to obtain a refund from sick funds and other private insurance companies	**Trabeculectomy procedure:** A trabeculectomy procedure is considered a standard surgical procedure ("gold standard") for glaucoma patients. During the surgery an artificial passage is created in the eyeball for fluid drainage directly into the anterior chamber. a. Use of the device – invasive surgery performed by glaucoma specialist. b. Side effects and risks from the use of device – to the best of the Company's knowledge, the list of possible complications includes hypotony, hyphema, choroidal detachment, shallow AC, deterioration of the anterior chamber, Peripheral Anterior Synechia (PAS), other anterior chamber complications, vitreous humor hemorrhaging (approximately - 8% of the cases), wound leak (approximately - 11% of the cases), cystic blebs (approximately - 6% of the cases), Development of cataracts (approximately- 52% of cases in the first year after surgery)[26]. c. Cost in Israel – varies from NIS 4,563 to NIS 4,778, according to the MOH's pricelist. d. Ease of use of the device – non-recurring procedure lasting about 30 minutes e. Potential reimbursement by medical insurers, insurance companies or other factors – the procedure is included in the list of reimbursed products and covered by most sick funds and private insurance companies	**ExPress™ Mini Glaucoma Shunt:** A shunt inserted through the sclera into the anterior chamber to create a drainage path for the intraocular fluid. a. Use of the device – invasive surgery performed by glaucoma specialist. b. Side effects and risks from the use of device – to the best of the Company's knowledge, the list of possible complications includes hypotony, hyphema, choroidal detachment, shallow AC, deterioration of the anterior chamber, Peripheral Anterior Synechia (PAS), other anterior chamber complications, vitreous humor hemorrhaging, wound leak, cystic blebs. c. Cost of use of the device – NIS 3,748 in addition to the cost of the trabeculectomy procedure (currently NIS 4,563 in the list of reimbursed products) d. Ease of use of the device – non-recurring procedure lasting about 30 minutes e. Potential reimbursement by medical insurers, insurance companies or other factors – the procedure is included in the list of reimbursed products and covered by most sick funds and private insurance companies

[26] American Journal of Ophthamology (2007) Volume: 143, Issue: 1, Pages: 23-31: Surgical complications in the Tube Versus Trabeculectomy Study during the first year of follow-up: Sreven J Gedde.

	Medical product developed by IOPtima	Competing product A	Competing product B
Advantages and disadvantages of the medical product compared to competing products (existing or under development), to the best of the Company's knowledge	Advantages Effective like penetrating procedures despite the non-penetrating nature of the procedure, higher safety profile and reduced need for patient follow-up Disadvantages Relatively high cost of the system compared to manual surgical procedures. Statistically documented clinical follow-up is currently limited to three years.	Advantages Effective, Relatively low cost Disadvantages Reduced safety profile due to eyeball penetration and risk of complications	Advantages Standardization of part of the stages of the trabeculectomy procedure - as opposed to the manual trabeculectomy procedure, the insertion of a fixed diameter drainage device enables seepage of the fluid in a more controlled manner. Disadvantages The procedure involves inserting a fixed shunt with a high level of risks arising from eyeball penetration. High cost of the shunt

Remark regarding the table above: The characteristics of the products in the table above are provided for the presentation of this table only and reflect the management's subjective assessments only. It is possible that one of the various competitors in the market has a different opinion with respect to any of the characteristics presented above. The Company management's assessments in the above tables do not constitute a professional opinion on the quality of alternate products or the products of the competitors, and relate to this report date only. It is possible that the assessments of the Company's management regarding the alternative products and the products of competitors do not reflect actuality or reflect a part thereof only.

4.2.8 **Fixed assets and facilities**

IOPtima has a development lab, manufacturing lab and QA lab all located in its Tel-Aviv facilities. IOPtima's labs have scientific and infrastructure equipment installed in them. In addition, it holds IOPtiMate™ systems which are used for clinical trials in Israel and abroad and for demonstrations in conventions and in various locations around the world.

4.2.9 **Research and development**

IOPtima's R&D activities are performed by its own employees. IOPtima has completed the development stage and proof of concept testing of the current system. It continues to monitor patients recruited for clinical trials for achieving long-term proof of efficacy as described below.

4.2.9.1 As of the report date, over 100 surgeries have been performed in the context of prospective and retrospective clinical trials conducted by IOPtima in nine locations in Mexico, India, Russia, Italy, Spain, Switzerland and Israel. About 81 subjects were monitored for a 12-month period about 53 subjects were monitored for a 24-month period and 41 subjects were monitored for a 36-month period, 16 subjects were monitored for a 48-month period and 14 subjects were monitored for a 60-month period. There is also a neat follow-up after patients for longer periods which will be validated in future statistical

analysis. The analysis of the results, as described below, demonstrates that there was a clinically significant reduction in IOP as well as a significant reduction in the number of drugs needed for post-op control of the IOP compared to the number of drugs needed before the surgery. The system's safety profile during the surgery and throughout the monitoring period showed a significant reduction in side effects compared to the alternative procedures.

4.2.9.2 The inspection of the results of clinical trials conducted thus far suggests that pre-op IOP was an average 25.8mmHg and dropped to 13.5mmHg after 12 months of monitoring, to 13.0mmHg after 24 months of monitoring, to 14mmHg after 36 months of monitoring, to 13.5 mmHg after 48 months of monitoring and 14.4 mmHg after 60 months of monitoring.

These IOP parameters are similar to the parameters in medical literature regarding trabeculectomy procedures (see table in paragraph 4.2.7 above) and therefore demonstrate that the efficiency of IOPtima's laser-assisted surgery is identical to the most radical eye surgery, without penetrating the inner eyeball.

4.2.9.3 The average number of drugs needed for balancing the IPO per patient was 2.4 before the surgery and dropped an average of 0.7 drugs per patient 12, 24, 36, 48 and 60 months after the surgery.

4.2.9.4 The incidence of side effects and complications from the surgery using the IOPtiMate™ system during a monitoring period of up to 36 months was lower than the incidence of complications arising from the accepted procedure for glaucoma treatment (a trabeculectomy procedure. In addition, the rate of serious complications is lower than those related to a trabeculectomy. [27]

The Company also supports a number of initiated research studies taking place in several centers (Hong Kong, Italy and the United Kingdom). In these studies, the Company does not support the financial cost but provides a system at no-cost. The research is carried out under the responsibility of the researcher. However, the Company has close contact with the researchers and it intends to be updated with the results.

[27] Am J Ophthalmol. 2009 Nov;148(5):670-84. Epub 2009 Aug 11., Gedde SJ; Three-year follow-up of the tube versus trabeculectomy study.

4.2.9.5 The following table summarizes the clinical trials that have been or are being conducted by IOPtima, as of the report date:

Trial name	Trial's development stage (as applicable)		Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Evaluation of OT-134: Beam Manipulating System for CO_2 Laser Non-Penetrating Glaucoma Surgery	Prototype test		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Mexico	14	14	Retrospective follow-up – up to 6 years of post-op monitoring. The surgeries in this trial were performed during 2007-2008.	In 2015 the Company intends to perform 6 years post-op monitoring – retrospectively.	140	132	Average IOP after 5 years – 12.75mmHg Intermediate results were not tested
Evaluation of OT-134: Beam Manipulating System for CO2 Laser Non-Penetrating Glaucoma Surgery	Prototype test		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	India	13	13	Retrospective follow-up – up to 6 years of post-op monitoring. The surgeries in this trial were performed during 2008	In 2015 the Company intends to perform 6 years post-op monitoring – retrospectively.	142	140	Average IOP after 5 years – 14.8mmHg. Intermediate results were not tested.

Trial name	Trial's development stage (as applicable)		Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Evaluation of OT-134: Beam Manipulating System for CO_2 Laser Non-Penetrating Glaucoma Surgery	Prototype test		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Russia	10	10	Retrospective follow-up – up to 6 years of post-op monitoring. The surgeries in this trial were performed during 2008	In 2015 the Company intends to perform 6 years post-op monitoring – retrospectively.	88	82	Average IOP after 5 years – 15.7mmHg Intermediate results were not tested
Clinical Use of the OT-134 Beam Manipulating System for the CO2 Laser Non-Penetrating Glaucoma Surgery	CE approval		IDE	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Italy	9	9	4 years monitoring completed. The surgeries in this trial were performed during 2009	Trial ended	170	162	Average IOP after 4 years – 15.58mmHg Intermediate results were not tested

Trial name	Trial's development stage (as applicable)		Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Clinical Use of the OT-134 Beam Manipulating System for the CO2 Laser Non-Penetrating Glaucoma Surgery	Clinical trial for CE Marking approval		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Spain	16	16	Retrospective follow-up – up to 5 years of post-op monitoring The surgeries in this trial were performed during 2009	In 2015 the Company intends to perform 6 years post-op monitoring – retrospectively.	76	72	Average IOP after 3 years – 11.2mmHg Intermediate results were not tested
Evaluation of OT-135P IOPtiMate™: Beam Manipulating System for CO2 Laser Assisted Non-Penetrating Glaucoma Surgery	Clinical trial after CE approval		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Switzerland-Lausanne	15	15	3 years monitoring completed. The surgeries in this trial were performed during 2010	Trial ended	127.5	127.5	Average IOP after 3 years – 11.3mmHg Intermediate results were not tested

Trial name	Trial's development stage (as applicable)		Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Evaluation of OT-135P IOPtiMate™: Beam Manipulating System for CO2 Laser Assisted Non-Penetrating Glaucoma Surgery	Clinical trial after CE approval		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Switzerland-Geneva	12	12	3 years monitoring completed. The surgeries in this trial were performed during 2010-2011. .	Trial ended	104.5	101	Average IOP after 3 years – 13.5mmHg Intermediate results were not tested
Evaluation of OT-135P IOPtiMate™: Beam Manipulating System for CO_2 Laser Assisted Non-Penetrating Glaucoma Surgery	Clinical trial after CE approval		No IDE application filed. l	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Israel -Meir MC	7	7	Completed in 2012	Trial ended	46	46	Average IOP after 1 year – 15mmHg Intermediate results were not tested

Trial name	Trial's development stage (as applicable)		Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Evaluation of OT-135P IOPtiMate™: Beam Manipulating System for CO2 Laser Assisted Non-Penetrating Glaucoma Surgery	Clinical trial after CE approval		No IDE application filed.	Testing the performance and side effects of non-penetrating glaucoma surgery using the CO_2 laser-assisted IOPtiMate™ system	1	Israel –Sheba MC	15	15	Completed in 2012	Trial ended	94	94	Average IOP after 1 year – 15.6mmHg

Forward looking information - The evaluations of the Company and IOPtima in this paragraph regarding the continued performance of series of surgeries, the dates of obtaining trial results, the dates of concluding trials and their results and the conclusion on the use of the system all represent forward- looking information as defined in the Securities Law, based on data held by the Company and/or IOPtima as of the report date and there is no certainty that they will be realized.

4.2.9.6 Investments in R&D

As of the report date, IOPtima received grants from the Chief Scientist of the Ministry of Trade and Industry ("**the Scientist**") in a total (including interest) of NIS 5,978 thousand. In 2014, royalties in the amount of approximately NIS 0.1 thousand were paid to the Scientist. In addition the company recorded in its financial statements accrued expenses for royalties in an amount of approximately NIS 28 thousand due to sales in the second half of the year, and were paid after the reporting date.

The Company recorded a liability to the Chief Scientist in the financial statements for 2014 in accordance with IAS 20 in a total of NIS 3,056 thousand as of December 31, 2014.

4.2.9.7 Royalties

The following table specifies the royalty rates that IOPtima will be required to pay for sales of products and/or services in connection with the various projects for which IOPtima is involved in their development and marketing:

Name of medical product underlying the OCS grant	Grant received in 2012 (NIS000)	Grant received in 2013 (NIS000)	Grant received in 2014 (NIS000)	Balance of grants received from the OCS at report date (NIS000)	Grant repayment terms and dates	Special conditions prescribed by the OCS regarding the grant and/or its repayment terms
Glaucoma treatment device	-	-	--	5,978 (including interest)	IOPtima has undertaken to pay royalties at a rate of 3%-5% of sales of products funded by the OCS in an amount not exceeding 100% of total grants (subject to the remarks of the OCS),received by IOPtima, dollar linked and bearing Libor interest	-

4.2.9.8 In the last three years, the Company has invested an aggregate of NIS 9,218 thousand in R&D in IOPtima based on the following breakdown (in NIS in thousands):

Period	2012	2013	2014	Total
Investment in R&D before Chief Scientist participation	2,795	3,074	3,321	9,190
Less - Chief Scientist participation, net	-	-	28	28
Net investment in R&D	2,795	3,074	3,349	9,218

IOPtima's entire R&D expenses have been recognized as an expense.

In 2014, the Company intends to invest a total of NIS 1,124 thousand (not including general and administrative expenses) in R&D activity in IOPtima. As part of this activity, the Company has started research for the development of a disposable product that will assist physicians to perform a certain stage in the procedure more easily. The Company also plans to start developing the next generation of the system together with a leading company in the field of lasers.

4.2.10 **Intangible assets**

4.2.10.1 IOPtima has three patent families:

a. First patent family – This family protects IOPtima's core technology, namely the entire system comprising a laser and scanner for the removal of tissue from the sclera in a non-penetrating procedure for draining fluids from the eye and for relieving intraocular pressure in the process.

b. Second patent family – This family protects other developments made by IOPtima such as control over the evaporation thickness of the layer of eye tissue in the IOPtima system.

c. Third patent family - This family specifically protects IOPtima's product and modus operandi.

4.2.10.3 The following tables summarize IOPtima's IP assets with respect to material registered patents[28]

[28] As of the report date, IOPtima is unaware of any material restriction which prevents it from using its core technology in the main countries in which it currently operates and/or will operate in the future. However, IOPtima has not conducted a freedom to operate inspection of the use of the technology as above.

Patent no.	Patent description	Patent rights	Expected patent expiration date	Countries in which the patent has been approved
00922836.2	Non-penetrating filtration surgery, application status – National Phase	Owned	8.5.2020	Europe (Switzerland, Germany. Spain, France, Italy and the UK)
152343	Non-penetrating filtration surgery, application status – National Phase	Owned	8.5.2020	Israel
2001-581704				Japan
10/240,505				US
2002/8831				South Africa
009228362				Europe (Switzerland, Grermany, Spain, France, Italy and Britain)
161936	Non-penetrating filtration surgery, application status – National Phase	Owned	3.11.2022	Israel
CHEN/2004/ 1314				India
2003-543510				Japan
10/495,649				US
2004/4706				South Africa
197471	Non-penetrating filtration surgery, application status – Divisional	Owned	3.11.2022	Israel
127994	Request status – National Phase	Owned	3.11.2022	Israel

Applications for registering material patents:

Patent application	Patent description	Expected patent rights, if applicable	Preference date	Expected PCT date	Countries of application
PI0924102-7	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	1.8.2011	Brazil
200980100041.5	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	28.1.2010	China
09806206.0	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	28.7.2011	Europe
213833	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	29.6.2011	Israel
/624MUMNP/2010	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	26.3.2010	India
2011-544114	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	30.6.2011	Japan
13/142,803	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	29.6.2011	US
2,785,190	Device and method for laser-assisted sclerectomy, application status – National Phase	Owned	31.12.2008	20.06.2012	Canada
12/981,585	Non-penetrating filtration surgery, application status – Divisional	Owned	15.11.2001	30.12.2010	US
/5148CHENP/2009	Non-penetrating filtration surgery, application status – Divisional	Owned	15.11.2001	01.09.2009	India

Total costs invested by IOPtima in 2014 in connection with intangible assets approximate NIS 360 thousand. The Company did not recognize these amounts as an asset in the financial statements.

4.2.10.3 The Company has received approval for the trade name registration, IOPtiMate ™ in several countries (including Israel, France, Italy, China and Brazil) and is acting to register the trade name CLASS in China.

4.2.11 **Human capital**

4.2.11.1 General

The IOPtima management consists of, as of the report date, four officers and employees and an Executive Chairman of the Board of Directors.[29]

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4.2.11.2 Employment agreements and consultants

IOPtima's employment agreements with its employees include confidentiality and non-competition clauses and assignment of the employee's ownership of inventions and developments to IOPtima. The agreements are personal. As of the report date, IOPtima has several consultants and consulting entities that advise it on regulation, business development, investment, R&D and patent issues.

4.2.11.3 In addition, according to the service agreement of April 1, 2010 signed between the Company and IOPtima, IOPtima receives management, business development, financial and the use of an office from the Company and reimbursement of expenses against the monthly management fees.

4.2.11.4 Material dependency on employees

Based on IOPtima's current development stage, the Company estimates that IOPtima is not dependent on any employees and/or consultants.

4.2.11.5 Compensation plans

As a form of incentivizing employees, consultants, service providers and directors, in July 2007, IOPtima adopted an employee and officer option plan ("**IOPtima's option plan**"). 326,000 options which are exercisable into 326,000 Ordinary shares have been approved for grant under IOPtima's option plan. To the best of the Company's knowledge, as of the report date, 243,797 options have been granted for the purchase of 243,797 Ordinary shares under IOPtima's option plan with 82,203 options available for future grants. The options granted were allocated for employees, consultants and directors of IOPtima. The options are generally granted to employees and officers under option agreements and to consultants in the context of the consulting agreements.

4.2.12 Raw materials and suppliers

As of the report date, the scanner in the IOPtiMate™ system is currently manufactured and assembled by a US subcontractor (in this paragraph, "**the subcontractor**"). Based on an agreement signed between the subcontractor and IOPtima in June 2009, the subcontractor developed an upgraded version of the system – the OT-135P, and IOPtima were supplied all units of the abovementioned scanner, that were ordered. It should be noted that the subcontractor is the sole manufacturer of the abovementioned scanner. However, the Company does not consider itself dependent on this supplier since the laser component in the system is a generic component.

4.2.13 **Financing**

For details on the consolidated Group's financing, see paragraph 5.5 below. For details of the Company's investments in its investee companies, see paragraph 5.8.2 below.

4.2.14 **Taxation**

Pursuant to the agreement dated October 6, 2013, the Company transferred its holdings in IOptima to XLVision under section 104 of the Income Tax Ordinance [New Version].
For further details on taxation, see paragraph 5.8 below.

4.2.15 **Restrictions and oversight**

5.2.15.1 For statutory, regulatory and other special restrictions applicable to the operations of the Group's companies in general, see paragraph 5.1 below.

5.2.15.2 CE Mark approval (European Common Market). In August 2009, IOPtima received notice from the standards committee of KEMA Quality B.V., name, referred to today as DEKRA Certification B.V ("**DEKRA**"), that the OT-134 laser-based product developed by it meets the CE Marking standards and that it was recommending that such a CE Marking approval be issued to the product. In May 2010, IOPtima received notice from DEKRA that the OT-135P laser-based product developed by it meets the CE Marking standards and that it was recommending that such a CE Marking approval be issued to the product.In January 2011, IOPtima received notice from DEKRA that the OT-132P2 product was in compliance with the CE Mark standards and that it was recommending that such a CE Marking approval be issued to the product. In March 2014, IOPtima received notice from DEKRA that following its inspection of March 2014, the product is in compliance with the CE Marking standards and that it was recommending that such a CE Marking approval be issued to the product.

Name of approved medical device	Indication	Notified body	Approval number	Date of approval	Approval term	Last date of notified body inspection and results
IOPtiMate™ OT-135P (ASS-35-100)	Ophthalmic laser systems for treating glaucoma	DEKRA Certification BV	2125546CE 01	May 2010	1.7.2015	March 2015 – no material comments
IOPtiMate™ OT-135P2 (ASS-35-102)	Ophthalmic laser systems for treating glaucoma	DEKRA Certification BV	2125546CE01	May 2011	1.7.2015	March 2015 – no material comments

4.2.15.3 Approval from the registrar of medical devices and accessories (Israel). In May 2011, IOPtima received approval from the Israeli Ministry of Health regarding the registration of the OT-153P2 developed by it for performing glaucoma surgery in the

registrar of medical devices and accessories "AMAR Approval") for marketing the device in four medical centers in Israel. On March 2012, the restriction on marketing the device in four medical centers in Israel only was lifted and the approval in its current format does not restrict the number of medical centers to which IOPtima can market the device in Israel.

Name of approved medical device	Indication	Approval number	Approval date	Approval term
IOPtiMate™	Device for performing non-penetrating CO_2 laser based glaucoma surgery	2248001	24.5.2011	31.12.2015.

4.2.15.4 FDA (USA) - IOPtima is considering the continuation of its regulatory strategy in the United States and will advance in the process after locating cooperation with a partner in the target market or after raising designated funds for this purpose.

4.2.15.5 COFEPRIS(Mexico) - On July 15, 2013, Mexico's Federal Commission for Protection against Health Risks (COFEPRIS) granted its approval for the marketing and sale of the IOPtiMate™ system in Mexico. The approval was obtained in the name of a local representative based on an agreement signed between IOPtima and the representative. For further details, see paragraph 4.2.6 above.

4.2.15.6 CFDA (China) - On February 28, 2014, approval was received from the China Food and Drug Administration (the CFDA) for the IOPtiMate™ system. The said approval allows IOPtima to market and sell the IOPtiMate™ system in China, which to the best knowledge of the Company, is one of the world's largest glaucoma markets. The registration of the IOPtiMate™ system in China was performed by China Meheco Co Ltd., a company incorporated under the laws of the People's Republic of China, which is expected to perform the import operations into China.

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4.2.15.7 Other Territories - IOPtima is acting to obtain regulatory approvals to market the system in Taiwan, Canada, Belarus and Peru

4.2.15.8 For details on the marketing and distribution activities in the various territories, see paragraph 4.2.6 above.

4.2.16 **Material agreements**

4.2.16.1 For details of IOPtima's agreement with the subcontractor that manufactures the scanner component in the IOPtiMate™ system, see paragraph 4.2.12 above.

4.2.16.2 In the context of retirement agreements signed with Dr. Ami Eyal, Attorney Richard Namir, Dr. Gal Erlich and Mrs. Ronit Gross, former officers in IOPtima (in this paragraph collectively, "**the officers**"), it was decided that in the occurrence of a liquidation event[30] in IOPtima, IOPtima will grant each of the officers shares of IOPtima in proportion to the proximity of the officers' retirement date to the liquidation event. For details see Note 16b to the financial statements.

4.2.16.3 For details of the IOPtima distribution agreements, see paragraph 4.2.6 above.

5.2.17 **Targets and strategy**

In connection with IOPtima's operations, IOPtima has decided to focus its market penetration efforts on developing markets (such as China, India and Mexico) where there is no available solution for a large population of patients. IOPtima also intends to achieve sales in developed markets (Israel, Europe, Canada and certain Asian markets) based on a sales target for 2015.
In addition, IOPtima continues to focus on the following operations:

a. Develop and upgrade the existing system and reduce costs.
b. Improve its intangible assets.
c. Collect clinical data.
d. Train and educate physicians to use the procedure and promote professional clinical publications.
e. Raise capital.

[30] A liquidation event refers to any of the following: (a) a cash and/or equity purchase of all or substantially all of IOPtima's shares or assets by a third party; (b) a merger transaction in which IOPtima is the acquired entity and following which the company's interests in the merged entity's issued and outstanding share capital will be lower than 50%; (c) completion of a license transaction for IOPtima's entire or substantially entire IP; or (d) IPO of IOPtima's shares on any stock exchange in Israel or abroad.

The following table summarizes targets, strategy and expected developments in the coming years:

Indication	Current status	2014	2015	2016
Performing Non-penetrating glaucoma surgery in the inner eyeball	▪ The system has regulatory approval for marketing in Europe (CE), Israel (RMDA), Mexico (COFEPRIS) and China (CFDA). In addition, the system is in an advanced stage of registration in Taiwan and Canada. ▪ Initial sales and marketing progress in developing countries, subject to receipt of the regulatory approvals. ▪ Adoptions of the system by leading opinion leaders – to date more than 1,000 surgeries have been conducted at various sites around the world. ▪ Strengthening of marketing positioning by publishing clinical articles and participating in dedicated conferences. Continuing collection of clinical data - IOPtima will act to prove efficiency and safety for up to 60 months after the procedures	▪ Subject to raising capital, activities to file an application to the FDA for approval ▪ Significant progress in marketing and increasing sale volume ▪ Activities to secure reimbursement from medical insurers or insurance companies in selected markets ▪ Developing a new generation of the system ▪ Develop a consumable product that may assist in performing the procedure ▪ Publishing clinical articles, participating in professional conferences and continuing to collect clinical data ▪ Raising capital ▪ Continue to collect clinical data up to 60-month post-op	▪ Subject to progress with the FDA - commencement of clinical trials in the United States ▪ Expansion of marketing activities and significant growth in sales in various countries ▪ Submission of the new generation of the system for regulatory approval in various countries ▪ Launching consumable product ▪ Adding additional products to the Company's product line ▪ Continuing the collection of clinical data collection and publishing articles.	▪ Subject to progress with the FDA - continuation of clinical trials in the United States ▪ Expanding marketing activities and significant growth in sales in various countries ▪ Strengthen and support product line with broad clinical-marketing activity ▪ Continued collection of clinical data and publishing articles

Forward looking information - The Company's and/or IOPtima's forecasts as described in this paragraph represent forward-looking information as defined in the Securities Law, based on the data held by the Company and/or IOPtima as of the report date and there is no certainty that they will be realized.

4.3 **ViSci Ltd.**

The following is a glossary of professional terms used in the description of ViSci's operations:

Phase I clinical trial	- This phase consists of preliminary clinical trials for proof of safety. In some cases, this phase is conducted on healthy subjects and in others on patients.
Phase IIa clinical trial	- This phase consists of preliminary testing by administering the drug to patients in order to determine the optimal dosage and ascertain the drug's safety. In many cases, Phase II comprises several experiments. Phase IIb is of a larger scope and aimed at providing information on the drug's efficacy (proof of concept) to be used as the foundation for progressing to the next phase.
Toxicology	- The study of the occurrence and adverse effects of chemicals in living organisms.
Pre-IND	- Preliminary meeting with the FDA for discussing a product's appropriate regulatory pathway.
IND	- Investigation New Drug – FDA approval for a specific product's regulatory outline and approval for clinical studies at outlined in the submission.
cGMP	- Current Good Manufacturing Practices ("**cGMP**") for manufacturing, storage and transport of medical products indicated for humans.
'The Insert" or "Eye-D ®"	An ocular insert for controlled release of ophthalmic medications, based on technology for which Visci has the option to obtain a perpetual exclusive license.

4.3.1 General

4.3.1.1 ViSci is a private Israeli company developing an ocular insert for controlled release of ophthalmic medications, of which the Company holds 98.97% of the issued and paid up capital through its subsidiary XL Vision.

4.3.1.2 ViSci was granted an exclusive option by Novaer LLC ("**Novaer**"), a US corporation that is unrelated to the Company, for receiving a global transferrable exclusive license for making any use whatsoever of the technology underlying the ocular insert for administering controlled released eye drugs, including for purposes of R&D, commercialization, manufacturing, licensing, exporting, distribution, marketing, sales and services ("**the option**") based on an agreement

dated October 30, 2012 between ViSci and Novaer ("**the option agreement**"). According to the option agreement, as of the report date, until the date of exercise of the option by ViSci, if exercised, ViSci will conduct R&D activities in connection with the ocular insert for treating glaucoma ("**the insert**" or the "**the Eye-D™**") based on a predetermined work plan.

4.3.2 General information of the operating segment

4.3.2.1 The structure of the operating segment and changes in scope and profits therein

For details on the field of glaucoma, see paragraph 4.2.2.1 below.

4.3.2.2 Restrictions, legislation, regulations and special limitations applicable to the operating segment

See paragraph 5.1 below.

4.3.2.3 Developments in the operating segment markets or changes in the nature of customers

To the best of the Company's knowledge, in the last years, several pharmaceutical companies around the world began developing controlled release eye drug technologies that are based on similar active components but in various devices or inserts, some made of biodegradable materials and others of synthetic materials. See details of alternative developments and competition in paragraphs 4.3.5 and 4.2.2.8. To the best of the Company's knowledge, as of the report date, none of these efforts have matured or materialized into a commercial product for treating glaucoma.

4.3.2.4 Technological developments that have a material effect on the operating segment

For many years, eye drops have been the first and main line of treatment for eye illnesses. A technological breakthrough will occur when it will be possible to ensure that the drops reach the target location in the eye, thereby providing the patient with precise and optimal treatment. The effectiveness of the treatment will be improved and the need to take invasive measures to treat the illness will be delayed.

For further details of technological developments that have a material effect in this field, see paragraph 4.2.2.5.

4.3.2.5 The critical success factors in the operating segment and changes therein

According to the Company's and ViSci's estimates, the critical success factors underlying ViSci's activities in the operating segment are succeeding in the R&D activity to allow manufacturing of the insert for use in humans in compliance with regulations in target countries, including success in clinical trials, and obtaining the abovementioned regulatory approvals.

4.3.2.6 The main entry and exit barriers of the operating segment and changes therein

The main entry barriers entry are the development of technology that enables controlled release of eye drops into the target location; the monetary investments required for developing the insert; the success of the insert's development; the dependency on obtaining appropriate regulatory approvals, receipt of reimbursement of expenses/indemnification from medical insurers or insurance companies; and getting physicians and patients to adopt the technology.

4.3.2.7 Alternatives to the operating segment's products and changes therein

For details, see paragraph 4.2.2.8 above.

4.3.2.8 The structure of the competition in the operating segment and changes therein

For details of the structure of the competition in this segment, see paragraphs 4.3.2.3 above and 4.3.5 below.

4.3.3 **Products and services**

Eye-D® technology

As of the report date, ViSci is acting to develop an ocular insert for the controlled release of ophthalmic drugs for treating glaucoma.

The insert is designed to allow repeated medicinal eye care for the target area without the need for manually applying eye drops and, according to the Company's estimates, is likely to offer a solution for the existing prevalent problem of low compliance amongst chronic patients in general and glaucoma patients in particular that are required to administer their drops daily.

The insert is made of a reusable semi-permeable polymer that contains medicine called latanoprost – which is the most common and prescribed eye drop for treating glaucoma ("**the medication**"). The insert is placed under the conjuctiva and allows sustained and controlled release of the medication over time (during the preliminary stage, ViSci will test an insert designed for 12 weeks of therapy and aims to examine long-term treatment in the next stages after an optimal dosage is determined). The insert can be placed using a simple medical procedure with local anesthesia only. The insert will be replaced periodically (the replacement period will be based on the clinical data

used for the approval of the insert) by an ophthalmologist.

The insert's development process consists of three main stages:

(1) Selecting the insert's substance (EVA-Ethyl Vinyl Acetate) and active ingredient (Latanoprost Arginine Salt), conducting validation tests, manufacturing according to regulations, QA, manufacturing uniformity etc.

(2) Pre-Clinical safety and toxicology testing in animals.

(3) Subject to obtaining an IND from the FDA – Phase I/IIa clinical trials will be performed on humans to demonstrate the insert's safety and identify the correct dosage for reducing IOP.

As of the date of this report date, ViSci has already received the IND approval and Phase I/IIa are underway. For details of the option agreement, see paragraph 4.3.12.1 below.

The Company's objectives in connection with this development include intentions to position the insert as a leading alternative for currently used eye drops for treating glaucoma, mainly for populations that have difficulties in adhering to treatment on an ongoing basis and consequently experience deterioration of their disease. The eye drop treatment has understandable disadvantages, as specified in paragraph 4.2.2.8.

The following table summarizes the information on ViSci's product under development:

Medical product under development	Medical product's indications	Medical product's development stage	Expected milestones in the next 12 months	Nearest milestone and expected completion date	Estimated cost of nearest milestone completion	Potential target market size (no. of patients or procedures) and annual monetary scope of the medical product's potential target market at report date	Estimated date of beginning the medical product's marketing	Estimated market share of the medical product, assuming marketing approval is received
Eye-D™	Iinsert for controlled release of first indication drug (latanoprost) for treating glaucoma	Phase I/IIa clinical trials started in June 2014	- Completion of Phase I/IIa clinical trials - Analysis of final clinical trial results - Subject to the, results of the preparation for Phase IIb clinical trials and locating a strategic partner/funding sources for further development	Completion of Phase I/IIa clinical trials	NIS 3,200,000	The scope of the global glaucoma market is estimated at $ 4B a year (including medicinal treatment and surgeries)	2019 subject to receipt of approvals[31]	the estimated target market share of 6% within five years from FDA marketing approval

Forward looking information - The Company's evaluations regarding the insert as presented in this paragraph represent forward-looking information as defined in the Securities Law, based on data held by the Company and/or ViSci as of the report date and there is no certainty that they will be materialized.

[31] It should be clarified that due to a delay in the performance of the trials, due to unforeseen factors, the abovementioned expected dates were also delayed in relation to last year's forecast. The delay in performing the trials was caused mainly due to a large unanticipated rate of failure in the patient filtering process as opposed to the rate of participation.

4.3.4 **Segmentation of revenues and profits from products and services**

The product is in the early stages of development and has not yet reached the marketing and sales phase. As of the report date, ViSci and/or the Company have not yet generated any revenues from the sale of the product under development.

4.3.5 **Competition**

The following table summarizes the data on the Company's evaluations regarding the insert compared to the main competitors:

	Company's medical product	Competing product A	Competing product B
Product features	**Eye-D™ insert:** Ocular insert for the controlled release of opthalmic medication for treating glaucoma. As of the report date, the insert development is in Phase I and Phase IIa clinical trials. a. **Objective of the insert** – reduce IOP and prevent disease deterioration through an ocular insert that enables controlled release of medication b. **Use** – short visit to the ophthalmologist who places the insert under the conjunctiva of the eye (without a surgical procedure) by snipping the conjunctiva and placing the insert into the created pocket. The insertion will be performed by a qualified ophthalmologist without the need for any additional skills. c. Dosage – the insert replacement frequency will be based on ViSci's ability to prove controlled release of the medication over time during the clinical trials d. Side effects and risks – since the insert is still in the early stages of development and human testing has not yet commenced, this is difficult to assess. After the end of the current clinical trials and the evaluation of its results, ViSci will be able to evaluate the safety of the use of the insert in humans in better and more reliable manner. e. Cost of use – estimated at NIS 2,500 a year	**Eye drops:** Dispenser of eye drops which supplies an active ingredient for treating glaucoma similarly to the ingredient found in the insert. Eye drop care requires compliance and daily use by the patient a. **Objective of the medication** – eye drops to reduce IOP the purpose of which is to prevent disease deterioration b. **Manner of taking the medication** – daily drops into the eye **Manner of use of medication -** independent c. **Dosage** – drops inserted into the eye once or several times a day d. **Side effects and risks of using an eye drop bottle -** the drops contain preservatives which are liable to cause eye sensitivity and dryness as a result of prolonged use. Use of the bottle in older populations might lead to eye injuries and damage. In addition, in many cases, patients fail to administer the drops into the correct location of the eye and this may cause most of the medication fluid to seep out of the eye. e. Cost in the health basket – NIS 2,000 a year	**QLT Punctual Plug:** A plug inserted into the tear canal for controlled release of medication (still in the development stages, to the best of the Company's knowledge, the plug is currently in Phase I/Phase IIa of clinical trials on humans) a. **Objective of the plugs activity** – reduce IOP and prevent disease deterioration using a plug inserted in the tear canal for release of medication. b. **Manner of using/taking the medication** – short visit to an ophthalmologist who inserts the plug in the tear canal (with no surgical procedure) c. Dosage – To the best knowledge of the Company, the plug should be replaced every 4-8 weeks d. **Side effects and risks** – the Company does not have sufficient data in this matter. To the best knowledge of the Company, inserting the plug in this area of the eye causes pain. To the best knowledge of the Company, the manufacturers of this product have yet to stabilize the plug in the tear canal causing it to involuntary slip out of the eye e. **Cost of use**– the Company has no available data.
Advantages and disadvantages of the medical product compared to competing	The advantage of the insert is that it is expected to rid patients of the daily nuisance of dripping eye drops, which has numerous disadvantages as specified later in this table below.The insert provides controlled release of medication without the need for	Eye treatment has numerous side effects due to the preservatives inserted into the bottle to prevent infections. There is also the difficulty and nuisance of dripping eye drops into the eye for the patient's lifetime, causing low	To the best knowledge of the Company, plugs inserted into the tear canal tend to slip out of the eye and also tend to cause pain. In addition, the the cost of the product is high. The advantage is the

medical products to the best of the Company's knowledge	dripping eye drops. The insert is easily inserted by an authorized ophthalmologist, and ensures that the medication will continuously reach the designated location in the eye. A possible disadvantage is possible scarring of the conjunctiva upon removal of the insert	compliance. In addition. Since the disease is not sensed in its early stages and the patient's do not feel the IOP or any vision impairment during the early stage of the disease, they fail to adhere to the daily medication regimen, which significantly reduces the medication's effectiveness.	elimination of the need to use eye drops on a daily basis which has the disadvantages as specified in this table. H

4.3.6 **Production capacity**

The company intend to produce the implant through subcontractors. For details on the agreements with the subcontractors see below.

4.3.7 **Research and development**

4.3.7.1 Pre-clinical trials conducted on three types of animals (rabbits, dogs and monkeys) have demonstrated the insert's efficacy and safety. The pre-clinical trials have shown that the dosage released by the insert is indeed accurate and that the treatment led to a reduction in the IOP consistently and steadily until the desired levels, similar to the eye drop treatment, were achieved. During the first quarter of 2014 ViSci successfully completed the pre-clinical trials and in June 2014 started the clinical trials on humans in the United States (Phase I/IIa), the purpose of which is to prove the safety of an ocular implant for the delayed and controlled release of medication.

Trial name	Trial's development stage (as applicable)	Was the clinical trial conducted based on a IND or IDE process	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
VS101	PH I/IIa	Yes [32]	Proof of safety of the insert to lower IOP, and determining the appropriate drug dosage to insert the insert	7	United States	Up to 68	33	The trial is under way. This is a multi-center four pronged (low, medium, high and a drops review group) clinical trial	The trial is expectyed to end during 2015	6,043	2,823	The trial is underway and has not yet been completed. Intermediate trial results are not expected

As of the date of this report, ViSci continues to perform clinical trials on humans in the United States (Phase I/IIa) in connection with the insert it is developing. As of date of this report, ViSci expects the recruitment of participants to be completed in the second half of 2015 (later than originally estimated), and this, in part due to a slower recruitment rate than anticipated in the third quarter and fourth quarters of 2014 due to the percentage of unsuitable patients after a higher than anticipated wash-out and screen period.

4.3.7.2 On February 1, 2014 ViSci signed a CRO (Clinical Research Organization) agreement for receiving management services

[32] For further details regarding the submission of the IND request, see Immediate Report dated March 30, 2014 (Reference No. 2014-01-028344), included herein by way of reference.

from a third party for conducting the clinical trials performed by ViSci in the United States after filing the IND application with the FDA ("**the CRO agreement**").

According to the CRO agreement, a third party will grant ViSci services in the context of specific work orders as will be agreed upon between the parties. Each work order will include, amongst others, details of the services that will be rendered, the fee, the expenses and date of payment, the required regulatory approvals etc.

The CRO agreement will be in effect until the later of a period of three years or until the clinical trial is completed and all the final reports are submitted and approved. ViSci has the right to terminate the CRO agreement by providing an advance written notice of 30 days. The CRO agreement includes provisions regarding confidentiality, IP, indemnification, liability, insurance and dispute resolution.

Forward looking information - The Company's evaluations regarding the completion of clinical trials on humans as above and all its results represent forward-looking information as defined in the Securities Law, based on the data held by the Company and/or ViSci as of the report date and there is no certainty that they will be realized. The realization of these evaluations depends, among others, on various factors which are not under the Company's and/or ViSci's control, including obtaining the required regulatory approvals.

4.3.7.3 Investments in research and development

Since the establishment of ViSci in October 2012, the Company has invested a total of approximately NIS 11,534 thousand in R&D in ViSci. All R&D expenses have been recognized as an expense.
The planned R&D budget in ViSci for 2015 is approximately NIS 6,276 thousand.

4.3.7.4 Royalties

The following table presents the royalty rates that ViSci is obligated to pay for sales of products:

Company name	Development products	Royalty recipient	Royalty amount	Payment term
ViSci	Ocular insert for controlled release of eye medication	Novaer	ViSci will pay Novaer royalties at a rate of 2% of sales to the insert's end customer with the addition of the active ingredient as defined in the agreement (subject to the exercise of the option according to the option agreement)	Subject to the exercise of the option, starting from the date of generating commercial sales and until the later of: (1) the date of expiration of the patents protecting the insert or (2) ten years from achieving commercial sales of the insert – in both cases per country and per product

4.3.8 Intangible assets

According to the option agreement, new IP created by ViSci from the development plan will be owned by ViSci but until the option is exercised, ViSci will only use such IP for the insert's R&D and will not be able to grant licenses to such IP. As of the report date, ViSci has no IP rights over the insert in excess of rights to use Novaer's IP.

The following is a list of material registered patents and/or for which VISci have submitted patent applications (or of which material use has been made in ViSci activities):

Patent name/number	Patent description	Description of patent rights	Expected expiration date of the patent	Countries in which the patent is approved
8722739	The patent protects, *inter alia*, the chemical structure of the active ingredient (Prostaglandin) found in the insert[33] for the treatment of glaucoma, as well as the method of presenting and using the active substance for the treatment of glaucoma.	Novaer[34]	April 2030	United States[35]
8765166	The patent protects, *inter alia*, the ocular insert for the treatment of eye diseases, the mechanism for the release of the active ingredient in the insert and the use of this mechanism for the treatment of eye diseases.	Novaer[36]	May 2031	United States[37]

4.3.9 Human capital

As of the report date, ViSci has one employee, the CEO of the Company.

4.3.9.1 Employment agreements and consultants

Mrs. Leshem's employment agreement as ViSci' CEO is a personal contract which consists, among others, of confidentiality and non-competition clauses and assigns the ownership of inventions and developments to ViSci.

As of the report date, ViSci has several consultants and consulting entities that cover regulation, research and development as well as patent issues.

4.3.9.2 Service agreement with XL Vision

In the context of the service agreement signed on March 20, 2013, between ViSci and XL Vision ("**the service agreement**"), ViSci receives outsourcing services that include R&D, business development, finance and strategy out of a list

[33] This chemical structure is the result of converting the active substance into a liquid salt formation.
[34] The said patent is protected under the provisions of the ViSci's option agreement and its use thereof.
[35] For further details see Immediate Report dated May 13, 2014 (Reference No.: 2014-01-063252), included herein by way of reference.
[36] The said patent is protected under the provisions of the ViSci's option agreement and its use thereof.
[37] For further details see Immediate Report dated July 2, 2014 (Reference No.: 2014-01-104967), included herein by way of reference.

of services as specified in the service agreement, at ViSci's discretion. ViSci is also entitled to apply to XL Vision in writing to add or subtract from the services according to the service agreement. The services are rendered to ViSci through employees and consultants of XL Vision. According to the service agreement, XL Vision is entitled to a monthly fee in respect of the services based on the pricelist determined in the service agreement for each specific service provided by XL Vision.

The service agreement is in effect for a period of 12 months from January 2, 2013, and is automatically renewed for additional 12-month periods each unless either of the parties provides a notice of termination 90 days in advance.

4.3.9.3 Material dependency on an employee

Based on ViSci's current development stage, the Company estimates that ViSci is not dependent on any employee or consultant.

4.3.9.4 Reward plans

In order to reward its employees, consultants, service providers and directors and allow them to share in its development and success, in January 19, 2014, ViSci adopted an option plan for its employees and officers ("**ViSci's option plan**") according to which 416,667 options which are exercisable into 416,667 Ordinary shares of ViSci have been approved for grant under ViSci's option plan. As of the report date, 313,000 options have been granted under the option plan,to the ViSci CEO, of which, to the best knowledge of the Company, 104,667 options have been realized into shares of ViSci (constituting 1.03% of the issued and paid up capital of ViSci as of the date of the report).

4.3.10 **Raw materials and suppliers**

The insert is currently manufactured and assembled by two US subcontractors which are unrelated to the Company. ViSci has no dependency on these suppliers. For further details of ViSci's agreements with the subcontractors, see paragraph **4.3.12** below.

4.3.11 Financing

For details see Section 5.5 below.

4.3.12 Material agreements

4.3.12.1 Engagement with Novaer

On June 10, 2012, the Company and Aerie Pharmaceuticals Inc. ("**Aerie**"), a company in the United States engaged in the

discovery and development of innovative medication for the treatment of eye diseases, entered into a non-binding agreement in principle (except for certain conditions as is customary) granting an option to acquire an exclusive license for the exclusive underlying Aerie technology of an ocular insert for the controlled and delayed release of ophthalmic medication for the treatment of glaucoma (in this sub-paragraph "**the Technology**"), which determines the outline and activities of entering into such an option agreement.

Consequently, and to the best knowledge of the Company, Novaer LLC ("**Novaer**") was established as a US subsidiary of Aerie (through Novaer Holdings Inc.) which awarded the rights of the technology to Novaer.

On October 30, 2012, a binding and irrevocable agreement was signed between ViSci and Novaer providing an option to enter into a technology license agreement (in this sub-paragraph - "**Option Agreement**"), under which Novaer awarded ViSci an exclusive option (in this sub-paragraph - "**the Option** ") for an exclusive, perpetual, global, transferable, sub-licensable license to make any use of the technology, including for research and development, commercialization, manufacturing, license provision, export, distribution, marketing, sale and service provision, the terms of which will be finalized in a detailed exclusive license agreement ("**Exclusive License Agreement**"), the principles of which have been determined and are listed below. In addition, during the option period (as defined below), ViSci has received a limited license to use the technology for research and development as well as the promotion and commercialization of the technology.

The option can be exercised at any time over the period of the option agreement which was determined to be between the date of signature on the option agreement and the date of the signature of the exclusive license agreement ("**the Option Period**"), unless it is cancelled prior to that in the determined cases (the main points as specified below). It was also determined thatViSci will pay Novaer an annual option retention fee of $ 25,000 per year during the period of the option.

The options agreement determines that until the option is exercised by ViSci, if exercised, ViSci will act to continue the insert's R&D activity based on the work plan attached to the agreement ("**the work plan**"). The work plan is contingent on devising a clinical and regulatory strategy in connection with the insert. It should be noted that if the option is exercised, the license will not be limited to this indication only.

According to the option agreement, if the option is exercised, the parties will enter into the abovementioned exclusive license

agreement within the determined period.

The principles of the said future license agreement were determined in the option agreement according to the following outline:

(1) Upon engaging in the exclusive license agreement (following the exercise of the option), ViSci shall pay Novaer a one-time lump sum of $ 3 million (less any amounts incurred in any development activity in excess of the work plan).

(2) In the event of a transaction in which the majority of ViSci's shares or assets are sold to a third party or an exclusive license is granted for ViSci's entire IP to a third party, the receipts will be distributed between ViSci and Novaer pro rata to the progress made in the insert's development with the active ingredient defined in the agreement (in this paragraph, "**the predetermined active ingredient**") at rates ranging from 80% to Novaer and 20% to ViSci if a transaction is consummated shortly after the option agreement is signed and the option is exercised to 20% to Novaer and 80% to ViSci if a transaction is consummated after receiving FDA approval.

(3) Novaer will be entitled to royalties at a rate of 2% of the sales to the insert's end customer with the addition of the predetermined active ingredient.

The option agreement regulates the IP to be developed as part of the option period and regulates with respect to the IP that may be required by Aerie not in connection with the application in the field of technology and in relation to other technologies of Aerie that may be required by the Company for the use of the technology.
The option agreement also states that upon the development of the determined milestone (the successful completion of the first phase (Phase I) of clinical trials on humans), the parties can agree to establish a joint venture for the purpose of cooperation in connection with the technology development, the conditions of which are to be negotiated in good faith.

In addition, it was determined that a joint steering committee would be created to advise on technology-related patents. It was also determined that the parties will sign a detailed option agreement in accordance with the principles specified above.

The option agreement provides a mechanism for determining a development schedule budget and milestones to be achieved during the option period, and the conditions and events for early termination of the option agreement were also determined as is

customary for such agreements. It was decided, *inter alia*, that ViSci will be entitled to terminate the agreement at any time if it reaches a conclusion in good faith that due to market conditions or other economic circumstances it will not be able to meet the work plan, and that Novaer can cancel the option agreement in the event of non-payment of the annual retention fees, in the event of the sale of the control of ViSCI without including the realization of the option, or in the event that the option is not exercised within at least four years from the date of signing the option agreement under circumstances which are under ViSci's control only.

As of the date of this report ViSci continues to carry out research and development activities in connection with the insert in accordance with the determined work plan.

Forward looking information - It should be clarified that there is no certainty that ViSci will exercise the option pursuant to the option agreement and/or if the abovementioned detailed exclusive license agreement will be signed and/or what the final terms will be . The Company's estimates regarding the exercise of the option and the signing of a detailed exclusive license agreement are forward-looking statements as defined in the Securities Law.

4.3.12.2 Engagement for the manufacturing of the active ingredient in the insert

On January 17, 2013, ViSci signed an agreement with an unrelated third party US subcontractor (in this paragraph, "**the subcontractor**") according to which the subcontractor will develop and manufacture the insert's medication in conformity with cGMP standards in order to allow clinical trials on humans in order to assemble the insert which the Company intends to market ("**the development and manufacture of the medication**" and in this sub-paragraph "**the agreement**", respectively). The payment in consideration for the development and production of the abovementioned medication is paid periodically in accordance with the progress of the development and production.

According to the agreement, all the information, inventions, patent rights, knowhow and technical data generated in the course of the agreement will be exclusively owned by ViSci. The agreement is in effect until December 31, 2016 and may be cancelled by either party by providing an advance notice of 30 days.

4.3.12.3 On February 24, 2013, ViSci delivered a work order to another US subcontractor which is unrelated to the Company for the insert's development and assembly with the active ingredient

which was completed in accordance with what was agreed. As of the report date, the agreement is no longer in effect.

4.3.12.4 As for ViSci's engagement in a CRO agreement with a third party in connection with the clinical trials, see paragraph 4.3.7.2 of this section above.

4.3.13 Targets, strategy and expected developments in the coming years

The following table summarizes targets and strategy:

Indication	Current status	2015	2016	2017
R&D of ocular insert for controlled release of eye medication for treating glaucoma	▪ Start of business development activities to locate strategic partnerships.	▪ completion of clinical trials ▪ Business development to locate strategic partnerships. ▪ Continued development of the insert to promote marketing.	▪ IND submission, end of PH1 trial and applying for the start of PH2 trial. ▪ Beginning of PH2 trial. ▪ Continued development of the insert to promote marketing. ▪ development of additional indications for the delayed and controlled release of ophthalmic drugs.	▪ Continue of development .

Forward looking information - The forecasts described in this paragraph represent forward-looking information as defined in the Securities Law, based on the data held by the Company/ViSci as of the date of publication of this report date and there is no certainty that they will be realized.

4.4 **DiagnosTear**

Following is a glossary of professional terms used in the description of DiagnosTear's operations:

Semi-quantitative assessment	- A color profiling test for assessing the amount of material broken down to several levels – low, medium and high.
Dry Eye Syndrome ("DES")	- A chronic syndrome caused by disrupted production or abnormal tear fluid (decreased tear production or damaged fluid quality) which leads to eye dryness, pain, discomfort and even damage.
Reagents	- Chemicals used for chemical analysis.
"Accepted tests"	The tests currently used to diagnose the syndrome by examining syndrome-related symptoms including the Schirmer test, testing a disruption in the tear screen - Tear Film Break-Up Time (TFBUT), staining of the surface of the eye and questionnaires.
"DiagnosTear tests"	Tests developed by DiagnosTear enabling the identification of the concentrations of various parameters which form the tear fluid, enabling diagnosis, companion diagnostics and monitoring of dry eye syndrome patients.

4.4.1 General

On March 17, 2013, the Company, through its subsidiary XL Vision, entered into an investment agreement in DiagnosTear. For details of the investment in DiagnosTear see paragraph 5.8.2.1 below. As of the report date, the Company holds 70.42% of the issued and outstanding share capital of DiagnosTear (70% fully diluted) through XL Vision.

4.4.2 General information of the operating segment

4.4.2.1 The structure of the operating segment and changes in scope and profits therein

DES ("**the Syndrome**") is prevalent among wide spectrums of the population. Some 100 million people suffer from this syndrome worldwide and there are about 25 million in the US alone, with different levels of severity[38]. Many others suffer from similar symptoms but not from the syndrome itself and are required to be diagnosed of whether they suffer from the syndrome. The number of patients rises every year mainly due to the natural aging of the population and environmental changes such as enhanced use of air conditioners, personal

[38] Market Scope 2011, Comprehensive Report on the Global Dry Eye Products Market. St. Louis, Mo: Market Scope, November 2011

computers and contact lenses.

Despite its wide prevalence, the syndrome is difficult to diagnose and treat since it represents a common denominator for several conditions and for a large number of parameters in which a change indicates that there is a certain problem with tear fluid which leads to the syndrome. The ability to diagnose the syndrome is an important pillar in the condition's early detection and treatment, in customizing the therapy and in monitoring the efficacy of the therapy.

There are several tear fluid parameters and changing of which indicate on a problem which cause dry eye syndrome, and it is estimated that they play an important role in the quality of the tear fluid and in protection of the eye surface. Among the parameters are amount of fluid, the protein composition in the tear, amount of mucins etc.

In the medications market, the basic products for treating the syndrome consist of tear substitutes which only address the syndrome's symptoms. There is only one approved drug that treats one of the underlying causes of the syndrome, Restasis produced by Allergan, which reduces the eye inflammation effect but is only efficient in about 20% of the patients. To the best knowledge of the Company, there are numerous pharma companies today that are attempting to develop new drugs for treating the syndrome and are in various stages of development.[39]
The managements of the Company and that of DiagnosTear believe that the development of companion diagnostic tools, which differentiate between patient groups already in the development stage, may enable drug companies to minimize development risks, increase the chances of success and significantly reduce development costs.

4.4.2.2 Restrictions, legislation, regulations and special limitations applicable to the operating segment

For details of the legislative restrictions, regulations and limitations applicable to this segment, see paragraph 5.1 below.

4.4.2.3 Technological developments that have a material effect on the operating segment

The quantitative screening of the tear films (Schirmer's test) was introduced back in 1903 with a specificity usually ranging around 90%, whereas its sensitivity ranges around 25%. Despite this only being an indication of the quantity of tears, the test is still used as first-line of diagnosis for patient suffering from the syndrome. The tools at the disposal of the ophthalmologist to

[39] www.clinicaltrial.gov

check the status of the eye and the severity of the syndrome include a staining test of the surface of the eye to assess the damage to the cornea and conjunctiva, a test to measure the tear film break-up time (TFBUT), the OSDI (Ocular Surface Disease Index) questionnaire to determine the level of discomfort and interference with daily activities and more. In recent years, intensive efforts have been made for identifying additional parameters that play a critical role in the tear fluid and in protecting the eye surface. The majority of these parameters have been proven to be involved in protecting the delicate balance of the normal functions of tear fluid. There are various laboratory techniques for measuring each of these parameters, but most of them are not currently available to clinicians. In addition, there are currently two commercial products available for screening two of all the qualitative parameters: a product manufactured by TearLab which screens the tear fluid osmolality parameter and a relatively new product called InflammaDry manufactured by RPS which screens the level of the MMP-9 enzyme.

4.4.2.4 <u>The critical success factors in the operating segment and the changes therein</u>

DiagnosTear and the Company estimate that the critical success factors are: protecting its intangible assets (IP) for the development, upgrading and commercialization of the product, as defined in paragraph 4.4.3 below; completion of product development; obtaining the regulatory approvals needed for developing the diagnostic kit and for marketing it worldwide; getting global leading professionals to adopt the product; interfacing the product with other new products (including medications) for treating the syndrome; financial strength and the ability to raise capital.

4.4.2.5 <u>The main entry and exit barriers in the operating segment and the changes therein</u>

The market entry barriers are:

- IP protection
- Technological entry barriers such as identifying the chemical reaction and calibrating it to the necessary levels
- Successful clinical trials and receipt of appropriate regulatory approvals
- Financial investments required for development

4.4.2.6 <u>Substitutes to the products in the operating segment and the changes therein</u>

For details of substitutes for existing products, see paragraph 4.4.2.3 above..

4.4.2.7 The structure of the competition in the operating segment and the changes therein

For details of the structure of the competition in this segment, see paragraph 4.4.5 below.

4.4.3 **Products and services**

TeaRx™

DiagnosTear develops a product for diagnosis, companion diagnostics and monitoring of the dry eye syndrome by testing the composition of tear fluid based on a semi-quantitative assessment of number of key parameters in the tear fluid ("**the product**"). The product developed by DiagnosTear is based on the tear fluid coming into contact with various reagents, resulting in color reactions in accordance with their concentration in the tear fluid making it possible to assess the concentration of the parameters in the tear fluid which could indicate a problem with the tear fluid.

The following table summarizes the information on DiagnosTear's product under development:

Medical product under development	Medical product's indications	Medical product's development stage	Expected milestones in the next 12 months	Nearest milestone and expected completion date	Estimated cost of nearest milestone completion	Potential target market size (no. of patients or procedures) and annual monetary scope of the medical product's potential target market at report date	Estimated date of beginning the medical product's marketing	Estimated market share of the medical product, assuming marketing approval is received
TearRx	Diagnosis, personalized treatment and monitoring of Dry Eye Syndrome	Clinical trials (trials not conducted under IDE in the current stage of development)	Clinical testing of various parameters, industrialization, start of negotiations with regulatory authorities.	Receipt of the results of the trial to prove the diagnostic capabilities between healthy and dry-eye syndrome patients, focusing on edge groups of both healthy and dry eye patients	Approx. NIS 1M	About 100 million patients diagnosed worldwide as suffering from dry eye syndrome.[40] The Company is not able to estimate the financial scope of the global diagnostic market.	The Company is in the stage of examining the market and it estimates that sales of the product will begin during 2016	As of the date of this report, and at this stage of development DiagnosTear is unable to assess the anticipated market share

Forward looking information - The Company's and DiagnosTear's evaluations presented in this paragraph represent forward-looking information as defined in the Securities Law, based on data held by the Company/DiagnosTear as of the report date and there is no certainty that they will be materialized.

[40] Market Scope. 2011 Comprehensive Report on the Global Dry Eye Products Market. St. Louis, Mo: Market Scope, November 2011

4.4.4 **Diversification of revenues and profits from products and services**

The product is in the early stages of development and has not yet reached the stage of marketing and sales. As of the report date, no revenues have been generated for DiagnosTear and/or the Company from the sale of the product in development.

4.4.5 **Competition**

To the best of the Company's knowledge, there are several tests in the market for testing the quantity and quality of tear fluid, the main ones of which are:

- The Schirmer test which tests the quantity of tears;
- The TearLab instrument which, to the best of the Company's knowledge, is sold to doctors for approximately $10 thousand (with a cost per test that ranges between $10-15) and tests the osmolality parameter (the water absorption capacity capability mainly derived from the concentration of salts) in the tear fluid.
- The InflammaDry test manufactured by RPS (Rapid Pathogen Screening), which screens the level of MMP-9 enzyme in the tear fluid and costs about $16 per test.

The following table summarizes the data on the Company's evaluations regarding the developed medical product of the Company compared to the products of the main competitors:

	Medical product of the Company	**Competing product A**	**Competing product B**	**Competing product C**
Product features	**TearRx™** The product is designed for diagnosis, companion diagnostics and monitoring the treatment of DES by testing the tear fluid. a. Use of the product - extracting tear fluid and testing several parameters b. Side effects and risks - unknown d. Cost of use - $ 10-$ 15 e. Comfort of use - non-penetrating collection of tear film and screening of several parameters within minutes at the physician's clinic f. Potential reimbursement from medical insurers, insurance companies or others - DiagnosTear estimates that the possibility of reimbursement is high	**Schirmer's test for measuring the quantity of tear fluid** a. Use of the product - attaching a small strip of filter paper inside the lower eyelid and absorbing the fluid for five minutes b. Side effects and risks - discomfort and pain c. Cost of use (health basket) - negligible d. Comfort of use - discomfort and painful. The procedure is covered by most Sick Funds and private insurance policies e. Potential reimbursement from medical insurers, insurance companies or others - to the best knowledge of the Company the test has an indemnity code in the United States	**TearLab - screening the tear fluid osmolarity** a. Use of the product - collecting tear fluid and inserting it a reading device b. Side effects and risks unknown c. Cost in the health basket - $ 10,000 per device and $ 10-15 per test d. Comfort of use - reasonable. The procedure is covered by most Sick Funds and private insurance policies e. Potential reimbursement from medical insurers, insurance companies or others - the procedure is covered by most Sick Funds and private insurance	**InflammaDry™ - screening the MMP-9 parameter in tear fluid** a. Use of the product - collecting a sample of tear fluid and testing it with a reading device b. Side effects and risks unknown c. Cost in the health basket - not yet included d. Comfort of use - simple to use f. Potential reimbursement from medical insurers, insurance companies or others - not yet included in the health basket

			policies	
Advantages and disadvantages of the medical product compared to competing products to the best of the Company's knowledge	g. Expected advantages - Multi-parameter, easy to use h. Expected disadvantages - Due to the Due to the early development stage the Company didn't identifies significant disadvantages	f. Disadvantages - The information obtained is limited and the test is discomfort. g. Advantages - Cheap	h. Disadvantages - High costs, questionable efficacy, testing only one parameter i. Advantages - Easy to use	g. Disadvantages - test efficacy is in evaluation stages, only one parameter is tested, very small number of cases h. easy to use

The Company's management evaluations with regard to the characteristics or data presented in the above table above do not constitute a professional opinion on the quality of the competing/alternate products and refer to the date of this report only. It is possible that the evaluations the Company's management regarding the competing/alternate products as listed in the above table do not accurately reflect actuality or reflect it only partially.

4.4.6 Research and development

4.4.6.1 As of the report date, DiagnosTear was successful in demonstrating initial proof of concept of several parameters and is focusing its development efforts on proving the diagnostic capabilities between healthy patients and those suffering from DES.

4.4.6.2 Clinical trial – analysis of the results of the completed clinical trial - On February 9, 2014, DiagnosTear announced that it had received all the required approvals from the Sheba Medical Center for beginning a clinical trial. The objective of the clinical trial is to test the efficacy of the tear screening methods developed by DiagnosTear in tears of healthy and DES patients. On February 10, 2014[41] DiagnosTear started the trial to examine the efficacy of the test methods it developed on tears of healthy subjects and those suspected of suffering from the Syndrome (in this sub-paragraph: **"Test"** and **"Syndrome**").

Due to a low recruitment rate and the need to test the efficacy of the testing methods among a larger sample, DiagnosTear used the samples collected in Israel for the calibration phase and opened a center in the United States which collected about 200 samples constituting the basis of the trial and its results. As part of the trial, the subjects underwent several widely-used benchmark tests for diagnosing the syndrome. Their tear fluid was simultaneously examined using the tests developed by DiagnosTear and a comparison was made of the results of the tests among the end population of the sample used in this trial. On February 1, 2015 positive results were received.

[41] The Immediate Report of the Company dated February 10, 2014 (Reference No. 2014-01-035872), included herein by way of reference.

The findings of the trial, which compared between the end population of the sample, suggests that there is a significant statistical correlation between the results of the tests developed by DiagnosTear, enabling the identification of the concentrations of a number of parameters that make up the tear liquid and thereby enabling diagnosis of the syndrome ("**DiagnosTear Tests**"), and the results of several widely-used benchmark tests which are used to diagnose the syndrome by examining syndrome-related symptoms including the Schirmer test, tear film break-up time (TFBUT), staining and questionnaires (collectively: "**the Accepted Tests**").

4.4.6.3 The Company and DiagnosTear believe that the trial results demonstrate the potential of an aggregate value of DiagnosTear tests to improve detection of patients suffering from the syndrome and identification of sub-populations suffering from the syndrome, compared with other objective tests currently available on the market (Schirmer, TFBUT and staining), each of which measures a single phenomenon that does not allow the identification of sub-populations. In addition, the Company and DiagnosTear believe that the significant statistical correlation found in the abovementioned trial between the results of DiagnosTear tests and the results of the subjective widely-used benchmark tests available today (questionnaires) constitutes a unique ability to turn a subjective tool into an objective test and thereby improve the diagnosis and identification of patients with the syndrome and customize their treatment. All this reinforces DiagnosTear's assessment that the multi-parameter diagnostic tool it has developed will provide innovative and unique diagnosis, personalized treatment and monitoring of the treatment of patients suffering from the syndrome. Following the trial results, DiagnosTear is working, as of the date of the report, on submitting several new patent requests.

Further to the positive results of this clinical trial, DiagnosTear plans to start an additional trial in order to assess the effectiveness of the tests in tears of healthy subjects as well as patients with severe dry eye syndrome, which will be conducted in accordance with the generally accepted definitions of healthy populations and those suffering from the syndrome which, to the best knowledge of the Company, were used by the FDA during similar regulatory approval processes. This additional trial will focus on end populations of healthy and those suffering from the syndrome in accordance with the accepted definitions as stated above, and the results thereof will be used by DiagnosTear to select an optimal parameter composition as a basis for discussion with the regulatory authorities regarding the product approval process.

The Company estimates that the additional trial results are expected in the second quarter of 2015. The Company estimates

based on DiagnosTear's estimation, subject to successful development goals, that the product will receive regulatory approval and begin commercialization in 2016.

Forward-looking information warning - the information and estimates of the Company on the implementation of an additional trial, the continued development of the tests, obtaining regulatory approvals and starting commercialization, including forecasts, deadlines, estimates and/or plans of the Company in connection therewith, are forward-looking statements as defined in the Securities Law, 1968, involvinh high uncertainty, and based on data available to the Company and/or DiagnosTear as of the date of this report, and there is no certainty that that this will materialize at all or that it will materialize in the manner estimated or foreseen in the first place, and the realization of which is based on factors that are not under the control of the Company and/or DiagnosTear, *inter ali*s, failure of clinical trials, failure to obtain regulatory approvals, and the materialization of any one of the risk factors specified in paragraph 5.13 of this report, which may have a significant impact, jointly and severally, on the said estimates of the Company.

The following table summarizes the clinical trials that have been or are being conducted by DiagnosTear:

Trial name	Trial's development stage (as applicable)	Was the clinical trial conducted under IND or IDE process?[42]	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS thousand)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Trial to examine the effectiveness of the methods developed	Clinical trial	NO	Examining the effectiveness of the tests developed by DiagnosTear compared to the currently widely used tests for diagnose dry eye syndrome	1	United States[43]	200	198[44]	Completed	The trial in the United States was conducted in September -October	1,100	1,100	The trial results show a significant statistical correlation between DiagnosTear tests results and the results of the widely used tests on the end populations of the sample.

Forward looking information - The Company's and DiagnosTear's evaluations regarding the performance of clinical trials, the dates of obtaining clinical trial results, the dates of concluding clinical trials, their outcome and the expected cost of developing the product represent forward-looking information as defined in the Securities Law, based on the data held by the Company and/or DiagnosTear as of the report date and there is no certainty that they will be realized.

[42] IND (investigational new drug) is the process of drug testing by the FDA to initiate clinical trials on humans; IDE (Investigational Device Exemption) is a process of testing a medical device by the FDA or Approving Committee to perform clinical trials on humans.

[43] The trial included also tests taken from participants in test centers in Israel; however, the samples from the centers in Israel were not included in the trial but were used to calibrate the system.

[44] The number does not refer to 75 subjects who participated as part of the start of the trial in several medical centers in Israel, and which were eventually not included in the trial and results thereof, which relied on the medical center in the United States only.

4.4.6.5 Investments in R&D

On October 10, 2013, DiagnosTear received approval for the receipt of a grant from the Office of Chief Scientist (in this paragraph, "**the approval**") for the product's development. According to the approval, the Office of Chief Scientist will participate at a scope of 40% of a budget of NIS 1,693,590. Royalties will be paid out of DiagnosTear's revenues from any sales of a kit for diagnosing DES and monitoring treatment of dry eye syndrome, if any, as specified in the approval. The approval is subject to certain obligations, restrictions and pre-conditions, including the recognition of expenses, according to the rules of the Office of Chief Scientist.[45]

On May 27, 2014, DiagnosTear received approval for an additional grant from the Office of Chief Scientist (in this sub-paragraph - "**the Approval**") for the development of the product. Pursuant to the approval, the participation will be 40% of the budget of NIS 1,565,251. Royalties will be paid out of DiagnosTear's revenue from the sale of the diagnostic kit which enables the diagnosis and monitoring treatment of dry eye syndrome, if any, as specified in the approval. The approval is subject to certain obligations, restrictions and pre-conditions, including the recognition of expenses, according to the rules of the Office of Chief Scientist.[46]

The Company recorded a liability to the Office of Chief Scientist in the financial statements for 2014 in accordance with IAS 20. Total liabilities registered are NIS 480 thousand as of December 31, 2014.

During the past three years, a total net of NIS 3,963 thousand was invested in research and development as per the following breakdown (in NIS thousands):

Period	**2012**	**2013**	**2014**	**סה"כ**
Investment in R&D prior to the Office of Chief Scientist participation	39	1,208	2,005	3,252
Excluding the Office of Chief Scientist	-	(161)	(215)	(375)

[45] See the Immediate Report of the Company dated October 13, 2013 (Reference No. 2013-01-163587), included herein by way of reference.

[46] See the Immediate Report of the Company dated May 24, 2014 (Reference No. 2014-01-075618), included herein by way of reference

participation, net				
Investment if R & D, net	**39**	**1,047**	**1,791**	**2,877**

All DiagnosTear research and development expenses were recognized as expenses.

The Company intends to invest during 2015, a total of NIS 2,533 thousand in DiagnosTear research and development activities.

Forward-looking information warning - The estimates of the Company in this section above regarding the intentions of the abovementioned DiagnosTear investments, including forecasts, deadlines, assessments and/or plans of the Company in connection therewith, are forward-looking statements as defined in the Securities Law, based on the analysis of data available to the Company/DiagnosTear at the date of this report, and there is no assurance that these estimates and expectations will be realized at all or will be realized in the manner estimated or anticipated in the first place, and the realization of which depends on many factors and variables that are not controlled by the Company, *inter alia*, liquidation difficulty and/or the need to divert resources and allocate them in a different manner, difficulty in locating partners and/or investors for cooperations and/or to raise capital, and the materialization of any one of the risk factors specified in section 5.13 of this report, which may have a material effect, jointly and severally, on thee Company's stated estimates and intentions.

4.4.6.6 Royalties

The grants listed in the table below are the actual amounts of the grants received for the years indicated. As of the date of this report the Company has no grants from other entities in the country besides the Office of Chief Scientist.

Medical product underlying the OCS grant	Grant received in 2012 (NIS000)	Grant received in 2013 (NIS000)	Grant received in 2014 (NIS000)	Balance of grants received from the OCS at report date (NIS000)	Grant repayment terms and dates	Special conditions prescribed by the OCS regarding the grant and/or its repayment terms
Dry eye syndrome diagnostic method	-	-	951	951	DiagnosTear has undertaken to pay royalties at a rate of 3%-3.5% of sales of products resulting from the R&D that was funded by the OCS in an amount not exceeding 100% of total grants received by DiagnosTear (subject to OCS remarks), dollar linked and bearing Libor interest	-

4.4.7 **Intangible assets**

atent application	Patent description	xpected patent rights, if applicable	reference date	xpected PCT date	ountries of application
ry Eye Diagnostic	Product for semi-quantitative assessment of various Dry Eye Syndrome parameters	iagnosTear	0.11.2011	9.11.2012	ational stage in the United States, Israel, China and Europe
ethod for Quick Assessment of Osmolarity	Semi-quantitative assessment of Osmolarity	iagnosTear	0.11.2011	9.11.2012	orldwide under PCT application

Patents; patent requests

As of the report date, two patent applications have been filed for protecting the product's technology.

Total costs invested by DiagnosTear in 2014 in connection with intangible assets approximate NIS 79 thousand. The Company did not recognize these amounts as an asset in the financial statements.

Trademarks

The following table summarizes registered trademarks and/or requests submitted by DiagnosTear for registered trademarks in its name:

Trademark name	Process description	Countries in which request submitted for registration	Type of expected trademark rights (if registered)	Date request submitted for approval	Trademark registration date
TEARX	Trademark registration request	United States	Ownership	18.11.2014	-

4.4.8 **Human capital**

4.4.8.1 General

As of the date of this report, the management of DiagnosTear consists of 3 directors (one of which is also the project manager).

4.4.8.2 Employment agreements and consultants

As of the report date, DiagnosTear has three employees: project manager, development manager and a lab employee.

DiagnosTear enters into personal employment agreements with its employees which consist, among others, of confidentiality and non-competition clauses and assignment of ownership over the employee's inventions and developments to the company.

DiagnosTear also enters into consulting agreements for limited periods of time which include, among others, provisions regarding confidentiality, non-competition, non-solicitation and protection of DiagnosTear's IP.

4.4.8.3 Service agreement with XL Vision

In the context of the service agreement signed between DiagnosTear and XL Vision (in this paragraph – "**the service agreement**"), DiagnosTear receives outsourcing services that include R&D, business development, finance and strategy out of a list of services as specified in the service agreement, at DiagnosTear's discretion. DiagnosTear is also entitled to apply to XL Vision in writing to add or subtract from the services according to the service agreement. The services are rendered to DiagnosTear through the employees and consultants of XL Vision.
According to the service agreement, XL Vision is entitled to a monthly fee in respect of the services based on the pricelist determined in the service agreement for each specific service.

The service agreement is in effect for a period of 12 months from February 13, 2012 and is automatically renewed for additional 12-month periods each unless either of the parties provides a notice of termination 90 days in advance.

4.4.8.4 Material dependency on employees

The Company and DiagnosTear estimate that they do not have any material dependency on any DiagnosTear employee. Notwithstanding the foregoing, the departure of any DiagnosTear employees may delay the development activities at DiagnosTear in a material manner until a suitable replacement is found.

4.4.8.5 Reward plans

In order to reward its employees, consultants, service providers and directors and allow them to share in its development and success, in January 19, 2014, DiagnosTear adopted an option plan for its employees and officers ("**DiagnosTear's option plan**") according to which 6,941 options which are exercisable into 6,941 Ordinary shares of DiagnosTear have been approved for grant under DiagnosTear's option plan. To the best of the Company's knowledge, as of the report date, no options have

been granted by DiagnosTear under DiagnosTear's option plan.

4.4.9 Financing

4.4.9.1 DiagnosTear finances its operating activities using the Company's investment received in the context of the investment agreement signed with XL Vision and through the Office of Chief Scientist. For further details see financial statement in Note 9 and paragraph 4.4.9.2.

4.4.9.2 On January 27, 2015 DiagnosTear and XL Vision signed a convertible loan agreement, which replaces the abovementioned agreement, for an investment of up to $300 thousand that will be returned to XL Vision. XL Vision has the option to convert the loan, at its discretion, into DiagnosTear share equity upon the occurrence of the events determined in the agreement. In addition, terms were determined for the immediate repayment of the loan. It was further agreed that the funds received from the Office of Chief Scientist as a grant, if received, will not be used by DiagnosTear to repay the abovementioned shareholders loan. DiagnosTear has no bank or non-bank credit lines and does not obtain credit from other sources. To finance its overall plans, completion of development plans and promotion of regulatory processes DiagnosTear will need to raise additional financing sources. In 2014 DiagnosTear did not receive shareholder loans under the above conditions.

4.4.10 **Material agreements**

4.4.10.1 For details of the service agreement of DiagnosTear, see paragraph 5.8.2.1.

4.4.10.2 For details of the service agreement signed between DiagnosTear and XL Vision, see paragraph 4.4.8.3.

4.5.10.3 For details of the convertible loan agreement between DiagnosTear and XL Vision, see in paragraph 4.4.9.2 above.

4.4.11 Strategic objectives and expected developments in the coming years

The following table summarizes targets and strategy:

Indication	Current status	2015	2016	2017
Product for diagnosing Dry Eye Syndrome	The clinical trial results have been received and show that there is significant statistic correlation between the results of DiagnosTear tests and the results of the widely used tests. See paragraph 4.4.6.4 above.	Regulation, clinical trial to distinguish between healthy and dry eye patients based on FDA parameters, industrialization, strengthening the patent portfolio	Performance clinical trial for the purpose of regulatory approvals, obtaining regulatory approval, beginning sales and marketing	Marketing and sale of the product

Forward looking information - The Company's and DiagnosTear's forecasts as described in this paragraph represent forward-looking information as defined in the Securities Law, based on the data held by the Company and/or DiagnosTear as of the report date and there is no certainty that they will be realized.

4.4.12 Scientific Committee

DiagnosTear has a Scientific Advisory Board which provides it with professional scientific consulting services on various issues.

4.5 OphRx Ltd.

4.5.1 General

As stated above, in early January 2015, the Company (through XL Vision) entered into an agreement (in this paragraph: "**the Agreement**") for investment in new technology in the ophthalmic field, which includes an investment in a new company to be established that will develop medications for treating eye diseases using drug delivery technology developed at the Hebrew University ("**the Technology**") by Prof. Nissim Garti[47]. The technology has a liquid crystal structure which enables amplified penetration of various materials through various membranes. The unique structure of the technology creates a basis to load different molecules and release them in a controlled release mechanism in the target location. The Company believes that the technology could be a platform for various applications in the field of ophthalmic drug delivery, *inter alia*, in connection with front and/or back of the eye diseases.

The new company plans to focus on developing drugs to treat both front and back of the eye diseases.

Under the agreement, the new company will be granted a worldwide exclusive license to use the technology in the ophthalmic field, including for research, development, manufacturing, marketing and commercialization, and granting sub-licenses therefore, in return for royalties from future sales of the developed products. Under the license, the rights of the developed products and any new patents will be owned by the new company.

XL Vision's investment in the new company, according to the agreement, will amount to a total of $500 thousand (out of a total overall investment by all investors in the agreement of $1,000 thousand) and will be carried out in stages, in accordance with and subject to the conditions and milestones set forth in the agreement. After the investment, XL Vision is expected to hold 40% of the fully diluted issued and paid up capital of the new company.

[47] See Immediate Report of the Company dated 12 January 2015 (Reference No. 2015-01-009352), included herein by way of reference.

Out of the amount that will be invested by the Company, a total of $215 thousand will be paid by the Company close to the date of its establishment and the balance will be as transferred upon completion of the milestones appear in the agreement.

Forward-looking statement warning: The information and the Company's estimate of the integration of the activities of the new company in the operations of the Company, including possible development directions of the technology and its successful development and commercialization, including forecasts, deadlines, estimates and/or plans of the Company in connection therewith, are forward-looking statements as defined in the Securities Law, which involves a high degree of uncertainty, and is based on the data available to the Company and/or XL Vision as of the date of this report, and there is no certainty that it will materialize at all or no certainty that it will be realized in the manner originally estimated or anticipated, and the realization of which is based on information which is not under the control of the Company and/or XL Vision, *inter alia*, lack of sufficient funding for the development of the technology, difficulties in implementing the synergy between the activity of the new company and that of the cluster, failure of pre-clinical and/or clinical trials, regulation deterioration in the field and/or failure to obtain regulatory approvals, failure to penetrate and/or market technology-based products, failure to commercialize and/or create partnerships on the basis of the technology, and the realization of any one of the risk factors specified in section 5.13 below, which might have a material impact, jointly and severally, on the abovementioned estimates.

b. **The cancer diagnostics cluster**

General

Following is a glossary of general terms used in this chapter:

Hadassah	-	Hadassah Hospital
Hadasit	-	Hadasit Medical Research and Development Services Ltd., applied arm of Hadassah
Micromedic	-	Micromedic Technologies Ltd.
Zetiq	-	Zetiq Technologies Ltd.
R&D Law	-	The Encouragement of Industrial Research and Development Law, 1984
Tel Hashomer	-	Tel Hashomer's Haim Sheba Medical Center.
Relief Regulations	-	The Companies Regulations (Reliefs in Transactions with Interested Parties), 2000

Following is a glossary of specific professional terms used in this chapter:

In vitro diagnostics (IVD)	-	Diagnosis through tests not performed directly on the human body but using various laboratory methods for analyzing samples taken from the patient.
Oncogenes	-	Genes that contribute to the conversion of a normal cell into a cancerous cell.
Treatment customization or personalized medicine	-	A medical approach aimed at enhancing treatment effectiveness by customizing the care, dosage, etc., to the specific patient's personal data, consisting of personal/family history, specific features of the illness, the person's genetic profile, etc.
Monitoring	-	Monitoring the recurrence of a disease.
Calibration test	-	Test designed to define various parameters and/or establish test protocols
Proof of concept	-	Preliminary demonstration of the feasibility of a certain concept or theory.
Markers or biomarkers	-	Various molecules and/or proteins and/or genes serving as an indication (marker) for the existence of a condition.
Metastatic cancer	-	The stage of the cancer in which the local tumor sends "extensions" to another organ or other organs in the body, usually through the blood system or the lymphatic system.
Genetic profile	-	A certain collection of genes or genetic expressions that can be attributed to a disease and/or person
Biological drugs	-	A substance made from a living organism and/or a part/product thereof, used for the prevention or treatment of cancer and other diseases. Biological drugs include, among others, antibodies, interleukins and vaccinations.
False negative	-	A test result that is incorrect because the test failed to recognize an existing condition or finding.
False positive	-	A result that indicates that a given condition is present when it is not.
Morphological test	-	Analyzing the structure and form of cells and tissues and their specific structural features.
H&E stain	-	The most widely used stain in medical diagnosis.
PAP Test or PAP Smear	-	A screening test used to detect potentially pre-cancerous and cancerous processes in the cervix. The PAP Smear is a cytological staining process for the morphological diagnosis of cells from the cervix.
Biopsy	-	A medical procedure of removal of tissue from a living subject to

		determine the presence or extent of a disease. The procedure involves preparing a histological architecture of the tissue and subjecting it to various staining processes to be examined by a pathologist under a microscope.
Human papillomavirus (HPV)	-	Human Papillomavirus is a group of over 200 types of viruses from the Papillomaviridae family which infect skin and mucous membranes in humans and are transferred during sexual intercourse. Some Papilloma types can cause cancer: the virus is considered a principal cause of cervix cancer and a secondary cause of other types of cancer such as anus, penis and oropharynx cancer. This virus might cause pre-cancerous and eventually cancerous mutations in cervix cells.
Pathology lab	-	A lab that conducts test on human tissues.
Specificity	-	A term in statistics referring to the percentage of healthy people who are correctly identified as not having the condition.
Cytoscope	-	Endoscopy of the urinary bladder and prostate via the urethra. It is carried out with a cytoscope and allows taking small biopsy samples.
Sensitivity	-	A term in statistics referring to the percentage of sick people who are correctly identified as having the condition.
Reagent	-	Chemical substance.
Bisphosphonates	-	A class of drugs that affect the body's calcium mechanism and prevent the loss of bone mass.
BRONJ	-	Bisphosphonate Related Osteonecrosis of the Jaw. BRONJ is a severe side effect of bisphosphonates which causes necrosis of the maxillary bone.
Multiple myeloma	-	A type of blood cancer that spreads through the bone marrow and the bones. The disease is fatal with a 15% rate of mortality within three months from diagnosis. 60% respond to treatment and survive several years after diagnosis.
BRCA	-	BRCA1 and BRCA2 genes belong to the group of tumor suppressor genes. These genes produce proteins used by the cell in enzymatic processes, which correct in a precise manner damage to DNA molecules containing a double-strand break. A BRCA mutation is a mutation of one of these genes. "Deleterious" mutations in these genes cause a hereditary breast/ovarian cancer syndrome in affected families.
Strand	-	A single DNA molecule.
Histopathology	-	Microscopic examination of tissue.
RNA (Ribonucleic Acid)		A DNA-replicated molecule, the transcription of which enables the creation of amino acids that comprise proteins, as well as other functions.
q-PCR or RT-PCR	-	Quantitative PCR quantifies gene expression. It is used to amplify RNA by transcribing it to cDNA with the reverse transcriptase enzyme. This method is highly important in molecular biology for determining the relative quantity of mRNA molecules in a particular tissue or cell compared to another tissue or cell. In real time PCR, the PCR becomes a dedicated instrument allowing to track the quantity of the DNA segment that is amplified during the reaction itself, so that it is possible to find differences in the RNA quantities of different samples.

As discussed above, as of the report date, the cancer diagnostics cluster consists of several projects

for developing medical solutions for cancer diagnostics. The cluster companies operating in this segment include Micromedic and its subsidiaries: (a) Zetiq, which has developed a color differentiating diagnostic technology, CellDetect®, for the staining and detection of cancer and pre-cancer cells with several cancer indications; Micromedic also has two other activities which are not incorporated into subsidiaries. (b) one of developing and commercializing a predictive genetic (SNP) test for identification of individuals with Bisphosphonate Related Osteonecrosis of the Jaw (BRONJ), a devastating side effect following treatment with Bisphosphonate drugs, (c) and the other of participating in the funding of the NCBI's Nofar study of predictive biochemical-markers for the development of brain metastases from lung cancer.
Un addition Micromedic also has the following two activities: (d) Searching for strategic partner for continuing the development of an innovative diagnostic kit for identifying carriers of deletrious BRCA mutations which increase the risk of breast and ovarian cancer/ This effort is conducted by Bio Gene, a subsidiary of Micromedic. (e) Searching for a strategic partner for completion of R&D and marketing of a diagnostic kit for early identification of CRC using a q-PCR based blood test common molecular method used in diagnostics.

To the best of the Company's knowledge, Micromedic intends to continue to try locating additional technologies in order to expand the cluster.

The evaluations of adding new technologies to expand the cancer diagnostics cluster discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company and/or Micromedic as of the date of this report. Therefore, there is no certainty that these evaluations will be materialized, among others, due to difficulties in locating suitable new cluster companies and/or technologies and the absence of budgets for acquiring such companies.

4.6 Micromedic Technologies Ltd.

4.6.1 General

Micromedic was incorporated in Israel on May 18, 1982 as a limited liability private company pursuant to the Companies Ordinance. In 1993, following the listing of Micromedic's shares for trade on the TASE, it became a public company, as this term is defined in the Companies Law.

In November 2011, a transaction signed between the Company, Micromedic and Zetiq was consummated according to which Micromedic allocated shares and options of Micromedic to the Company in such a manner that as of the report date the Company is the controlling shareholder in Micromedic ("**the Micromedic-Company transaction**").
As of the report date, Micromedic has been focusing on cancer diagnostics by developing and commercializing biomarkers based on various molecules and genes and by developing and commercializing a cancer cell staining detection and diagnosis technology. Micromedic operates mainly through its subsidiaries. In its ordinary course of business, Micromedic is looking into entering new areas of activity that are touching to and/or derived from its operating segments.

4.6.2 Micromedic's operations

As mentioned above, as of the date of this report, Micromedic focuses on the development and commercialization of innovative tests for the early detection

and diagnosis of cancer. Among others, Micromedic is engaged in the development of personalized tests that would enable personal treatment of the patient and maximize the value of the treatment. Micromedic's products are based on the development and commercialization of a cancer cell diagnostic staining and identification technology as well as biomarkers based on various molecules and genes. Micromedic applies a management strategy for increasing the potential inherent in its being a cluster engaged in a common medical field – cancer-related diagnostics.

Cancer is one of the leading causes of death worldwide, [48]according to World Health Organization data. In 2012, 14.1 million new cases of cancer were diagnosed around the world and 8.2 million people died from the disease worldwide. Approximately 32.6 million people around the world live with cancer (within a five year range since diagnosis).[49] According to estimates by the World Health Organization, in 2015, 9 million people[50] and in 2030, 13.1 million people[51] are expected to die of cancer.

The cancer diagnostics field in which Micromedic operates and for which the various products being developed by it are designed forms part of the global diagnostics market. Unlike the pharmaceutical development industry which is characterized by high costs, long schedules and relatively low chances of success, the diagnostics field benefits from significantly lower underlying development costs and estimated market arrival time of a few years only. This, among others, due to the less complicated regulation compared to that of drug development and the relatively speedy completion of clinical trials needed for obtaining regulatory approvals.

Micromedic develops and commercializes new cancer diagnostic kits, some of which are based on biomarkers for detecting oncogenes, proteins and other genes and others based on a differentiating staining technology that allows distinguishing between cancer and non-cancer cells.

Micromedic's products focus on two main fields:

(a) Diagnosing cancer, including early detection and recurrence (monitoring) as well as identifying cancer cells in the pre-cancer stage.

(c) Identifying mutations, genes or genetic markers that attest to the level of a person's risk of developing a certain condition. This category also includes personalized medicine, aimed at enhancing treatment effectiveness by customizing the care, dosage etc. to the specific patient's personal data.

As of the report date, Micromedic's products focus on In Vitro Diagnostics ("**IVD**") which is part of medical device regulation.

To the best of Micromedic's knowledge, the global IVD market is expected to

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48 WHO cancer fact sheet#297, 2013.

49 http://www.who.int/mediacentre/factsheets/fs297/en/index.html WHO, Cancer Factsheet, Feb. 2012.

50 WHO, New guide on palliative care services for people living with advanced cancer, 2007 http://www.who.int/mediacentre/news/notes/2007/np31/en/

51 WHO,CancerFactSheetFEB.2012

grow at a rate of 4%-5% per annum to $60 billion in 2015[52].

It is estimated that the global IVD-based cancer testing market will grow by annual rate 9% to a value of $ 7.3 billion in 2017[53].Based on evaluations, the scope of the cancer-related cytology and anatomical pathological market will reach $ 3.4 billion in 2017[54].

According to a study published by Kalorama Information[55], the more the demand for more sophisticated diagnosis methods continues to grow and the synergy between tests and new treatments continues to develop, there will be an increasing number of tests, specifically in personalized medicine. The number of personalized drugs in 2011 was five times greater than the number of personalized drugs in 2006[56].In order to promote the use of personalized drugs, correct diagnosis is critical for adapting the drug to the specific type of cancer and patient and later for monitoring the drug's efficacy.

4.6.3 Potential relevant market and competition

The products in the diagnostics field are naturally designed for a variety of prospective customers which include:
(a) sick funds/insurers;
(b) private labs, hospitals and cancer treatment centers;
(c) pharmaceutical and diagnostics companies – companies that develop drugs and products in fields that are directly analogous to Micromedic's areas of activity will be able to optimize their development and commercialization processes using Micromedic's products;
(d) insurance companies – since the products being developed by Micromedic serve as a tool for the early and improved diagnosis of diseases and for the practice of personalized medicine, and given that Micromedic's products will be able to identify potential risks of developing cancer among healthy policyholders, insurance companies have a distinct interest in adopting Micromedic's products;
(e) commercial companies – the potential benefits of Micromedic's products might raise interest among various commercial companies and investors that are not usually active in Micromedic's operating segment.

As of the report date, Micromedic is unable to evaluate which of these prospective customers will be the target audience of the products being developed by itself and its subsidiaries or what the chances are of receiving insurance/medical refunds in connection with the use of these products.

To the best of Micromedic's knowledge, in developing markets, there is a strong need for expanding the cancer diagnostic product supply with an emphasis on early detection and it is expected that these markets will grow faster than other

[52] Morgan Stanley Research,
[53] Kalorama Information.
[54] Markets and Markets: Global Oncology Biomarker Market (2009-2014) BCC Research: Biomarkers: Technologies and Global Markets.
[55] Global Cancer Diagnostics Market to Reach $8B by 2012, http://www.healthimaging.com/index.php?option=com_articles&view=article&id=10094.
[56] Personalized Medicine Coalition. The case for personalized Medicine. 2006, 2011.

markets mainly owing to government funding, enhanced awareness and improved medical infrastructures.

As an example of the markets in which Micromedic is currently active, China is the country with the largest growth rate in Asia which is expected to reach a market size of $ 1.24 billion with an annual growth rate of 18.8%[57].Moreover, with a population of over 1.2 billion as of 2013[58], the Indian IVD market is estimated in excess of $ 500 million and is expected to grow to more than $ 900 million by 2016, with a CAGR of 18%[59].

To the best of Micromedic's knowledge, the biomarker market is a growing and competitive market. Micromedic estimates that it has an advantage by focusing on the development and commercialization of innovative diagnostic kits based, among others, biomarkers for the early detection of cancer and on technologies for distinguishing between cells for the purpose of diagnosing and monitoring patients using simple non-invasive tests such as blood, urine, saliva and stool tests etc. It should be clarified that as of the report date, Micromedic is unable to assess its share in this market.

The above information regarding Micromedic's potential market share in terms of the number of tests and monetary scope of its areas of activity represents forward-looking information as defined in the Securities Law and is based on the information held by Micromedic as of the report date according to studies about these markets (not conducted by Micromedic). The actual potential market share might differ from the above data, among others, arising from changes in the parameters that affect the market share and value.

As of the date of this report, based on studies and publications of various companies around the world, the Company is aware of several foreign companies that focus on the development and commercialization of cancer diagnostics biomarkers and methods. As of the report date, Micromedic is unable to assess the effect of any such direct and/or indirect competition on Micromedic. Moreover it should be noted that as of the report date, there is no certainty regarding the regulatory approval track that will be chosen in connection with the inventions and developments in respect of which the regulatory approval stage has not yet commenced. Micromedic is examining the distinct and separate regulatory policy that should be adopted for each product based on the product's specific needs.

For details of the competition regarding various projects, see paragraphs 4.7-4.11 below.

4.6.4 Micromedic's response to potential competition

In order to cope with potential competition from entities and companies operating

[57] In vitro diagnostics (IVD) market – Trends and Global Forecasts (2011-2016), by Market.

[58] IndexMundi website (2013)http://www.indexmundi.com/india/demographics_profile.html.

[59] Indian In Vitro Diagnostics Market Analysis 2018, KuicK Research 2013, http://www.prweb.com/releases/indian-in-vitro/diagnostics-industry/prweb11338039.htm.

in similar markets, Micromedic is monitoring market developments and updating its development and marketing strategy accordingly.

Micromedic is acting to protect the developments made by itself and its subsidiaries by patenting them and protecting their intellectual property to the extent possible as well as to protect the IP of its products.

Micromedic ascertains that the R&D of all its products is conducted by professional researchers with the relevant extensive experience and knowhow. Micromedic is also acting to ascertain the performance of controlled and efficient development processes in order to abbreviate and optimize product development schedules and regulation proceedings, leverage negotiations for entering into strategic collaborations and reinforce product reliability in the market.

In addition, Micromedic is acting to identify investment opportunities in other companies and projects by building relations in the medical community and managing a forum which provides the target companies quick and thorough tests and professional opinions by Micromedic staff and renowned cancer researchers, advisors and experts.

4.6.5 Human capital

As of the report date, Micromedic and its subsidiaries currently have 12 employees, each employed under a personal labor contract. Micromedic's accrued severance pay in respect of its employees is fully covered and provided for as required by law. In addition, effective from December 15, 2014, Micromedic receives management and administrative services from the Company according to the updated synergy agreement (which replaced the previous synergy agreement), as approved by the general meeting on December 15, 2014 (as detailed in Note 18a to the financial statements). See details of the synergy agreement in paragraph note 18a to the financial statements in Chapter 3.

As of the report date, Micromedic's senior management includes the Chief Executive Officer (CEO), Mr. Steven Eitan, the Chief Business Development Officer (CBDO) and the Chief Financial Officer (CFO) (who also serves as the CFO of the Company). The Company's CEO serves as the deputy chairman of the Micromedic board of directors.

4.6.6 Micromedic's targets and strategy

Micromedic is acting to promote unique products aimed at providing a solution for a real need in the cancer diagnostics field, including early detection of cancer and practice of personalized medicine. As of the report date, the Company has a variety of technologies over the value chain of cancer diagnostics starting from screening tests and risk identification through diagnosis, monitoring and development of personalized medical tools.

The Company has also entered into extensive collaborations with leading research institutes around the world.

Micromedic intends to continue pursuing new technologies for expanding the cluster. Micromedic also intends to continue building knowledge license in

agreements with leading global diagnostics research institutes and with prominent companies and opinion leaders in the field so as to establish a knowledge sharing basis that will provide it focus, enhancement of chances and minimization of risks involving market arrival of projects under development and encourage innovation.

The evaluations of adding new technologies and signing commercialization agreements to expand the cancer diagnostics cluster discussed above represent forward-looking information as defined in the Securities Law, which is based on data held by the Company and/or Micromedic as of the date of this report. Therefore, there is no certainty that these evaluations will be materialized, among others, due to difficulties in locating suitable new cluster companies and/or technologies, absence of budgets for acquiring such companies and challenges in leveraging the synergies of the cluster companies.

The following table presents the business strategy of each product being developed by Micromedic and its subsidiaries:

Medical product	Current status	2015	2016	2017
Zetiq – cervical cancer diagnostic kit	▪ Proof of concept completed for cervical cancer cell detection and identification kit ▪ ISO granted to Micromedic's labs ▪ CE Marking granted for marketing the product as a supplementary product in Europe ▪ Israeli Ministry of Health's department of medical devices and accessories approval for marketing the product as a supplementary product in Israel ▪ CFDA approval for marketing the product in China ▪ Beginning of products sales in China ▪ Launching of product pilot in China	▪ Promoting sales in China and conducting pilots in central labs. ▪ Obtaining regulatory approvals for marketing the product in other target countries such as India and signing an engagement with distributors for product marketing and sales.	▪ Expanding sales in target markets and identification of additional markets	▪ Expanding sales in target markets and identification of additional markets
Zetiq – bladder cancer monitoring kit in urine samples	▪ Proof of concept for identifying bladder cancer cells in histological urine samples ▪ Completion of clinical trial of calibration stage for detecting bladder cancer cells in urine samples ▪ Completion of multicenter clinical trial for proof of efficacy of the bladder cancer	▪ Completion of multicenter clinical trial for proof of efficacy of the bladder cancer diagnosis method through urine samples ▪ Regulatory registration in Europe ▪ Joining with strategic partners ▪ Expanding the test capabilities to include	▪ Regulatory registration in US and conducting another trial if needed for registration purposes ▪ Identifying distributers in target countries ▪ Beginning of product marketing in target countries	▪ Expansion of sales in target markets and identification of other markets

	diagnosis method through urine samples	additional diagnostic methods and expanding the target audience		
Predictive genetic (SNP) test of Bisphosphonate Related Osteonecrosis of the Jaw (BRONJ)	▪ Initial proof of concept completed ▪ Completion of collection of samples and genetic tests in phase I clinical trial in Multiple Myeloma patients ▪ Receipt of results of validation experiment on an independent population of multiple myeloma patients	▪ Continued product development based on results of the previous phase ▪ Identification of strategic partners	▪ Continued product development and promoting commercial-lization	▪ Continued product development and promoting commercial-ization

Medical product	Current status	2014	2015	2016
Bio-Gene – blood test for genetic diagnosis of women at increased risk of developing breast and/or ovarian cancer	▪ Initial proof of concept completed	▪ Finding a strategic partner for continued product development and commercialization	▪ Finding a strategic partner for continued product development and commercial-ization	▪ Finding a strategic partner for continued product development and commercial-ization
BioMarCare - Colon MarCarePlex™ screening test for CRC patients	▪ BioMarCare is searching for a strategic partner to complete the development and commercialization of a CRC early detection diagnostic kit ▪ An application to register a patent was filed	▪ Search for partner for patent commercialization	▪ Finding a strategic partner for continued product development and commercializati on	▪ Finding a strategic partner for continued product development and commercializatio n

The abovementioned information represents forward-looking information as defined in the Securities Law, whose materialization depends not only on Micromedic but also on external factors such as the performance of trials, completion of product development, receipt of relevant regulatory approvals for conducting additional trials and their success, receipt of various regulatory approvals and recognition of the end product by other medical entities in Israel and abroad, all of which are liable to differ from Micromedic's evaluations and have a material impact on Micromedic's operations in this segment.

4.6.7 Material agreements

4.6.7.1 As for the description of the Micromedic-Company transaction, see Note 9 to the financial statements hereby attached in Chapter 3.

4.6.7.2 As for the description of the synergy agreement, see Note 18a to the financial statements in Chapter 3.

4.6.7.3 As for a description of Micromedic's engagement in a collaboration agreement with the University of Florida in connection with

Micromedic's BRONJ project, see paragraph 4.8 below.

4.6.7.4 As for a description of Micromedic's engagement in an investment agreement in BioMarCare, see Micromedic's report of March 27, 2012, TASE reference no. 2012-01-080616 and Micromedic's report of April 4, 2012, TASE reference no. 2012-01-095049.

4.6.7.5 Supply and distribution agreement in China
For details of a supply and distribution agreement in China with Biomics Biotechnologies Co. Ltd., see paragraph 3.2.1.4 above.

4.6.7.6 Agreement with Mor Research Applications Ltd.

For details of an agreement between Zetiq and Mor Research Applications Ltd. granting the Marketing and profitably of the cell detect technology see paragraph 4.7.13.

4.6.7.7 For details of the loan agreement between Zetiq and the Company, see paragraph 3.2.1.9 above.

4.6.7.8 For details of Zetiq's engagement with HCG in India, see paragraph 4.7.5 above.

4.6.7.9 For details of Zetiq's engagement with Genetix in India, see paragraph 4.7.5 above.

4.6.8 Royalties

The following table specifies the royalty rates that Micromedic will be required to pay for sales of products and/or services in connection with the various projects being co-developed and co-marketed by it.

Company name	Development products	Royalty recipient	Royalty amount	Payment period
Zetiq technologies Ltd.	Cervical cancer detection kit Bladder cancer detection kit	**Chief Scientist ("OCS")**	Zetiq received R&D participation grants from the OCS in return for royalties at a rate of 3% of sales of the R&D related products in an amount that does not exceed 100% of the total grants received by Micromedic, linked to the dollar plus Libor interest	Indefinite
Zetiq technologies Ltd.	Cervical cancer detection kit Bladder cancer detection kit	**Mor Research Applications Ltd.**	1% plus VAT of all revenues generated from commercializing the CellDetect® including salaries, profits, payment in cash equivalent rights, payments from CellDetect® technology right licensing agreements etc. as detailed in the agreement	Further royalties will be payable at the later of the entire commercialization period or the entire patent period (as defined in paragraph 4.7.13 above)
Micromedic technologies Ltd.	Identification of cancer patients and other that given their exposure to	**University of Florida**	First Florida agreement - Fixed royalties of 8% of net sales of products and/or services arising from the research	Under the first Florida agreement – royalties will

	medications containing bisphosphonates are at risk to develop a devastating side effects known as – bisphosphonates related osteonerosis of the Jaw (BRONJ).		activity Research agreement – In accordance with the MOU, fixed royalties at a rate of 3% of net sales or products and/or uses arising from the research, and 6% of receipts from the grant of third-party licenses for use of the new intellectual property	continue to be paid as long as the first Florida agreement remains in force. Under the research agreement – royalties will be paid on a country basis, up to the expiry of the last patent.
		Chief Scientist ("OCS")	In the report period, Micromedic received from the Chief Scientist a participation grant at 30% of a budget of up to 2,100,199, subject to the terms of the approval, including payment of royalties on Micromedic's revenues from the diagnostic kit, as prescribed in the R&D Law.	Indefinite
Bio-Gene Ltd.	Blood test kit for detecting hereditary breast and ovarian cancer	**Hadasit**	▪ 6% of net sales (as defined in the license agreement) of any product arising from the license agreement with Hadasit (no net sales ceiling); ▪ If Bio-Gene grants a sublicense, Hadasit will be entitled to 30% of all amounts actually paid to Bio-Gene for the sublicense, as set forth in the license agreement	Royalties will be paid on a country basis, up to the earlier of: (a) expiry of the last patent; or (b) 15 years from the first date of sale of any product arising from the license agreement

- The first Florida agreement will be replaced and cancelled when the R&D agreement is in place.

4.7 Zetiq Technologies Ltd.

For a glossary of specific professional terms used in the description of Zetiq's operations, page 92 above:

4.7.1 General information

Zetiq is a private company which until November 21, 2011 was wholly owned and controlled by the Company. On November 21, 2011, a transaction was consummated between Micromedic and the Company, in which the Company transferred its entire holdings in Zetiq to Micromedic. As of the report date, Micromedic holds 100% of the issued and outstanding share capital and voting rights in Zetiq[60].

Zetiq was founded on December 22, 1997 under the name Celestine Technologies (97) Ltd.[61] and changed its name to Zetiq Technologies Ltd. in 2001.

Zetiq is engaged in the development of a diagnostic technology for staining and detecting cancerous and precancerous cells, enabling, among others, testing for early identification and follow-up of the recurrence of different forms of cancer among patients post-treatment ("**the CellDetect® technology**")

The CellDetect® technology is designed to enable the differentiation of cancerous and precancerous cells from healthy cells, through a special staining process, among very large cell populations, which could enable performing cell screening tests for diagnosing cancer and monitoring the recurrence of the disease among cancer patients post-treatment.

As of the report date, Zetiq mainly focuses on the detection and diagnosis of cervical cancer and monitoring the recurrence of bladder cancer using urine samples.

The CellDetect® technology may be adapted to additional types of cancer. Micromedic is considering expanding the development of the technology for additional indications in the future, as detailed in paragraph 4.7.2 below.

4.7.2 The products, changes in the scope of operations in the segment and its profitability, competition and substitutes

4.7.2.1 The products

Zetiq is engaged in the development of the CellDetect® technology, which is designed to enable the differentiation of specific cells through staining, among a very large cell population. Among others, Zetiq has developed a kit for the detection and diagnosis of cervical cancer ("**cervical cancer detection and diagnosis kit**") based on the CellDetect® technology.

The cervical cancer detection and diagnosis kit has obtained regulatory marketing approvals in Europe, Israel and China, as

[60] Without taking into consideration options allocated by Zetiq.

[61] Zetiq was founded by third parties who are not interested parties in the Company and/or in Micromedic.

elaborated in paragraph 4.7.12 below.

In 2014, Zetiq began marketing the cervical cancer diagnosis and detection kit (see details in paragraph 4.7.5 below).

The cervical cancer detection and diagnosis kit can be used in conventional cervical smears ("**conventional methods**") and in more advanced liquid-based cytology ("**liquid-based cytology**").

The main advantage of liquid-based cytology over the conventional methods is the standardization of the work methodology in pathological labs.

It should be noted that to the best of Micromedic's understanding, the reimbursement of liquid-based cytology tests for labs is significantly higher than the reimbursement for conventional tests.

In addition, Zetiq is in development stages of a kit for monitoring the recurrence of bladder cancer which is also based on the CellDetect® technology using urine samples. As of the report date, Micromedic has successfully completed an advanced multicenter blinded clinical trial of the CellDetect® technology's capability of detecting bladder cancer cells in urine samples, as detailed in paragraph 4.7.7 below.

Micromedic intends to expand this indication in the future to diagnostic tests for detecting cancer among subjects with early symptoms of bladder cancer (e.g.: the presence of blood in the urine). Micromedic is also considering expanding this indication in the future to screening tests, in the event that guidance is issued for these tests. To the best of Micromedic's knowledge, the market potential for screening tests is estimated at around a billion dollars per annum.

4.7.2.2 Changes in the scope of operations in the segment and its profitability

(a) **Cervical cancer**

As far as Micromedic is aware, cervical cancer is the number four cause of death from cancer for women around the globe. Over half a million new cases were diagnosed in 2012 worldwide of which approximately 450,000 in developing countries[62].

In developing countries, cervical cancer mortality rates are higher than in developed countries for lack of early detection. The main cause for the disease is one of the types of the human papillomavirus (HPV). In the event of early stage diagnosis, the five-year survival rate is about 93%. If the diagnosis is done after the spreading of metastases, the five-year survival rate drops to about 16% only[63]. These data demonstrate how critical

[62] ACS: Cancer Facts and Figures, 2013.

[63] American Cancer Association.

early detection of cervical cancer is. As of the report date, the standard screening test for detecting cervical cancer is a PAP test. PAP testing is generally conducted in the western world every 1-3 years. Subjects who undergo a PAP test and are suspected to have cervical cancer undergo an additional procedure, usually a colposcopy, an endoscopic test of the cervix. Suspected findings are then sent as a biopsy to a pathologist. Around 200 million PAP tests are performed worldwide every year, the majority in developing countries. In the US alone, some 60 million PAP tests are performed every year and the payment made by the subjects and/or the insurance companies for the PAP tests for detecting cervical cancer is estimated at $ 2 billion a year[64].

The PAP test was developed over fifty years ago and is considered the principal screening test for cervical cancer diagnosis despite large numbers of false positives and false negatives for the lack of a more reliable and cheaper test.

To the best of Micromedic's knowledge, in recent years, additional tests have been introduced into the market for the detection of HPV which is known to be a cause of the disease. These tests have high sensitivity but non-optimal specificity: the majority of women worldwide are exposed to the virus and about a quarter of them are exposed to one of the high risk types that are liable to cause cancer. The occurrence of the virus does not necessarily imply cervical cancer, and the test identifies precancerous processes that could but might not necessarily develop into cancer. To the best of Micromedic's knowledge, in about two thirds of the cases in which the test diagnoses the virus, the subject does not necessarily have cancer[65]. These tests are more expensive that PAP tests and involve an additional significant cost which is burdensome to health systems.

The HPV test to see if a woman is a carrier of the HPV is becoming a dominant means of screening in addition to the PAP test and has been approved in the US as a first-line test.

To the best of Micromedic's knowledge, there are other kits under development for detecting and diagnosing the disease. These kits are more expensive than existing products and their clinical efficacy is still being examined.

Between 2006 and 2009, two vaccines against the HPV were introduced into the developed markets mainly: Gardasil (Merck) and Cervarix (GlaxoSmithKline – GSK)). It should be noted that these vaccines do not inoculate against all types that might cause cervical cancer. Moreover, these vaccinations are mainly active with women who have not been exposed to the

[64] The U.S. Anatomic Pathology Market Forecast & Trends 2010.
[65] 2012 Int J Cancer Dec 11.

virus therefore the need for comprehensive screening tests for diagnosing the disease is expected to last for many more years.

As mentioned above, every year, over 85% of new cervical cancer cases worldwide are detected in less developed markets. The existing screening tools (PAP and HPV tests) are difficult to disseminate in these countries owing to their price, the level of expertise required for understanding those tests and the fact that in many instances they require additional procedures that also involve costs. This is one of the main reasons why the testing rate in these countries is low as opposed to developed countries.

Micromedic estimates that the Micromedic cervical cancer detection and diagnosis kit enjoys a competitive edge in developing markets such as China and India ("**target markets**" or "**Far East countries**") since this product offers a unique combination of features including extreme precision, operational simplicity and reduced need for expert diagnosis. Therefore, Micromedic sees the potential for marketing the kit in the Far East countries.

Micromedic estimates that to the extent that it finds that the CellDetect® technology in the target markets is at least as effective as the PAP test and to the extent that positive opinions are obtained from leading local opinion makers, it will be able to market its product at a reasonable cost and achieve a significant market share of the cervical cancer diagnosis market.

Evaluations regarding the increased demand for screening tests in the Far East countries and the successful marketing of the product in the target markets represent forward-looking information as defined in the Securities Law and there is no certainty that they will be materialized, among others, due to difficulties in introducing the product into the market and the competition from other products and technologies.

(b) **Bladder cancer**

As discussed above, Zetiq is also acting to develop a kit for bladder cancer diagnosis using urine samples. To the best of Micromedic's knowledge, nearly 430,000 cases of bladder cancer have been diagnosed globally in 2012, with nearly 165,000 fatalities. This type of cancer is the fourth most prevalent cancer among men in the US and the seventh most prevalent among men worldwide, and the prevalence is three times higher among men than women[66]. It is estimated that in 2014, nearly 75,000 new cases will be detected in the US alone,

[66] Globocan 2012.

of whom some 15,500 fatalities[67].

According to estimates, there are currently over 560,000 bladder cancer patients in the US[68], of whom 80% will experience [69]. This fact poses this type of cancer as having the highest recurrence rate. Bladder cancer patients undergo 3-4 tests a year to monitor disease recurrence in the first two years from detection and an annual test thereafter[70].

The main causes of bladder cancer include smoking and professional exposure to cancer-causing substances.

To the best of Micromedic's knowledge, there is as of the report date no screening test for detecting and diagnosing the disease among the general population. Subjects with suspected cancer undergo a clarification including medical exams until reaching a pathological diagnosis. Given the high prevalence rate of the disease and the high probability of recurrence, patients are required to undergo several tests a year to monitor the disease. The commonly practiced monitoring system is cystoscopy - endoscopy of the urinary bladder via the urethra. This test is unpleasant, invasive, expensive, intricate and risky. There are currently several other tests for monitoring the disease: a test that looks for malignant cells in the urine, whose efficiency is highly limited, and other monitoring kits, whose efficiency is not high and are rather expensive.

In view of the results achieved in the multicenter clinical trial conducted for testing the CellDetect® technology's ability to monitor bladder cancer, is preparing to perform the necessary actions, including obtaining the required regulatory approvals, for launching the product. See details of the clinical trial in paragraph 3.2.1.5(c) below.

There are currently over two and a half million people around the world with bladder cancer[71]. Since the disease has high recurrence rates, there is a huge market for disease recurrence monitoring tests. The existing tests do not provide a proper solution and therefore Micromedic estimates that the high-sensitivity and high-specificity disease recurrence monitoring kit it has developed will confer a significant comparative edge that will allow strong market penetration.

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[67] Cancer Statistics, 2014, CA CANCER J CLIN 2014.

[68] SEER Cancer Statistics Factsheets: Bladder Cancer. National Cancer Institute. Bethesda, MD,http://seer.cancer.gov/statfacts/html/urinb.html posted to the SEER web site, January 2014

[69] Heney NM, Ahmed S, Flanagan MJ, et al. Superficial bladder cancer: progression and recurrence. J Urol 1983;130(6):1083-6.

[70] Lintula S, Hotakainen K. Developing biomarkers for improved diagnosis and treatment outcome monitoring of bladder cancer. Expert Opin. Biol. Ther. (2010) 10(8):1169-1180.

[71] World J Urol. 2009 Jun;27(3):289-93.

The evaluations regarding the marketing of the bladder cancer detection and diagnosis kit and its expected advantages represent forward-looking information as defined in the Securities Law. These evaluations may or may not be materialized, among others, due to difficulties in the serial production of the kit and the challenges of penetrating a market with competing products and technologies.

Additional applications based on the CellDetect® technology

As discussed above, the CellDetect® technology can be adapted to different types of cancer and various pathological applications. Micromedic is studying the possible development of additional applications for the CellDetect® platform as follows:

- The Circulating Tumor Cell ("CTC") field

Circulating tumor cells are solitary cancer cells that have shed into the vasculature from a primary tumor and circulate in the bloodstream.

Micromedic has performed an initial proof of concept for the CellDetect® technology CTC application which resulted in good sensitivity and specificity levels. which resulted in good sensitivity and specificity levels. This field consolidates methods and technologies for identifying various cancer cells that originate from primary tumors such as breast, lung, prostate cancer etc. and are located in the patient's blood system. The number of these cells is usually very low, but nevertheless, their existence and/or relative number may suggest recurrence of a tumor, the diagnosis of a violent type of cancer, a negative reaction to medication etc.

As Micromedic is aware, at present, there are several products in this market, the leading one being Veridex, which is FDA approved as s supporting test for diagnosing breast cancer and colorectal cancer (as of the report date, to the best of Micromedic's knowledge). As per Micromedic's understanding, the existing products in this market have drawbacks, including low sensitivity and specificity and inability to detect individual cancer cells in the bloodstream. Zetiq is considering developing a product based on the CellDetect® technology which will identify cancer cell shedding from a solid tumor and circulation in the bloodstream. In order to continue operating in this field, Zetiq will need to collaborate with prospective partners with corresponding capabilities in this field.

The global market of detection of cancerous cells in the bloodstream was estimated in 2011 at over $ 1 billion and is

expected to grow to more than $ 7.9 billion by 2018[72].

During the report period Micromedic continued working to strengthen the initial proof of concept done as mentioned for the application of the CellDetect® technology in the CTC field.

- Prostate cancer

Micromedic has completed an initial proof of concept of biopsies for the CellDetect® technology application for diagnosing prostate cancer.

Prostate cancer is the second most prevalent cancer among men in the world[73]. In the US alone, about 233,000 new cases are expected in 2014 and nearly 30,000 fatalities[74]. The conventional test for the early diagnosis of the disease is a PSA screening test. To the best of Micromedic's knowledge, this test is considered to be highly inaccurate.

Micromedic estimates that over 45 million test are performed every year worldwide, 25 million test in the US market.

The majority of biopsies (about 70% of suspected cases[75]) performed due to change/increase in PSA levels yield negative results (namely, a very low specificity of PSA tests). Micromedic is considering developing a CellDetect® technology based product which might assist in detecting the disease.

- Lung cancer

This is the most deadly cancer in the world, with around 1.6 million new cases and 1.4 million fatalities per year. Micromedic is considering conducting a proof of concept test for the CellDetect® technology application of diagnosing lung cancer using a sputum cytology test. The existing CTs generally have low specificity[76].

- Automated interface

Micromedic is considering developing through a subcontractor an interface for the CellDetect® technology to an automated analysis using digital pathology tools, and it is performing a proof of concept test in this regard. Currently existing tools are based exclusively on cell morphology analysis, and therefore are limited. The addition of an element of analysis through

[72] http://urology.jhu.edu/prostate/PSA_controversy.php
[73] Globocan 2012.
[74] Cancer Statistics, 2014, CA CANCER J CLIN 2014.
[75] Journal of Clinical Oncology 2010, 28 (10) 1714-1720.
[76] N Engl J Med 2011;365:395-409.

staining of cancerous cells will, in Micromedic's estimation, enable the improvement of the process, increasing its efficiency and accuracy while reduce the load on the pathologist.

The evaluations detailed above regarding the development of additional applications and their potential benefits and their adaptation to automated analysis using digital pathology tools represent forward-looking information as defined in the Securities Law. These evaluations may or may not be materialized, among others, due to changes in work plans, development challenges and difficulties involving market penetration due to competing products and technologies.

The following table summarizes the CellDetect® technology:

Medical product under development	Medical product's indications	Medical product's development stage	Expected milestones in the next 12 months	Nearest milestone and expected completion date	Estimated cost of nearest milestone completion	Potential target market size (no. of patients or procedures) and annual monetary scope of the medical product's potential target market at report date	Corporation's estimated date of beginning the medical product's marketing	Corporation's estimated market share of the medical product, assuming marketing approval is received
Cervical cancer diagnosis kit	Detecting cervical cancer using cytologic smears	Zetiq has demonstrated the efficiency of the product in identifying and detecting cervical cancer through clinical trials. ISO received for Zetiq's labs. CE regulatory approval was registered for the product's marketing in Europe as a supplementary product. The Israeli Ministry of Health's department of medical devices and accessories granted its approval for marketing the product in Israel as a	Expanding the distribution network in China and performance of ongoing sales. Performance of a product pilot in India and receipt of regulatory approvals. Locating a distributor or partner in other target countries (such as Thailand, Vietnam, Korea, Taiwan,	Expanding the distribution network in China – second quarter of 2015.	NIS 95K	Developing countries identified by Micromedic as main target markets for performing tests. Size of initial market on report date[77] estimated at 30 million tests a year in China and about 25 million tests a year in India. It is estimated by Micromedic that the number of test performed in these two countries is significantly lower than the potential number of required tests based on	Marketing began in 2014	Market share of approximately 1.3% during the year and achieving a market share of 20% within seven years from launch in China. Market share of 0.3% in the first year of kit marketing in India and achieving a market share of 15% in India within six years from launch in this market. Estimates about other target markets will

[77] The data on the size of the Chinese and Indian markets and their monetary scopes presented above is based on management's estimates as of the report date, relying on the Chinese distributor's assessments and preliminary conversations held with prospective Indian partners, respectively. These estimates represent forward-looking information as defined in the Securities Law which may not be realized and/or may be materially different from the Company's estimates, among others, for reasons that are not under the Company's control.

		supplementary product. CFDA approval received for marketing in China. Sales in China have begun (see additional information in paragraph 4.7.12 below).	Indonesia, Philippines, South Africa, etc.). Commercialization in China and India and launch in other developing countries.			past experience and existing data on developed countries such as the US[78]. Annual monetary scope of current target market is some $ 30 million in China and some $ 10-$ 20 million in India[79]. As discussed above, Micromedic is exploring penetrating into other target markets in developing countries.		be made after Micromedic advances towards penetrating these markets
Bladder cancer recurrence monitoring kit using urine samples	Monitoring the recurrence of bladder cancer	Micromedic has demonstrated through clinical trials proof of concept of identifying bladder cancer cells in histological urine samples. Micromedic received positive results in the calibration test stage of the clinical trial for detecting bladder cancer cells in urine samples. Micromedic conducted a multi-center blinded clinical trial for testing the ability to	Regulatory registration of the product in Europe and Israel. Presentation of the product at international conferences. Product launch in Europe. Submission of pre-IDE to the FDA. Start of necessary actions for	CE approval – second quarter of 015	NIS 120 thousand	560,000 patients in the US[80] - about 1.5 million tests a year. Micromedic estimates that the number of global tests could be five times larger[81]. The recurrence monitoring market is estimated at tens of millions of dollars. As discussed above, Micromedic is considering the expansion of the indication in the future to detecting cancer among patients suspected	Towards end 2015	Market share of 1.6% in the first year of kit marketing in the US and achieving a market share of 15% within seven years from launch in this market

[78] Micromedic estimates the annual potential for tests in China and India at 268 and 210 million tests per year, respectively. These estimates are based, among others, on the number of women of the relevant age in the US, China and India (104 million, 465 million and 370 million, respectively) and the actual number of tests in the US, which is around 60 million tests per year. Source for these data: Cytopreparation: Principles & Practice, Garry W. Gill.

[80] The data on the size of the US market and its annual monetary scope presented above is based on management's estimates as of the report date, relying on data in the following sources: SEER Cancer Statistics Review, 1975-2009 (Vintage 2009 Populations), National Cancer Institute. Bethesda, MD, http://seer.cancer.gov/csr/1975_2009_pops09/, based on November 2011 SEER data submission, posted to the SEER web site, 2012. - ו Lintula S, Hotakainen K. Developing biomarkers for improved diagnosis and treatment outcome monitoring of bladder cancer. Expert Opin. Biol. Ther. (2010) 10(8):1169-1180 and in addition to the target market test through reimbursement experts. These estimates represent forward-looking information as defined in the Securities Law which may not be realized and/or may be materially different from the Company's estimates, among others, for reasons that are not under the Company's control.

[81] http://www.ncbi.nlm.nih.gov/pubmed/19219610.

		detect bladder cancer cells in urine samples. On February 1, 2015, the results of the multi-center trial were received, as described in paragraph 4.7.7 below.	expanding product use to the general population of subjects suspected to have bladder cancer.			to have bladder cancer. Micromedic estimates this market potential in the hundreds of millions of dollars.		

The information presented in the above table, including Micromedic's evaluations regarding potential markets and expected costs, represent forward-looking information as defined in the Securities Law, based on Micromedic's estimates at this time. These evaluations may not be materialized and/or may be materialized in a manner that materially differs from Micromedic's evaluations, among others, due to factors that do not depend on the Company.

4.7.3 Competition

(a) **Cervical cancer**

The disease diagnosis testing market consists of several types of tests and several companies operating in the field in developed countries. The conventional PAP tests are making room for more advanced liquid-based cytology tests. This test has a principal advantage over the conventional test in its ability to standardize the work system in the pathological labs and allow a larger number of tests to be conducted every hour. These tests have not been proven to raise the accuracy of the results, which is the main problem with PAP tests. The two leading companies in the PAP testing market in the developed world are Hologic, which markets the ThinPrep test, and Beckton Dickinson, which markets the SurePath test.

HPV detection tests are globally marketed by a large number of companies, the leading test being that of Qiagen (HC2 tests). Many other companies such as Abbot, Roche and others propose their own tests. These tests have a high sensitivity but low specificity in detecting cervical cancer.

Roche has developed a test for detecting cervical cancer known as P16. P16 is a marker of active virus cells. As opposed to other HPV tests that identify the virus, this test traces the virus' activity. Studies of this marker suggest that there is a correlation between the test results and suspected cancer and the marker can be used as a secondary test for assisting in the diagnosis in cases of suspicion that requires additional investigation[82]. To the best of the Micromedic's knowledge, this marker has limited efficiency due to lack of repetition, inability to reach a uniform conclusion and mainly a high test cost.

Zetiq's technological edge lies in the development of a simple, cheap and accurate tool that can be integrated in the existing array of laboratory equipment. The test facilitates the pathologists' work by combining differential staining with morphological identification in the same cell and same sample.

[82] Tsounpuo, I. et al, *Cancer Treatment Review* 35: 210-220, 2009.

(b) **Bladder cancer**

The gold standard monitoring method is based on an invasive cystoscopy inserted into the urethra and advanced into the bladder. This test is costly ($ 400-$ 1,600) and performed by a physician. Some 4 million cystoscopy tests are performed in the US alone, with a market size of some $ 4 billion[83]. The test involves pain, discomfort, risk of infection and anxiety for the patient. Hence, the need for developing non-invasive monitoring tests that will significantly reduce the frequency of use of cystoscopy. There are currently in the market several tests for disease monitoring, for example: urine cytology, whose clinical efficiency is highly limited, kits for identifying biomarkers in the urine (Immunocyt, NMP22, BTA) and biomarkers whose degree of accuracy and performance vary. These tests are limited in their ability to detect advanced stages of the disease and some are costly, In addition, there is a kit for identifying chromosomal changes in existing urine cells (Urovysion) with a varying degree of accuracy, demanding high lab skills and costly (hundreds of dollars).

The following tables summarize the data on the CellDetect® technology compared to the main competitors:

Cervical cancer:

	Corporation's medical product	Competing product A	Competing product B
Product features	**CellDetect® kit for detecting and identifying cervical cancer:** Test kit based on reagents for non-invasive diagnostic staining in pathological labs. ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject**– cost of test is several dollars in developing countries, which are the test's target markets ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the western world, insurance indemnification is granted for the test. In developing countries, to the best of Micromedic's knowledge, the governments pay for most of the test costs	**PAP test (PAP reagent staining):** Collecting reagents for a non-invasive diagnostic staining of cells in pathological labs ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** – cost of test is several dollars in developing countries, which are the target market of the test being developed by Micromedic ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the western world	**HPV test:** Non-invasive molecular test in pathological labs designed to detect the existence of high risk HPV types ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** – cost of test is several tens of dollars in developing countries, which are the target market of the test being developed by Micromedic ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the western world
Market share to the best of Micromedic's knowledge	The Company is unable at present to estimate the product's market share.	The Company is unable at present to estimate the product's market share.	The Company is unable at present to estimate the product's market share.
Advantages and disadvantages of the medical	Product advantages The test is simple and easy, based on using existing pathological devices and can be practiced in special	Product advantages There is extensive clinical information on the use of the product that has been around for years.	Product advantages There is extensive clinical information on the use of the product.

[83]Source: Advancements in Urological Oncology, Douglas Scherr

product compared to competing products (existing or under development), to the best of the Company's knowledge	automated systems within a relatively short timeframe (one and a half hours, including a one-hour immobilization procedure). The test provides the cytologist a unique, simple and efficient tool that combines a differentiating staining technique with morphological parameters for detecting and identifying different degrees of neoplasia. <u>Product disadvantages</u> Absence of experience in use of test in the target countries	<u>Product disadvantages</u> Low sensitivity to detecting neoplasia, larger differences between different testers, identification process requires experts	<u>Product disadvantages</u> Low specificity, higher price (mainly in developing countries), narrower range of uses (in developing countries)

Bladder cancer:

	Zetiq's medical product	Competing product A	Competing product B	Competing product C
Product features	**CellDetect® kit for monitoring the recurrence of bladder cancer:** Test kit based on reagents for non-invasive diagnostic staining in pathological labs. ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** –dozens of dollars ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – insurance indemnification is granted for the test in the USA.	**Commonly practiced urine cytology test:** Collecting reagents for a non-invasive diagnostic staining of cells in pathological labs ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** – $ 60-80 in the US ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the US	**Biomarker tests such as NMP22, BTA:** ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** – $22-29 ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the US	**UroVysion - molecular cytology of urine:** ▪ **Side effects and risks** – no side effects and/or special risks ▪ **Cost for subject** – $ 400 ▪ **Waiting time until results are received** – days ▪ **Possibility of reimbursement from medical insurers, insurance companies or others** – in the US
Market share to the best of Micromedic's knowledge	The Company is unable at present to estimate the product's market share.	The Company is unable at present to estimate the product's market share.	The Company is unable at present to estimate the product's market share.	The Company is unable at present to estimate the product's market share.
Advantages and disadvantages of the medical product compared to competing products (existing or under development), to the best of the Company's knowledge	Product advantages The test is simple and easy, based on using existing pathological devices and can be practiced in special automated systems within a relatively short timeframe (two hours, including a one-and-a-half-hour immobilization procedure). The test provides the cytologist a unique, simple and efficient tool that combines a differentiating staining technique with morphological parameters for detecting and identifying different degrees of neoplasia. Product disadvantages Absence of experience in use of test in the target countries.	Product advantages There is extensive clinical information on the use of the product. Product disadvantages Very low sensitivity to detecting neoplasia (mainly of low grade and stage), larger differences between different testers, identification process requires experts	Product advantages There is extensive clinical information on the use of the product. Product disadvantages Lower sensitivity and specificity to detecting neoplasia (mainly of low grade and stage).	Product advantages There is extensive clinical information on its use. Product disadvantages High price, test is complicated to perform.

As of the report date and as long as Zetiq does not have any sales of the various products, the Company cannot assess Zetiq's positioning vis-à-vis existing and potential competitors.

The information presented in the above tables regarding Zetiq's positioning vis-à-vis existing and potential competitors represents forward-looking information, as defined in the Securities Law, and is based on Micromedic's evaluations, as known to it at this time. Zetiq's actual positioning with respect to competitors may differ from these evaluations, among others, due to factors that are not under Micromedic's control, including failure of or delays in developing the bladder cancer identification and detection product and/or failure to receive or delays in receiving the required regulatory approvals for marketing the products, delays in penetration into target markets, issues involving the efficiency of distributors and the success of the marketing efforts.

4.7.4 Customers

The potential customers of the CellDetect® product include among others labs, among others, sick funds, hospitals and cancer treatment centers, pharma companies and diagnostics companies, see additional information in paragraph 4.6.3 above.

The target population of the cervical cancer detection and diagnosis kit is women who are periodically tested for detecting and diagnosing the disease. The target population of the bladder cancer recurrence monitoring kit is bladder cancer patients who are monitored for recurrence, and subsequently also subjects suspected to have the disease who are referred for clarification.

4.7.5 Marketing and distribution

Activity in China:

On March 11, 2013, Zetiq signed an agreement with Biomics Biotechnologies Co. Ltd., a company incorporated under Chinese law ("**Biomics**"), for the supply and distribution of Zetiq's CellDetect® product for detecting and identifying cervical cancer in China (in this paragraph, "**the product**"). On February 23, 2014, the agreement was amended as set forth below (in this paragraph, "**the amendment**") (the agreement of March 11, 2013 and the amendment are referred to collectively in this paragraph as "**the agreement**").

The engagement is further to the receipt of theof the China Food and Drug Administration ("**the CFDA**") for marketing the product in China (in this paragraph, "**the marketing approval**").
Following are the principles of the agreement:

According to the agreement, Zetiq will provide Biomics large batches of solutions of the product made by Zetiq and Biomics will act to fill up and package these solutions in smaller volumes based on the relevant regulatory requirements in China.

Zetiq granted Biomics an exclusive right to market, sell and distribute the finished packaged product in China for the purpose of cervical cancer diagnosis only using conventional PAP tests and, as prescribed in the amendment, also using the liquid-based cytology method.

The agreement provides for minimum annual sales targets ("**minimum sales targets**"). If Biomics fails to meet these targets, Zetiq will be entitled to terminate the agreement, under the terms stated therein. Since additional actions were required which had not been previously anticipated by the companies, such as conducting pilots in central hospitals, the date of beginning sales was postponed. Therefore, the parties reached a verbal agreement on a new target for 2014: orders for one millions tests, which the distributor failed to meet.

The consideration that Biomics will pay Zetiq according to the agreement will be made in two installments: the first will be paid shortly after the supply of the product solutions by Zetiq and calculated by multiplying the number of tests included in the solutions supplied by the amount stated in the agreement, and the second will be paid based on the number of product tests sold in each quarter, calculated by multiplying the number of said tests by the amount stated in the agreement. If the market price for the product's test is higher than the price stipulated in the agreement, the parties will split the difference equally between them.

The agreement will be in effect until November 6, 2016, unless it is terminated early due to insolvency, material breach of the agreement (including Biomics' non-compliance with minimum sales targets, expiration of the marketing approval etc.). The agreement will be renewed automatically for an additional period of three years, unless the marketing approval has not been renewed.

<u>Promoting commercial activity in China:</u>

As a means of promoting the product's penetration into the Chinese market, two pilots were conducted with the product in two leading hospitals in Beijing. According to information provided to the Company by Biomics, final positive results have been received from the two pilots conducted in the two hospitals:, Union Medical College Hospital, which, to the best of Micromedic's knowledge, is a leading hospital in Beijing ("**the first pilot**"), and the Military General Hospital of Beijing which, to the best of Micromedic's knowledge is central military hospital in Beijing ("**the second pilot**").

According to reports received by Micromedic for the pilots conducted on samples prepared by the liquid based cytology method, the results obtained demonstrate that in 95% of the cases in the first pilot and in 97% of the cases in the second pilot, the product showed differential staining which identified the cancer cells and alleviated the analysis

performed by pathologists (thereby potentially reducing labor costs). In addition, the chief pathologists in the hospitals at which the above pilots were conducted recommended using the product in routine cervical cancer screening tests. Micromedic estimates that the pilots' successful results are a important milestone in the product's market penetration in China.

As of the report date, an additional two pilots are being conducted by two leading laboratory chains in China, which, to the best of Micromedic's knowledge, are each performing millions of tests a year.

Following the entry into the agreement with Biomics, Zetiq sent a shipment of cervical cancer detection and diagnosis kits which includes solutions for conducting some 20,000 tests to China. Following the results of the pilots that were conducted on the product, as described above, Micromedic received another order for solutions.

Due to the need to deepen the product's market penetration in China and Micromedic's assessment of Biomics' limited capabilities, Micromedic is considering other options and acting to expand its distribution network in China. In this context, in November 2014 Micromedic signed two letters of intent with two leading laboratory chains in China to conduct pilots on the product, which are currently underway, with a view to examining various possibilities for cooperation between them.

The information regarding the date of receipt of final results of the pilots, the penetration of the Chinese market and the expansion of Micromedic's distribution network in China represents forward-looking information as defined in the Securities Law and there is no certainty that it will be materialized. The evaluations are based on information held by Micromedic and the distributor as of today and they may not be materialized, in whole or in part, and/or may be materialized in a materially different manner than expected by Micromedic , for various reasons, including reasons that are not under Micromedic's control.

Activity in India:

(a) On July 7, 2013, Zetiq informed the Micromedic that it had signed a memorandum of understandings ("**the MOU**") towards entering into a commercial collaboration agreement with HealthCare Global Enterprises Ltd. ("**HCG**"), an Indian corporation which owns a chain of oncological hospitals in India. The purpose of the collaboration is to promote the cervical cancer diagnosis kit in India ("**the collaboration**"). According to the MOU, in the first stage, HCG will perform a clinical evaluation of the kit in its labs, at its expense, based on an agreed clinical plan ("**the clinical plan**"). For that purpose, Zetiq undertook to provide HCG the required quantities of the kit, free of charge, as well as technical support and training in HCG labs. In February 2014, after

obtaining all the required approvals and completing the required training, HCG began the clinical evaluation. The results were expected in the second half of 2014, but because of frequent organizational changes at HCG the project's progress has been delayed. As of the report date, a new clinical team was appointed at HCG which restarted the activity.

(b) On June 9, 2014, Zetiq notified the Micromedic that it and Genetix Biotech Asia (P) Ltd., a company incorporated under the laws of India ("**Genetix**"), had concluded a collaboration MOU preparatory to signing a marketing and distribution agreement in India for Zetiq's CellDetect® product for the detection and diagnosis of cervical cancer (in this paragraph, respectively: "**the product**" and "**the MOU**").

According to the MOU, Genetix will act and be responsible for obtaining all the regulatory approvals for the import, marketing and distribution of the product in India ("**the regulatory approvals**"). Genetix will also be responsible for conducting clinical trials with the product at several health institutions in India, for the purpose of receiving any required regulatory approvals and furthering the product's penetration in India.

If the regulatory approvals are received within the timeframe set in the MOU, the parties will enter into a distribution agreement in India (in this paragraph: "**the distribution agreement**"), under which Genetix will be entitled to distribute, promote and market the product in India for a period of three years, subject to Genetix complying with the milestones agreed upon by the parties, including compliance with the minimum purchase targets for the product.

The MOU will be effective until the earlier of the end of the period of negotiations for entering into the distribution agreement or the date when the parties enter into the distribution agreement, subject to Genetix's compliance with its undertakings in the MOU, including, among others, obtaining the regulatory approvals within the timeframe set between the parties.

On August 12, 2014, Genetix notified the Company that it had received a license to import the product in order to submit it for testing by the local standard authorities. As of the report date, Genetix is in the process of obtaining the required regulatory approvals. In December 2014 Zetiq sent kits to India for the purpose of receiving said approvals.

The above information regarding the collaboration in India, the date of receiving the clinical evaluations and obtaining the regulatory approvals and the signing of a distribution agreement in India, including a commitment to a minimum number of purchases, represents forward-looking information, as defined in the Securities Law 1968, the materialization of which depends on

various factors.

4.7.6 Production capacity

Zetiq self-produces the main components of the CellDetect® technology, including plant extraction. Some of the stains undergo a certain process at the company and some are manufactured by a third party and packaged for delivery. Zetiq has concluded characterizing the production procedures, setting up and preparing the means for the commercial production of the CellDetect® product and commenced manufacturing first batches during 2014.

4.7.7 Research and development

In 2014 Micromedic continued to develop a bladder cancer recurrence monitoring kit for subjects with a history of this disease, using the CellDetect® technology on urine samples in a multicenter latent clinical trial ("**the trial**") that was conducted pursuant to a successful calibration test performed on tens of subjects.

The trial's primary purpose was to test the CellDetect® technology's ability to monitor recurrence of bladder cancer in subjects with a history of this disease, by identifying bladder cancer cells in urine samples. The trial's secondary purpose was to compare the performance of the CellDetect® technology with that of three other noninvasive tests existing in the market: urine cytology test, BTA stat and Bladder Check MNP22.

In the trial the CellDetect® results were examined by 2-3 pathologists and compared to the results of a biopsy, or a cytoscopy where no biopsy was taken.

In the framework of the trial an interim report was received containing positive results which, together with the positive results received in the calibration test of the CellDetect® technology for monitoring bladder cancer, represented a significant milestone in the development of the diagnostic kit and provided further statistical proof of the test's efficacy. Pursuant to the positive results, Micromedic continued with a trial held at nine medical centers, which tested urine samples of 217 subjects with a history of bladder cancer, of which 121 were samples of healthy subjects and 96 were samples of patients with the disease.

On February 1, 2015, following the completion of the testing of the urine samples by the pathologists and the necessary statistical analysis, the trial results were obtained.

The trial results show that the CellDetect® technology successfully identified cancerous cells in urine samples, attesting to the recurrence of bladder cancer in subjects with a history of the disease, at a sensitivity of 84.4% and a specificity of 82.7%. Furthermore, the negative predictive value (NPV) (the probability that a subject with a negative result does not in fact have the disease) stands at 98.5%.

The test's high sensitivity was found among subjects with early stage tumors and low grade malignancy, which, to the best of Micromedic's knowledge, are hard to diagnose using other noninvasive tests existing in the market today[84], in addition to subjects with advanced stage tumors and high grade malignancy. The findings demonstrate that the CellDetect® technology is sensitive to the need for accurate and early detection of the recurrence of the disease.

As to the trial's secondary purpose, comparing the performance of the CellDetect® technology with that of the three other noninvasive tests existing in the market: urine cytology test, BTA stat and NMP22 BladderCheck, the trial demonstrated that the sensitivity of these tests was 50%, 68.8% and 17.4%, respectively, for the set of samples on which the comparison was made. This finding highlights the potential of the CellDetect® technology as an accurate,

[84] Can.Urol.Assoc.J. June 2008: 2(3): 212-221. UROLOGY 61: 109-118, 2003.

reliable and noninvasive tool for detecting the recurrence of bladder cancer.

The trial's positive results represent a significant milestone in the development of a bladder cancer monitoring kit based on the CellDetect® technology (in this paragraph, "**the kit**"), and they are expected to strengthen Micromedic's ability to commercialize and market the kit.

In the wake of the trial's positive results, Micromedic intends to act for a CE registration for the marketing and commercialization of the kit in Europe. Thereafter, Micromedic intends to submit a Pre-IDE to the US FDA and to advance the insurance indemnification processes in respect of the use of the kit. To the best of Micromedic's knowledge, there are several indemnification codes in the US that can be used for the type of test performed with the kit. Concurrently with said actions, Micromedic will consider acting to expand the bladder cancer tests, based on the development of the CellDetect® technology for additional target audiences, and to further the commercialization and collaboration processes with international companies in the field.

The above information regarding the marketing of the bladder cancer detection and diagnosis kit and its expected advantages represents forward-looking information as defined in the Securities Law. These evaluations might not be materialized, among others, due to difficulties in the serial production of the kit and the challenges of penetrating a market with competing products and technologies.

The following table summarizes the clinical trials that have been or are being conducted by Zetiq:

Trial name	Trial's development stage (as applicable)	IND/INE application for the trial	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
ZT-CL-01A	Proof of concept	No IDE application. Trial under Helsinki Committee's approval	Proof of concept of Zetiq's staining technology for identifying cervical cancer	2	Israel – Meir Hospital Israel – Maccabi Healthcare Services	Up to 60 biopsies Up to 350 cytological tests	60 biopsies 167 cytological tests	Nature: randomized controlled and open trial Status: concluded	2008-2012	1,427	1,427	**Biopsies**: following comparison between cervical cancer patients and healthy subjects, test sensitivity is about 94.7% and specificity is 97.8% **Cytology**: following comparison between cervical cancer patients and healthy subjects, test sensitivity is about 92.4% and specificity is 79.8%

Trial name	Trial's development stage (as applicable)	IND/INE application for the trial	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
ZT-CL-02B	Proof of concept	No IDE application. Trial under Helsinki Committee's approval	Proof of concept of staining technology for identifying bladder cancer	1	Israel – Rabin Medical Center	Up to 60 biopsies Up to 120 urine samples	58 biopsies	Nature: randomized controlled and open trial Status: concluded	2009-2010	703	703	Following comparison between bladder cancer patients and healthy subjects, test sensitivity is about 91.9% and specificity is 88.7% The urine sample part was not executed

Trial name	Trial's development stage (as applicable)	IND/INE application for the trial	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
ZT-CL-04B	Proof of concept	No IDE application. Trial under Helsinki Committee's approval	1. Calibrate the CellDetect® device for detecting TCC in urine cytology samples. 2. Determine the performance of the CellDetect® device in identifying TCC recurrence using urine cytology samples	2 centers for the calibration stage 9 centers for the proof of efficacy stage	Israel	Up to 300 for the calibration stage. 217 samples for the proof of efficacy stage	80 for the calibration stage. Proof of efficacy stage: 217 (excluding disqualified samples).	Nature: randomized controlled, first part – open and second part latent Status: calibration stage concluded, proof of efficacy stage concluded	Calibration stage began and ended in 2012, proof of efficacy stage began in 2013 and is expected to end in H2 2014	650	545	Calibration stage results showed method sensitivity of about 94% and specificity of 88% Proof of efficacy results showed method sensitivity of 84.4% and specificity of 82.7%

The evaluations that are based on the results of the abovementioned trials represent forward-looking information, as defined in the Securities Law, and rely on the data held by Micromedic as of the report date. There is no certainty regarding the results of the continued development of the bladder cancer detection and identification technology or regarding the beginning or success of commercialization of the cervical cancer detection and identification technology. The continued development and commercialization may be affected by several factors which are not under the control of Zetiq and/or Micromedic such as finding distributors and failure to receive appropriate regulatory approvals.

Investments in R&D

In the last three years, an aggregate amount of approximately NIS 4,029 thousand was invested in R&D in Zetiq according to the following breakdown (NIS in thousands):

Period	2012	2013	2014	Total
Investment in R&D before Chief Scientist participation	1,329	1,100	1,600	4,029
Less - Chief Scientist participation, net	-	-	-	-
Net investment in R&D	**1,329**	**1,100**	**1,600**	**4,029**

Zetiq's entire R&D expenses have been recognized as an expense.

In 2015, Micromedic intends to invest a total of NIS 3,950 thousand in R&D activity in Zetiq.

Zetiq received R&D participation grants from the Chief Scientist and in return undertook to pay royalties at a rate of 3% of sales of the funded products in an amount that does not exceed 100% of total grants, linked to the dollar bearing interest of Libor. The total grants received as of the report date approximate NIS 11,990 thousand (including interest). The amount of royalties paid by Zetiq as of the report date is approximately NIS 5 thousand.

As of December 31, 2014, Zetiq recorded in its financial statements a liability in respect of payment of royalties to the Chief Scientist totaling approximately NIS 4,167 thousand in the amount of the fair value of the liability
The following table shows the grants received by Zetiq from the Chief Scientist:

Medical product underlying the OCS grant	Grant received in 2012 (NIS000)	Grant received in 2013 (NIS000)	Grant received in 2014 (NIS000)	Balance of grants received from the OCS at report date (NIS000)	Grant repayment terms and dates	Special conditions prescribed by the OCS regarding the grant and/or its repayment terms
Cancer cell early detection kit	-	-	-	11,990	Micromedic undertook to pay royalties at a rate of 3% of sales of products funded by the OCS in an amount not exceeding 100% of total grants, dollar linked and bearing Libor interest. It is estimated that the grants will be fully repaid to the OCS by 2023[85]	-

[85] Micromedic's estimate of repayment dates assumes that sales will be made according to forecasts and that the payment of royalties will not be accelerated or increased pursuant to the Israeli Law for the Encouragement of Industrial Research and Development, 1984 and represents forward-looking information as this term is defined in the Securities Law, based on the Company's assessments as of the report date

4.7.8 Intangible assets[86]

The following table summarizes approved material patents:

Patent application	Patent description	Expected patent rights	Preference date	Expected PCT date	Countries of application
Methods and compositions for identifying a cell phenotype	See description in the above table. Application status – national phase	Owned	6.3.2006	6.3.2007	Canada, Europe, India
Kits for and methods of differential staining of cervical cancer cells	Methods and kits for staining cervical cell sample by contacting the cervical cell sample with a Ficus Elastics plant extract, staining the cervical cell sample with New Fuchsin, and staining the cervical cell sample with Light Green or Fast Green. Also	Owned	19.5.2009	17.5.2010	China, Europe, India, Israel, US, Hong Kong

[86] As of the date of publication of this report, the Company is not aware of any factors that prevent it from using its material technology in the principal markets in which it operates and/or intends to operate in the future. Nevertheless, Micromedic has not performed a freedom to operate study on the use of the technology.

and/or tissues	provided is a method of diagnosing a pre-malignant or a malignant cervical tumor in a subject, by staining the cervical cell sample and identifying at least one cervical cell having a red cytoplasm above a pre-determined threshold, wherein presence of the at least one cervical cell having the red cytoplasm above the pre-determined threshold is indicative of a non- or less-differentiated cell as compared to a normal cervical cell, thereby diagnosing the pre-malignant or a malignant cervical tumor in the subject Application status – national phase				
Methods and kits for differential staining of abnormal urinary system cells	Application status – national phase	Owned	22.11.2010	17.11.2011	Canada, Europe, US, India, China, Israel, Australia, Hong Kong
Detection of abnormal cells in a cell suspension	Application status – provisional	Owned	10.12.2013	N/A	N/A

Application no.	Patent application name	Patent description	Patent rights	Expected patent expiration date	Countries of approval
8343733	METHODS AND COMPOSITIONS FOR IDENTIFYING A CELL PHENOTYPE	Methods and compositions for identifying a cell phenotype –a method of staining or pre-staining at least one cell. The method comprises contacting at least one cell with a staining agent selected from the group consisting of an extract of a Ficus Elastica plant, a C23H44O4 and a proanthocyanidin, thereby staining or pre-staining the at least one cell. Also provided are methods of detecting cells of different differentiation stages and methods of diagnosing cancer and metabolic diseases	Owned	2027	US
5107943	See above	See above	Owned	2027	Japan
193805	See above	See above	Owned	2027	Israel
145874	See above	See above	Owned	2027	Singapore
2007224386	See above	See above	Owned	2027	Australia
2641954	See above	See above	Owned	2027	Canada
US2013/0102025	See above	See above	Owned	2027	US

To the best of the Micromedic's knowledge, any delay in the registration of these applications arises from the delay in the commencement of the inspection process by the various patent registration offices and from the duration of the inspection process itself. As of the report date, the average duration of the approval process of patents based on Zetiq's patents that had been approved a long time ago, beginning with the national inspection, is about four years, which is a reasonable timeframe for this type of patents in this industry. However, there is no certainty that the schedules in the different countries in which Micromedic's patent applications are being inspected will not be extended or that the patents will ultimately be approved.

Total expenses in connection with filing patent applications and registering patents from the date of Zetiq's acquisition by Micromedic through the report date amount to approximately NIS 624 thousand. In 2013 and 2014, Zetiq expended NIS 194 thousand and NIS 245 thousand, respectively, in respect of patent registration applications and patent registration maintenance.

4.7.9 Human capital

Zetiq's operations are mostly carried out by Micromedic's employees and consultants. Micromedic estimates that Zetiq is dependent on two Micromedic employees: Dov Terkieltaub, Manager of Product Development and Operations, and Dr. Noa Davis, Manager of Research and Development.

In March 2006 Zetiq adopted a stock option plan for its employees and officers ("**Zetiq's option plan**"). As of the report date, Zetiq granted under the Zetiq option plan 4,369,668 options for the purchase of 4,369,668 ordinary shares.

4.7.10 Raw materials and suppliers

Zetiq produces all the non-generic materials needed to its activity, including the plant extract, while generic materials are purchased from suppliers.

Micromedic estimates that it is not dependent on a particular supplier from whom the generic raw materials are purchased.

4.7.11 Financing

Before the completion of the Micromedic-Company transaction, Zetiq financed its operations using shareholders' loans from the Company (in this paragraph, "**shareholders' loans")** and participation grants from the Chief Scientist.

Zetiq received R&D participation grants from the Chief Scientist. See additional details of the grants in section 4.7.11 above.

Until March 2010 (inclusive), the shareholders' loans bore NIS interest of 11% per annum, and based on the agreement between the Company and Zetiq, in effect from April 2010, the loans bear NIS interest of 3.3% per annum. Prior to

the completion of the Micromedic transaction date, the balance of shareholders' loans totaled NIS 15,589,000.

On the date of completion of the Micromedic-Company transaction, the Company converted the shareholders' loans provided to Zetiq up to the date of completion of the Micromedic-Company transaction, excluding an amount of NIS 6 million ("**the new shareholders' loan**"), into 104,961,888 ordinary shares of Zetiq, which were transferred to Micromedic as part of the transaction terms. Following the conversion and as of the date of completion of the Micromedic-Company transaction, the balance of the new shareholders' loan totals NIS 6 million (including interest). As of December 31, 2014, the nominal balance of the new shareholders' loan totals NIS 6,646.

Starting from November 21, 2011, Zetiq's operations are financed by Micromedic. Micromedic extends Zetiq amounts for financing its current operations from time to time and at its discretion by way of shareholders' loans. Up to the report date, Micromedic extended to Zetiq an aggregate total of approximately NIS 4,412 thousand. The interest on the loans is at a rate of 4.31%.

Zetiq has no bank or off-bank credit facilities and does not receive borrowings from other sources.

4.7.12 Restrictions and control

For details of statutory restrictions, standards and special constraints applying to the activity of the Group's companies, see paragraph 5.1 above.

In July 2010 Zetiq announced that the cervical cancer diagnosis product developed by it (as a supporting test) complies with the CE standard according to European Directive 98/79/EEC. Pursuant to said statement of compliance with the CE requirements, Zetiq may market the product under the CE mark in any country adopting the European regulatory standard, as a supporting test. On August 31, 2011, Zetiq received from the Ministry of Health approval for the registration of the CellDetect® technology in the register of medical accessories and devices ("**the approval**"). The approval permits Zetiq to use the technology in laboratories in Israel for aiding in the histological and cytological diagnosis of cervical cancer. See additional details below:

Name of approved medical device	Indication	Health Ministry approval no.	Date of receipt of approval
CellDetect® technology	Gynecological – for aiding in the histological and cytological diagnosis of cervical cancer	22990001	August 31, 2011

On November 6, 2012, approval was received from the Chinese FDA (CFDA) for marketing a product based on the CellDetect® technology in China. See additional details below:

Name of approved medical device	Indication	Health Ministry approval no.	Date of receipt of approval
CellDetect® technology	Applicable to tissue pretreatment, used in tissue sample staining before microscopic observation	1400132	November6,2012

In addition to the foregoing, Zetiq was awarded ISO 13485 certification by the Standards Institution of Israel (SII). The ISO certification is renewed every year, subject to an SII inspection. Zetiq's current approval is effective until July 2015.

4.7.13 Material agreements

4.7.13.1 Supply and distribution agreement in China

For details of a supply and distribution agreement in China with Biomics Biotechnologies Co. Ltd., see section 4.7.5 above.

4.7.13.2 Agreement with Mor Research Applications Ltd.

On February 2, 1998, Zetiq and Mor Research Applications Ltd. ("**Mor**") signed an agreement allowing for the commercialization and profitability of the CellDetect® technology. According to the agreement, Mor is entitled to receive royalties of 1% plus VAT on all revenues from the commercialization of the CellDetect® technology, including salaries, profits, payment in cash equivalent rights, payments from licensing rights agreements in respect of the CellDetect® technology, etc,. as detailed in the agreement. The continued payment of royalties will be in effect until the later of: (i) the end of a 17-year period from the date of filing a patent application for a certain invention in connection with the CellDetect® technology in each country ("**the patent period**" and "**the invention**", respectively); or (ii) the end of the invention's commercialization period.

4.7.13.3 See details of the loan agreement between Zetiq and the Company in paragraph 4.7.11 above.

4.7.13.4 See details of Zetiq's engagement with HCG in India in paragraph 4.7.5 above.

4.7.13.5 See details about Zetiq's engagement with Genetix in India in paragraph 4.7.5 above.

4.8 BRONJ project (collaboration with the University of Florida)

For a glossary of specific professional terms used in the description of Micromedic's operations in the context of the BRONJ project see table in page 92 above:

4.8.1 General information, changes in scope of activity in the segment and profits, the product, potential market, structure of competition and substitutes

BRONJ (Bisphosphonate-Related Osteonecrosis of the Jaw) is a severe side effect which causes necrosis of the maxillary bone. This side effect usually appears in patients that are IV treated with a prevalence rate of up to 18.6% among Multiple Myeloma patients[87], 1.2-12% among breast cancer patients[88], 6.5-7% among prostate cancer patients[89] and up to 0.1% among osteoporosis patients treated orally[90].

Today, many patients are diagnosed in advanced stages of the condition, in which the only treatment is costly surgery. The cost of treatment of the condition ranges between $200 for a doctor's visit to $20,000 for hospitalization and surgery. Identifying the risk could save the health system significant expenses.

The project is in the field of developing personalized medicine through the early identification of the drug's effect on specific patients (including early detection of the drug's efficacy and specific side effects). This innovative field offers better adaptation of drugs to specific patients and serves as a tool for pharma companies for improving drug efficacy and reducing costs of developing new drugs.

To the best of Micromedic's knowledge, today there is no test for evaluating the risk of developing BRONJ following treatment with bisphosphonates, and Micromedic is working on the development of such a test together with the University of Florida.

On June 6, 2006, Micromedic and the University of Florida in the State of Florida ("**University of Florida**" or "**University**") , US signed a letter of intent ("**the letter of intent**") in which the parties expressed their intention of examining the possible collaboration in promoting cancer diagnosis and treatment ventures. The parties also agreed to exchange information on cancer diagnosis and treatment and explore the possibility of conducting joint clinical trials.

[87] Bamias, Kastritis et al. 2005; Durie, Katz et al. 2005; Zervas, Verrou et al. 2006; Hoff, Toth et al. 2008; Walter, Al-Nawas et al. 2008.
[88] Bamias, Kastritis et al. 2005; Durie, Katz et al. 2005; Hoff, Toth et al. 2008.
[89] Bamias, Kastritis et al. 2005; Migliorati, Siegel et al. 2006.
[90] ADACSA 2006; Mavrokokki, Cheng et al. 2007; Yarom and Elad 2008; Sedghizadeh, Stanley et al. 2009; Lo, O'Ryan et al. 2010.

As part of the adoption of the letter of intent, on September 8, 2008, Micromedic and the University of Florida signed a research and license agreement, amended in September 2008, November 2010 and December 2011 (collectively, "**the first Florida agreement**" or "**the license agreement**") for the development of an innovative diagnostic kit ("**the kit**") for detecting a unique genetic profile that increases the risk of cancer patients and others to develop BRONJ as a side effect of being treated for cancer with drugs of the bisphosphonate family such as Aredia and Zometa[91] which are IV administered and Alendronate[92] which is orally administered.

On August 11, 2014, Micromedic and the University signed a new research agreement ("**the research agreement**") under which the University is to carry out research activity on DNA samples held by it, while simultaneously conducting a continuity trial within the clinical trial Micromedic is conducting at the Tel Hashomer Hospital in which recruitment began in August 2014, as described in paragraph 3.2.2.3 below. The signing of the research agreement follows Micromedic's announcement of May 28, 2014 that it is discontinuing handling of three patent applications forming the subject of the first Florida agreement, and the University confirmed the receipt of this notification from Micromedic.

The information regarding the area of activity discussed above and its implications on Micromedic's operations represents forward-looking information as defined in the Securities Law and is based on Micromedic's evaluations at this time, which rely, among others, on public studies in this area which have not been verified by Micromedic and therefore may not be realized and/or may be realized in a different manner than anticipated by Micromedic due to factors that are not under its control such as the success of studies, the success of clinical trials and the receipt of regulatory approvals, all of which may have a material effect on Micromedic's operations in this field.

The market of bisphosphonate-related treatments

As of the report date and to the best of Micromedic's knowledge, all Multiple Myeloma patients are treated with bisphosphonates IV. About 103,000 new cases are diagnosed around the world every year[93]. Moreover, as of the report date and to the best of Micromedic's knowledge, about 80% of metastasis breast cancer patients are usually administered intravenous bisphosphonates[94]. About 1.4 million new cases of breast cancer are diagnosed around the world every year[95], of whom it is estimated that about 30% will develop metastasis[96]. Accordingly, Micromedic estimates that about 300,000 metastasis breast cancer patients are treated with drugs of the bisphosphonate family.

[91] Made by Novartis and Merck.
[92] Made by Merck.
[93] globocan 2008.
[94] AAOS American associations of orthopaedic surgeons; o'saughnessy 2005; globocan 2008.
[95] SEER- surveillance epidemiology and End Results (NCI) stat facts: prostate; khan 2003; globocan 2008).
[96] O'shaughnessy, The Oncologist 2005 10(suppl 3): 20-9.

Moreover, to the best of Micromedic's knowledge, as of the date of this report, out of about 2.5 million people living in the US with prostate cancer[97], some 100,000 will develop metastasis[98] and about 70% of cases will develop bone metastases[99] and will receive intravenous bisphosphonates – around 70,000 new cases every year. In addition, to the best of Micromedic's knowledge, as of the report date, there are apparently about 200 million osteoporosis patients around the world[100] with millions of new patients being diagnosed every year. Micromedic estimates that the kit for diagnosing a genetic profile that enhances the risk of cancer patients and others to develop BRONJ may serve as a valuable screening tool for the prospective bisphosphonate recipients before the drug is administered. To the best of Micromedic's knowledge, there is currently no effective method in existence for identifying populations who are at increased risk of developing BRONJ.

Moreover, Micromedic estimates that the international drug companies that market bisphosphonate-related drugs might be interested in the kit being developed in order to combine it with their drugs and to create a tool for adapting drugs to patients.

Micromedic is currently focusing on the development of a test to identify the population at increased risk of developing BRONJ among multiple myeloma patients. Based on the results obtained for MM patients, Micromedic will examine the possibility of expanding the test also to other cancer patients and osteoporosis patients.

The information regarding Micromedic's evaluations, regarding potential markets, the potential use of the kit and the development of other indications represents forward-looking information as defined in the Securities Law and is based on the Micromedic's evaluations as of the repot date which may not be realized and/or may be realized in a materially different manner than anticipated by Micromedic due to factors that are not under its control such as the success of clinical trials and the receipt of regulatory approvals, all of which may have a material effect on Micromedic's operations in this field.

[97] SEER Cancer Statistics Review, web site 2012.
[98] Solo et al, J Clin Oncol 29: 2011 (suppl; abstr 4637).
[99] Saad et al, Current oncology reports 2006, 8: 221-227.
[100] IOF - International Osteoporosis Foundation.

The following table summarizes the BRONJ identification product:

Medical product under development	Medical product's indications	Medical product's development stage at report date	Expected milestones in the next 12 months	Nearest milestone and expected completion date	Estimated cost of nearest milestone completion	Potential target market size (no. of patients or procedures) and annual monetary scope of the medical product's potential target market at report date	Corporation's estimated date of beginning the medical product's marketing	Corporation's estimated market share of the medical product, assuming marketing approval is received
BRONJ	Genetic identification of people with enhanced risk of developing a side effect from the use of bisphosphonate drugs	Continuity trial with the results of the trial conducted at Tel Hashomer on an independent population	▪ Clinical continuity trial results - for the continued development of the product, and engagement with strategic partners	Clinical continuity trial results – second quarter of 2015	NIS 195 thousand	About 500,000 new cancer patients a year and about 200,000 osteoporosis patients a year. Assuming a market share of 50% of cancer patients and one million annual tests of osteoporosis patients, estimated potential market share of hundreds of millions of dollars a year	At this stage the date of beginning marketing cannot be assessed due to the preliminary stages of the product's development	At this stage it is impossible to estimate the development of Micromedic's market share but to the best of Micromedic's knowledge, there is no competing product, which increases the chances of quick penetration

The information brought in the table above, including with respect to the expected costs, is forward-looking information as defined in the Securities Law, based on Micromedic's assessments at this time, which might not materialize and/or which could materialize in a significantly different manner than Micromedic's assessments, due, among others, to factors outside the Company's control.

4.8.2 Customers; marketing and distribution

The target audience for the diagnostic kit currently being developed by Micromedic is multiple myeloma patients, Micromedic will consider the possibility of developing a kit also for breast cancer patients, and it will examine the possibility of advancing in the development of additional indications (e.g. osteoporosis and prostate cancer), based on the results of the clinical trial it is conducting on multiple myeloma patients.

Micromedic will consider an engagement with a strategic partner for the continued development and marketing of the kit.

The information on Micromedic's assessments with respect to the potential target audience and the development of additional indications is forward-looking information as defined in the Securities Law, based on Micromedic's assessments as of this time, which might not materialize and/or which could materialize in a significantly different manner than Micromedic's assessments, due, among others, to factors outside the Company's control, such as the success of studies and clinical trials, receipt of regulatory approvals, etc.

4.8.3 **Research and development**

Within the framework of clinical trials Micromedic is conducting, it intends to examine the efficacy of genetic markers in multiple myeloma patients with bone metastasis who are treated with Aredia and/or Zometa, and due to taking those drugs are at a risk of developing BRONJ, which, as noted, is a severe side effect causing necrosis of the maxillary bone and seriously detracting from the affected person's quality of life ("**the side effect**" or " **BRONJ"**). In this context, Micromedic conducted a clinical trial at the Tel Hashomer Medical Center for myeloma patients, whose results were received on May 27, 2014 ("**the Tel Hashomer trial**"). It emerges from the findings of the Tel Hashomer clinical trial that several new highly correlated genetic markers were identified, having, in Micromedic's estimation, strong potential to predict the risk of developing BRONJ. In the wake of these findings, Micromedic filed three new patent applications (see section 4.3.4 below).

In August 2014, Micromedic began a clinical continuity trial at the University of Florida and Tel Hashomer on an independent population for the purpose of examining the findings from the Tel Hashomer trial, as well as finding additional genetic markers that are statistically significant for assessing the risk of developing BRONJ ("**the continuity trial**". The continuity trial was conducted on samples held by the University of Florida and among other patients at Tel Hashomer. Micromedic included in the continuity trial several samples of breast cancer patients treated with bisphosphonates, similar to multiple myeloma patients, and a small number of samples of patients with different types of cancer. For additional details on the research agreement with the University of Florida, see paragraph 4.8.5 below.

The above information, including regarding the clinical trial results, as detailed above, as well as the expansion of the development plan and the performance of a clinical trial and its targets in the field of breast cancer and different types of cancer as discussed above, represents forward-looking information as defined in the Securities Law, whose materialization is not solely dependent on the Company but also on external factors.

The following table summarizes clinical trials that have been conducted or are being conducted by Micromedic within the framework of the BRONJ project:

Trial name	Trial's development stage	IND/INE application for the trial	Clinical trial objective	No. of trial sites	Geographical location of trial sites	No. of planned trial subjects	No. of subjects who joined the trial at report date	Trial nature and status	Trial schedules	Estimated overall trial cost (NIS000)	Accrued cost from trial beginning date to the report date (NIS000)	Interim results and end results
Testing the efficacy of a novel genetic biomarker for identifying cancer patients at risk of developing BRONJ induced by bisphosphonates	Proof of concept	Trial done under approval of the medical center's ethics committee	Testing the efficacy of a novel genetic biomarker for identifying cancer patients at risk of developing BRONJ induced by bisphosphonates	1	University of Florida	47	47	Controlled, trial, status – concluded	Concluded	NIS 575 thousand	NIS 514 thousand	Odds ratio of 11.6 – the genetic biomarker carriers' chance of developing the side effect is 11.6 greater than non-carriers
Performance Evaluation of the Micromedic BRONJ Risk Assessment in vitro Diagnostic Assay CL-BNJ-001-PR	Proof of concept	No IND application. Trial done under the approval of the Hospital's Helsinki Committee and the MOH	To evaluate the performance of the Micromedic BRONJ Risk Assessment in vitro assay (the "BRONJ Assay") in identifying Multiple Myeloma (MM) subjects at risk for developing Bisphosphonate-related Osteonecrosis of the Jaw (BRONJ) following intravenous (IV) administration	1	Israel –Tel Hashomer Hospital.	Up to 100 blood samples	43	Controlled, trial, status - concluded	Receipt of final results in beginning of Q2 2014	NIS 1,200 thousand	NIS 1,035 thousand	Several new highly correlated genetic markets were identified, with strong potential for predicting the risk of developing BRONJ

			of Bisphosphonates									
Performance Evaluation of the Micromedic BRONJ Risk Assessment in vitro Diagnostic Assay	Continuity trial	The study was conducted with the approval of the medical center's ethics committee	Examination of the performance of the markers discovered in the previous trial and other markers on an independent population of multiple myeloma patients suffering from BRONJ and expansion of the examination to other cancer cases	1	University of Florida, US	Up to 100 blood/DNA samples	65	Controlled trial	Receipt of final results at the beginning of the second quarter of 2015	995	550	Result were not received yet.

The information included above regarding completion times and schedules of clinical trials and their results, the product's marketability potential, the product's capabilities, the effect on trial results and the product's efficacy and market reception represents forward-looking information as defined in the Securities Law whose materialization depends on various factors which are not under Micromedic's control.

Investments in R&D

In the last three years, an aggregate amount of approximately NIS 2,332 thousand was invested in R&D of the BRONJ project according to the following breakdown (NIS in thousands):

Period	2012	2013	2014	Total
Investment in R&D	910	654	768	2,332

Micromedic's entire R&D expenses in respect of this project have been recognized as an expense.

In the report period, Micromedic received from the Chief Scientist a participation grant at 30% of a budget of up to 2,100,199, subject to the terms of the approval, including payment of royalties at a rate of 3% of Micromedic's revenues from the kit. Total grants received from the Chief Scientist as of the report data stand at NIS 207 thousand (the amount includes interest), and royalties have not been paid yet.

In 2015 Micromedic intends to invest a total of NIS 1,600 thousand in R&D activity in the BRONJ project.

Intangible assets[101]

The following table summarizes material patent applications:

Application no.	Patent application name	Description of patent applied for	Expected patent rights (if the patent is registered)	Priority date	Application filing date (PCT date)	Countries of application
229793	Methods and kits for preventing, suppressing or inhibiting antiresorptive-agent-induced osteonecrosis of the jaw	The patent describes methods and a kit for to develop osteonecrosis of the jaw due to use of antiresorptive agents that are liable to cause osteonecrosis of the jaw. ——————————— Application status – Israeli patent application	Micromedic	4.12.2013	N/A	N/A

[101] As of the date of publication of this report, the Company is not aware of any material impediment to using its material technology, in the main countries in which its operates and/or intends to operate in the future. However, Micromedic did not perform a freedom to operate test regarding the use of said technology.

_____ PCT/IL2014 /051051						
231479	Methods and kit for Identifying Antiresorptive Agent Induced osteonecrosis of the jaw and for Suppressing or Inhibiting same	The patent addresses genetic polymorphisms which can serve to evaluate risk of those persons treated with medications from the bisphosphonates family developing severe side effects of BRONJ. Status the application – application for an Israeli patent.	Micromedic	12.3.2014		

Total expenses in connection with filing patent applications and registering patents from the start of Micromedic's activity in the BRONJ project and up to the report date amount to approximately NIS 842 thousand. In 2013 and 2014, the Company expensed NIS 230 thousand and NIS 213 thousand in respect of patent registration applications and patent registration maintenance, respectively.

4.8.5 **Material agreements**

Following is a description of the material agreements between Micromedic and the University of Florida.

According to the provisions of the first Florida agreement, Micromedic will hold a global exclusive license to make, manufacture and sell products and processes in connection with the kit's research and development. The Company received an option of granting sublicense in connection with said license. According to the agreement, Micromedic undertook to finance the research and development and protection of the IP underlying the agreement.

In return for the license, Micromedic undertook to pay the University fixed royalties at a rate of 8% of net sales of products and/or other uses deriving from the research made by Micromedic and/or the sublicense holder.

According to the provisions of the first Florida agreement, the University will be in charge of maintaining and protecting the IP underlying the agreement and the IP will remain wholly owned by the University, excluding inventions, developments, discoveries and improvements which are exclusively made by Micromedic. Micromedic committed to bear any of the University's patent registration and IP protection expenses. As noted above, on May 28, 2014 Micromedic notified the University that it was discontinuing handling of two patent applications included in the agreement.

The license according to the first Florida agreement will remain in effect until the expiration date of the last patent relating to the IP underlying the license.

Micromedic will be entitled to terminate the first Florida agreement by providing a written notice at least 60 days in advance. The University of Florida may also terminate the agreement under the circumstances described in the license

agreement, including if Micromedic fails to pay any of the amounts payable by it when due or fails to achieve the research plans.

Under the research agreement, the University of Florida will conduct a validation test on the findings obtained during the clinical trials with respect to DNA samples held by it, concurrently with the performance of a validation test in the clinical trial Micremedic is conducting as described above.

All the results of the research carried out by the University under the research agreement, and all the intellectual property rights obtained pursuant to the research, including all the analytical, statistical and/or bioinformatic data (hereinafter collectively: "**the new intellectual property**") will be wholly owned by Micromedic. In return for the performance of the research, Micromedic will pay the University of Florida an amount which is immaterial to the company, in installments, subject to completion of research targets. The parties may terminate the agreement by 60 days' prior notice.

Within the framework of the research agreement, the parties agreed to a memorandum of understanding, attached as an appendix thereto, which contains the main conditions of the assignment agreement ("**the assignment agreement**") which is supposed to be signed by the parties within 180 days from the date of signature of the research agreement ("**the MOU**"). The terms of the MOU are not binding as long as the assignment agreement has not been signed. The MOU regulates, among others, the subject of the payment of a success fee to the University at agreed rates on net sales of products and/or uses arising from the new intellectual property and on the receipts from the grant of license to third parties for use of the new intellectual property. The MOU states that upon the signature of the assignment agreement, the assignment agreement will replace and void all prior agreements between Micromedic and the University that dealt with the collaboration between them, including the first Florida agreement.

The information on the research agreement, the MOU and the research results as described above, and its implications for Micromedic's activity, is forward-looking information as defined in the Securities Law, 1968, based on Micromedic's assessments at this time, and therefore it might not materialize and/or its could materialize in a significantly different manner than Micromedic's assessments, due, among others, to factors outside the Company's control, such as: success of the BRONJ project, success in commercializing the intellectual property, receipt of financial support from the Chief Scientist and receipt of regulatory approvals, all of which could have a material impact on Micremedic's activity in this area.

4.9 Nofar project - lung cancer brain metastases ("Nofar project")

4.9.1 General information

On July 25, 2012, the Nofar Committee at the Office of the Chief Scientist approved the Nofar project, led by Dr. Yair Bar and Prof. Shai Israeli from the Tel Hashomer, which aims to provide a gene expression profiling assay to identify lung cancer patients who are at increased risk to develop brain metastasis (in this paragraph: "**the study**").

An earlier study conducted by the researchers at Tel Hashomer identified a

unique genetic signature of lung cancer patients who are at enhanced risk of developing brain metastasis. The objective of the current study is to substantiate the existing study results and attempt to identify additional markers to improve predictability.

The invention underlying the current study is based on biomarkers of a unique genetic profile of lung cancer patients to allow identifying a group of patients with increased risk of developing brain metastasis. Identifying patients with increased risk of developing brain metastasis will allow closer monitoring of these patients and offering them personalized therapy. Moreover, early identification of metastasis is likely to extend the patients' life expectancy and improve their quality of life.

On September 5, 2012, Micromedic signed a binding agreement with Sheba MC for participation in funding the study in an amount that is immaterial to the Company, in return for a right of first refusal in managing the commercialization license negotiations in respect of its results (in this paragraph: "**the agreement**").

An analysis of the study's results was completed in the fourth quarter of 2014. According to the analysis, genetic markers were identified that could improve predictability of the group of NSCLC (non-small-cell lung carcinoma) patients with increased risk of developing brain metastasis.

Micromedic is currently searching for a partner to continue the product's development, and examining the right under the agreement to conduct negotiations for a commercialization license in respect of the study's results. In accordance with an amendment to the agreement, Micromedic is able to exercise said option until March 25, 2015, and in accordance to understanding between the parties this period was extended till end of June, 2015 .

The information regarding Micromedic's evaluations with respect to the date of completion of the study and the anticipated benefits of the test which is the subject of the study, represents forward-looking information as defined in the Securities Law, which may not be realized and/or may be realized in a materially different manner than Micromedic's expectations, among others due to failures in conducting the study or the clinical trials, the costs of developing the test, obtaining regulatory approvals etc.

4.9.2 Potential market

According to the WHO, lung cancer is the most common and most deadly cancer in the world, with over 1.8 million new cases around the world each year[102]. Non-Small-Cell Lung Cancer ("**NSCLC**") patients account for about 85% of all lung cancer patients[103] and about a quarter of them develop brain metastases[104] which are liable to severely affect their quality of life and life expectancy.

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[102] GLOBOCAN 2012.

[103] Nathoo N, Chahlavi A, Barnett GH, Toms SA. Pathobiology of brain metastases. J Clin Pathol. 2005 Mar;58(3):237-42. Review.

[104] Fidler IJ,Yano S, Zhang RD, Fujimaki T, Bucana CD. The seed and soil hypothesis: vascularisation and brain metastases. Lancet Oncol 2002;3:53-7.

Micromedic assesses the potential global market of its test at approximately $ 250 million a year.

To the best of Micromedic's knowledge, at present, there is no test in existence that can indicate that there is an enhanced risk of developing brain metastases among lung cancer patients.

The information regarding Micromedic's evaluations regarding potential markets of the test which is the subject of the research represents forward-looking information as defined in the Securities Law, based, among others, on public studies conducted in this area, which have not been corroborated by Micromedic and therefore may not be realized and/or may be realized in a materially different manner than Micromedic's expectations.

4.10 Bio-Gene Ltd.

For a glossary of specific professional terms used in the description of Bio-Gene's operations see page 92 above.

4.10.1 General information

Bio-Gene was incorporated on July 5, 2006 and as of the report date, 90.25% of its issued and outstanding share capital and voting rights are held by Micromedic.[105] Bio-Gene has an exclusive global license from Hadasit Medical Research and Development Ltd. ("**Hadasit**"), which, to the best of Micromedic's knowledge, is the applied arm of Hadassah Hospital. See details of the license agreement signed between Bio-Gene and Hadasit which was amended and superseded in full in 2013 in paragraph 4.10.5 below.

The product of Bio-Gene's research and development is a diagnostic test based on a matrix of about 20 genes for diagnosing women with deleterious BRCA1/BRCA2 mutations who are at a high risk of developing breast and/or ovarian cancer ("**Bio-Gene's product**"). The test is designed to offer women with a family history of breast and/or ovarian cancer an additional tool for making treatment and follow-up related decisions. To the best of the Company's knowledge, Micromedic assesses that Bio-Gene's product can be positioned as a diagnostic tool for women who currently cannot obtain a conclusive result from existing tests.

In keeping with the development achieved, Micromedic and Bio-Gene are acting to recruit a strategic partner for the continued development of Bio-Gene's product. Insofar as such a partner is not located, Micromedic will be forced to reassess Bio-Gene's continued operations.

4.10.2 Changes in the scope of operations in the segment and its profitability, the product, the potential market, structure of competition and substitutes

[105] For details of the shares allocated to Dr. Asher Shalmon, who is employed as Bio-Gene's chief scientist and medical director, see paragraph 3.2.3.5(a) below. For details of the shares allocated to Tamar Peretz and Hadasit, see paragraph 3.2.3.6(b) below.

Breast cancer is the most common form of cancer among women (about one third of all cancer cases in women in the US[106] and about 25% of all cancer cases worldwide[107]) and is the second cause of death from cancer for women (after lung cancer) (521,000 fatalities a year worldwide[108], representing about 14% of all cancer related deaths). According to WHO data, about 1.67 million women were diagnosed with breast cancer in 2008[109] and it is estimated that in excess of 232,000 new cases will be diagnosed in 2014 in women in the US alone. Some 40,000 women are expected to die from the disease in 2014 in the US alone[110] and one of eight women in the US will develop breast cancer at some point in her life.[111]

In Israel, breast cancer is the most prevalent malignant disease. About 4,000 women are diagnosed every year. In 2009, 949 women died from breast cancer. One of eight women in Israel is liable to get breast cancer[112]. Ovarian cancer is the ninth most prevalent cancer (not including skin cancer) but the number five cause of mortality among women in the US[113]. One of 71 women in the US will get ovarian cancer in her lifetime and one of 95 women in the US will die as a result thereof[114].

The prevalence rates mentioned above refer to the general population, yet there are certain high risk populations who are more likely to develop breast and/or ovarian cancer and about 5%-10% of all breast cancer cases are hereditary[115]. One of these risk groups is women with certain mutations in the BRCA1 and/or BRCA2 genes. These women are up to 80% more likely to develop breast cancer in their lifetime. Carriers of BRCA1 mutations are 35%-70% more likely to develop ovarian cancer and carriers of BRCA2 are 10%-30% more likely to develop ovarian cancer by the time they are 70 compared to the general population whose risk of getting ovarian cancer is only about 1.5%[116]. These mutations usually appear in the majority of women and one of the populations who are relatively highly likely to have these mutations is women of Eastern-European descent.

The increased risk of women who have these mutations of developing breast and/or ovarian cancer emphasizes the importance of diagnosing carriers of these mutations as early as possible in order to minimize mortality rates and even prevent it altogether. Early-stage diagnosis enhances the chances of

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[106] Cancer Statistics, 2014, CA CANCER J CLIN 2014.

[107] Globocan 2012, Cancer Fact Sheet.

[108] GloboCan 2012.

[109] Cancer Statistics, 2014, CA CANCER J CLIN 2014.

[110] ACS: Cancer Facts and Figures, 2013.

[111] Cancer Statistics, 2014, CA CANCER J CLIN 2014.

[112] Israel Cancer Association website, October 2011, month of awareness of breast cancer.

[113] Cancer Statistics, 2014, CA CANCER J CLIN 2014.

[114] ACS: http://www.cancer.org/Cancer/OvarianCancer/DetailedGuide/ovarian-cancer-key statistics.

[115] ACS: www.cancer.org/cancer/breastcancer/Moreinformation/breastCancer/earlyDetection/breast-cancer early-detection-risk-factors-you-cannot-change.

[116] ACS:http://www.cancer.org/Cancer/OvarianCancer/DetailedGuide/ovarian-cancer-what-causes, http://www.cancer.org/Cancer/BreastCancer/DetailedGuide/breast-cancer-risk-factors.

recovery by about 90%.[117]

4.10.3 Investments in R&D

In the last three years, an aggregate amount of approximately NIS 187 thousand was invested in R&D in Bio-Gene according to the following breakdown (in NIS in thousands):

Period	2012	2013	2014	Total
Investment in R&D	70	40	77	187

All of Bio-Gene's above described R&D expenses have been recognized as expenses.

4.10.4 Intangible assets[118]

Application no.	Patent name	Patent description	Expected patent rights	Preference date	Expected PCT date	Countries of application
WO2009/007958 PCT/IL2008/000934	Compositions, methods and kits for the diagnosis of carriers of mutations in the BRCA1 and BRCA2 genes and early diagnosis of cancerous disorders associated with mutations in BRCA1 and BRCA2 genes	Method for diagnosing BRCA1 and/or BRCA2 mutation carriers for diagnosing the risk of development of related forms of cancer and specifically breast and ovarian cancer. Application status - PCT	Owned by Hadasit with an exclusive license for Bio-Gene	8.7.2007	8.7.2008	Canada, Europe, US

Total expenses in respect of filing patent registration applications and in respect of registering patents incurred since the date of Bio-Gene's foundation through the report date amount to approximately NIS 325 thousand. In 2013 and 2014, Bio-Gene expensed NIS 41 thousand and NIS 65 thousand on filing patent registration applications and on maintaining patents, respectively.

On December 24, 2014, Bio-Gene notified Hadasit of its decision to discontinue financing of patent maintenance expenses in the US.

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[117] Cancer Association website, February 2012, Early Diagnosis of Breast Cancer.

[118] As of the report date, the Company is not aware of anything that materially prevents it from making use of its core technology in the main countries in which it operates and/or intends to operate in the future. To the best of Micromedic's knowledge, Bio-Gene is not in violation of any of Myriad Genetics' registered patents. This assumption arises from the fact that, as Micromedic is aware, Myriad Genetics is conducting full or partial DNA sequencing of the BRCA1 and/or BRCA1 genes and its patents relate to the process, method, use etc. of these two genes. In contrast, the product being developed by Bio-Gene does not relate to any of those genes but rather relies on the fact that the existence of a deleterious BRCA mutation is expressed in the cell areas which are studied by Bio-Gene. Bio-Gene's product provides a response for the question whether a BRCA mutation is deleterious or not. However, Micromedic has not conducted a freedom to operate test on the use of this technology.

4.10.5 Material agreements

In September 2006, Bio-Gene signed a license agreement with Hadassah University Hospital, through Hadasit Medical Research Services and Development Ltd. (hereinafter: "**Hadasit**"), the hospital's applied arm, for obtaining an exclusive global license for developing, manufacturing, marketing, distributing and selling products arising from the research of a kit for screening carriers of gene mutations that are likely to cause breast and ovarian cancer through a blood test. The agreement was amended on August 21, 2011 (collectively: "**the original agreement**").

On December 21, 2013, the original agreement was amended and superseded in full in an aim to settle certain issues that involve adding partners to the project ("**the new agreement**") (the original agreement and the new agreement collectively, "**the license agreement**").

Following are main terms of the agreement:
According to the license agreement, Bio-Gene was granted an exclusive global license for developing, manufacturing, marketing, distributing and selling products or processes which are based on Hadasit's initially developed invention (or on the IP which is the subject of the original agreement).

According to the license agreement, Bio-Gene may grant a sublicense, subject to obtaining Hadasit's consent in advance and in writing, at its sole discretion, provided that any objection to granting such consent is made for reasonable grounds only.

In addition, Bio-Gene will be entitled to assign its rights according to the agreement, subject to Hadasit's consent. Hadasit will not object to such assignment without reasonable cause.

According to the license agreement, the entire IP underlying the diagnostic kit which is the subject of the license agreement is owned by Hadasit and all the results from the research which is the subject of the license agreement and any new IP created by Hadasit will be exclusively owned by Hadasit, excluding any new IP developed by Bio-Gene based on the conditions prescribed in the agreement.

Bio-Gene has undertaken, including through a third party, to exercise its best efforts in order to commercialize the IP which is the subject of the license agreement, including manufacturing the products deriving from the diagnostic kit which is the subject of the license agreement. If Bio-Gene fails to exercise such efforts within a period of three years from December 21, 2013 (the date of signing the new agreement), the exclusive license will expire. The aforementioned does not obligate Bio-Gene to provide any financing to Hadasit or anyone on its behalf.

In return for the license, Hadasit will be entitled to royalties as specified below:

a. Royalties at a rate of 6% on net sales (as defined in the license agreement) of any product deriving from the license agreement (with no limitation on net sales).

b. If Bio-Gene grants a sublicense, Hadasit will be entitled to 30% of all amounts actually paid to Bio-Gene as a result of the sublicense, as detailed in the license agreement.

The amended agreement settled the terms regarding a combination product which is defined as a product that combines the product which is the subject of the license agreement with at least another diagnostic element for which Bio-Gene received a license from an unrelated party (and for which it pays the unrelated party royalties).

If and to the extent that such a combination product is sold, the net sales for which Hadasit is entitled to royalties will be adjusted based on the mechanism determined in the license agreement.

According to the license agreement, if there is a change in control over Bio-Gene, Hadasit will be entitled to 3% of the consideration paid to Bio-Gene and/or Micromedic's shareholders for the transfer of control. Moreover, the new controlling shareholder in Bio-Gene will also be bound by the license agreement.

4.10.6 Financing

Bio-Gene's operating activities are financed by Micromedic. From time to time, at its sole discretion, Micromedic provides Bio-Gene amounts linked to the Israeli CPI for financing its operating activities by way of shareholders' loans. As of the report date, Micromedic has provided Bio-Gene an aggregate of NIS 2,247 thousand.

Since the date of Bio-Gene's foundation through the report date, no material investments have been made in Bio-Gene's share capital by Micromedic or at all.

4.11 BioMarCare Technologies Ltd.

For a glossary of specific professional terms used in describing BioMarCare's activity, see paragraph page 92 above.

4.11.1 General information

BioMarCare (formerly: Incure Ltd.) is a private company incorporated in Israel which commenced business operations in August 2002. In October 2009, the company renewed operations under a new name, BioMarCare Technologies Ltd.

On April 4, 2012, the transaction in respect of Micromedic's investment in BioMarCare, was consummated. As of the report date, Micromedic holds about 33.69% of BioMarCare's issued and outstanding share capital.

During the report period, the board of directors of BioMarCare decided to focus on business development activity aimed at locating strategic partners for completing the development of a kit for the early diagnosis of CRC and precancerous polyps through a molecular blood test (qRT-PCR) – Colon-MarCarePlex™ ("**the Colon-MarCarePlex™ product**") and its commercialization, and not to continue independent clinical activity with the product.

In addition, during the report period BioMarCare's collaboration with **Ariadne Genomics, Inc** for the development of the mCRC-Strat product ended and the project was discontinued, pursuant to the BIRD Foundation's announcement of the termination of support for the work plan.

Accordingly, starting from Micromedic's board of directors' report for the second quarter of 2014, BioMarCare's activity is classified as a held-for-sale activity and as a discontinued activity (including the necessary adjustments according to generally accepted accounting principles in view of such a classification), and in the periodic financial statements as of June 30, 2014, Micromedic recognized a one-time write-off of NIS 3,306 thousand.

4.11.2 Investments in research and development

During the last three years, a total of NIS 3,695 thousand was investment in research and development at BioMarCare, according to the following breakdown (NIS in thousands):

Period	2012	2013	2014	Total
Investment in R&D before Chief Scientist's participation carried out at BioMarCare	2,866	2,377	1,326	6,569
Less Chief Scientist's participation, net	(1,222)	(310)	(617)	(2,149)
Investment in R&D, ne	**1,644**	**2,067**	**709**	**4,420**

Intangible assets[119]

On April 10, 2014, BioMarCare filed a patent application with the US patent office:

Application No.	Name of patent application	Application filing date	Country of application
61/977636	METHODS AND KITS FOR IDENTIFYING PRE-CANCEROUS COLORECTAL POLYPS AND COLORECTAL CANCER	April 10, 2014	US

[119] As of the date of publication of this report, the Company is not aware of any material impediment to using its material technology, in the main countries in which its operates and/or intends to operate in the future. However, Micromedic did not perform a freedom to operate test regarding the use of said technology.

Total expenses in respect of filing patent registration applications and registering patents incurred from the date of commencement of BioMarCare's operations through the report date amount to approximately NIS 493 thousand. In 2013 and 2014, BioMarCare expensed NIS 7 thousand and NIS 13 thousand in respect of filing patent registration applications and maintaining patent registration in connection with this project, respectively. See details of amounts recognized as an asset in the financial statements in respect of intangible assets in Note 10 to Micromedic's financial statements.

4.11.3 Financing

From the date of completion of Micromedic's investment in BioMarCare, BioMarCare financed its operations using the investment funds received from Micromedic, as well as received from the BIRD Foundation.

In 2014, Micromedic received from the BIRD Foundation funding in an aggregate amount of $ 55 thousand

In October 2014, BioMarCare paid the Docor Foundation's share of a convertible loan provided to BioMarCare on August 25, 2005, in an amount of NIS 108,369 (principal plus interest). Against said payment, HBL – Hadasit Bio-Holdings ("**HBL**") transferred to BioMarCare the same amount of NIS 108,369, against which BioMarCare allocated to HBL 5,000 ordinary BioMarCare shares of NIS 0.01 each.

4.11.4 Restrictions and Control

For details of statutory restrictions, standards and special constraints applying to the activity of the Group's companies, see paragraph 5.1 above.

For details of BioMarcare's commitments to the Chief Scientist, see paragraph 4.2.9.6 and 4.7.7 below.

4.11.5 Material agreements

Agreement with BIRD Foundation

On July 3, 2014, Micromedic announced the termination of the collaboration between BioMarCare and Ariadne Diagnostics, LLC, due to the BIRD Foundation's refusal to accept the change in the remainder of the work plan in connection with the mCRC-Strat product, which was submitted by it and by Ariadne.

5. Part 5 – Affairs pertaining to the Company's operations as a whole

5.1 Restrictions, legislation, regulations and special limitations applicable to the operations of the Group's companies

(In this section, the Company, the eye cluster companies and the cancer diagnostics cluster companies will collectively be referred to as "**the Group**").

5.1.1 Regulatory approvals for medical product development stages

The certification of medical products for marketing is subject to strict regulations. These regulations are prescribed in Israel by the Ministry of Health, in the US by the Food and Drug Administration ("**the FDA**") and in Western Europe by the European Medicines Agency ("**the EMEA**").

Regulations vary from country to country and obtaining approval in one country does not guarantee obtaining approval in another country. However, approvals granted by regulators that are considered to be strict (US or Europe) in certain cases might support obtaining approvals in other parts of the world. This assumption is based on the fact that some of these authorities have a similar level of requirements which eliminates the need for making material adjustments after obtaining approval from one authority for complying with another authority's requirements.

Each group of products in a specific segment, and occasionally even a single product in the segment, are required to meet specific regulatory development and manufacturing standards and extended approval processes that consist of inspecting product development and manufacturing and lab testing consistency and reliability. In addition, specific ethical tests and reviews must be met. Periodic reviews are conducted by the authorities (such as the European Ministry of Health DEKRAand the FDA) after product approval, usually annually or bi-annually. These reviews test, among others, a company's compliance with cGMP as descried below.

As for manufacturing, storage and transport of medical products, the regulatory authorities have enacted certain current good manufacturing practices ("**cGMP**") to assure that these processes are performed in a controlled and safe environment. The cGMP are updated from time to time and consist of methods and procedures for documenting, supervising and controlling manufacturing processes and supporting and related systems. The development and registration process of medical products includes clinical trials (human testing) which a company is required to conduct in order to prove the safety and efficacy of the product under development.

5.1.2 **Helsinki Committee / ethics committee**

A condition for conducting clinical trials (human experimentation) in all the countries that have signed the Declaration of Helsinki (including Israel) is obtaining advance approval from the qualified entities for conducting human experimentation in that country and for compliance with the other principles in the Declaration of Helsinki as specified below.

In order to conduct clinical trials in Israel, a permit must be obtained from an independent institutional committee in the institution in which the experiment will be conducted ("**the Helsinki Committee**") which acts in conformity with the Public Health Regulations (Medical Experiments in Humans), 1980 ("**the Public Health Regulations**") and approvals must be obtained from the Ministry of Health. The physician who is the chief researcher who performs the experiment for the company in said institution must file the experiment protocol to the Helsinki Committee. Following a hearing in which the Helsinki Committee examines whether the experiment protocol meets the rules of ethics, the protocol is awarded a preliminary approval (sometimes subject to changes required by the Helsinki Committee). In certain cases, the approval of a "super" institution (such as the Israeli MOF) is also required. Only after all the required approvals are obtained can the planned clinical trial begin. Any change in the experiment protocol requires reapplying to the Helsinki Committee (and super institutions if applicable).

The Helsinki Committee's approval for conducting clinical trials is granted if the approval application is filed by a certified physician who serves as the chief researcher in the experiment. The researchers participating in the clinical trial on humans must have the relevant professional skills and experience for preparing the trial and for its compliance with the following conditions:

a. The expected benefits for the trial participants and the company justify the cost and inconvenience involving the trial for the participants;

b. The medical and scientific information justifies conducting the trial;

c. The medical trial is scientifically planned in a manner that allows finding a response for the issue under examination and is clearly, specifically and accurately outlined in the experiment protocol;

d. The risk to the trial participants is reduced to the minimum possible by using appropriate research techniques and possibly procedures that have already been performed on humans or tested on animals. Moreover, the trial participants are optimally monitored (monitoring the recurrence of the disease) and supervised;

e. The trial participants will be chosen based on the experiment protocol's rules of induction and deduction;

f. Each trial participant signs a voluntary consent form which comprises the entire information required in the procedure;

g. The experiment plan includes instructions on maintaining the participants' privacy and the confidentiality of collected information;

h. The experiment plan defines a specific monitoring mechanism (monitoring the recurrence of the disease);

i. The trial's initiator guarantees adequate insurance coverage for the participants;

j. The initiator and chief researcher are capable of allocating the required resources for the trial's proper execution, including skilled manpower and required equipment;

k. The commercial engagement with the researcher and the institution in which the trial is conducted does not impair the proper execution of the trial;

l. If any of the trial participants are potentially exposed to indecent pressure or influence to participate in the trial – the proper measures were taken to prevent such pressure or influence.

5.1.3 **Applying for regulatory approvals**

Prior to applying for regulatory approvals as detailed above and below, the Company, in collaboration with the regulatory advisors, make application preparations. The Company cannot assess the duration of preparations but they usually take several months up to a year or even longer. These preparations include the following steps:

a. Deciding on the Company's preferred track based on cost, scope of the clinical trial, approval from the authorities and ability to use strategic partners.

b. Collecting the relevant regulatory documents such as FDA/EMEA procedures and guidelines, product specific trial guidelines, general clinical trial guidelines, FDA decision summaries of similar products etc.

c. Conducting the necessary experiments (lab experiments for defining and describing the product features and clinical trials) and preparing the file for application. The file will include all the various experiment protocols, corresponding performance reports and regulation documents.

5.1.4 The medical devices are subject to various regulatory provisions, including the Israeli MOH's department of medical devices and accessories. At the international level, the Company's operations are subject to international

standards prescribed by the FDA in the US, CE standards in Europe and ISO standards for assuring the quality of its products.

5.1.4.1 FDA approval procedures for marketing medical devices in the US

Any medical device that is earmarked for the US market must meet FDA regulations prior to going on sale in the US market. This is true for both local and foreign manufacturers since the FDA does not recognize regulatory approvals from other countries. FDA requirements include, among others, manufacturing the medical devices in accordance with QA regulations, obtaining scientific reports on the medical devices, appointing a US agent and allowing FDA officials to supervise the manufacturing process at the plant. The Company estimates that the FDA approval process for the medical products is the longest and most complicated compared to other regulatory authorities around the world. To the best of the Company's knowledge, FDA approval for a medical device is granted after meeting several prerequisites according to the relevant process for each specific product. The Premarket Notification 501(k) process is relatively short in the context of which FDA receives a demonstration that the medical devices under inspection are safe and effective, are comparable with other products that are legally marketed in the US and are not subject to a Premarket Approval (PMA) process which requires conducting clinical trials at a larger scope, sometimes significantly larger, which are liable to prolong the time needed for obtaining regulatory approvals and increase respective costs.

5.1.4.2 CE Marking

To the best of the Company's knowledge, CE Marking is mandatory conformity marking for certain products sold within the European Economic Area. The Company's products are included in the self-declaration category which constitutes the manufacturer's declaration that the product meets all the necessary criteria and technical specifications of the relevant authorities such as health safety and environmental protection. The CE Marking guarantees free trade between EEA countries and EFTA countries (Iceland, Lichtenstein and Norway) and enables the enforcement and customs authorities in European countries to decline marketing approval for similar products without the CE Marking based on the European Conformity guidelines on medical devices. Effective from June 14, 1998, manufacturers of medical devices in Europe are required to meet the European Conformity guidelines.

5.1.4.3 Israeli MOH approval for marketing medical devices

The marketing of Zetiq's and IOPtima's products is subject to the approval of the Israeli MOH's department of medical devices and accessories ("**the department**"). The department handles the licensing and oversight of all types of medical equipment and devices. This category includes any instrument, accessory, chemical ingredient, biological or technological product used in medical treatments or required for the operation of a device or accessory used in treatment that is not designed to act on the human body as medication. The department is in charge of granting import permits for different types of medical devices, monitoring such medical devices in Israel and approving clinical trials using these devices.

5.1.5 Drug development approval process

Drugs are subject to various legislative provisions, including international standards such as FDA standards in the US, CE standards in Europe and ISO standards for assuring the quality of products. The following is a description of the drug development approval process:

5.1.5.1 Pre-clinical phase

This phase includes tests aimed at demonstrating the drug's safety and efficacy in animals, among others in models that simulate the indicated disease. The pre-clinical phase consists of experiments that study whether the drug has toxic side effects and what the drug's various indications are as tested using lab equipment and on animals. This phase generally also includes beginning of development of production methods and substance analysis.

5.1.5.2 Phase I

This phase consists of preliminary clinical trials for proof of safety, drug absorption, distribution and elimination and dosage range. In some cases, this phase is conducted on healthy subjects and in others on patients.

5.1.5.3 Phase II

This phase consists of preliminary testing by administering the drug to patients in order to determine the optimal dosage and ascertain the drug's safety. In many cases, Phase II comprises several experiments. Phase IIb is of a larger scope and aimed at providing information on the drug's efficacy (proof of concept) to be used as the foundation for progressing to the next phase.

5.1.5.4 Phase III

This phase is designed to prove the drug's safety and efficacy in a large number of patients. Normally, pursuant to regulatory requirements, two Phase III trials are conducted. It should be noted that with respect to life threatening diseases that have no real medicinal cure, the regulatory authorities might allow registering a drug for marketing based on only one Phase III trial. If positive results are achieved in a Phase III trial, the companies apply to the FDA or EMEA for approving the drug.

It should be noted that the number of participants in each clinical trial phase described above depends, among others, on the indication in question, the indices screened in the trial, the type of medicine under development and the results of former clinical trials of the drug. Ordinarily, Phase I clinical trials involve several dozens of participants, Phase II trials involve several dozens to a few hundreds and Phase III trials involve hundreds to thousands of participants.

5.1.5.5 Phase IV

The health authorities occasionally approve a drug for marketing but require the developing company to continue monitoring the drug's effects after marketing. This monitoring can be performed through a Phase IV clinical trial. The main objectives of a Phase IV clinical trial are to collect additional information on the drug's side effects and safety and study the risks and benefits of the drug among a broader population of patients than in the previous clinical trials. At times, Phase IV clinical trials can lead to the discovery of safety issues that were not observed in the pre-marketing development stage and in such case the marketing approval granted to the drug might be eliminated or restrictions might be imposed on the drug's use.

5.1.5.6 It should be noted that as part of the application for product marketing approval, the companies must also present to the regulatory authorities in Europe and the US a proposed drug development plan for the treatment of children as an integral part of the drug's development process. In such manner, the plan ascertains that the required information for developing a drug for treating children has been amassed and the conditions underlying the drug's approval for treatment of children have been determined. Among others, companies are required to enclose a description of proposed studies and measures for adapting the drug's formulation to children. In some cases, companies are exempt from filing a development plan.

5.1.5.7 As discussed above, the development process is lengthy and costly, among others due to the trials' prolongation, the timeframe needed for obtaining approvals and the process of producing information from the trial results at the end of which a company may file an application for drug registration by the relevant regulatory authority.

5.1.5.8 The results of later stage clinical trials cannot be foreseen based on the results of pre-clinical and earlier clinical trials on the same drug. Later stage clinical trials might fail the potential drug's proof of efficacy and proof of safety tests despite the positive outcome of earlier trials. Moreover, there is no guarantee that the accumulated data and trial results as a whole will satisfy the requirements of the regulatory authorities, the ethics committees and such. A single failure in one clinical trial phase is liable to result in the loss of the entire investment made in the company. Therefore, there is no certainty that the companies operating in the segment that are now in development stages will ever reach the commercial marketing target.

5.1.6 **The China Food and Drug Administration ("CFDA")**

To the best of the Company's knowledge, based on various publications, the CFDA is directly subordinate to the State Council of the People's Republic of China, which is in charge of approving drugs in China. The sale of Zetiq's and IOPtima's products in China is subject to CFDA approval. See details of the marketing approval of Zetiq's product in China in paragraph 4.7.12 above.

5.1.7 **The Law for the Encouragement of Industrial Research and Development, 1984**

The Law for the Encouragement of Industrial Research and Development, 1984 ("**the R&D Law**") prescribes a series of requirements which must be met in order to be eligible for R&D funding from the Office of the Chief Scientist. The benefits awarded under the Chief Scientist's funding require the recipient to pay the State royalties on any income generated from the product developed under or deriving from the Chief Scientist's program, including related services. Moreover, the R&D Law requires manufacturing the product developed under the State's funding in Israel only, unless the Research Committee of the Israeli Ministry of Industry Trade and Labor approves the transfer of the product's manufacturing rights outside of Israel.

5.1.8 **ISO standards**

The Company received ISO approval for Zetiq's and IOPtima's products from the Israel Standards Institute. ISO approval is renewed every year, subject to the Israel Standards Institute's inspection. Zetiq's current approval is valid until August 2013 and IOPtima's current approval is valid until July 2012.

5.1.9 Quality assurance

The Group's products are assembled in accordance with ISO 13485:2003 and their quality is inspected by the Company's employees who have been professionally trained and qualified for that purpose. The Company's subcontractors provide the Company the complete products and/or kits or components while adhering to the required quality standards. The Group performs periodic reviews The Group's products undergo various types of QA tests aimed at securing their working condition. All the Group's products are subject to QA inspection which examines their accuracy, contents, stability etc.

It should be clarified that the aforementioned regarding the approval procedures of medical devices is based on the Company's knowledge as of the report date and might be subject to changes according to the different requirements and policies of regulators. Such changes might cause delays in obtaining regulatory approvals for Zetiq's and IOPtima's products under development.

5.1.10 Procedure of obtaining regulatory approvals for marketing medical devices

The cancer diagnostics cluster's products under development as of the report date consist of in-vitro diagnostic kits (in lab testing)[120] which can be marketed, under certain circumstances, without obtaining the regulatory approvals detailed in this paragraph, among others, to labs that meet the Clinical Laboratory Improvements Amendments of 1988 ("**CLIA**") standard (granted by the United States Department of Health and Human Services). Nevertheless, at this stage, to the best of the Company's knowledge, Micromedic cannot assess the regulatory track which it will choose at the conclusion of the development stage of the cancer diagnostics cluster's products.

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[120] In Vitro Diagnostics (IVD) - diagnosis through tests that are not conducted directly on human subjects but rather using various lab methods for testing samples taken from humans

5.2 **Critical success factors in the operating segments**

5.2.1 The Company's ability to manage an interactive process aimed at creating knowledge synergies.

5.2.2 The completion of clinical trials and proof of technological and marketing concept (a preliminary experiment for the purpose of demonstrating the existence of a certain phenomenon).

5.2.3 The receipt of regulatory approvals for marketing the drugs and for using the medical devices.

5.2.4 The successful protection of the Group's patents and IP.

5.2.5 The engagement with suitable entities for marketing the Group's products on a commercial basis (directly or indirectly by forming strategic collaborations).

5.2.6 The ability to raise capital needed to conclude regulatory procedures, to achieve the Group's development targets and the Company's strategic targets.

5.2.7 Marketing and penetration of new products in the market which require investment and time.[

5.2.8 For critical success factors that are unique to the Group companies, see paragraphs 4.2.2.6, 4.3.2.5 and 4.4.2.4 above.

5.3 The principal entry barriers in the operating segments and changes therein

The Company believes that the main barriers to entry are as follows:

5.3.1 The need for deep familiarity with the industry, extensive commercial and business experience and proven capabilities in M&As.

5.3.2 The need for long-lasting experience and unique knowhow in the relevant scientific fields.

5.3.3 Resources – large high-risk capital investments are needed in the field of medical device development.

5.3.4 Regulation – obtaining the appropriate regulatory approvals for using the Group's products.

5.3.5 Patents – verifying if there are any third party patents that are liable to prevent the development of the Group's products and whether the Group's developed products can be protected against competition through patents and other methods.

5.4 **Fixed assets and facilities**

5.4.1 Lease agreement for the Company's offices

On July 14, 2011, the Company contracted with a third party in a lease agreement for the lease of offices in Kiryat Atidim, Tel-Aviv (in this paragraph "**the lease agreement**").

The lease term is 36 months from November 15, 2011 (in this paragraph "**the initial lease term**"). The Company was given an option to extend the lease term by an additional 24 months which was realized ("**the additional lease term**"), and the period of the lease is until December 2016.

The lease fees for the Company's offices to be paid until the end of the additional lease term are not material to the Company. It should be noted that the Company provides rental services under sublet to the subsidiaries XL Vision, IOPtima and ViSci. As of the report date, the Company has no material fixed assets. As of the date of this report there are no liens on the assets of the Company and its subsidiaries.

5.4.2 **Lease agreement for Micromedic's offices**

On February 2, 2014, Micromedic and Atidim signed an agreement for the lease of offices in Kiryat Atidim, Tel-Aviv, in an overall area of some 278 sq. m. ("**the lease agreement**").

The lease term is 36 months from February 2, 2014 ("**the initial lease term**"). Micromedic has the option to extend the lease term by an additional 24 months provided that it meets certain conditions as prescribed in the lease agreement.

The monthly lease fees for Micromedic's offices (including parking spaces and management fees) during the initial lease term are approximate NIS 26 thousand per month with the addition of linkage differences and VAT as required by law.

5.5 Financing

5.5.1 As of the report date, the Company finances its operations, continued investments in the cancer diagnostics cluster and the operations of the eye cluster companies through public and private capital raising rounds in the Company.

5.5.2 The operations of subsidiaries are financed through allocating shares and granting shareholders' loans as well as using Chief Scientist grants obtained for certain Group companies. some of the companies started commercialize their products and use sale of products to third parties, to also finance operation, as detailed above.

5.5.3 In addition, the Company is acting to achieve collaborations with strategic investors which will provide an additional source of financing, if successful.

5.6 Human capital

6.6.1 General

As of the report date, the Company has a total of 7 employees. in addition the eye cluster has 8 employees and the cancer diagnostics cluster has 12 employees. In addition, the Company has entered into direct consulting agreements with several consultants.

5.6.2 Employment agreements with the Group's employees

The Group enters into employment agreements with employees which mainly consist of provisions regarding the employee's commitment to maintain confidentiality and non-competition and assignment of the employee's ownership of inventions and developments to the Group (if applicable).

5.6.3 Material changes in the Group's headcount in the reporting year

During the reporting period, there were no significant changes in the Group's workforce.

5.6.4 Equity remuneration for officers, employees and consultants

In order to incentivize the Company's officers, employees, consultants and service providers and allow them to share in the Company's development and success, on December 12, 2005, the Company adopted an option plan for its officers, employees and consultants which allows for the allocation of options in both a capital gains track and a profit track, in accordance with Section 102 of the Income Tax Ordinance [New Version] 1961 (the "**Income Tax Ordinance**"), valid for 10 years (hereinafter: "**the Option Plan**"). The other companies in the Group companies have their own option plan to incentivize their employees and consultants.

5.6.5 Details of awards under the option plan for the past two years and as of the date of this report:

Offeree type	Allocation date	Type of security allocated	Number of securities allocated	Number of offeree's	Consideration		Company value after funds derived from if relevant) f
					Cash consideration	Other consideration	
Employees [121]	April 2013	Non-negotiable options	740,000	4	-	Company employees	Not relevant
Officers [122]	April 2013	Non-negotiable options	1,065,000	1	-	Company employees	Not relevant

[121] For further details see the Immediate Report of the Company dated 8 April 2013 (Reference No. 2013-01-028939]], included herein by way of reference.

[122] For further details see the Immediate Report of the Company dated 11 April 2013 (Reference No. 2013-01-033934]], included herein by way of reference

Offeree type	Allocation	Type of	Number	Number	Consideration		Company
External consultant providing services to the Company [123]	August 2013	Non-negotiable options	3,422,137	1	-	Service providers to the Company.	Not relevant
External consultant providing services to the Company [124]	January 2014	Non-negotiable options	1,711,068	1	-	Service providers to the Company.	Not relevant
Officer and employees[125]	March 2014	Non-negotiable options	2,526,127	5	-	Company employees	Not relevant
Company CEO[126]	August 2014	Non-negotiable options	9,370,000	1	-	Company employees	Not relevant
External consultant providing services to the Company [127]	December 2014	Non-negotiable options	1,303,344	1		Service providers to the Company.	Not relevant

For details of the terms of the options granted in accordance with the option plan, see Note 17 to the financial statements.

5.6.6 Compensation policy

On January 12, 2014, the general meeting approved the Company's compensation policy in accordance with section 267a to the Companies Law, following the Board's approval on November 28, 2013. The Board had approved the compensation policy after discussing it based on the recommendations of the Compensation Committee with reference to all the matters that require attention in determining compensation policies.

The Company's existing employment agreements with its officers will not be amended due to the adoption of the compensation policy since the Company's Compensation Committee and the Board estimate that the existing agreements meet the principles of the compensation policy. As prescribed by applicable

[123] For further details see the Immediate Report of the Company dated August 28, 2013 (Reference 2013-01-129066]], included herein by way of reference..

[124] For further details see the Immediate Report of the Company dated December 5, 2013 (Reference No. 2013-01-090337]], included herein by way of reference. For details of the agreement with the consultant see paragraph 5.6.4 of Part A of this report.

[125] For further details see the Immediate Report of the Company dated 27 March 2014 (Reference No. 2014-01-027510]], included herein by way of reference.

[126] For further details see the Immediate Report of the Company dated 8 March 2014 (Reference No. 2014-01-126078]], included herein by way of reference.

[127] For further details see the Immediate Report of the Company dated December 17, 2013 (Reference No. 2014-01-223629]], included herein by way of reference. For details of the agreement with the consultant see paragraph 5.6.3 of Part A of this report

laws, the Board will continue to examine the reasonableness of these agreements on an annual basis. Moreover, the renewal and updating of existing agreements with officers will be performed in accordance with the Company's compensation policy.

The bonus plan for company officers for 2015 was approved on March 26, 2015 by the Compensation Committee and on March 30, 2015 by the Board of Directors of the Company, in accordance with the provisions of the compensation policy. The bonus plan for 2015 is based primarily on execution based quantitative goals which were intended to advance the activities of the group's companies and the group as a whole in a number of parameters.

5.6.7 **Training programs**

The Group holds administrative enforcement and various professional training programs.

5.7 **Investments**

5.7.1 IOPtima Islands - IOPtima finances its operations through shareholders loans it receives from the Company and through grants received from the scientist. For details of the scientists grants see paragraph 4.2.9.7 above. Until March 2010 (including), shareholder loans carried an interest rate of 11% per year, and according to the agreement between the Company and IOPtima from April 1, 2010 the loans bear interest of 3.3% per year. The loan balance as of December 31, 2014 amounts to NIS 44,095 thousand. The loans are to be repaid by the Company with advance notice of 30 days. IOPtima has no bank or non-bank credit lines and does not take credit from other sources. To finance its operations, including the completion of development plan, marketing and sale of the products and the promotion of regulatory procedures IOPima will need to raise additional financing sources. Similarly, Eye Optima is receiving loans from X.L. Vision Sciences; the balance of the loan from X.L. Vision Sciences stands at the sum of approximately NIS 4,206 thousand as of December 31, 2014.

5.7.2 As of the report date, ViSci finances its operations through shareholders' loans received from the Company from time to time. The shareholders' loans bear annual NIS interest at a rate of 3.3%. They are repayable upon receiving the Company's advance notice of 30 days.
ViSci has no bank or off-bank credit facilities and it does not receive credit from other credit providers. For the purpose of financing the clinical trials and promoting regulatory proceedings, ViSci will need to raise additional financial resources. Part of the loan was received directly from the Company and part of the loan was received from XL Vision. The balance of the loan from X.L. Vision Sciences stands at the sum of approximately NIS 9,450 thousand as of December 31, 2014. The balance of the loan from THE Company stands at the sum of approximately NIS 1,939 thousand as of December 31, 2014.

5.7.3 In accordance with an agreement dated May 1, 2013 between the Company and XL Vision, the Company sold to XL Vision 10,000,000 ordinary shares

of NIS 0.01 par value each of ViSci in consideration for the Company providing a "recognized loan" of NIS 93,000 (in this sub-paragraph: "**the Loan**"). The loan will bear annual interest from the date of its actual transfer to XL Vision at the interest rate applying from time to time in accordance with Section 3 (i) of the Income Tax Ordinance, calculated according to 365 days a year. XL Vision will repay the transferred loan and the interest, on the earliest of the following: (1) 30 days after the date on which XL Vision receives written notice to so do; or (2) within two years after the date of the loan agreement. In certain cases, the Company may, at its discretion, request immediate payment of the entire outstanding balance of the loan and the interest by XL Vision and XL Vision undertakes to pay these amounts immediately upon the first request in writing by the Company.

5.8 **Material agreements**

5.8.1 **Consulting, employment and service agreements**

5.8.1.1 For details of the employment agreement signed between the Company and its CEO, Mrs. Susana Nahum-Zilberberg, including her entitlement to options, see Regulation 21 in Chapter D - additional information about the Corporation herein.

5.8.1.2 For details of the service agreement signed between the Company and Mr. Israel Makov through a company controlled by him, see Regulation 21 in Chapter D - additional information about the Corporation herein.

5.8.1.3 For details of the service agreement signed between the Company and Mr. Ron Weisberg through a company controlled by him, see Regulation 21 in Chapter D - additional information about the Corporation herein.

5.8.1.4 For details of the agreement signed between the Company with the acting CFO, Mr. Itai Bar-Natan, see Regulation 21 in Chapter D - additional information about the Corporation herein.

5.8.1.5 For details of the agreements between the Company and the retirement agreements with former officers in the Company in paragraph 4.2.16.2 above.

5.8.1.6 For details of the expansion of the Company's directors' and officers' liability insurance policies to also apply to officers who are the Company's controlling shareholders and their relatives, see Regulation 22 in Chapter D - additional information about the Corporation herein.

5.8.1.7 For details of the Company's engagement in a synergy agreement with Micromedic, see note 18a to the financial statements.

During the ongoing course of the group's companies' business, from time to time these companies enter into consultation and brokerage agreements with various consultants and brokers for assistance in locating investors in the different territories in which they operate. These agreements include clauses which are standard and common in such agreements, including brokerage fees which involve consideration in cash and/or equity, in an amount constituting a non-substantive portion of the consideration which the company receives from the completion of said transactions

5.8.2 **Investment agreements in the Group's companies**

5.8.2.1 Investment agreement in DiagnosTear

On January 17, 2013, the Company, through XL Vision, entered into an investment agreement in DiagnosTear according to which XL Vision gradually invested an amount of up to $ 750,000 in DiagnosTear (in this sub-paragraph "**the investment amount**") against the allocation of Ordinary shares of DiagnosTear representing after allocation about 70% of DiagnosTear's issued and outstanding share capital on a fully diluted basis ("**the investment shares**").

In accordance with the provision of the agreement, XL Vision appointed the majority of the directors on DiagnosTear's Board of Directors immediately after completing the investment agreement.
The founder of DiagnosTear is employed as a project manager in DiagnosTear.
For further details of DiagnosTear and its activities, see paragraph 4.4 above.

5.8.2.2 Investment agreement in Micromedic

On February 18, 2013, Micromedic signed investment agreements with unrelated outside investors, which to the best of the Company's knowledge are also unrelated to each other (collectively in this sub-paragraph: "**the investment agreements**" and "**the investors**", respectively), and with the Company according to which the investors will invest an aggregate amount of NIS 11,400,000 in Micromedic and the Company will invest an aggregate amount of NIS 3,000,000.

According to the investment agreements, in return for the investment, Micromedic allocated to the Company a total of 1,666,667 Ordinary shares for a price of NIS 1.80 per share and for total proceeds of NIS 3,000,000 as well as warrants, at no

consideration, for the purchase of up to 1,666,667 Ordinary shares for an overall exercise price of Nis 4.6M. In addition, Micromedic allocated to another investor a total of 1,388,889 Ordinary shares for a price of NIS 1.80 per share and for total proceeds of NIS 2,500,000 as well as warrants, at no consideration, for the purchase of up to 1,388,889 Ordinary shares for an overall exercise price of NIS 3.472M.

Micromedic allocated to the other investors a total of 5,562,500 Ordinary shares for a price of NIS 1.60 per share and for total proceeds of NIS 8,900,000.

The best of the Company's knowledge, the investments of the other investors as above, including the Company's investment, are not contingent on one another.

The completion of the Company's investment was subject to the approval of Micromedic's general meeting, which was received on April 18, 2013, and to the TASE's approval.

On April 25, 2013, the transaction was consummated and Micromedic allocated the Ordinary shares described above to the Company and the investors.

5.8.2.3 On February 23, 2015, the Company's Board of Directors approved an investment in Micromedic which will take place subject to receipt of the required approvals from Micromedic, in the framework of a private offering of shares in Micromedic. According to the terms which were approved, the private offering includes an offer of 5,253,486 ordinary shares of par value NIS 1 each in Micromedic in consideration of 27 aguroth (NIS 0.27) per share and in consideration of an investment in the total sum of approximately NIS 1.42 million. Completion of the investment is subject to receipt of additional approvals (including the Stock Exchange and Micromedic’s general meeting), which as of the date of this report have not yet been received.

5.8.2.4 See also section 5.7 above.

5.9 **Taxation**

See Note 14 to the financial statements.

5.10 **Business strategy and targets**

For strategic business objectives, see paragraph 2.1.2 above.

5.11 **Expected developments in the coming year**

In the coming year, the Company expects to promote the exiting technologies, find strategic partners, and to work on expanding the existing. In order to set up these clusters, the Company will continue to engage with companies that meet the criteria defined by it and adopt the unique management model that focuses on creating value through sharing knowledge between the cluster companies. In addition, the Company began to act in the U.S. market and display the company to American investors.

This type of activity will require the Company to implement a capital raising policy. Based on such policy, the Company will act to gradually raise funds based on the development of the relevant investments.

The Company's evaluations regarding expected developments in the coming year and regarding the implementation of the cluster strategy discussed above represent forward-looking information as defined in the Securities Law and might not be realized for reasons beyond its control.

5.12 **Legal proceedings**

As of the report date, the Group and none of the Group's companies are not party to any legal proceedings.

5.13 **Risk factors**

The Group's activity in the area of development of medical products and the Company's activity of building and managing clusters of the abovementioned active companies involve certain risk factors that are liable to affect the financial results of the Company, including:

5.13.1 **Macro risks**

- See the effect of external factors on the corporation's activities in paragraph 3.2 above.

- Currency risk – the Company estimates that a significant percentage of its future income will be in Euro and in other currencies. Accordingly, the Company's financial results might be affected by foreign currency fluctuations in the markets in which its products are sold.

5.13.2 **Segment risks**

- Technological changes – the medical product market is characterized by fast and constant developments. The maturity of technological changes in competing companies is liable to lead to economic or technological uncertainty regarding the completion of the products of the Group companies and/or cluster investees as detailed in paragraph 2.1.2 above ("**the Cluster Companies**")

- Protection of IP – the Group companies' and the cluster companies' main asset is their IP, knowhow and research which can mainly be protected through patents. Any delay, non-completion, invalidation or alleged breach of existing patents or patents in application stages by any of the Group companies or cluster companies is liable to adversely affect the Company's position.

- Change and toughening of regulatory requirements – in connection with the permit to use products being developed by the Group will delay planned schedules and significantly enhance costs of product development.

The Company's evaluations regarding expected income as discussed above represent forward-looking information as defined in the Securities Law and might not be realized for reasons beyond its control.

5.13.3 **Factors that are Company specific**

- Non-completion of product development – there is uncertainty involving the ability of the Group companies to complete product development, among others, due to inherent issues that consist of technological difficulties and/or problems. Even if the Group manages to complete the development stages and obtain the necessary approvals, there is no guarantee that the Group will be able to manufacture and market these products on a commercial basis.

- Failure to obtain the necessary permits for product marketing – the Group develops medical products whose marketing requires obtaining approvals from the relevant health authorities. There is no guarantee that these approvals for marketing the products will indeed be obtained.

- Clinical trials – the continued development of most of the Group companies' products depends on conducting clinical trials and is contingent on the success of these trials during each regulatory phase. There is no guarantee that the clinical trials will be successful and their failure might delay the products' development or even cancel development altogether. It should be noted that achieving success in early phase clinical trials does not guarantee success in late phase and more advanced clinical trials.

Moreover, the commencement and conclusion of clinical trials might be delayed or terminated for various reasons, including failure to obtain regulatory approvals, failure to recruit volunteers for the trials, the discovery of side effects, the drug's inefficacy and/or irregular events during the clinical trials. The Group's dependency on clinical trials for product development might make it difficult for the Group to reach advanced development stages and even lead to the discontinuance of all or part of the Group's business activities.

- Competition – the Company estimates that there are numerous companies around the world (including giant corporations) which are developing competing and/or potentially competing products. Such competition will pose difficulties in marketing the products and raising funds for completing product development.

- Raising additional funds for the Group's future operations – the Company's ability to operate depends on being able to raise funds, including in order to complete all the clinical trial phases, obtain product permits, finance product commercialization and realize the cluster approach. The Company's financing needs might vary due to the results of clinical trials, competition, technological developments in the operating segments, expansion of investment scope and additional unforeseen costs as of the report date. It is impossible to guarantee that the Company will be able to raise additional resources if and when needed. The absence of sufficient resources might lead to the shutdown of the all or part of the Group's operations.

  Forward looking statement warning - The Company's evaluations regarding expected utilization of financial resources as discussed above represent forward-looking information as defined in the Securities Law and might not be realized for reasons beyond its control.

- No expected earnings in coming years – the Company expects to incur operating losses in the coming years. As of the report date, the Group has no material source of income from product sales, grant of manufacturing licenses or R&D activity and there is no certainty that it will be able to develop such sources of income or generate earnings in the future.

- Exposure to legal claims – the Group is exposed to various legal proceedings. For example, there is exposure to litigation in respect of deficiencies involving products and their manufacturing. A deficiency in any or the Group's products might expose it to litigation in substantial amounts. The Group might also sustain claims from third parties regarding patent breaches.

- Insurance coverage – the Group might not have adequate insurance coverage despite the Company's intention to purchase various insurance policies based on changing needs owing to possible claims that exceed the insurance policy's threshold or claims that are included in insurance policy exceptions.

- Difficulties in realizing the cluster approach – as of the report date, the Company has been implementing the cluster approach as described in paragraph 2.1.2 above.

  The implementation of the cluster approach involves the following potential difficulties and risks:

  a. The Company might encounter difficulties in identifying potential target companies for building the clusters, including due to minimized supply.

  b. The Company might encounter difficulties in identifying appropriate target companies for creating the desired synergies.

  c. The target companies might encounter other difficulties that will hinder their ability to achieve their targets and contribute to the cluster's operations, including challenges of recruiting appropriate personnel and of raising additional funds, inability to assess the entry of competitors and reduced demands.

  d. Investments in target companies might grant the Company holdings that do not confer control over the target company which will cause the dilution of the Company's holdings and/or loss of decision-making power. The Company will necessitate additional financial resources to prevent the dilution of its holdings.

  e. The Company's inability to raise capital will prevent it from manufacturing a critical mass of technologies and companies in order to implement the clusters' strategic goals.

  f. Difficulties in locating strategic partners will jeopardize the Company's ability to fulfill its targets.

  g. The Company estimates that the target companies will also be exposed to all the risks detailed above.

5.13.4 The following table ranks the risk factors based on the potential degree of impact on the Company, based on the Company's estimates:

Risk	Degree of impact of risk factor		
	Large	**Medium**	**Small**
Macro risks			
Global crisis		■	
Israeli recognition		■	
Political-security situation		■	
Segment risks			
Technological changes		■	
Protection of IP rights	■		
Change and toughening of regulatory requirements	■		
Currency risks		■	
Company-specific risks			
Non-completion of product development	■		
Failure to obtain product marketing permits	■		
Clinical trials	■		
Competition		■	
Raising additional funds for the Group's future operations	■		
Expected losses in the coming years		■	
Exposure to legal claims		■	
Insurance coverage			■
Difficulties in realizing the cluster strategy		■	

Chapter B - Board of Directors' Report on the Company's State of Affairs

The Board of Directors hereby respectfully submits this Board of Directors' Report on the Company's state of affairs in the twelve-month period ending on December 31, 2014 (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Board of Directors' Report**" or the "**Report**").

First Chapter - The Board of Directors' explanations on the company's state of affairs

1. Explanations in respect of the financial statements

Financial position

1.1. Current assets

The current assets as of December 31, 2014, are of approx. NIS 32,432 thousand, versus approx. NIS 21,009 thousand as of December 31, 2013 – an increase of approx. 54.4%. The balance includes:

1) Cash and cash equivalents of approx. NIS 22,196 thousand and short term deposits of approx. NIS 6,408 thousand – a total of approx. NIS 28,064 thousand, versus cash and cash equivalents of approx. NIS 17,716 thousand and a short term deposit of approx. NIS 185 thousand – a total of approx. NIS 17,901 thousand as of December 31, 2013 – an increase of approx. 59.8%. The increase in the balance of cash and cash equivalents and short-term deposits mainly derives from the Company's public offering and private placements during March 2014.

2) Trade receivables of approx. NIS 292 thousand as of December 31, 2014, versus an amount of NIS 48 thousand as of December 31, 2013, an increase of approx. 508.3%.

3) Inventory of approx. NIS 976 thousand as of December 31, 2014, versus an amount of approx. NIS 1,055 thousand as of December 31, 2013, a decrease of approx. 7.5%. The inventory as of December 31, 2014, mainly includes 25 IOPtiMate™ systems. Other receivables of approx. NIS 2,560 thousand, versus approx. NIS 2,005 thousand as of December 31, 2013 - an increase of approx. 27.7%.

1.2. Non-current assets

The balance of non-current assets as of December 31, 2014, is approx. NIS 8,002 thousand, versus approx. NIS 13,323 as of December 31, 2013 - a decrease of approx. 39.9%.

The decrease mainly results from a decrease in the balance of intangible assets, derived from periodic amortization and from impairment for goodwill and an intangible asset. The balance of non-current assets includes:

1) Balance of goodwill and intangible assets, net, in an amount of approx. NIS 7,106 thousand as of December 31, 2014, versus approx. NIS 12,307 thousand as of December 31, 2013. The decrease results from current amortization of intangible assets, a short-term classification of an intangible asset held for sale in the amount of NIS 1,781 thousand and an amortization for goodwill and an intangible asset in a consolidated company in a total sum of NIS 3,036 thousand.

2) Balance of property and equipment, which as of December 31, 2014, amounted to approx. NIS 819 thousand versus approx. NIS 911 thousand as of December 31, 2013 – a decrease of approx. 10.1%. The decrease in the amount of property and equipment mainly results from periodic deprecation expenses.

3) Balance of leasing deposits of approx. NIS 77 thousand as of December 31, 2014, versus NIS 105 thousand as of December 31, 2013 – a decrease of approx. 26.7%.

1.3. Total consolidated balance sheet

As of December 31, 2014, the total balance sheet amounted to approx. NIS 40,434 thousand, versus approx. NIS 34,332 thousand as of December 31, 2013 – an increase of approx. 17.8%.

1.4. Current liabilities

The current liabilities as of December 31, 2014 amounted to approx. NIS 6,552 thousand versus approx. NIS 4,898 thousand as of December 31, 2013 – an increase of approx. 33.8%. The balance as of December 31, 2014, includes trade payables; other accounts payable, mainly comprised of liabilities to employees and accrued expenses; and a short-term liability for grants. Non-current liabilities

The non-current liabilities as of December 31, 2014, amounted to approx. NIS 8,144 thousand, versus approx. NIS 7,325 thousand as of December 31, 2013 – an increase of approx. 11.2%. The balance includes a liability for grants, and other long-terms liabilities including liabilities for post-employment benefits and a commitment to issue additional shares in a subsidiary, presented at fair value as of the date of the balance sheet. The increase mainly results from an increase in a liability for grants.

1.5. Working capital

The working capital as of December 31, 2014, amounted to approx. NIS 25,880 thousand and the Company's current ratio is approx. 4.9, versus approx. NIS 16,111 thousand and 4.3 as of December 31, 2013, respectively.

1.6. Shareholders' Equity

The Company's shareholders equity as of December 31, 2014, is approx. NIS 25,738 thousand versus approx. NIS 22,109 thousand as of December 31, 2013 – an increase of approx. 16.4%, mainly resulting from the public offering and private placements duringMarch 2014, which were offset from the periodic current loss.

2. The Group's results of operations

In 2014, the Company recorded a comprehensive loss of approx. NIS 35,831 thousand (of which approx. NIS 22,925 thousand are attributed to the Company's shareholders), versus comprehensive loss of approx. NIS 29,181 thousand in 2013 (of which approx. NIS 18,856 thousand are attributed to the Company's shareholders) – an increase of approx. 22.8%. The increase in loss mainly results from a loss from impairment in the sum of NIS 3,036 thousand in a consolidated company.

2.1. Interim condensed statements of income (NIS in thousands)

	Annual 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014
Revenues	(82)	(14)	(141)	(18)	(768)	(941)
Cost of revenues	23	-	52	-	486	538
Gross margin	(59)	(14)	(89)	(18)	(282)	(403)
Research and development expenses	18,419	4,364	4,778	4,231	5,187	18,560
Sales and marketing expenses	1,249*)	421	570	626	593	2,210
General and administrative expenses	8.833*)	2,762	2,157	2,713	2,571	10,203
Loss from impairment	-	-	3,036	-	-	3,036
Operating loss	28,442	7,533	10,452	7,552	8,069	33,606
Financing income	(500)	(122)	(261)	(139)	74	(448)
Financing expenses	1,220	426	783	595	692	2,496
Other expenses (income)	-	-	354	-	-	354
Loss from continuing operations	29,162	7,837	11,328	8,008	8,835	36,008
Foreign currency translation adjustments	19	7	31	7	(26)	19
Total comprehensive loss	29,181	7,844	11,359	8,015	8,809	36,027

*) Reclassified

2.2. Revenues and cost of revenues

In 2014, the Group generated revenues in the sum of NIS 941 thousand, versus revenues in the sum of NIS 82 thousand in 2013, an increase of approx. 1,047.6%. Most of the revenues are from sales of the IOPtiMate™ systems. Total cost of revenues in 2014 were of NIS 538 thousand, versus NIS 23 thousand in 2013.

2.3. Research and development, net

The research and development expenses in 2014 amounted to approx. NIS 18,560 thousand (a gross amount of NIS 19,459 thousand), versus approx. NIS 18,419 thousand (a gross amount of NIS 18,890 thousand) in 2013, an increase of approx. 0.8%. The increase derives, on the one hand, from an increase in benefit expenses for options and an increase in expenses deriving from clinical studies, and on the other hand, a decrease mainly deriving from an increase in grants received which were offset from the research and development expenses.

2.4. Sales and marketing

The sales and marketing expenses in 2014 amounted to approx. NIS 2,210 thousand, versus approx. NIS 1,249 thousand in 2013 – an increase of approx. 76.96%. The marketing and sales expenses mainly resulted from participation in conventions, capital market public relations activity in Israel and overseas, marketing and business development, development of collaborations as well as from training in medical centers.

2.5. General and administrative

The general and administrative expenses in 2014 amounted to approx. NIS 10,203 thousand, versus approx. NIS 8,833 thousand in 2013, an increase of approx. 15.5%. The increase mainly results from an increase in salary expenses due to the hiring of a CEO in Micromedic.

2.6. Financing income/expenses, net

In 2014, the financing expenses, net, amounted to approx. NIS 2,048 thousand, versus approx. NIS 720 thousand in 2013.

Financing income in 2014, amounted to approx. NIS 448 thousand, versus approx. NIS 500 thousand in 2013. The income mainly results from interest on deposits and changes in currency rates.

Financing expenses in 2014, amounted to approx. NIS 2,496 thousand, versus approx. NIS 1,220 thousand in 2013. The expenses mainly results from revaluation of grants.

3. **Liquidity**

As of December 31, 2014, the Company has excess cash and investments in foreign currency deposits in an amount of approx. NIS 22,196 thousand, versus approx. NIS 17,716 thousand for the year ending on December 31, 2013.

In 2014, approx. NIS 26,987 thousand were used in operating activities, NIS 6,597 thousand were used for investment activities, and NIS 38,083 thousand resulted from financing activity. In 2013, approx. NIS 26,225 thousand were used in operating

activities, approx. NIS 351 thousand resulted from investment activities, and approx. NIS 11,152 thousand resulted from financing activity.

4. **Material events during the report period**

For details see the Notes to the Financial Statements.

5. **Events transpired subsequent to the date of the Statement of Financial Position and are mentioned in the Financial Statements**

For details see the Notes to the Financial Statements.

6. **Events which may indicate financial difficulties**

For details see Note 1 to the Financial Statements.

7. **An explanation regarding matters to which the corporation's auditors direct attention in their opinion regarding the Financial Statements**

In the auditors' report on the Financial Statements, the Company's auditors indicated as follows: "Without qualifying our above opinion, we direct attention to the matter described in Note 1 to the consolidated financial statements in respect to Company's business operations".

Second Chapter – Corporate Governance Aspects

8. Compansation of interested parties and senior officers

8.1. On January 12, 2014, the Company adopted, further to the recommendation of the Compensation Committee and the approval of the Company's Board of Directors and general meeting, a compensation policy for the officers of the Company (the "**Compensation Policy**"). The Compensation Policy is examined from time to time by the Company's Board, and its term shall be three years, at the expiration of which it shall be presented for the ratification of the general meeting. For further details regarding the Compensation Policy, see the immediate reports issued by the Company on December 8, 2013 (TASE reference 2013-01-091693), January 6, 2014 (TASE reference 2014-01-005458) and January 12, 2014 (TASE reference 2014-01-012391).

8.2. After receiving the review of the Company's management in respect of the activity and contribution of each senior officer and interested party in the Report Period, of his or her contribution to the achievement of the Company's business goals and to the Company's fulfillment of its work plans, and considering the Compensation Policy - the Board of Directors of the Company found that the wages of senior officers and interested parties pursuant to the requirements of Regulations 10(b)(4) and 21 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, in the Report Period, is fair and reasonable, both individually and as a whole, and corresponds with the Compensation Policy adopted by the Company.

8.3. For further details see also Regulation 21 of Chapter D (Additional Information on the Corporation) hereof.

9. Details regarding directors with accounting and financial expertise

9.1. Pursuant to the provisions of Section 92(a)(12) of the Companies Law and to the Companies Regulations (Conditions and Criteria for a Director with Accounting and Financial Expertise and a Director with Professional Fitness), 5766-2005, the Board of Directors of the Company determined on May 3, 2011, that the minimal required number of directors with accounting and financial expertise is one. Such resolution was adopted considering the nature of the accounting issues and issues of accounting control arising in the process of preparation of the Company's financial statements in light of the Company's fields of activity, the size and complexity of its business, and the overall composition of the Board, which comprises of individuals with business, management and professional experience, enabling them to handle the Company management tasks, including its reporting obligations. As of the Report Date, the Company is in compliance with the minimal number prescribed as aforesaid.

9.2. After evaluating the education, experience, qualifications and knowledge of the members of the Board in accounting issues and financial statements, the members

of the Company's Board whom are viewed as having accounting and financial expertise are Mr. Ron Weissberg and Mr. Shmuel Perez (whose service has ended as of the Report Date, with the Company seeking the approval of the appointment of an external director having accounting expertise as aforesaid, in lieu of Mr. Perez).

9.3. For details of the members of the Company's Board of Directors having accounting and financial expertise, and the facts by virtue of which they may be viewed as such as well as details of their education, see Regulation 26 of Chapter D (Additional Information) hereof.

10. **Details regarding independent directors**

10.1. On September 19, 2012, the Company adopted Articles of Association which include a provision regarding the number of independent directors in the Company, in accordance with Section 219(e) of the Companies Law, as follows:

- To the extent that the Company has no controlling shareholder or a person holding a controlling block – a majority of the board members shall be independent directors.

- To the extent that the Company has a controlling shareholder – at least one third of the board members shall be independent directors.

10.2. As of the Report Date, and to the Company's best knowledge, the Company has no controlling shareholder. In the Report Year, half of the board members were recognized as independent. The Company is acting to recruit an additional independent director.

11. **Details regarding the corporation's internal auditor**

11.1. Details of the internal auditor

On July 1, 2013, Mr. Yechiel Yardeni (Yuli) was appointed as the Company's internal auditor, the details of whom shall follow:

Name:	Yechiel (Yuli)Yardeni
Date of commencement of tenure:	July 1, 2013.
Qualifications and fitness for the position:	Qualified CPA, holding a B.A. in economics and accounting from the Tel Aviv University. Partner in the accounting firm Yardeni, Gelfand, Aberman & Co. The internal auditor has been serving as director in a number of companies for over five years. In addition, he has been serving as internal auditor in a number of

public and private companies, institutions and non-profit organizations for over five years.

To the Company's best knowledge, the internal auditor complies with provisions of Section 146(b) of the Companies Law and the provisions of Sections 3(a) and 8 of the Internal Audit Law, 5752-1992.

The Company's internal auditor is not an interested party in the Company and/or a relative thereof, and is not the external auditor or anyone on his behalf. In addition, the internal auditor does not serve in any other role within the Company other than internal auditing, and does not serve in another role outside of the Company that creates or may create a conflict of interests with his position as the Company's internal auditor. The internal auditor does not hold securities of the Company or an affiliated entity thereof, respectively.

Status and terms of engagement in the Company:	Yehiel Yardeni is the Company's internal auditor and is not an employee of the Company. Yehiel Yardeni provides outsourced internal audit services. The internal auditor serves as a senior officer of the Company by virtue of the provisions of the law.
The person who supervises the internal auditor's work:	The Chairman of the Company's Board.

11.2. Manner of Appointment

Mr. Yechiel Yardeni, partner in the accounting firm Yardeni, Gelfand, Aberman & Co., was appointed as the Company's internal auditor on July 1, 2013, after his appointment was approved by the Audit Committee and Board of Directors of the Company, following an examination of his education, qualifications and experience in internal auditing, and taking into consideration the type, scope and complexity of the Company's business.

11.3. Work Plan

The internal auditor's work plan for 2014 is an annual plan, at a scope of around 120 hours, mainly focused on an internal audit report on budget and budgetary control. The internal auditor's work plan was based on an evaluation of the risks and processes of the Company that are related to its fields of activity. The Board of Directors determined the annual work plan of the internal auditor for 2014 in accordance with management's recommendations, and based on the material

exposures and risks entailed by the Company's activities and the existing control environment, after holding a discussion on the matter. The Company's Board of Directors believes that the work plan corresponds with the Company's scope of business. Should the Company's business expand, a compatible increase in the scope of employment of the internal auditors shall be considered.

Since the date of his appointment, the internal auditor has been invited to all meetings of the Company's Audit Committee. The material transactions carried out by the corporation in the Report Period, including their manner of approval, were not reviewed by the internal auditor.

11.4. Audit of investees

As of the Report Date, the audit plan does not refer to Micromedic, an investee of the Company. The internal audit in Micromedic is performed by another internal auditor. In view of the audit topics in the Report Period, no audit was performed in respect of investees.

11.5. Scope of engagement and remuneration

Scope of engagement – the scope of engagement of the internal auditor is in accordance with the work plan determined from time to time by the Board of Directors and is examined pursuant to the changes transpiring in the Company. In the Report Period, around 120 working hours of the internal auditor were invested in the Company's internal audit, versus 100 working hours in the corresponding period last year.

Fees – the internal auditor's fees are predetermined per working hour, and he is not rewarded by the grant of the Company's securities. To the best of the Company's knowledge, the internal auditor does not hold securities of the Company.

The Company's Board of Directors estimates that this remuneration structure does not influence the professional judgment of the internal auditor.

11.6. Performance of the audit

As conveyed to the Company by the internal auditor, the internal auditor prepares the internal audit in conformity with generally accepted professional standards in Israel and in the world, as prescribed by Section 4(b) of the Internal Audit Law, 5752-1992. In view of the reviews and recommendations received by the Board of Directors, and after such recommendations were examined by the Audit Committee and by the Board, the Board of Directors was satisfied that the internal auditor complied with all of the requirements set forth in such accepted professional standards in Israel and in the world.

11.7. Access to information

As prescribed by Section 9 of the Internal Audit Law, 5752-1992, the internal auditor was provided free, direct and constant access to the Company's information systems, including to the Company's financial data.

The internal auditor does not serve in an additional role in the Company as stipulated under Section 146(b) of the Companies Law and Section 8 of the Internal Audit Law.

11.8. The internal auditor's report

The reports of the internal auditor are submitted in writing.

In the Report Period, the internal auditor performed an audit on the topic of budget and budgetary control. The conclusions of such audit were submitted to the Company's management which held internal discussions on such matters. The conclusions of such audit work were discussed at a meeting of the Company's Audit Committee held on November 27, 2014 and at a meeting of the Company's Board of Directors held on November 30, 2014.

11.9. The Board's evaluation of the internal auditor's work

The Company's Board of Directors estimates that the nature and continuity of the internal auditor's operations and work plan are reasonable given the size and nature of the Group's business and they fulfill the internal audit objectives in the Company.

12. Details regarding the external auditor

12.1. Name of the external auditor

Kost Forer Gabbay & Kasierer is the accounting firm that served as the external auditor of the Company in the Report Period, and serves in such position as of the date hereof.

12.2. Fee and working hours of the external auditor

12.2.1. During 2014, approx. 1,800 working hours were invested in the audit of Eye Cluster companies and approx. 1,450 hours were invested in the audit of in the Cancer Diagnostics Cluster companies. In 2014, the total fee for audit services will amount to NIS 120 thousand in the Eye Cluster and to approx. NIS 100 thousand in the Cancer Diagnostics Cluster. In addition, the auditors' fees for ancillary services in 2014 amount to approx. NIS 80 thousand in the Eye Cluster, and approx. NIS 40 thousand in the Cancer Diagnostics Cluster.

In 2013, around 1,600 working hours were invested in the audit of the Glaucoma and Eye Cluster companies and the fee for audit services and ancillary services amounted to approx. NIS 120 thousand.

In 2013, around 650-700 working hours were invested in the audit of the Cancer Diagnostics Cluster companies and the fee for audit services amounted to approx. NIS 50 thousand while the fee for ancillary services amounted to approx. NIS 80 thousand.

12.2.2. The audit fees of the external auditor in the Report Period were determined in accordance with recommendations of the Company's management in light of an estimate of the amount of audit work required, and according to a comparison of audit fees of external auditors of public companies having a similar scope and complexity of business to that of the Company. On November 28, 2013, the Board approved the auditors' fees for the 2014 audit.

13. The approval procedure of the Financial Statements

13.1. The Company's management drafted and prepared the Financial Statements, and the external auditor audited the Financial Statements. The Board of Directors of the Company is the corporate organ in charge of the approval of the Company's financial statements. As of the date of the report, the Board consists of the following six members: Israel Makov, Ron Weissberg, Efrat Makov, Eliahu Shohet (independent director), Shmuel Perez (external director)[1] and Dr. Rachel Adato (external director).

13.2. The Company's audit Committee serves also as its financial statements review committee (the "**Balance Sheet Committee**") in accordance with the Companies Regulations (Terms and Conditions Regarding the Approval Procedure of the Financial Statements), 5770-2011 (the "**Approval of Financial Statements Regulations**") The Balance Sheet Committee consists of three members: Messrs. Shmuel Perez[1] (Chairman of the committee and external director), Eliahu Shohet (independent director) and Dr. Rachel Adato (external director).

13.3. All of the members of the Balance Sheet Committee have the ability to read and understand financial statements, Mr. Perez has accounting and financial expertise and they have all provided, prior to their appointment, a "declaration", as such term is defined in the Financial Statements Approval Regulations. For information regarding the members of the Balance Sheet Committee, specification of their qualifications, education, experience and knowledge, on the basis of which the Company views them as having the ability to read and understand financial statements, see Section 12 above.

13.4. The approval of the Financial Statements for 2014 entailed two meetings as follows: (i) a meeting of the Balance Sheet Committee in respect of the effectiveness of the internal auditing of financial reporting and disclosure in the Company, which meeting included a principle and comprehensive discussion on

[1] It shall be noted, that the office of Mr. Perez has expired on March 27, 2015, upon the lapse of three consecutive terms of service as an external director, and the Company is acting to appoint his replacement. For such purpose, the Company has summoned a general meeting which is expected to convene in the beginning of April 2015.

the material reporting issues, and discussion and formulation of the Committee's recommendations to the Board in respect of the procedure of approving the Financial Statements; and (2) a meeting of the Board of Directors for discussion and approval of the Financial Statements.

13.5. At the Balance Sheet Committee meeting dated March 26, 2015, in which the Balance Sheet Committee discussed and formed its recommendations to the Board in respect of the approval of the Financial Statements, the following were invited and present: the Committee's members (Messrs. Shmuel Perez, Eliahu Shohet and Dr. Rachel Adato), the Company's CEO, CFO, controller, external auditors and external legal counsel. In the framework of its meeting, the Balance Sheet Committee reviewed, *inter alia*, the evaluations and estimates made in respect of the Financial Statements for 2014, the internal controls related to the financial reporting, the completeness and fairness of the disclosure in the Financial Statements for 2014, the accounting policy adopted and the accounting treatment implemented in respect of the Company's material issues, and the evaluations, including the assumptions and estimates underlying such evaluations, on which the data in the Financial Statements for 2014 were based. In addition, the Committee examined various aspects of risk control and management, both those reflected in the Financial Statements for 2014 (such as the report on financial risks) as well as those affecting the reliability of the Financial Statements. This, by way of a detailed presentation of such issues by the CFO, together with the comments of the external auditors in respect of the issues presented. The recommendations of the Balance Sheet Committee were provided in writing to the Board of Directors on March 26, 2015.

13.6. At the meeting dated March 30, 2015, the Board of Directors discussed the recommendations of the Balance Sheet Committee and approved the Company's financial statements as of December 31, 2014. In the Board's estimate, in view of the scope and complexity of the recommendations, the recommendations of the Balance Sheet Committee were delivered to the Board members a reasonable period prior to such Board meeting. The Board of Directors determined that a 4-day period constitutes reasonable time in such circumstances. All Board members participated at such Board meeting.

Third Chapter – Disclosure Provisions in respect of the Financial Reporting of the Corporation

14. Subsequent events

See Notes to the Financial Statements.

15. Financial data attributed to the Company as a parent shareholder

Pursuant to Regulation 9c of the Periodic Reports Regulations, a standalone financial statement of the Company is attached as an annex to the Board of Directors' Report, together with an opinion of the external auditor.

16. Use of critical accounting estimates

The acceptable accounting standards require the Company's management to use estimates and to make assumptions as to the sums presented in the Financial Statements. In its discretion in determining the estimates, the Company relies on past experience, various facts, external factors and reasonable assumptions, in accordance with the applicable circumstances of each estimate. For details regarding the estimates and evaluations used by the Company in the Report Period, see Note 3 to the Company's consolidated Financial Statements as of December 31, 2014.

17. Substantial differences in estimates and projections underlying valuations

As of the date of the Periodic Report, there are no substantial differences between the material assumptions, estimates and projections underlying a valuation, including a professional opinion (as such term is defined in the Securities Regulations (Private Offering of Securities of a Registered Company, 5760-2000 or in the Securities Regulations (Transaction between a Company and a Controlling Shareholder thereof), 5761-2001) attached to the reports in the three years preceding the Report Date, and the actual realization of such valuation or professional opinion. Without derogating from the aforesaid, for details regarding a material valuation used by the Companies in preparing the Financial Statements, see Regulation 8B(i) of Chapter D (Additional Information on the Corporation) of the Periodic Report.

Fourth Chapter – Repurchases

18. The Company does not have plans for the repurchase of its securities, within the meaning of the term "purchase" in Regulation 10(b)(2)(i) of the Regulations. In the Report Period and as of the Report Date, the Company does not have such a repurchase plan in force and did not report repurchase plans as aforesaid.

The Company's Board of Directors wishes to thank the Group's employees and managers for their contribution to the advancement of the Group.

Signatures

_____	_____
Suzana Nahum Zilberberg	Israel Makov
CEO	Chairman

Tel Aviv, March 30, 2015

BIO LIGHT ISRAELI LIFE SCIENCES INVESTMENTS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

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AUDITORS' REPORT

To the Shareholders of

BIO LIGHT ISRAELI LIFE SCIENCES INVESTMENTS LTD.

We have audited the accompanying consolidated statements of financial position of Bio Light Israeli Life Sciences Investments Ltd. ("the Company") as of December 31, 2014 and 2013 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of a subsidiary, whose assets constitute approximately 6% of total consolidated assets as of December 31, 2013. The financial statements of that company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2014 and 2013 and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2014 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our opinion, we draw attention to the matter discussed in Note 1 to the consolidated financial statements regarding the Company’s business operations.

Tel-Aviv, Israel
March 30, 2015

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	22,196	17,716
Short-term deposits	6	6,408	185
Trade receivables		292	48
Other accounts receivable	7	2,560	2,005
Inventories	8	976	1,055
		32,432	21,009
NON-CURRENT ASSETS:			
Leasing deposits		77	105
Property and equipment	10	819	911
Goodwill and intangible assets, net	11	7,106	12,307
		8,002	13,323
		40,434	34,332

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		943	1,365
Other accounts payable	12	4,102	3,256 *)
Liability for grants	13	1,507	277 *)
		6,552	4,898
NON-CURRENT LIABILITIES:			
Liability for grants	13	7,630	6,788
Other long-term liabilities		514	537
		8,144	7,325
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	15		
Share capital, premium and reserves		218,810	179,878
Accumulated deficit		(190,407)	(167,305)
		28,403	12,573
Non-controlling interests		(2,665)	9,536
Total equity		25,738	22,109
		40,434	34,332

* See note 2v

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

March 30, 2015			
Date of approval of the financial statements	Israel Makov Chairman of the Board	Suzana Nahum-Zilberberg Chief Executive Officer	Itay Bar-Natan Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31, 2014	2013	2012
		NIS in thousands (except per share data)		
Revenues		941	82	52
Cost of revenues		538	23	-
Gross profit		403	59	52
Research and development, net	19a	18,560	18,419	16,245
Selling and marketing	19b	2,210	1,249 *)	1,157
General and administrative	19c	10,203	8,833 *)	11,496
Impairment loss	2v	3,036	-	-
		33,813	28,501	28,898
Operating loss		33,606	28,442	28,846
Finance income	19d	(448)	(500)	(497)
Finance expenses	19d	2,496	1,220	333
Other expenses		354	-	-
Loss before taxes on income		36,008	29,162	28,682
Taxes on income	14	-	-	37
Loss from continuing operations		36,002	29,162	28,719
Loss from discontinued operations, net		-	-	6
Net loss		36,008	29,162	28,725
Other comprehensive loss:				
Foreign currency translation adjustments		19	19	-
Total comprehensive loss		36,027	29,181	28,725
Total net loss attributable to:				
Equity holders of the Company		23,102	18,837	13,356
Non-controlling interests		12,906	10,325	15,369
		36,008	29,162	28,725
Total comprehensive loss attributable to:				
Equity holders of the Company		23,121	18,856	13,356
Non-controlling interests		12,906	10,325	15,369
		36,027	29,181	28,725
Loss per share attributable to equity holders of the Company (in NIS):				
Basic and diluted loss from continuing operations		0.05	0.06	0.07
Weighted number of shares used in the computation of loss per share		482,908,086	342,213,702	201,861,866

* Reclassified, see note 19

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share options	Reserve for share-based payment	Reserve for transactions with non-controlling interests	Accumulated deficit	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance at January 1, 2014	3,423	162,238	6,572	4,167	7,190	(167,305)	(3,712)	12,573	9,536	22,109
Net loss	-	-	-	-	-	(23,102)	-	(23,102)	(12,906)	(36,008)
Total other comprehensive loss	-	-	-	-	-	-	(19)	(19)	-	(19)
Total comprehensive loss	-	-	-	-	-	(23,102)	(19)	(23,121)	(12,906)	(36,027)
Issuance of shares and options, net	1,792	30,640	5,076	-	-	-	-	37,508	-	37,508
Share-based payment in subsidiaries	-	-	-	-	-	-	-	-	1,255	1,255
Share-based payment	-	-	-	318	-	-	-	318	-	318
Purchase of shares in subsidiary	-	-	-	-	1,125	-	-	1,125	(550)	575
Expiration of options	-	122	(122)	-	-	-	-	-	-	-
Balance at December 31, 2014	5,215	193,000	11,526	4,485	8,315	(190,407)	(3,731)	28,403	(2,665)	25,738

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share options	Reserve for share-based payment	Reserve for transactions with non-controlling interests	Accumulated deficit	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance at January 1, 2012	1,765	134,650	7,734	4,070	11,465	(135,112)	(3,693)	20,879	12,560	33,439
Total comprehensive loss	-	-	-	-	-	(13,356)	-	(13,356)	(15,369)	(28,725)
Issuance of shares, net	1,656	26,141	-	-	-	-	-	27,797	-	27,797
Exercise of options	2	285	-	(285)	-	-	-	2	-	2
Share-based payment in subsidiaries	-	-	-	-	-	-	-	-	533	533
Share-based payment	-	-	-	210	-	-	-	210	-	210
Non-controlling interests in subsidiary	-	-	-	-	-	-	-	-	6,030	6,030
Purchase of shares in subsidiaries	-	-	-	-	(2,886)	-	-	(2,886)	2,886	-
Expiration of options in subsidiary	-	-	-	-	187	-	-	187	(187)	-
Balance at December 31, 2012	3,423	161,076	7,734	3,995	8,766	(148,468)	(3,693)	32,833	6,453	39,286
Net loss	-	-	-	-	-	(18,837)	-	(18,837)	(10,325)	(29,162)
Total other comprehensive loss	-	-	-	-	-	-	(19)	(19)	-	(19)
Total comprehensive loss	-	-	-	-	-	(18,837)	(19)	(18,856)	(10,325)	(29,181)
Share-based payment in subsidiaries	-	-	-	-	-	-	-	-	672	672
Share-based payment	-	-	-	172	-	-	-	172	-	172
Non-controlling interests in subsidiary	-	-	-	-	-	-	-	-	149	149
Purchase of shares in subsidiaries	-	-	-	-	(1,576)	-	-	(1,576)	12,587	11,011
Expiration of options	-	1,162	(1,162)	-	-	-	-	-	-	-
Balance at December 31, 2013	3,423	162,238	6,572	4,167	7,190	(167,305)	(3,712)	12,573	9,536	22,109

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from operating activities:			
Loss	(36,008)	(29,162)	(28,725)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Finance expenses (income), net	(136)	(23) *)	429 *)
Adjustment of long-term liabilities for grants	2,072	1,292 *)	- *)
Taxes on income	-	-	37
Depreciation and amortization including impairment loss	3,884	1,066	8,345
Share-based payment	318	172	210
Share-based payment in subsidiaries	1,255	672	533
	7,393	3,179	9,554
Changes in asset and liability items:			
Increase in trade receivables	(244)	(33)	(15)
Decrease (increase) in other accounts receivable	1,226	(198)	(60)
Decrease (increase) in inventories	109	(472)	(583)
Increase (decrease) in trade payable	(422)	479	147
Increase (decrease) in other accounts payable	846	110	(14)
Increase (decrease) in employee benefit liabilities	(71)	109	135
Decrease in long-term accrued expenses	-	(180)	(15)
Change in commitment for subsidiary's shares	48	(92)	(35)
	1,492	(277)	(440)
Cash paid and received during the year for:			
Taxes on income paid	-	-	(37)
Interest paid	-	(1)	(26)
Interest received	136	36	214
	136	35	151
Net cash used in operating activities	(26,987)	(26,225)	(19,460)

* See note 2v

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from investing activities:			
Decrease in restricted cash	-	-	4,000
Proceeds from sale of marketable securities, net	-	547	10,621
Withdrawal of (investment in) short-term deposit, net	(6,223)	60	(58)
Loan to an affiliate	-	-	(1)
Purchase of property and equipment	(402)	(201)	(119)
Withdrawal of (investment in) long-term leasing deposit	28	(18)	34
Acquisition of initially consolidated subsidiaries (a)	-	(37)	660
Net cash provided by (used in) investing activities	(6,597)	351	15,137
Cash flows from financing activities:			
Purchase of shares in subsidiary from non-controlling interests	(291)	-	-
Purchase of shares and options in subsidiaries, net (b)	866	11,152	-
Proceeds from issue of shares and equity options, net	37,508	-	27,797
Proceeds from exercise of share options	-	-	2
Net cash provided by financing activities	38,083	11,152	27,799
Exchange differences on balances of cash and cash equivalents	(19)	(19)	54
Increase (decrease) in cash and cash equivalents	4,480	(14,741)	23,530
Cash and cash equivalents at the beginning of the year	17,716	32,457	8,927
Cash and cash equivalents at the end of the year	22,196	17,716	32,457

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2014	2013	2012
		NIS in thousands		
(a)	Acquisition of initially consolidated subsidiaries:			
	Working capital (excluding cash and cash equivalents)	-	37	197
	Property and equipment	-	-	141
	Intangible assets	-	37	5,177
	Goodwill	-	112	805
	Liabilities for grants	-	-	(646)
	Long-term accrued expenses and deferred revenues	-	-	(304)
	The subsidiary's assets (excluding cash and cash equivalents) and liabilities at acquisition date	-	186	5,370
	Non-controlling interests from acquisition	-	(149)	(6,030)
		-	37	(660)
(b)	Non-cash financing and investing activities:			
	Deferred issuance expenses	(141)	141	-
	Unpaid issuance expenses	(35)	-	-
	Transfer from property and equipment to inventories	30	-	-

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

NOTE 1:- GENERAL

Company description:

Bio Light Israeli Life Sciences Investments Ltd. ("the Company"), invests in, manages and commercializes biomedical innovations in ophthalmology and cancer diagnostics (the Company and its subsidiaries, collectively, "the Group").

The Group incurred losses of NIS 36,027 thousand, NIS 29,181 thousand and NIS 28,725 thousand and negative cash flows from operating activities of NIS 26,987 thousand, NIS 26,225 thousand and NIS 19,460 thousand for the years ended December 31, 2014, 2013 and 2012, respectively. The Group has accumulated deficit of NIS 190,407 thousand as of December 31, 2014.

The investment needed for the Group's operating activity as well as the sources necessary to realize the Group business strategy is conditional upon the successful fundraising by the Company and the commercialization of the products.

See Note 16c regarding funds raised by the Company in the amount of approximately NIS 39.5 million.

The auditors' report of Micromedic Technologies Ltd. ("Micromedic"), a subsidiary which accounts for approximately 19% of total consolidated assets of the Company as of December 31, 2014 and for approximately 41% of total consolidated expenses for the year then ended, included an emphasis of matter paragraph regarding conditions that cast significant doubts about Micromedic existence as a going concern. The financial statements of Micromedic do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if Micromedic was unable to continue to operate as a going concern.

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 presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis, except for: financial liabilities which are presented at fair value through profit or loss.

The Company has elected to present the profit or loss items using the function of expense method.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Group are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been applied consistently and uniformly with those applied in the financial statements of the Company. Significant balances and transactions and gains or losses resulting from transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The disposal of a subsidiary that does not result in a loss of control is recognized as a change in equity. Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities.
- derecognizes the carrying amount of non-controlling interests.
- derecognizes the adjustments arising from translating financial statements carried to equity.
- recognizes the fair value of the consideration received.
- recognizes the fair value of any remaining investment.
- reclassifies the components previously recognized in other comprehensive income (loss) on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- recognizes any resulting difference (surplus or deficit) as gain or loss.

c. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the NIS. The financial statements are presented in NIS since the Company believes that financial statements in NIS provide more relevant information to investors and users of the financial statements located in Israel.

The Group determines the functional currency of each Group entity, including companies accounted for at equity.

One of the Group's companies is defined a foreign operation. Assets and liabilities of a subsidiary which is a foreign operation, including excess of cost, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Business combination and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss or in the statement of comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

f. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories of finished goods is determined using the "first-in, first-out" method.

h. Financial instruments:

1. Financial liabilities:

Financial liabilities are initially recognized at fair value.

After initial recognition, the accounting treatment of financial liabilities at fair value through profit or loss includes financial liabilities designated upon initial recognition as at fair value through profit or loss.

2. Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issuance expenses) to the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities that are measured at amortized cost. The proceeds allocated to equity instruments are determined to be the residual amount. Issuance costs are allocated to each component pro rata to the amounts determined for each component in the unit.

3. Derecognition of financial instruments:

Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

i. Taxes on income:

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

1. Current taxes:

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

2. 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 realized 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 utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

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.)

j. Fair value measurement:

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.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

k. 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.

Operating leases:

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred to the Group are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Property and equipment:

Property and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment losses and any related investment grants 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 %
Office furniture and equipment	6 - 15	6
Computers, peripheral equipment and laboratory equipment	7 - 33	33
Leasehold improvements	20 - 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) and 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 and the date that the asset is derecognized.

m. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The Company reviews goodwill in respect of subsidiaries for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

o. Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred.

p. Grants:

Grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Grants are recognized upon receipt as a liability if there is reasonable assurance that the research activity will result in royalty-bearing sales.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

In each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method and, if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

Amounts paid as royalties are recognized as settlement of the liability.

q. Share-based payment transactions:

The Company's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

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 pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized 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 recognized 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 recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

r. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services. Below are the Company's contributions in respect of defined contribution plans:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Expenses in respect of defined contribution plans	913	772	662

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Other long-term employee benefits:

Some of the Group's employees are entitled to benefits in respect of adaptation grants. These benefits are accounted for as other long-term benefits since the Company estimates that these benefits will be used and the respective Group's obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees render the related service.

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to the employees for service rendered in the current period and in prior periods and taking into account expected salary increases The amount of these benefits is discounted to its present value. The discount rate is determined at the reporting date by reference to yields on high quality corporate bonds that are linked to the Israeli CPI and whose term is consistent with the term of the Group's obligation.

Remeasurements of the net liability are recognized in profit or loss in the period in which they occur.

s. Revenue recognition:

Revenues are recognized 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 Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Company acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

Revenues from product sales are recognized when all the main risks and rewards from the ownership of the goods are transferred to the buyer, and the seller does not retain continuing managerial involvement.

t. Loss per share:

Loss per share is calculated by dividing the less attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Basic loss per share only includes shares that are outstanding during the period. Also, convertible securities that are converted during the period are included in diluted loss per share only from the conversion date. The Company's share of losses of investees is included based on its share of loss per share of the investees multiplied by the number of shares held by the Company.
Company's share options that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted loss for the period because they are anti-dilutive for the periods presented.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Provisions:

A provision in accordance with IAS 37 is recognized 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 part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

v. Classification to assets held for sale

As of June 30, 2014, assets of BioMarCare (a subsidiary of the subsidiary Micromedic) were classified as assets held for sale. Following said classification, an impairment loss of NIS 3,036 thousand was recognized in the second quarter so that the carrying amount of these assets will not exceed their recoverable amount. As of December 31, 2014, these assets are still classified as short-term.

As of December 31, 2014, simultaneously with the classification of the assets of BioMarCare as assets held for sale, assets of NIS 1,781 thousand were classified to other accounts receivable and liabilities of NIS 933 thousand were classified to other accounts payable. Also, comparative data in respect of liabilities for grants which had been classified in previous periods as part of payables and not in a separate line item due to immateriality were reclassified to current liabilities for grants in the consolidated statements of financial position (the balance sheet) and in the consolidated statements of cash flows.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments - effective control:

The Company assess whether it controls a company in which it holds less than the majority of the voting rights, among others, by reference to 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.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Grants:

Grants received are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows used to measure the amount of the liability.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

IFRS 15, "Revenue from Contracts with Customers":

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

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

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

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. 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 Company believes that IFRS 15 is not expected to have a material impact on the financial statements.

NOTE 5:- CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents as of December 31, 2014 and 2013, includes unlinked deposits of NIS 17,852 thousand and NIS 13,746 thousand with annual interest at the rate of 0.1%-0.8% and 0.8%-1.1%, respectively.

NOTE 6:- SHORT-TERM DEPOSITS

	December 31,	
	2014	2013
	NIS in thousands	
Bank deposits (1)	6,408	185

(1) As of December 31, 2014 and 2013, the Group has deposits of approximately NIS 385 thousand and NIS 182 thousand which were restricted by the bank against bank guarantees provided to secure lease fees under an office lease agreement.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2014	2013
	NIS in thousands	
Intangible asset held for sale	1,781	-
Government authorities	324	698
Prepaid expenses	258	455
Grant receivable	153	770
Advances to suppliers	-	14
Other	44	68
	2,560	2,005

NOTE 8:- INVENTORIES

	December 31,	
	2014	2013
	NIS in thousands	
Finished goods	976	1,055

As of December 31, 2014, the Company's inventories mainly comprise of 25 units of scanners type OT-135P2 which form part of the IOPtiMate™ systems.

NOTE 9:- INVESTMENTS IN SUBSIDIARIES

Additional information on subsidiaries held by the Company:

a. General information:

	Country of incorporation	Company's equity and voting rights	Company's equity and voting rights - diluted
		%	
December 31, 2014:			
Micromedic Ltd.	Israel	39.6	40.5
XL Vision Sciences Ltd.	Israel	100	98.85
DiagnosTear Ltd. *)	Israel	70.42	70.42
IOPtima Ltd. *)	Israel	87.17	77.7
ViSci Ltd. *)	Israel	98.9	96.9
Allergica Ltd. (discontinued operation in 2008)	Israel	100	100
December 31, 2013:			
Micromedic Ltd.	Israel	29.06	29.44
XL Vision Sciences Ltd.	Israel	100	98.85
DiagnosTear Ltd. *)	Israel	70.42	70
IOPtima Ltd. *)	Israel	87.17	77.7
ViSci Ltd. *)	Israel	100	100
Allergica Ltd. (discontinued operation in 2008)	Israel	100	100
Obecure Ltd. (discontinued operation in 2012) **)	Israel	91.25	100

*) These companies are held through XL Vision Sciences Ltd. ("XL Vision") which is 100% owned by Bio Light and, accordingly, investments in and loans to these companies were transferred through XL Vision.

**) During 2014, Obecure completed voluntary liquidation and, therefore, Obecure does not appear in the table for 2014.

NOTE 9:- INVESTMENTS IN SUBSIDIARIES (Cont.)

b. Additional information on subsidiaries held by the Company:

1. Investment in Micromedic:

a) Micromedic focuses on the development and commercialization of novel products for early detection of cancer. Micromedic is engaged in the development of personalized tests to match personal treatment to patient and maximize treatment value. Micromedic products are based on both the development and commercialization of technology that stains and detects cancer cells and indicators that are based on various molecules and genes. Micromedic implements a managerial strategy to intensify the existing potential of being a cluster that is engaged in joint medical field - cancer diagnostic solutions. Micromedic is an Israeli resident company.

b) In May 2012, Micromedic Technologies Ltd. allocated to the Company a total of 1,230,769 Ordinary shares of NIS 1 par value at the price of NIS 3.25 per share in consideration of NIS 4 million in cash. After the private placement, the Company held 25.46% of Micromedic issued and outstanding share capital and 24.3% of the issued and outstanding share capital on a fully diluted basis. The allocation was executed under the provisions of an investment agreement signed on November 21, 2011 between Micromedic and the Company.

c) In January 2013, Micromedic allocated 2,642,500 Ordinary shares (of which 2,326,000 to the Company) of NIS 1.00 par value each according to a shelf offering report which was published on December 25, 2012 for the total consideration of approximately NIS 4,500 thousand (of which an amount of approximately NIS 4,000 thousand was paid by the Company).

After this allocation, the Company held 32.76% of Micromedic issued and outstanding capital (30.84% on a fully diluted basis).

d) In March 2013, Micromedic allocated 6,951,389 and 1,388,889 Ordinary share options to various investors at prices of NIS 1.6-1.8 per share (the highest amount was paid by an investor who was issued shares and options) for the total consideration of NIS 11,400 thousand.

After this allocation, the Company held 25.07% of Micromedic issued and outstanding capital (23.75% on a fully diluted basis).

NOTE 9:- INVESTMENTS IN SUBSIDIARIES (Cont.)

e) In accordance with the investment agreement from March 2013, Micromedic allocated to the Company, subject to the approval of Micromedic shareholders' meeting, 1,666,667 Ordinary shares and options to purchase up to additional 1,666,667 Ordinary shares for the total consideration of approximately NIS 3,000 thousand. Through April 25, 2013, the approval of the TASE and the general meeting were obtained and the allocation to the Company was completed. After this allocation, the Company held 29.06% of Micromedic issued and outstanding capital (30.17% on a fully diluted basis).

f) The Company examined the existence of control in Micromedic pursuant to the provisions of IFRS 10 and determined that Micromedic should be retroactively consolidated from November 2011, the date when the Company initially invested in Micromedic.

g) In September 2014, the Company occasionally purchased a total of 681,200 shares of the subsidiary, Micromedic, on the stock exchange or the total consideration of approximately NIS 291 thousand thereby increasing its stake to 31.24% as of September 30, 2014.

In November 2014, the subsidiary, Micromedic, completed a public equity offering of 13,119,000 Ordinary shares of NIS 1 par value each. In this round, Bio Light purchased 7,810,000 shares for the total of approximately NIS 1.7 million, thereby increasing its stake to 39.61%.

h) In February 2015, the board of directors approved investment in Micromedic in the framework of a private placement shares of Micromedic for approximately NIS 0.27 per share and in return for an investee in total amount of approximately NIS 1,418 thousand. Subject to the completion of the private placement the company is expected to hold 45% of the issued share capital of the company.

2. Investment in XL Vision Sciences Ltd.:

In January2013, the subsidiary XL Vision Sciences Ltd. ("XL Vision") was founded for coordinating the glaucoma and dry eye cluster. The Company holds its entire issued and outstanding capital.

3. Investment in DiagnosTear:

a) In January 2013, the Company, through XL Vision, entered into an investment agreement with DiagnosTear. DiagnosTear is a private company which is engaged in development of a point-of-care multi-parameter diagnostic test for dry-eye syndrom.

NOTE 9:- INVESTMENTS IN SUBSIDIARIES (Cont.)

b) Key terms of the investment agreement in DiagnosTear:

According to the investment agreement, XL Vision is obligated to invest in DiagnosTear up to $ 750,000 based on scientific milestones for DiagnosTear Ordinary shares that will constitute approximately 70% of DiagnosTear issued and outstanding capital (on a fully diluted basis). At the end of 2014, DiagnosTear met the scientific milestone set in the investment agreement.

Immediately after closing the investment agreement, XL Vision nominated almost all of the members on DiagnosTear Board. DiagnosTear founder acts as a project manager in DiagnosTear.

c) Below is information about the fair value of recognized identifiable assets and liabilities as well as goodwill of DiagnosTear at acquisition date:

	Fair value recognized at acquisition date
	February 6, 2014 (unaudited)
	NIS in thousands
Cash	608
Intangible assets	37
Net identifiable assets	645
Non-controlling interests	(149)
Goodwill	112
Total acquisition cost	608
Cash outflow on the acquisition:	
Cash and cash equivalents acquired with the acquiree at the acquisition date	608
Cash paid in consideration of the acquisition	(645)
Net cash	(37)

NOTE 9:- INVESTMENTS IN SUBSIDIARIES (Cont.)

Excess of cost resulting from the acquisition of DiagnosTear shares totals approximately NIS 149 thousand. Excess of cost of approximately NIS 37 thousand is attributed to in-process research and development.

Goodwill related to the acquisition of approximately NIS 112 thousand is measured as the difference between the acquisition cost and the Group's share of net fair value of identifiable assets, identifiable liabilities and contingent liabilities of the subsidiary. Goodwill arising on acquisition is attributed to the benefits expected from the synergy between the activities of the Company and the acquiree. After initial recognition, goodwill is not systematically amortized. As for testing for impairment, see Note 11.

4. In January 2015, the subsidiary, XL Vision entered into agreement with several parties, including Integra Holdings, to invest in a private Israeli company that will act to develop a more efficient and safer delivery of eye drops. According to the agreement, the new company will be granted a worldwide exclusive license to use the drug delivery technology platform for ophthalmic uses, in return for royalties from future sales of the developed products. XL Vision investment in the new company will be approximately $ 500 thousand with a simultaneous similar investment amount by Integra, and will be carried out in stages, in accordance with the milestones set in the agreement. After the investment, XL Vision is expected to hold 40% of the issued and outstanding share capital of the new company on a fully diluted basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- PROPERTY AND EQUIPMENT

2014:

	Office furniture and equipment	Computers, laboratory equipment and peripheral equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2014	143	2,594	345	3,082
Acquisitions	28	201	173	402
Disposals	-	(177)	(108)	(285)
Transfer to inventories	-	(98)	-	(98)
Balance at December 31, 2014	171	2,520	410	3,101
Accumulated depreciation:				
Balance at January 1, 2014	23	1,862	286	2,171
Acquisitions	11	382	71	464
Disposals	-	(177)	(108)	(285)
Transfer to inventories	-	(68)	-	(68)
Balance at December 31, 2014	34	1,446	249	2,282
Depreciated cost at December 31, 2014	137	521	161	819

NOTE 10:- PROPERTY AND EQUIPMENT (Cont.)

2013:

	Office furniture and equipment	Computers, laboratory equipment and peripheral equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2013	189	2,718	345	3,252
Acquisitions	-	201	-	201
Disposals	(46)	(325)	-	(371)
Balance at December 31, 2013	143	2,594	345	3,082
Accumulated depreciation:				
Balance at January 1, 2013	38	1,785	192	2,015
Acquisitions	31	402	94	527
Disposals	(46)	(325)	-	(371)
Balance at December 31, 2013	23	1,862	286	2,171
Depreciated cost at December 31, 2013	120	732	59	911

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

2014:

	Goodwill arising on business combinations	Technologies and research and development applications	Total
	NIS in thousands		
Cost:			
Balance at January 1, 2014, and December 31, 2014	4,678	9,149	13,827
Accumulated amortization:			
Balance at January 1, 2014	-	(1,520)	(1,520)
Amortization for the year	-	(384)	(384)
Amortization due to impairment	(805)	(2,231)	(3,036)
Balance at December 31, 2014	(805)	(4,135)	(4,940)
Classification of intangible asset held for sale in short term	-	(1,781)	(1,781)
Amortized cost at December 31, 2014	3,873	3,233	7,106
Amortization (in %)	-	6-7	

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)

2013:

	Goodwill arising on business combinations	Technologies and research and development applications	Total
	NIS in thousands		
Cost:			
Balance at January 1, 2013	4,566	9,112	13,678
Newly consolidated (DiagosTear)	112	37	149
Balance at December 31, 2013	4,678	9,149	13,827
Accumulated amortization:			
Balance at January 1, 2013	-	(981)	(981)
Amortization for the year	-	(539)	(539)
Balance at December 31, 2013	-	(1,520)	(1,520)
Amortized cost at December 31, 2013	4,678	7,629	12,307
Amortization (in %)	-	6-7	

b. Additional information:

1. The amortization method applied by the Company for the amortization of intangible assets with a finite useful life is the straight-line basis.

2. The amortization expenses of intangible assets with a finite useful life are carried to the item depreciation and amortization expenses in research and development expenses in profit or loss for the period.

3. As of December 31, 2014, the Company conducted the annual test for impairment of goodwill arising on the investment in Micromedic which represents a single cash-generating unit. The recoverable amount of Micromedic exceeds its carrying amount and, therefore, no impairment was recorded.

NOTE 12:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2014	2013
	NIS in thousands	
Employees and payroll accruals	2,055	1,548
Accrued expenses	1,814	1,475
Related parties in subsidiary	233	218
Related parties	-	15
	4,102	3,256

NOTE 13:- LIABILITIES FOR GRANTS

Presented in the statement of financial position in:

	December 31,	
	2014	2013
	NIS in thousands	
Current liabilities	1,507	277
Non-current liabilities	7,630	6,788
	9,137	7,065

NOTE 14:- TAXES ON INCOME

a. Tax rates applicable to the Group:

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2012 and 2013.

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale.

On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was issued, which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere) and, in certain cases, increasing the rate of dividend withholding tax within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. There are also other changes such as taxation of revaluation gains effective from August 1, 2013.

NOTE 14:- TAXES ON INCOME (Cont.)

The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of overseas assets. As of the date of approval of these financial statements, these regulations have not been issued.

The above had no impact on the Company's financial statements.

b. Tax assessments:

The assessments of the Company and the subsidiaries are considered final through the 2009 tax year.

c. Carryforward losses for tax purposes and other temporary differences:

Carryforward tax losses and deductions of the Company total approximately NIS 65.9 million as of December 31, 2014. Also, carryforward capital tax losses of the Company total approximately NIS 4 million as of December 31, 2014.

Carryforward tax losses and deductions of investees total approximately NIS 177.6 million as of December 31, 2014. Also, carryforward capital tax losses and losses from marketable securities of investees total approximately NIS 2.4 million as of December 31, 2014.

Deferred tax assets relating to carryforward operating losses and to other temporary differences were not recognized because their utilization in the foreseeable future is not probable.

NOTE 15:- EQUITY

a. Composition of share capital:

	December 31, 2014		December 31, 2013	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.01 par value each	1,300,000,000	521,337,702	800,000,000	342,213,702

In July 2014, the Company's general meeting of shareholders approved to increase the Company's authorized capital by NIS 5,000,000 so that after the increase in capital the Company's authorized capital is NIS 13,000,000 divided into NIS 1,300,000,000 Ordinary shares of NIS 0.01 par value each.

NOTE 15:- EQUITY (Cont.)

b. Movement in share capital:

Issued and outstanding share capital:

	Number of shares	NIS par value
Balance at January 1, 2014	342,213,702	3,422,136
Issuance of shares	179,124,000	1,791,241
Balance at December 31, 2014	521,337,702	5,213,377

c. Rights attached to Ordinary shares:

Ordinary share entitles its holders all the rights generally conferred to a shareholder in a company including the right to participate in distribution of dividend, bonus shares, receipt of surplus of company's assets upon liquidation, participation in the company's general meeting and voting on all matters that the general meeting is authorized to decide on.

NOTE 16:- ISSUANCES OF SECURITIES

a. In November 2012, the Company completed an equity offering of 165,595,000 Ordinary shares of the Company of NIS 0.01 each according to a shelf offering report. Total issuance proceeds amounted to NIS 28,151 thousand, gross. Issuance expenses of approximately NIS 354 thousand were recorded with a corresponding adjustment of premium.

b. In April 2011, upon the issuance of shares and options to investors, the retirement agreements with the Group's founders became effective according to which the Company transferred 3,655,389 Ordinary shares NIS 0.0002 par value each of Zetiq , a subsidiary of Micromedic, and 114,528 Ordinary shares NIS 0.01 par value each of IOPtima Ltd. ("IOPtima"), a subsidiary, to a trustee who will hold the shares and transfer them to the founders upon the occurrence of a liquidation event (purchase of substantially all of the shares/assets of Zetiq or IOPtima, a merger transaction in which Zetiq/IOPtima are the acquirees, completion of a licensing transaction of all or substantially all of the intellectual property of Zetiq/IOPtima or an IPO of the shares of Zetiq/IOPtima on the TASE or a foreign stock exchange) during four years and in changing ratio based on the period that has elapsed as set in the retirement agreements.

NOTE 16:- ISSUANCES OF SECURITIES (Cont.)

The value of the compensation in respect of share-based payment for IOPtima will be classified as a liability since it may be settled in cash or in assets. The liability will be presented at fair value at the end of each reporting period based on management expectation as to the likelihood of the occurrence of a liquidation event based on the fair value of the shares. Total liability as of December 31, 2014 and 2013 was NIS 280 thousand and NIS 232 thousand, respectively. The expense relating to the value of the compensation was recognized in profit or loss.

c. In March 2014, the Company completed a public equity offering of 83,774,000 Ordinary shares of the Company of NIS 0.01 par value each, 41,887,000 share options (series 7) that are exercisable into 41,887,000 Ordinary shares of NIS 0.01 par value each and 41,887,000 share options (series 8) that are exercisable into 41,887,000 Ordinary shares of NIS 0.01 par value each. Total issuance proceeds amounted to approximately NIS 18,248 thousand, net of issuance expenses.

In March 2014, the Company signed private equity financing agreements for the issuance of 95,350,000 Ordinary shares of the Company NIS 0.01 par value each and 95,350,000 share options (series 8) that are exercisable into 95,350,000 Ordinary shares of NIS 0.01 par value each. Total issuance proceeds amounted to approximately NIS 19,260 thousand, net of issuance expenses.

NOTE 17:- SHARE-BASED PAYMENT

a. The expense recognized in the financial statements:

The expense recognized in the financial statements for services received is shown in the following table:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Share-based payment to employees, directors and consultants	1,573	844	256

The share-based payment transactions that the Company granted to its employees and consultants are described below.

There have been no modifications to any of the employee benefit plans during 2014, 2013 or 2012.

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

The following table describes the inputs used by the Company for the fair value measurement of equity-settled share options for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Standard deviation in share price (%)	45-50	51-70	57.1-62
Risk-free interest rate (%)	0.21	2.92-3.56	1.18-4.9
Expected life of share options (years)	7	7	6.67-10
Expected dividends	-	-	-

b. Options granted, exercised and expired in 2014 in the Company:

1. In March 2014, 2,526,127 options (non-marketable) that are exercisable into 2,526,127 Ordinary shares of the Company of NIS 0.01 par value each were granted to the Company's CEO and to several other employees pursuant to the Company's option plan.

   Each option is exercisable into one Ordinary share for the exercise price of NIS 0.37 in cash. The exercise price is not linked to the Israeli CPI or to any currency. The options vest over three years in three equal annual installments.

   The options expire at the earlier of the dates specified below: (a) seven years after the grant date (b) ninety days after the termination of employee-employer relationship for any reason, except as described in c and d below, (c) twelve months after ending the employment of the optionees due to death or the optionees' disability or (d) immediately upon termination of employee-employer relationship for a "cause" as defined in the Company's option plan.

   The fair value of each option is NIS 0.075 and the total fair value of all offered options is approximately NIS 189 thousand.

   The fair value of the options was computed using the "Black & Scholes" model based on the following assumptions:

   a) Share price - NIS 0.219;
   b) Exercise price per option - NIS 0.37;
   c) Standard deviation applied to return of share 48%, based on the life of the option; and
   d) Annual discount rate - 0.21%, based on the life of the option.

   The Company recorded in its financial statements as of December 31, 2014 expenses of approximately NIS 88 thousand with a corresponding adjustment of capital reserve.

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

2. In August 2014, 9,370,000 options (non-marketable) that are exercisable into 9,370,000 Ordinary shares of the Company of NIS 0.01 par value each were granted to the Company's CEO pursuant to the Company's option plan.

   Each option is exercisable into one Ordinary share for the exercise price of NIS 0.37 in cash. The exercise price is not linked to the Israeli CPI or to any currency. The options vest over three years in three equal annual installments.

   The options expire at the earlier of the dates specified below: (a) seven years after the grant date (b) ninety days after the termination of employee-employer relationship for any reason, except as described in c and d below, (c) twelve months after ending the employment of the optionees due to death or the optionees' disability or (d) immediately upon termination of employee-employer relationship for a "cause" as defined in the Company's option plan.

   The fair value of each option is NIS 0.0353 and the total fair value of all offered options is approximately NIS 331 thousand.

   The fair value of the options was computed using the "Black & Scholes" model based on the following assumptions:

   a) Share price - NIS 0.139;
   b) Exercise price per option - NIS 0.37;
   c) Standard deviation applied to return of share 49.7%, based on the life of the option; and
   d) Annual discount rate - 0.21%, based on the life of the option.

   The Company recorded in its financial statements as of December 31, 2014 expenses of approximately NIS 121 thousand with a corresponding adjustment of capital reserve.

c. Options granted, exercised and expired in 2013 in the Company:

1. In April 2013, 1,065,000 options (non-marketable) that are exercisable into 1,065,000 Ordinary shares of the Company of NIS 0.01 par value each were granted to the Company's CEO pursuant to the Company's option plan.

   Each option is exercisable into one Ordinary share for the exercise price of NIS 0.35 in cash. The exercise price is not linked to the Israeli CPI or to any currency. The options vest over three years in three equal annual installments.

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

The options expire at the earlier of the dates specified below: (a) seven years after the grant date (b) ninety days after the termination of employee-employer relationship for any reason, except as described in c and d below, (c) twelve months after ending the employment of the optionees due to death or the optionees' disability or (d) immediately upon termination of employee-employer relationship for a "cause" as defined in the Company's option plan.

The fair value of each option is NIS 0.14 and the total fair value of all offered options is approximately NIS 145 thousand.

The economic value of the options was computed using the "Black & Scholes" model based on the following assumptions:

a) Share price - NIS 0.22;
b) Exercise price per option - NIS 0.35;
c) Standard deviation applied to return of share 70%, based on the life of the option; and
d) Annual discount rate - 3.15%, based on the life of the option.

2. In April 2013, the Company reported on the termination of the tenure of the CFO, Mr. Amir Hassidim, and on the nomination of a new CFO, Mr. Itai Bar-Natan. As a result, 880,000 non-marketable share options which had been granted to Mr. Amir Hassidim expired, as described in d(1).

d. Options granted, exercised and expired in 2012 in the Company:

1. In May 2012, pursuant to the Board's decision from June 2012, the Company granted to the CFO 880,000 non-marketable share options to acquire 880,000 Ordinary shares of the Company of NIS 0.01 par value each, for an exercise price of NIS 0.35. The options vest in three equal annual installments at the end of each year and may be exercised within seven years from the grant date. The fair value of the options was determined at NIS 71 thousand at the grant date.

2. In December 2012, the Company's senior officer who left in November 2012 exercised 165,000 share options of the Company's option plan into 165,000 Ordinary shares of the Company NIS 0.01 of par value each. The proceeds received from the exercise of the options totaled approximately NIS 1.6 thousand.

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

e. Movement during the year:

The following table describes the number of share options in share-based payment to employees, directors and consultants of the Company and the weighted average exercise prices:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		NIS		NIS
Share options in the Company outstanding at beginning of year	5,859,732	0.34	4,934,732	0.34
Share options in the Company granted during the year	11,896,127	0.37	1,805,000	0.35
Share options in the Company expired during the year	(324,600)	0.35	(880,000)	0.35
Share options in the Company outstanding at end of year	17,431,259	0.36	5,859,732	0.34
Share options in the Company exercisable at end of year	4,589,732		3,201,399	

f. Share-based payment in subsidiaries:

The following table lists the number of share options to employees, directors and consultants of the Company's subsidiaries (including XL Vision, IOPtima, ViSci and DiagnosTear and excluding Micromedic and subsidaries of Micromedic) including related parties and the weighted average exercise prices:

	2014	
	Number of options	Weighted average exercise price
		NIS
Share options granted at beginning of year	639,514	1.38
Share options granted in 2014	430,564	5.33
Share options exercised and expired during the year	(311,788)	0.76
Share options granted at end of year	758,290	4.06
Share options exercisable at end of year	534,638	4.40

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

g. Share-based payment in the subsidiary Micromedic:

The following table lists the number of share options to employees, directors and consultants of the subsidiary, Micromedic, including related parties and the weighted average exercise prices:

	2014	
	Number of options	Weighted average exercise price
		NIS
Share options granted at beginning of year	2,110,410	2.83
Share options expired during the year	(360,500)	4.06
Share options granted at end of year	1,749,910	3.27
Share options exercisable at end of year	989,719	3.96

h. Share-based payment in subsidiaries of Micromedic:

The following table lists the number of share options to employees, directors and consultants of investees of Micromedic including related parties and the weighted average exercise prices:

Zetiq:

	2014	
	Number of options	Weighted average exercise price
		NIS
Share options granted at beginning of year	8,025,057	0.077
Share options exercised andexpired during the year	(3,655,389)	0.085
Share options granted at end of year	4,369,668	0.07
Share options exercisable at end of year	4,369,668	0.07

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SHARE-BASED PAYMENT (Cont.)

BioMarCare:

	2014	
	Number of options	Weighted average exercise price
		NIS
Share options granted at beginning of year	110,228	0.01
Share options exercised and expired during the year	(20,234)	0.01
Share options granted at end of year	89,994	0.01
Share options exercisable at end of year	84,027	0.01

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments with related parties:

Below is information about service agreements with related and interested parties as of the reporting date:

1. After receiving the approval of the Board of Micromedic in April 2012, and after receiving the approval of the audit committee of Micromedic in February 2012, the general meeting of shareholders of Micromedic approved a synergy agreement between the Company and Micromedic. Under the agreement, the Company renders Micromedic management, consulting and administrative services (together, "the services"), sublet of office space rented by the Company from an external landlord ("the leased property"), and renders maintenance services to the leased property. The agreement became effective after the approval of the meeting, as above, for a period of three years (from January 2012 through December 2014), in consideration of a monthly fee of up to NIS 69 thousand for the services ("the service fees") and a monthly fee of NIS 12 thousand for the sub-lease (which is in effect from August 2012). For the maintenance services, Micromedic pays Bio Light on a monthly basis, starting August 2012, its relative share of the monthly fee payable by the Company for these maintenance services. The amount was estimated at the date of the agreement at NIS 3,650. All the fees in the agreement are linked to the Israeli CPI.

   In December 2014, the general meeting of shareholders of Micromedic approved a new synergy agreement between the Company and Micromedic. Under the agreement, the Company will render Micromedic management and consulting services for a period of three years in consideration for a monthly fee of up to NIS 102 thousand.

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. After receiving approval of the Board of Micromedic in April 2012, and after receiving the approval of the audit committee of Micromedic in February 2012, the general meeting of shareholders of Micromedic approved the engagement of Micromedic with a company controlled by Mr. Israel Makov, the Chairman, in an agreement to render consulting services by Mr. Israel Makov as an active Chairman of Micromedic in consideration of share options and fees. The fee is $ 5 thousand a month, paid from the date of commencement of service in November 2011. In addition, Mr. Makov is entitled to reimbursement of expenses incurred on behalf of the above services.

   In December 2014, the general meeting of shareholders of Micromedic approved an extension of the consulting services for an additional period of three years from November 2014.

3. In May 2011, the Company's Board approved the employment conditions of the Company's CEO. The Company's CEO is entitled to a monthly salary of NIS 50 thousand, an annual bonus amounting up to six monthly salaries, subject to the achievement of targets set by the Company's Board and an adaptation grant of three monthly salaries (except in case of resignation in less than two years after hiring).

   The Company recognized a provision for an adaptation grant in other long-term liabilities.

   Further, it was decided to grant the CEO 2,500,000 options that are exercisable into 2,500,000 Ordinary shares of the Company NIS 0.01 par value each for the exercise price of NIS 0.35. The options vest over three in three equal annual installments from the grant date. The exercise price of the options will be paid in cash or, at the CEO request, in shares. The expected compensation in respect of the above options is approximately NIS 410 thousand.

   The inputs used to compute the above options are as follows: average standard deviation of 52.10%-64.29%, risk-free interest of 3.57%-6.62%, share price of NIS 0.334 and expected life of share options of 10 years.

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

b. Contingent liabilities:

1. IOPtima received research and development participation grants from the Chief Scientist Office and, in return, it is obligated to pay royalties amounting to 3%-3.5% of the sales of the products generated from such research. The grants received, including interest, totaled approximately NIS 5,978 thousand as of December 31, 2014. Royalties paid to the Scientist amounted to approximately NIS 0.1 thousand in 2014 (2013 - approximately NIS 0.3 thousand). After the reporting date, IOPtima paid to the Chief Scientist Office approximately NIS 26 thousand in respect of royalties for sales in the fourth quarter of 2014.

2. DiagnosTear received research and development participation grants from the Chief Scientist Office and, in return, it is obligated to pay royalties amounting to 3%-3.5% of the sales of the products generated from such research. The grants received, including interest, totaled approximately NIS 951 thousand as of December 31, 2014.

3. Allergica received research and development participation grants from the Chief Scientist and, in return, it is obligated to pay royalties amounting to 3%-3.5% of the sales of the products generated from such research and development up to 100% of total grants received by Allergica, linked to the dollar plus Libor interest. The grants received, including interest, totaled approximately NIS 5 million as of December 31, 2014. Royalties have not been paid yet.

   As there is no reasonable assurance that the grants will be repaid due to Allergica non-operating status since 2008, the Company did not recognize liabilities in respect of the grant in its financial statements.

c. Commitments:

1. Operating lease commitment:

   a) The Group entered into lease agreements on vehicles for various periods, the latest of which ends in December 2017. Until such date, lease fees of approximately NIS 588 thousand are expected to be paid by the Company. Also, the Company and a subsidiary deposited an amount of approximately NIS 77 thousand in respect of the lease of vehicles.

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

b) In July 2011, the Company entered into a lease agreement on offices with Atidim - High Tech Industries Ltd. ("Atidim").

The first lease term was for 36 months and started on November 15, 2011. The Company was granted an option for an additional lease period and, indeed, during 2014 the Company informed Atidim of its intention to realize the option to extend the lease term for an additional period of 24 months.

During the additional lease term, the lease fees will be approximately NIS 33 thousand.

c) Future minimum lease fees under non-cancellable operating lease agreements on vehicles and offices as of December 31, 2014 are as follows:

	NIS in thousands
First year	1,184
Second to third year	1,339
	2,523

2. In October 2012, an agreement between the Company, through its subsidiary, ViSci, and a third party unrelated to the Company, according to which the third party granted ViSci an exclusive option to receive an exclusive, transferable worldwide license for using the technology underlying the sub-conjunctival drug implant for the controlled release of ophthalmic medications including for purposes of research and development, commercialization, manufacturing, licensing, export, distribution, marketing, sale and provision of services.

The option is exercisable at any time during the term of the agreement as long as ViSci pays the third party annual fee in the aggregate of $ 25 thousand as retention option fee. Until the exercise of the option by ViSci, if exercised, ViSci will continue to perform research and development activity relating to the implant. According to the agreement between the parties, if the option is exercised, the parties will enter into a license agreement.

Upon exercise of the option, ViSci will pay the third party a lump sum of approximately $ 3 million, offset the amounts paid in excess to the defined development plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION TO THE PROFIT OR LOSS ITEMS

		Year ended December 31,		
		2014	2013	2012
		NIS in thousands		
a.	Research and development expenses:			
	Subcontractors	10,873	10,518	3,222
	Salary and related expenses	6,164	6,514	4,502
	Depreciation and amortization	774	983	8,012
	Patents	763	601	669
	Compensation expenses relating to share-based payments in subsidiaries	885	274	173
	Adjustment of liability to the Chief Scientist Office	(899)	(471)	(337)
		18,560	18,419	16,245
b.	Selling and marketing expenses:			
	Business development	1,824	864 *)	650
	Salary and related expenses	371	345	321
	Other	15	40	186
		2,210	1,249 *)	1,157

* Reclassified

NOTE 19:- ADDITIONAL INFORMATION TO THE PROFIT OR LOSS ITEMS (Cont.)

		Year ended December 31,		
		2014	2013	2012
		NIS in thousands		
c.	General and administrative expenses:			
	Salary and related expenses	5,561	3,938	4,232
	Professional services	2,796	3,026 *)	4,313
	Share-based payments	688	579	645
	Rent and maintenance	466	410	1,161
	Office expenses	205	206	419
	Depreciation	74	102	158
	Other	413	572	568
		10,203	8,833*)	11,496
d.	Finance income and expenses:			
	Finance income:			
	Interest income on bank deposits	108	165	242
	Closing provision to chief scientist for voluntary liquidation of an investee	158	-	-
	Interest income on loan to affiliate	-	-	77
	Gain from change in exchange rate	154	238	37
	Other	28	92	15
		448	500	497
	Finance expenses:			
	Bank commissions	70	55	41
	Revaluation of liability to the Chief Scientist Office	2,292	841	246
	Loss from change in exchange rates	69	176	36
	Other	65	148	10
		2,496	1,220	333

* Reclassified

NOTE 20:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

a. Balances with officers, interested and related parties:

Composition:

	December 31,	
	2014	2013
	NIS in thousands	
Other accounts payable	(703)	(365)
Other long-term liabilities	(200)	(263)

b. Compensation of key management personnel (including directors) employed by the Company:

Besides salary, the Company's senior managers are entitled to non-cash compensation (such as vehicle). Further, the Company deposits in their favor amounts in post-employment defined benefit plan.

The senior managers also participate in the Company's share option plans (see Note 17 regarding share-based payment).

Compensation relating to the employment of key management personnel (including directors) by the Company:

	Year ended December 31,					
	2014		2013		2012	
	Number of individuals	Amount	Number of individuals	Amount	Number of individuals	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits	3	2,979	4	2,104	4	2,819
Post-employment benefits	-	-	1	100	1	142
Share-based payment	3	388	4	375	3	583
Fees to directors	2	291	2	479	4	524
Commission and consulting fee to related party	-	-	1	298	1	216
		3,658		3,356		4,284

NOTE 20:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (Cont.)

Compensation of directors not employed by the Company:

	Year ended December 31,					
	2014		2013		2012	
	Number of individuals	Amount NIS in thousands	Number of individuals	Amount NIS in thousands	Number of individuals	Amount NIS in thousands
Total compensation of directors not employed by the Company	6	341	5	301	5	342

NOTE 21:- OPERATING SEGMENTS

a. Description of the segments:

The Company operates through subsidiaries and the subsidiary, Micromedic and its subsidiaries, in various areas related to the development of biomed products and medications:

1. Ophthalmology - IOPtima develops and markets a laser-based non-invasive surgical treatment for glaucoma. DiagnosTear develops a point-of-care multi-parameter diagnostic test for dry-eye syndrome. ViSci develops a controlled release drug-delivery insert platform. A forth subsidiary develops a more efficient and safer delivery of eye drops.

2. Cancer cell diagnostics - Micromedic, through its subsidiaries, is engaged in the development of diagnostics technology for the detection of cancer cells.

NOTE 21:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Ophthalmology	Cancer cell diagnostics	Total
	NIS in thousands		
Year ended December 31, 2014:			
Revenues	824	117	941
Segment loss	13,490	13,005	26,495
Unallocated corporate expenses, net			7,111
Operating loss			33,606
Finance expenses, net			2,048
Other expenses			354
Loss			36,008
Foreign currency translation adjustments			19
Comprehensive loss			36,027
Year ended December 31, 2013:			
Revenues	53	29	82
Segment loss	11,925*)	10,245	22,170*)
Unallocated corporate expenses, net			6,272*)
Operating loss			28,442
Finance expenses, net			720
Loss			29,162
Foreign currency translation adjustments			19
Comprehensive loss			29,181

*Reclassified

NOTE 21:- OPERATING SEGMENTS (Cont.)

	Ophthalmology	Cancer cell diagnostics	Total
	NIS in thousands		
Year ended December 31, 2012:			
Revenues	52	-	52
Segment loss	9,888	11,846	21,734
Unallocated corporate expenses, net			7,112
Operating loss			28,846
Finance income, net			(164)
Taxes on income			37
Loss			28,719
Loss from discounted operation, net			6
Comprehensive loss			28,725

c. Additional information:

	Ophthalmology	Cancer cell diagnostics	Total
	NIS in thousands		
December 31, 2014:			
Segment assets	1,864	12,981	14,845
Assets - unallocated to segments			25,589
Total assets			40,434
Segment liabilities	5,252	7,406	12,658
Liabilities - unallocated to segments			2,038
Total liabilities			14,696

NOTE 21:- OPERATING SEGMENTS (Cont.)

	Ophthalmology	Cancer cell diagnostics	Total
	NIS in thousands		
December 31, 2013:			
Segment assets	3,145	25,337	28,482
Assets - unallocated to segments			5,850
Total assets			34,332
Segment liabilities	4,262	6,544	10,806
Liabilities - unallocated to segments			1,417
Total liabilities			12,223

NOTE 22:- DISCONTINUED OPERATION

In January 2011, the Company reported that Obecure, a subsidiary, informed Mor Research Application Ltd. on the termination of the license agreement between them. Obecure operation was discontinued during the first quarter of 2011. In October 2014, the status of Obecure was changed to liquidated and, therefore, in was not consolidated in the financial statements as of December 31, 2014.

Below is data of the operating results attributed to the discontinued operation:

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Research and development expenses	-	-	6
Operating loss	-	-	6
Loss from discontinued operations, net	-	-	6

NOTE 23:- FINANCIAL INSTRUMENTS

a. Commitment for subsidiary's share of approximately NIS 280 thousand and NIS 232 thousand as of December 31, 2014 and 2013 respectively, which included in the statements of financial position under long term liabilities is a financial liability that is measured at fair value level 3.

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

b. Financial risk management objectives and policies:

The Group's activities expose it to various financial risks such as market risks (foreign currency risk, Israeli CPI risk, interest risk and price risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Company's finance department oversees the management of these risks in accordance with the policies approved by the Board. The CFO identifies, measures and manages financial risks in collaboration with the Group's operating units. The Board establishes documented objectives for the overall risk management activities as well as specific policies with respect to certain exposures to risks such as exchange rate risk, interest rate risk, credit risk and investments of surplus funds.

1. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as share price risk and commodity price risk. Financial instruments affected by market risk include, among others, loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

2. Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Substantially all of the Group's liabilities are in NIS, however, the Group has liabilities to subcontractors, consultants and suppliers that are exposed to the possible change in the exchange rates of the Euro and the dollar. Exchange rate risk arises on recognized liabilities that are denominated in a foreign currency other than the functional currency, mainly in dollar. 10% change in the NIS /Dollar will not have a material effect on the financial statements.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

The Company's short-term financial assets and liabilities are in unlinked NIS except a balance of NIS 1,084 thousand of dollar-denominated assets and NIS 9,426 thousand of dollar-denominated liabilities.

3. Liquidity risk:

Liquidity risks arise from managing the Company's working capital and from the Company's finance expenses and liability. Liquidity risk is the risk that the Company will experience difficulties in fulfilling obligations that are related to financial liabilities. The Company has excess of current assets over current liabilities of approximately NIS 26.2 million.

The Group does not use bank borrowings to finance its operating requirements and is mainly supported by fundraisings and research and development grants.

4. Financial instruments and deposits:

Credit risk from balances with banks and financial institutions is managed by the Group's management in accordance with the Group's policy. Investments of surplus funds are made only with approved commercial banks.

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BIOLIGHT ISRAELI LIFE SCIENCES INVESTMENTS LTD.

PRESENTATION OF ADDITIONAL FINANCIAL INFORMATION FROM

THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

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To the shareholders of
Bio Light Israeli Life Sciences Investments Ltd.

Dear Sir and Madam,

Re: Special auditor's report on separate financial information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Bio Light Israeli Life Sciences Investments Ltd. ("the Company") as of December 31, 2014 and 2013 and for each of the three years the last of which ended on December 31, 2014. This separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used in the preparation of the separate financial information and the significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the separate financial information is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
March 30, 2015

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

Special Report in accordance with Regulation 9c

Financial Information and Financial Data from the

Interim Consolidated Financial Statements Attributable to the Company

Below is separate financial information and financial data attributable to the Company from the Group's consolidated financial statements as of December 31, 2014, published as part of the periodic reports ("consolidated financial statements") presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in presenting this financial information is elaborated in Note 2 to the consolidated financial statements.

Financial Information from the Consolidated Balance Sheets
Attributable to the Company

	December 30,	
	2014	**2013**
	Audited	
	NIS in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	18,056	5,013
Short-term deposits	6,263	185
Accounts receivable	568	797
	24,887	5,995
NON-CURRENT ASSETS:		
Investments in subsidiaries	7,087	7,055
Leasing deposits	31	12
Loan to related company	1,531	1,557
Property and equipment	140	204
	8,789	8,828
	33,676	14,823
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade payables	298	334
Other accounts payable	1,260	820
	1,558	1,154
NON-CURRENT LIABILITIES:		
Other long term liabilities	480	495
Excess of losses over investments in subsidiaries	3,235	601
	3,715	1,096
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital, premium and reserves	218,810	179,878
Accumulated deficit	(190,407)	(167,305)
Total shareholders' equity	28,403	12,573
	33,676	14,823

The accompanying additional information is an integral part of the separate financial data and financial information.

March 30, 2015			
Date of approval of the financial statements	Israel Makov Chairman of the Board	Suzana Nahum-Zilberberg Chief Executive Officer	Itai Bar-Natan Chief Financial Officer

Financial Information from the Consolidated Statements of Operations Attributable to the Company

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Revenues	2,163	2,055	1,427
General, administrative and other expenses	8,234	6,899	7,201
Operating loss	(6,071)	(4,844)	(5,774)
Finance income	10,036	8,913	7,736
Finance expenses	(327)	(875)	(355)
Income before Company's share of losses of subsidiaries	3,638	3,194	1,607
Company's share of losses of subsidiaries	(26,759)	(22,050)	(14,963)
Total loss	(23,121)	(18,856)	(13,356)

The accompanying additional information is an integral part of the separate financial data and financial information.

Financial Information from the Consolidated Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from operating activities of the Company:			
Loss attributable to the Company	(23,121)	(18,856)	(13,356)
Adjustments to reconcile loss to net cash used in operating activities of the Company:			
Adjustments to the profit or loss items of the Company:			
Finance income, net	(9,539)	(8,749)	(7,288)
Depreciation	73	97	82
Cost of share-based payment	318	172	210
Company's share of losses of subsidiaries	26,759	22,050	14,963
	17,611	13,570	7,967
Changes in asset and liability items of the Company:			
Decrease (increase) in accounts receivable	229	101	(626)
Increase (decrease) in loan to related company	26	406	(58)
Increase (decrease) in trade payable	(55)	178	(90)
Increase (decrease) in other accounts payable	440	(358)	87
Increase (decrease) in employee benefit liabilities	(63)	99	142
Commitment to issue shares in subsidiary	48	(92)	(35)
	625	334	(580)
Cash paid and received during the period by the Company for:			
Interest paid	-	(5)	(19)
Interest received	108	162	115
	108	157	96
Net cash used in operating activities of the Company	(4,777)	(4,814)	(5,873)

The accompanying additional information is an integral part of the separate financial data and financial information.

Financial Information from the Consolidated Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Cash flows from investing activities of the Company:			
Proceeds from investment in short-term deposit	(6,078)	58	(119)
Purchase of property and equipment	(9)	(24)	(22)
Proceeds from sale of marketable securities, net	-	370	6,582
Changes in long terrm leasing deposits	(19)	-	-
Investment in subsidiaries	(13,582)	(18,638)	(5,099)
Net cash used in investing activities of the Company	(19,688)	(18,234)	1,342
Cash flows from financing activities of the Company:			
Issuance of shares and warrants, net	37,508	-	27,797
Exercise of options	-	-	2
Net cash provided by financing activities of the Company	37,508	-	27,799
Exchange differences on balances of cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	13,043	(23,029)	23,301
Cash and cash equivalents at the beginning of the period	5,013	28,042	4,741
Cash and cash equivalents at the end of the period	18,056	5,013	28,042

The accompanying additional information is an integral part of the separate financial data and financial information.

Additional Information

NOTE 1:- GENERAL

The Company was founded in Israel on April 20, 2005.

Bio Light Israeli Life Sciences Investments Ltd. ("the Company") operates in the field of research, development and commercialization of medical solutions through the application of a new strategy for building and managing clusters of biomed companies operating in common areas while sharing knowhow and creating synergies whose combination is potentially conducive to enhancing innovation and generating value (the Company and the subsidiaries, collectively, "the Group").

The Company incurred losses of approximately NIS 23,121 thousand and it has negative cash flows from operating activities of approximately NIS 4,777 thousand for the year ended December 31, 2013. The Company has accumulated deficit of approximately NIS 190,407 thousand as of December 31, 2013.

During the period, the company entered into investment agreements to raise capital, see note 16 to the consolidated financial statement as of December 31, 2014.

The auditors' report of Micromedic Technologies Ltd. ("Micromedic"), a subsidiary which accounts for approximately 19% of total consolidated assets of the Company as of December 31, 2013 and approximately 41% of total operating losses for the year then ended, included an emphasis of matter paragraph regarding conditions that cast significant doubt about Micromedic existence as a going concern. The financial statements of Micromedic do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the company was unable to continue to operate as a going concern.

NOTE 2:- INVESTMENTS IN INVESTEES

See note 9 to the consolidated financial statements.

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Chapter 4 - Additional Information on the Corporation

Company Name:	Bio Light Israeli Life Sciences Investments Ltd. (the "**Company**")
Company Number at the Registrar of Companies:	51-368079-3
Address:	Kiryat Atidim, Building 3, 5th Floor, Tel-Aviv
Telephone:	073-2753400
Fax:	073-2753401
E-mail:	itai@bio-light.co.il
Date of Statement of Financial Position:	December 31, 2014
Report Date:	March 30, 2015
Report Year:	2014

Regulation 9B: **Report on the effectiveness of the internal control of financial reporting and disclosure**

The Company does not attach an annual report regarding the evaluation of the Board and management regarding the effectiveness of internal control, in accordance with the "small corporation" relief under Regulation 5D(5) of the Regulations.

Regulation 9D: **Report on the inventory of liabilities according to date of repayment**

A report on the inventory of liabilities of the Company according to maturity dates is attached to this Report as an integral part hereof. For details see the Company's immediate report regarding the corporation's inventory of liabilities issued concurrently herewith on the distribution website of the Israeli Securities Authority (http://www.magna.isa.gov.il).

Regulation 10A: **Condensed statements of comprehensive income of the Company (NIS in Thousand)**

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014
Revenues	(14)	(141)	(18)	(768)	(941)
Cost of goods sold	-	52	-	486	538
Gross margin	(14)	(89)	(18)	(282)	(403)
Research and development expenses, net	4,364	4,778	4,231	5,187	18,560
Sales and marketing expenses	421	570	626	593	2,210
General and administrative expenses	2,762	2,157	2,713	2,571	10,203
Loss from impairment	-	3,036	-	-	3,036
Operating loss	7,533	10,452	7,552	8,069	33,606
Financing income	(122)	(261)	(139)	74	(448)
Financing expenses	426	783	595	692	2,496
Other expenses	-	354	-	-	354
Total loss	7,837	11,328	8,008	8,835	36,008
Foreign currency translation adjustments	7	31	7	(26)	19
Total comprehensive loss	7,844	11,359	8,015	8,809	36,027

Regulation 10C: **Use of proceeds from securities**

Below shall be specified the use made by the Company in the proceeds of securities which were offered in the context of a prospectus last released prior to the Report Date:

a. Pursuant to a shelf offering report issued on February 28, 2014, as amended on February 28, 2014 and on March 2, 2014 (collectively, the "**2014 Shelf Offering Report**"), by virtue of a shelf prospectus issued by the Company on May 29, 2012, as amended on May 31, 2012 and on October 24, 2012, the Company raised a (gross) total of approx. NIS 18,849 thousand (the **"2014 Issuance Proceeds**").

b. The proceeds of the issuance under the 2014 Shelf Offering Report was used and is being used by the Company to finance the main activities,

with an emphasis on marketing and sales activity, financing of clinical trials in humans, supporting the Company's activity in the U.S. market and financing the ongoing activity of the Company and its controlled subsidiaries. The proceeds of the issuance are used by the Company pursuant to its needs, from time to time, and in accordance with the resolution of the Company's Board of Directors.

Regulation 11: List of investments in material subsidiaries and related companies as of December 31, 2014

Company name	Issued and outstanding share capital (no. of securities)	Type of share and par value per share	Number of securities held by the Company	Carrying amount in the Company's separate financial statements (as of the date of the statement of financial position, NIS in thousand)	Quoted market price of the securities listed for trade as of the date of the statement of financial position	Share of equity and voting rights	Share in authority to appoint directors	Balance of loans and their main terms* in the statement of financial position as of 31.12.2014 (NIS in thousand)
Micromedic Technologies Ltd.	44,372,150 shares 6,716,702 options	NIS 1 per share	17,573,740 shares 2,855,744 options	7,060	164.00 Agorot	39.61%	39.61%	-
X L Vision Sciences Ltd.	26,238,503	Ordinary NIS 0.01	26,238,503	(2,964)	-	100%	100%	17,259
IOPtima Ltd.[1]	2,627,674	Ordinary NIS 0.01	2,204,669	2,836	-	87.17%	87.17%	48,302
ViSci Ltd.[2]	10,104,667	Ordinary NIS 0.01	10,104,667	(672)	-	98.97%	98.97%	11,402
Diagnostear Ltd.[3]	137,998	Ordinary NIS 0.01	97,182	42	--	70.42%	70.42%	40

* For details regarding the main terms of the loans extended to X L Vision, IOPtima, ViSci and Diagnostear, see Section 5.7 of Chapter A (Description of the Corporation's Business) hereof.

Regulation 12: Changes in investments in subsidiaries and related companies in the Report Period

See Section 5.8.2 of Chapter A (Description of the Corporation's Business) hereof and note 9 to the financial statements.

[1] The Company holds IOPtima indirectly, through X L Vision, which holds 87.17% of IOPtima's issued share capital. As of the Report Date, approx. 3% are held in escrow, in accordance with the provisions of the agreement specified in Section 4.2.16.2 of the Description of the Corporation's Business Chapter.

[2] The Company holds ViSci indirectly, through X L Vision, which holds 98.97% of ViSci's issued share capital. The investments and loans are transferred through X L Vision.

[3] The Company holds Diagnostear indirectly, through X L Vision, which holds 70.42% of Diagnostear's issued share capital. The investments and loans are transferred through X L Vision.

Regulation 13: **Income of subsidiaries and affiliates and the Company's income therefrom as of December 31, 2014 (NIS in thousand)**

Below is a specification of the comprehensive income of each subsidiary or affiliate of the Company, in the last report year ending as of the date of the Statement on the Company's Financial Position or prior thereto and adjusted to the date of the Statement on the Company's Financial Position, as well as a specification of the Company's income therefrom (NIS is thousand):

Company name	Income (loss) before taxes	Income (loss) after taxes	Dividend and management fees		Interest	
			Before date of statement of financial position	After date of statement of financial position	Before date of statement of financial position	After date of statement of financial position
Micromedic Technologies Ltd.	(16,645)	(16,645)	1,223	282	---	---
X L Vision Sciences Ltd.	(927)	(927)	60	15	79	20
IOPtima Ltd.	(5,431)	(5,431)	653	180	1,198	300
ViSci Ltd.	(6,001)	(6,001)	120	60	71	18
Diagnostear Ltd.	(1,928)	(1,928)	108	27	---	---

Regulation 20: **Trade on TASE**

a. In the Report Year, the following Company securities were listed for trade on TASE:

Date	Type of security	Amount listed for trade	Comments
March 6, 2014	Shares	83,774,000	In the framework of a shelf offering report issued by the Company on February 28, 2014, as amended on February 28, 2014 and on March 2, 2014.
	Option Warrants (Series 7)	41,887,000	
	Option Warrants (Series 8)	41,887,000	
March 31, 2014	Shares	93,350,000	In the framework of an irregular shelf offering report issued by the Company on March 20, 2014, as amended on March 23, 2014 and on March 27, 2014.
	Option Warrants (Series 8)	93,350,000	

b. To the best of the Company's knowledge, in the Report Period, there has not been a suspension in the trade of the Company's securities on TASE (that was not due to fixed-term trade suspensions following the issuance of financial reports or another material report).

Regulation 21: **Compensation to interested parties and senior officers***

a. Below are details of the compensation paid in the Report Year to the Company's best knowledge, as recorded in the financial statements for the Report Year (unless specifically stated otherwise), to each of the five highest compensation recipients among the senior officers in the Company and in the companies under its control, in connection with their service at the Company or companies under its control, as the case may be, by the Company or by others (it shall be noted that the following table refers to Micromedic Technologies Ltd. as a company under the Company's control), and any other interested party in the Company who was not specified above:[1]

Details of compensation recipients				Compensation for services * (NIS in Thousand)							Other compensation* (NIS in thousand)		
Name	Position	Scope of position	Percentage of holdings in the corporation share capital	Salary	Grant	Share-based payment ***	Management fees	Consulting fees	Commission	Other**	Interest / rent	Retirement fees and others	Total (NIS in thousand)
Suzana Nahum Zilberberg	CEO (and VP Chairman of Micromedic)	100%	0.05%	807	[2]530	220	-	-	-	138	-	-	1,695
Israel Makov	Chairman		15.82%	432	-	54	-	214	-	-	-	-	700
Ronen Castro	CEO of subsidiary	100%	-	718	-	-	-	-	-	5	-	-	723
Itai Bar-Natan	CFO	100%	-	582	257	114	-	-	-	1	-	-	954
Steven Eitan	CEO of Micromedic	100%	-	735	98	211	-	-	-	79	-	-	1,123

* The amounts of compensation are presented in terms of cost to the Company.

** Related benefits/ directors' fee/ reimbursement of expenses.

[1] Pursuant to the provisions of Section 6A of the Male and Female Workers Equal Pay law, 5756-1966, in the year of the report, 4 men and one woman of the officers specified above are included in the framework of this Regulation 21.

[2] The total grant includes a one-time grant and a grant-goals, as approved by the compensation committee and the board of directors committee in 2014. The amount does not include a grant of NIS 309 thousand due to achieving goals in 2013 that was paid in 2014.

*** The amount specified in the "share-based-payment" column comprises of the expense recorded by the Company under IFRS2 for option grants.

b. For a specification of the compensation paid to interested parties who are not included in the table in sub-section a. above (and who were compensated by the Company or by a company under its control for services rendered by such interested parties as position holders in the Company or a company under its control, whether in the framework of employment relations or not), see sub-section (6) below.

Comments to the information presented in the above table:

Presented below are the main terms of the employment agreements of the senior officers as aforesaid, as were in effect in the Report Period, as well as the total compensation paid to them after the Report Year and prior to the date of filing hereof:

(1) For the Company's engagement in service agreements with Messrs. Israel Makov and Ron Weisberg, see Regulation 22 below.

(2) **Engagement between the Company and Ms. Susana Nahum-Zilberberg**[1]

Ms. Susana Nahum-Zilberberg has been serving as the Company's CEO since May 1, 2011. Following are her main terms of employment as of the date hereof, pursuant to her mployment agreement dated June 30, 2011 (as amended in July 2014):

a. Term of Agreement: The agreement is for an indefinite period, beginning on May 1, 2011, terminable upon prior notice as detailed in the agreement.

b. Job title and scope of position: Serves as CEO of the Company, directly subordinate to the Chairman of the Board, on a full-time basis.

c. Salary: A gross monthly salary of NIS 50,000, fully linked to the Israeli CPI for May 2011 and updated annually.

d. Annual Bonus: An annual bonus of up to six monthly salaries, subject to achieving certain targets as determined and approved at the beginning of each calendar year by the Audit Committee and Board of Directors (after receiving the recommendations of the Chairman of the Board).[2]

[1] For further details in respect of Company's CEO's employment agreement, see the immediate report issued by the Company on December 11, 2012 (TASE reference: 2012-01-306939) included herein by reference.

[2] On March 30, 2015, the Company's Board, further to the approval of the Compensation Committee, approved the grant of NIS 280 thousand to Ms. Nahum-Zilberberg, for her activity and efforts in the passing year and her achievement of the goals defined for her in respect of 2014. The bonus and goals determined for 2014 are in compliance with the Compensation Policy adopted by the Company. The goals achieved for which the bonus was granted included, *inter alia*, raising capital to the group company, expanding the technological clusters of the company, progress in the research and development of the various technologies, obtaining regulatory approval for marketing the group's products, meeting the budgetary targets, strategic distribution engagements and strengthening the relationships with investors in Israel and abroad. In addition, approx. 10% of the bonus amount is a bonus granted under the discretion of the Board.

e. On July 8, 2014, the Company's general meeting approved an amendment to Ms. Nahum Zilberberg's employment agreement, such that the employment agreement shall be supplemented by a section affording entitlement to a bonus for performance and/or for events in respect of which the Compensation Committee and the Board of Directors found the CEO to have a substantial contribution. For further details see notice of general meeting report issued by the Company on June 1, 2014 (TASE reference 2014-01-081117) and the report on the results of the meeting dated July 9, 2014 (TASE reference: 2014-01-110106).

f. Related rights: Executive insurance, further study fund, vehicle, payment and reimbursement of expenses incurred in her capacity as CEO pursuant to the Company's policies.

g. Options[1]: Entitlement to equity compensation, pursuant to the decision of the Board of Directors. On July 12, 2011, the Company issued 2,500,000 options to purchase 2,500,000 Ordinary Shares of the Company to Ms. Nahum-Zilberberg, at an exercise price of NIS 0.35 per share. The amount of the benefit in respect of said options is NIS 410 thousand; In addition, on August 3, 2014, the Company issued 9,370,000 options to purchase 9,370,000 Ordinary Shares of the Company to Ms. Nahum-Zilberberg, at an exercise price of NIS 0.37 per share. The amount of the benefit in respect of said options is NIS 331 thousand.[2]

h. Termination of engagement: Termination of the engagement may be effected by each of the parties upon prior written notice delivered 90 days in advance. The Company may terminate the CEO's employment immediately, without providing any advance notice, upon the occurrence of certain events set forth in the agreement. In addition, Ms. Suzana Nahum-Zilberberg is entitled to a readjustment bonus equal to three monthly salaries in addition to managers' insurance and further education fund, payable upon termination of the employment relations, except in certain events detailed in the agreement.

No compensation was paid after the Report Year and prior to the date of filing hereof in connection with the service or the employment in the Report Year, and which were not recorded in the Financial Statements for the Report Year.

(3) **Engagement between the Company and Mr. Ronen Castro**

Mr. Ronen Castro has been serving as the CEO of IOPtima (the Company's subsidiary)

[1] It shall be noted, than on November 5, 2013, Micromedic granted Ms. Nahum-Zilberberg 234,399 non-tradable options of Micromedic; in addition, on August 15, 2013, BioMarCare granted Ms. Nahum Zilberberg 14,687 options to purchase 14,687 Ordinary Shares par value NIS 0.01 each of BioMarCare.

[2] For further details in respect of the options granted to Ms. Nahum-Zilberberg, see the private offering report issued by the Company on May 30, 2011 (TASE reference: 2011-01-166902) and its amendments of June 14, 2011 (TASE reference: 2011-01-183645) and of June 15, 2011 (TASE reference: 2011-01-185229). In addition see immediate report dated June 1, 2014 (TASE reference: 2014-01-081117) and immediate report dated August 3, 2014 (TASE reference: 2014-01-126093.

since March 20, 2013. Following are main terms of Mr. Castro's employment, pursuant to his employment agreement dated February 20, 2013:

a. Term of Agreement: The agreement is for an indefinite period, terminable upon prior notice as detailed in the agreement.

b. Job title and scope of position: Serves as IOPtima's CEO, directly subordinate to IOPtima's Board of Directors, on a full-time basis.

c. Salary: A (gross) monthly salary of NIS 40,000.

d. Annual Bonus: An annual bonus of up to three (gross) monthly salaries, subject to achieving targets as defined for any certain calendar year by IOPtima's board of directors.

e. Related rights: Customary payments to a pension fund and a further study fund, annual vacation, vehicle, cellular phone and reimbursement of reasonable expenses incurred in his capacity as CEO.

f. Options: Subject to the terms of the agreement, Mr. Castro is entitled to IOPtima options which shall constitute at the date of their issuance 0.75% of IOPtima's issued and outstanding share capital (on a fully diluted basis), subject to the fulfillment of certain conditions precedent set forth in the agreement. As of the date of the report such conditions precedent are yet to be fulfilled.

g. Termination of Engagement: Each party may terminate the agreement by prior written notice of 60 days, other than in circumstances of termination for "cause", death of disability, as detailed in the agreement. Such 60-day period shall be extended to a 90-day period, after a two-year tenure of Mr. Castro in his position.

No compensation was paid after the Report Year and prior to the date of filing hereof in connection with the service or the employment in the Report Year, and which were not recorded in the Financial Statements for the Report Year.

(4) **Engagement between the Company and Mr. Itai Bar-Natan**

Mr. Itai Bar Natan has been serving as the Group's CFO since April 17, 2013. Following are main terms of Mr. Bar-Natan's employment:

a. Term of Agreement: The agreement is for an indefinite period, terminable upon prior notice as detailed in the agreement.

b. Job title and scope of position: Serves as the Group's CFO, directly subordinate to the Company's CEO, on a full-time basis.

c. Salary: A gross monthly salary of NIS 35,000 (the "**Salary**")[1].

d. Annual Bonus: An annual bonus of up to sum of NIS 105,000, subject to achieving certain targets as defined and approved in respect of each calendar year[2].

e. Related rights: Further study fund, vehicle, payment and reimbursement of expenses incurred in the framework of his position pursuant to the Company's policies, including expenses incurred for use of cellular phone and travel in Israel and abroad.

f. Options: In June 2013, the Company issued 1,065,000 options to purchase 1,065,000 Ordinary Shares of the Company to Mr. Itai Bar-Natan, at an exercise price of NIS 0.35 per share. The amount of the benefit in respect of said options is NIS 144 thousand; In addition, in June 2014, the Company issued 898,813 options to purchase 898,813 Ordinary Shares of the Company to Mr. Bar-Natan, at an exercise price of NIS 0.37 per share. The amount of the benefit in respect of said options is NIS 67 thousand.[3]

g. Termination: Each party may terminate the agreement by prior written notice of no less than 60 days, other than in circumstances of termination for "cause", as detailed in the agreement.

No compensation was paid after the Report Year and prior to the date of filing hereof in connection with the service or the employment in the Report Year, and which were not recorded in the Financial Statements for the Report Year.

(5) **Engagement between Micromedic and Mr. Steven Eitan**

Mr. Steven Eitan was appointed Micromedic's CEO on September 22, 2013. Below are Mr. Eitan's main terms of employment, pursuant to his employment agreement dated August 6, 2013:

a. Term of Agreement: The agreement is for an indefinite period, beginning August 20, 2013.

[1] On March 30, 2015, the compensation committee approved an insignificant updatein the employment terms of the CFO, in a way that his salary was updated to NIS 38 thousand starting the effective date.

[2] On March 30, 2015, the Company's Board of Directors, further to the receipt of the approval of the Compensation Committee, approved to grant Mr. Bar-Natan a bonus of NIS 82 for his activities and efforts in the preceding year and his achievement of his defined targets for 2014. The grant and targets for 2014 are in compliance with the Compensation Policy adopted by the Company. The goals achieved for which the bonus was granted included, inter alia, building professional infrastructure to support the company's operations and growth, capital raising, monitoring and supporting mergers and acquisitions and support in strategic transactions. In addition, approx. 10% of the bonus amount is a bonus granted under the discretion of the Board.

[3] It shall be noted that on November 5, 2013, Micromedic issued to Mr. Bar-Natan 78,132 non-tradable options to purchase 78,132 Ordinary Shares of Micromedic.

b. Job title and scope of position: Serves as Micromedic's CEO, directly subordinate to Micromedic's Board of Directors, on a full-time basis.

c. Salary: A gross monthly salary of NIS 45,000 (the "**Salary**").

d. Annual Bonus: An annual bonus of up to four monthly salaries, subject to achieving targets, as defined and approved at the beginning of each calendar year by the Compensation Committee and the Board of Directors.[1]

e. Related rights: Managers' insurance, further study fund, vehicle, cellular phone, payment and reimbursement of expenses incurred in the framework of his position pursuant to Micromedic's policies. Mr. Eitan bears the tax cost for the use of the company car.

f. Options: In accordance with the terms of the agreement, Mr. Eitan was granted on November 5, 2013, 625,063 non-registered options, exercisable into 625,063 Ordinary Shares of NIS 1.00 par value each of Micromedic, at an exercise price of NIS 2.158,

g. Termination: Termination of the engagement may be effected by each of the parties upon prior written notice delivered 90 days in advance. Micromedic may terminate the CEO's employment immediately, without providing any advance notice, upon occurrence of certain events set forth in the agreement. In addition, in the event that after two years of employment, Micromedic shall terminate Mr. Eitan's employment without "cause" (as such term is defined in the agreement), Mr. Eitan shall be entitled to a readjustment bonus equal to three monthly salaries. In the event that after two years of employment, the employment of Mr. Eitan shall be terminated, Mr. Eitan may be entitled to a readjustment bonus equal to three monthly salaries, subject to the discretion of the Compensation Committee and the Board of Directors.

(6) **Terms of the office of directors**

The directors in the Company, including the external directors, but excluding Mr. Israel Makov, are entitled to an annual compensation and to participation fees based on the amounts prescribed in the Second and Third Addendums of the Companies Regulations (Rules regarding Compensation and Expense Reimbursement of External Directors), 5760-2000.

The compensation paid to the directors and external directors in 2014, pursuant to the compensation specified above, amounted to NIS 341 thousand.

[1] Mr. Eitan was defined quantifiable targets for the period beginning on the date of commencement of his employment (August 20, 2013) and ending on December 31, 2014. On March 26, 2015, Micromedic's Board of Directors, after receiving the approval of the Compensation Committee, approved the grant to Mr. Eitan of a bonus in the sum of NIS 147 for his activity in and for Micromedic in the period lapsed from the date of commencement of his service and until December 31, 2014, and for the achievement of his targets defined for 2013-2014. The grant and targets for 2014 are in compliance with the compensation policy adopted by Micromedic.

No compensation was paid after the Report Year and prior to the date of filing hereof in connection with their service or engagement in the Report Year, and which were not recorded in the Financial Statements for the Report Year.

(7) **Option Plan**

For further details of the Company's option plan and options granted to the Company's directors, employees, officers and consultants, see Section 5.6.5 of Chapter A of this Report above.

(8) **Approval of the Compensation Policy for the Company's Officers**

On January 12, 2014, the general meeting approved the Company's compensation policy pursuant to Section 267A of the Companies Law, 5759-1999, further to the approval thereof by the Company's Board of Directors at its meeting dated November 28, 2013. The Board of Directors approved the compensation policy after discussing it on the basis of the recommendations of the Compensation Committee, while referring to all of matters which must be referred to in determining a compensation policy.

The existing employment agreements between the Company and the officers will not be changed as a result of the compensation policy, as in the estimation of the Company's Compensation Committee and Board of Directors, the existing agreements comply with the principles prescribed by the compensation policy. In accordance with the provisions of the law, the Board of Directors will continue to review the reasonability of such agreements once a year. In addition, the renewal and update of existing agreements with the officers shall be carried out in accordance with the Company's compensation policy.

On March 26, 2015, discussions were held by the Company's Compensation Committee, and it was determined that the employment agreements of the officers currently holding office comply with the Company's Compensation Policy.

It shall be noted, that the Compensation Policy includes provisions pertaining to a framework transaction for the engagement in an officers' insurance policy, which is in effect for the duration of the term of the Compensation Policy.

For further details of the compensation policy, see immediate reports issued by the Company on December 8, 2013 (TASE reference: 2013-01-091693), January 6, 2014 (TASE reference: 2014-01-005458), and January 12, 2014 (TASE reference: 2014-01-012391). Such mentions constitute inclusion by reference.

Regulation 21A: **Controlling Shareholder in the Company**

To the Company's best knowledge, as of the date of this Report, there is no person or entity defined as possessing "control" in the Company, as such term is defined in the Securities Law.

In such context, it shall be noted that on April 21, 2011, Messrs. Israel Makov, Yohanan Korman, Gadi Freiman and Ron Weisberg (the "**Makov Group**"), purchased approx. 24% of the Company's issued and outstanding share capital and voting rights (approx. 47% on a fully diluted basis), and was formerly defined as a controlling shareholder of the Company in accordance with a collaboration agreement enter into between them regarding their voting rights (the "**Collaboration Agreement**"). Commencing of the first half of 2014, the Collaboration Agreement among the parties is no longer in effect.[1]

Regulation 22: **Transactions with controlling shareholders and/or interested parties**

Transactions specified in Section 270(4) of the Companies Law and other transactions which are not specified in Section 270(4)

(1) The Company's engagement with Mr. Makov

On April 14, 2011, after receiving the approval of the Company's audit committee and Board of Directors, the Company's general meeting approved the Company's engagement in an agreement with Makov Associates Ltd. ("**Makov Co.**"), a company controlled by Mr. Israel Makov. According to such agreement, Mr. Makov was appointed as Chairman of the Company's Board of Directors, effective as of the date of execution of the agreement – April 21, 2011. The monthly compensation payable to Makov Co. for Mr. Makov's services is NIS 36,000 plus reimbursement of expenses incurred in the context of his duties, based on the Company's procedures, including *per diems*, parking and other expenses against receipts presented to the Company. In the framework of his tenure as Chairman, Mr. Makov will devote such time needed for the fulfillment of his duties and for the promotion of the Company's affairs and objectives. The agreement is in effect for a period not to exceed five years, subject to the provisions of any law. The agreement may be terminated by either party by providing an advance notice of 90 days.

(2) Micromedic's engagement with Mr. Makov

a. On December 15, 2014, after the receipt of the approval of

[1] For details regarding the 2011 agreement for the purchase of the control in the Company see the (amended) transaction report dated February 23, 2011 (TASE reference 2011-01-058605), included herein by reference. For details of the notices provided by Messrs. Korman, Weisberg and Freiman, see immediate reports dated January 9, 2014 (TASE reference: 2014-01-01981) and May 28, 2014 (TASE reference 2014-01-076059), respectively, included herein by reference.

Micromedic's Audit Committee dated October 28, 2014, and receipt of the approval of Micromedic's Board of Directors dated October 29, 2014, Micromedic's general meeting of shareholders approved the extension of Micromedic's engagement in an agreement with Makov Associates Ltd., a private company controlled by Mr. Israel Makov ("**Makov Co.**") for the provision of consulting services by Mr. Makov as active chairman of Micromedic for an additional three year period (the "**Consulting Agreement**"), as approved by Micromedic's general meeting of shareholders on April 30, 2012.

b. In accordance with the Consulting Agreement, Mr. Makov shall continue to hold office as active chairman of Micromedic, shall participate and direct all of Micromedic's meetings of the Board and Board committees (to which he shall be appointed to serve), and shall assist in accompanying Micromedic's transactions and shall act to promote and implement Micromedic's business strategy, as shall be required from time to time, in accordance with Micromedic's needs, Mr. Makov's total position scope shall not be less than 20 monthly hours.

c. It was agreed that Mr. Makov shall personally provide the consulting services, and that in the event that he shall be prevented from providing his services in such manner, for a consecutive period exceeding sixty (60) working days, the agreement shall be automatically terminated. Mr. Makov undertook that his activity in other fields and the time that he shall devote thereto is and shall not constitute a breach of the Consulting Agreement, and they do not and will not create a conflict of interests with the fulfillment of his position in Micromedic pursuant to the Consulting Agreement.

d. The period of the agreement is until the earlier of: (1) termination of Mr. Markov's service as Chairman of the Board; or (2) two years of the date of extension of the engagement; or (3) upon the expiration of the ninety (90) day notice period for termination of the Consulting Agreement by either party.

e. The consulting services shall be provided by Makov Co. as an independent contractor for all intents and purposes, and no employment relations shall exist between Mr. Makov and Micromedic.

f. In accordance with the terms of the Consulting Agreement, Mr. Makov (through Makov Co.) is entitled to the following compensation:

(1) A monthly consulting fee (linked to the representative rate of exchange of the Dollar on the date of payment) in a gross sum of US $ 5,000. The fee shall be paid together with VAT at the rate prescribed by law on the date of payment against a validly issued tax invoice;

(2) Reimbursement of expenses incurred by Mr. Makov in the framework of his position, according to Micromedic's policies, including board and lodging, parking etc., against presentation of receipts to Micromedic.

(3) The Company's engagement with Mr. Ron Weisberg

On April 14, 2011, after receiving the approval of the Company's audit committee and Board of Directors, the Company's general meeting approved the Company's engagement in an agreement with a company controlled by Mr. Ron Weisberg, who was a member of the Company's control group during said period. The agreement contemplated the provision of consulting services to the Company through Weisberg. The engagement was in effect from April 21, 2011, and for as long as Weisberg served as strategic advisor and CBDO of the Company, the overall monthly compensation that was payable to Weisberg Co. for Mr. Weisberg's service was NIS 18,000. Commencing as of February 1, 2014, Weisberg ceased to render consulting services to the Company as aforesaid, the services agreement ended, and as of such date, he does not receive service fees thereunder.

(4) Engagement in a directors' and officers' liability insurance policy

On June 21, 2011, further to the approval of the Company's Audit Committee and Board of Directors, the Company's general meeting approved the Company's engagement in a directors' and officers' liability insurance policy in respect of all of the officers of the Company and/or its subsidiaries and/or its affiliated companies, as they will be from time to time (the "**Insurance Policy**"). Pursuant to the terms of the Insurance Policy, the limit of liability will not exceed US$ 15,000,000 per claim and per company during the insurance period, and the annual premium paid by the Company for each such policy will not exceed US$ 40,000. In addition, a framework transaction for the engagement in insurance policies was approved (the "**Framework Transaction**"). For further details see the Company's immediate report dated June 21, 2011 (TASE reference 2011-01-189258), included herein by reference (in such context it shall be noted, that the Company's compensation policy includes terms and conditions of a framework transaction for the engagement in insurance policies – See Regulation 29(c) and 21(8) above and below).

On January 12, 2014, further to the approval of the Company's Compensation Committee and Board of Directors, the Company's

general meeting approved the expansion of the Insurance Policy such that it will include the possibility to cover the implementation of a program of Level 1 American Depository Receipts (ADR) that will be traded over-the counter in the United States. The expansion of the Insurance Policy shall apply to all directors in the Company, other than such directors and officers affiliated to the Company's controlling shareholders and/or their relatives and/or who serve as the Company's CEO. The terms of the Insurance Policy, as defined above, shall remain unchanged, other than changes called for in respect of the ADR coverage: the premium for the insurance period shall remain US$ 22,000 and the excess for securities claims in North America shall be US $ 175,000. For additional details in respect of the expansion of the Insurance Policy, see the immediate report issued by the Company on December 8, 2013 (TASE reference 2013-01-005458).

For details of the application of said Insurance Policy also in respect of directors and officers affiliated with the Company's controlling shareholders and/or their relatives and/or who serve as the Company's CEO, see the immediate report issued by the Company on January 23, 2014 (TASE reference 2014-01-022660).

On July 30, 2014, the Company's Board of Directors approved the extension of a liability insurance policy for directors and officers in the Company, in accordance with the terms of the Framework Transaction, See the Company's immediate report dated August 3, 2014 (TASE reference 2014-01-125391), included herein by reference.

(5) Indemnification of directors and officers

On April 14, 2011, the Company's general meeting resolved to approve the grant of indemnification letters in the form customary at the Company, to directors appointed pursuant to the recommendation of the control group that acquired the control of the Company. According to this resolution, Messrs. Israel Makov, Ron Weisberg and Efrat Makov were granted letters of indemnification in the form customary at the Company.

On September 19, 2012, the Company's general meeting approved the grant of indemnification letters to directors and officers of the Company, as may hold office from time to time, including those directors and officers that were affiliated, at such time, to the Company's controlling shareholders and/or their relatives. Such indemnification letters were for monetary liability imposed on such indemnitees, in respect of all parties suffering damage due to a breach of an administrative procedure as set forth in Section 52bb(a)(1)(a) of the Securities Law, 5728-1968, and for expenses incurred by said indemnitees in connection with an administrative procedure held on their account, including reasonable

litigation expenses and attorney's fees.

For additional details of the Company's engagements in respect of the indemnification of the Company's officers, including the forms of the indemnification letters, see immediate reports issued by the Company on August 25, 2010 (TASE reference 2010-01-599409), March 8, 2011 (TASE reference 2011-01-073863) and August 14, 2012 (TASE reference 2012-01-210012).

On March 6, 2014, Company's general meeting approved the grant of indemnification letters in the form customary at the Company to directors and officers of the Company, as may hold office therein from time to time.

(6) Insurance and Indemnification by Micromedic

a. Officers' liability insurance policy in effect as of the Report Date

For details see immediate report issued by Micromedic dated November 27, 2014 (TASE reference 2014-01-206517).

b. Indemnification undertaking

On January 9, 2014, Micromedic's general meeting approved the amendment of Micromedic's indemnification letters, such that, *inter alia*, they shall also apply in respect of the activity of the officers of Micromedic's subsidiaries (the "**Amended Indemnification Letter**"), and the grant of the Amended Indemnification Letter to officers, as may hold office in Micromedic from time to time, who are not affiliated to Micromedic's controlling shareholders and/or were not appointed pursuant to the recommendation of Micromedic's controlling shareholder and/or are not its CEO. In addition, the general meeting approved the grant of an amended indemnification letter to Israel Makov, Micromedic's Chairman and (indirect) controlling shareholder at the time, to Suzana Nahum-Zilberberg, Micromedic's Deputy Chairman and to Steven Eitan, Micromedic's CEO. The aggregate indemnification amount payable by Micromedic under all indemnification letters issued or that shall be issued thereby, shall not exceed a sum equal to 25% of Micromedic's equity pursuant to its annual financial statements, as of the actual date of indemnification.

For details see immediate reports dated December 5, 2013 (TASE reference 2013-01-090772) and January 12, 2014 (TASE reference 2014-01-011263).

(7) The synergies agreement

Commencing on December 15, 2014, Micromedic is provided with management and administration services by the Company pursuant to the updated synergies agreement (which replaced the former synergies agreement), as approved by Micromedic's general meeting on December 15, 2014 (as specified in Note 18A to the Financial Statements).

(8) On February 23, 205, the Company's Board approved an investment in Micromedic to be consummated, subject to receipt of the required approvals in Micromedic, in the framework of a private offering of Micromedic's shares. For details see Section 5.8.2.2 of Chapter A (Description of the Corporations' Business) hereof. .

Regulation 24: Holdings of Interested parties in the Company as of the Date of the Report

For a specification of securities of the Company (and of companies controlled thereby) held by interested parties and senior officers in the Company as of the Report Date, see the Company's immediate report dated March 8, 2015 regarding the status of interested party and officer holdings[1].

Regulation 24A: Authorized share capital, issued share capital and convertible securities (as of the Report Date)

For details regarding the Company's authorized share capital, the issued and outstanding share capital (including dormant shares, if any) and convertible securities, see Note 15 to the Financial Statements.

Regulation 24B: Register of the Company's shareholders as of the Report Date

Below is, to the best knowledge of the Company and its managers, the Company's shareholders as of the date of the Periodic Report:

Name of registered shareholder	I.D. number or company number	Address	Type of shares	Number of shares
Mizrahi Tefahot Registration Company Ltd.	510422249	7 Jabotinsky Street, Ramat-Gan, Israel	Ordinary Shares par value NIS 0.01 each	521,337,702
Total				521,337,702

[1] See the Company's immediate report dated March 8, 2015 (TASE reference 2015-01-046633) included herein by reference.

Regulation 26: **The Company's Directors**[1]

Name:	**Israel Makov**	**Ron Weisberg**	**Efrat Makov**	**Eliyahu Shohet**	**Rahel Adato**
I.D. number:	05030200	054122148	023044365	054194196	0662700
Date of birth:	May 6, 1939	September 17, 1957	March 17, 1968	January 27, 1957	June 21, 1947
Address:	20 Hanarkiss Street, Karmei Yosef	7 Hamitnachalim Street, Savyon	118 Hatamar Road, Ben-Shemen, 73115	5 Dov Hoz Street, Kiryat Ono, 55556	2/151, 2380 St., Tel Aviv
Citizenship:	Israeli	Israeli	Israeli	Israeli	Israeli
Is the director a member of a board committee:	No	Investment Committee	Investment Committee	Audit Committee, Balance Sheet Committee, Administrative Enforcement Committee, Investment Committee, Compensation Committee	Audit Committee, Administrative Enforcement Committee, Balance Sheet Committee, Compensation Committee
Is the director an independent or external director:	No	No	No	Independent Director	External director
Does the director possess accounting and financial expertise or professional competence:	Professional competence	Accounting and financial expertise	Professional competence	Professional competence	Professional competence

[1] Until March 27, 2015, Mr. Shmuel Perez served as an external director of the Company. On March 5, 2015, the Company issued a notice for a general meeting for the appointment of Ms. Rina Shafir as external director of the Company (in lieu of Mr. Perez) and for the approval of her terms of office. For further details see the notice of general meeting report issued on March 5, 2015 (TASE reference: 2015-01-045190) included herein by reference.

Name:	Israel Makov	Ron Weisberg	Efrat Makov	Eliyahu Shohet	Rahel Adato
Is the director an employee of the Company, its affiliate or subsidiary or of an interested party therein, and the position served therein:	No	No[1]	No	No	No
Date of beginning of tenure as director:	April 21, 2011	April 21, 2011	April 21, 2011	April 21, 2011	March 6, 2014
Education:	B.Sc. in Agriculture and M.A in Economics from the Hebrew University in Jerusalem.	B.Sc in Industrial Engineering & Management from the Technion and M.B.A from the New York University.	B.A in accounting and economics from the Tel Aviv University. Licensed as an Israeli and U.S. CPA.	B.A in economics and business administration from the Bar-Ilan University.	Doctor of Medicine from the Hebrew University in Jerusalem, M.B.A from the Hebrew University in Jerusalem (specialization in marketing and work relations), L.L.B from Ono Academic College.

[1] For details of the consultancy services rendered to the Company during the Report Period by a company controlled by Mr. Ron Weisberg, see Section 3 of Regulation 22 in this Chapter above.

Name:	Israel Makov	Ron Weisberg	Efrat Makov	Eliyahu Shohet	Rahel Adato
Occupation in the last five years:	Chairman of the Board of Micromedic, Chairman of the Board of Eltav Wireless Monitoring Ltd. and Chairman of the Board of Sun Pharmaceutical Industries Ltd. Former Chairman of the Board of Netafim Ltd. and of Given Imaging Ltd.	Director in Israel Land Development Company Ltd.; various positions in the Land Development Group; private businessman; Director in Midroog Ltd.	CFO of Alvarion Ltd. from February 2007 to December 2010. Self-employed from 2011 until present.	Former director in Mabat-Up Ltd. and in CFR Pharmaceutical SA, Former Senior VP in Teva Group, Co-CEO of Netafim Ltd.	Engaged in consultation to Migdal Insurance Company Ltd. until July 2014. Served as a Knesset Member and as VP at Sha'arei Tzedek Hospital.
Details of corporations in which he/she serves as director:	Chairman of the Board of Micromedic, Chairman of the Board of Eltav Wireless Monitoring Ltd., Chairman of the Board of Sun Pharmaceutical Industries Ltd., director in APT Holding Inc., director in Israel National Nanotechnology Initiative, member of the Executive Board of Weizmann Institute of Science, member of the Board of Directors of the Technion – Israeli Institute of Technology and President of the Friends of Schneider association.	Israel Land Development Company Ltd., Midroog Ltd.	ViSci Ltd. and IOPtima Ltd.	IOPtima Ltd.	--

Name:	Israel Makov	Ron Weisberg	Efrat Makov	Eliyahu Shohet	Rahel Adato
Family relative of another interested party in the corporation (if any):	Yes. His son is married to Mrs. Efrat Makov, a director in the Company	No	Yes. The daughter-in-law of Mr. Israel Makov, Chairman of the Board.	No	No
Is the director viewed by the Company as possessing accounting and financial expertise for compliance with the minimum number of directors prescribed by the Board according to section 92(a)(12) to the Companies Law:	No	Yes	No	No	No

Regulation 26A: **The Company's Senior Officers**

Below are details of senior officers of the Company who are not directors, holding office at the Company as of the date of the report:

Name:	**Susana Nahum-Zilberberg**	**Itai Bar-Natan**	**Yehiel Yardeni**	**Tali Amar**	**Doron Birger**
I.D. number:	028498525	032181703	054030796	049804883	50538198
Date of birth:	May 26, 1971	May 13, 1975	March 1, 1956	November 14, 1981	May 25, 1951
Date of beginning of tenure:	May 1, 2011	April 17, 2013	July 1, 2013	October 21, 2013	September 13, 2012
Position filled in the Company, its subsidiary, affiliated company thereof or interested party therein:	Company CEO, Vice Chairman of Micromedic Technologies Ltd. In addition holds office as director in several of the Group's private companies.	CFO of the Company. CFO of Micromedic Technologies Ltd. Director in several of the Group's private companies	Internal auditor	Controller	Chairman of the Board of the subsidiary IOPtima Ltd.
Occupation in the last five years:	Until May 2011 – VP Asia and Pacific at Teva Pharmaceutical Industries Ltd. Currently Vice Chairman of Micromedic Technologies Ltd. and in several of the Group's private companies. Director in Freetech Ltd.	CPA, Senior manager at Kost Forer Gabbay & Kasierer, E&Y Israel	Partner at Yardeni, Gelfand, Aberman and Co.	Assistant controller at I.B.I Investment House Ltd. CPA at Kesselman & Kesselman	Chairman of the Board of several companies. Currently a director in the following companies: Bio SAP Ltd., M.S.T. Medical Surgery Technologies Ltd., Sightera Technologies Ltd., Given Imaging Ltd., IceCure Medical, Hadasit Bio Holdings Ltd., Chairman of Carmel Biotech Ltd.

Name:	Susana Nahum-Zilberberg	Itai Bar-Natan	Yehiel Yardeni	Tali Amar	Doron Birger
Education:	B.A in accounting and economics from the Tel Aviv University, M.B.A with a specialization in finance and marketing from the Tel-Aviv University.	B.A in accounting from the Tel Aviv University	B.A in economics and accounting from T the el Aviv University	B.A in accounting and business economics from the Tel Aviv University; M.B.A from the Tel Aviv University.	B.A. and M.A. in economics from the Hebrew University in Jerusalem.
Is the officer a family relative of another senior officer or of an interested party in the corporation:	No	No	No	No	No

Below are details of senior officers in the Company who are not directors, who ceased to hold office as senior officers of the Company during the report date and until the date of publication thereof:

Name:	Tami Kfir	Nirit Hadas	Yohanan Korman	Shmuel Perez
I.D. number:	023579352	22741656	054902259	071364673
Date of beginning of tenure:	March 27, 2012	May 1, 2013	April 21, 2011	March 27, 2012 (third term of office)
Date of termination of tenure:	January 7, 2014	February 6, 2014	January 9, 2014	March 27, 2015 (statutory end of tenure)
Position filled in the Company, its subsidiary, affiliated company thereof or interested party therein:	External director	Controller	Provided economic consulting services through a company under his control.[1]	External director

[1] Yohanan Korman ceased to hold office as officer of the Company but continues to provide it with consulting services through a company controlled by him.

Regulation 26B: **The Corporation's Signatories**

There are no independent signatories at the Company, as such term is defined in the Securities Law, 5728-1968, and in directives issued by the Israel Securities Authority.

Regulation 27: **The Corporation's External Auditors**

E&Y Israel (Kost Forer Gabbay & Kasierer), of 3 Aminadav Street, Tel-Aviv. To the Company's best knowledge, the external auditor or its partner is not an interested party or a family relative of an interested party or of a senior officer of the corporation.

Regulation 28: **Change in the Articles of Association**

During the Period of the Report, no change was made to the Company's Articles of Association, other than as specified below:

- On July 8, 2014, the general meeting of the Company's shareholders approved the amendment of the Company's Articles of Association such that the authorized share capital of the Company was increased (see the Company's immediate report dated June 1, 2014 (TASE reference 2014-01-081117) and of July 8, 2014 (TASE reference 2014-01-110127), included herein by reference.

Regulation 29: **Directors' recommendations and resolutions in the Period of the Report**

(a) Directors' recommendations to the general meeting and their resolutions that do not require approval of the general meeting

(1) Dividend payment or consummation of a distribution, as defined in the Companies Law, in another manner or distribution of bonus shares – none.

(2) Change in the authorized or issued share capital of the corporation –

(i) On February 26, 2014, the Board of Directors approved the issuance of a shelf offering report for the issuance of 83,774,000 Ordinary Shares par value NIS 0.01 each of the Company and the issuance of 41,887,000 registered Option Warrants (Series 7) and 41,887,000 registered Option Warrants (Series 8), such that each Option Warrant (Series 7) and/or (Series 8) shall be exercisable into one Ordinary Share par value NIS 0.01 each of the Company. For details see supplementary report to shelf offering report dated February 2, 2014 (TASE reference 2014-01-003096), and report of the results of the issuance dated March 6, 2014 (TASE reference 2014-01-006771). Such information is included herein by reference.

(ii) On March 13, 2014 and on March 19, 2014, the Company's Board of Directors approved an irregular private offering to three accredited investors included in the list included in the First Addendum of the Securities Law. The Company issued 95,350,000 Ordinary Shares par value NIS 0.01 each of the Company and 95,350,000 Option Warrants (Series 8), exercisable into 95,350,000 Ordinary Share NIS 0.01 par value each of the Company, in consideration for NIS 20.5 million. For further details of the private offering see immediate report of an irregular private offering issued by the Company on March 23, 2014 (TASE reference 2014-01-020514). Such information is included herein by reference.

(3) Change in the memorandum or articles of association of the Company – see Regulation 28 above.

(4) Share redemption – none.

(5) Early redemption of bonds – none.

(6) Transaction not at market terms, between the corporation and an interested party thereof, other than a transaction of the corporation with a subsidiary thereof – none. Without derogating from the aforesaid, see Regulation 22 above.

(b) Resolutions of the general meeting adopted no in accordance with the directors' recommendations approval - none.

(c) Resolutions of the extraordinary general meeting

(1) On January 12, 2014, the Company's extraordinary general meeting adopted the following resolutions:

(i) Approval of the Company's compensation policy pursuant to the provisions of Section 267A of the Companies Law, as detailed in Part 1 of the notice to general meeting issued on December 8, 2013 (TASE reference: 2013-01-091693) and the amendment thereto issued on January 6, 2014 (TASE reference: 2014-01-005458) (in this sub-section - the "**Notice**"), together with the amendment made to the Company's compensation policy, as detailed in the immediate report of the results of the general meeting, issued by the Company on January 12, 2014 (TASE reference 2014-01-012391). Such mentions constitute inclusion by reference.

(ii) Approval of the expansion of the Company's directors'

and officers' insurance policy, such that it will include the possibility to cover the implementation of a program of Level 1 American Depository Receipts (ADR) which shall be traded over-the counter in the United States, as detailed in Part 2 of the Notice.

For additional details see the immediate report of the results of the meeting issued by the Company on January 12, 2014 (TASE reference 2014-01-012391).

(2) On March 6, 2014, the Company's annual and extraordinary general meeting adopted the following resolutions:

(i) Approval of the appointment of Dr. Rachel Adato ("**Dr. Adato**") as an external director of the Company for a three year tenure, commencing as of the date of receipt of the approval of the general meeting. The annual and participation fees payable to Dr. Adato in the context of her office at the Company shall be pursuant to the "fixed sum", according to the Company's rating, as it may be from time to time, set forth in the Companies Regulations ((Rules regarding Compensation and Expense Reimbursement of External Directors), 2000.

(ii) Approval of the grant of an indemnification letter to Dr. Adato, in the form customary at the Company which was attached as Exhibit C to the notice of general meeting dated January 22, 2014 (TASE reference: 2014-01-021631) (in this sub-section - the "**Notice**").

(iii) Approval of the grant of indemnification letters in the form customary at the Company which was attached as Annex C to the Notice, to directors and officers of the Company, as may hold office therein from time to time. For further details of the Company's indemnification letters see Regulation 22 above.

For further details, see the immediate report of the results of the meeting see issued by the Company on March 6, 2014 (TASE reference 2014-01-007347).

(3) On July 8, 2014, the Company's extraordinary general meeting adopted the following resolutions:

(i) To increase the Company's authorized share capital.

(ii) To amend the Company's Articles of Association.

(iii) To amend the employment agreement of the Company's CEO.

(iv) To grant options to the Company's CEO.

For further details, see the immediate report of the results of the meeting see issued by the Company on July 8, 2014 (TASE reference 2014-01-110106).

(4) On March 5, 2015, the Company summoned an extraordinary general meeting, the agenda of which include the following resolutions:

(i) The appointment of Ms. Rina Shafir as external director of the Company and approval of her terms of office. For further details, see the immediate report of notice of meeting issued by the Company on March 5, 2015 (TASE reference 2015-01-045190), included herein by reference.

Regulation 29a: Company resolutions in the Report Period

(1) Approval of actions under Section 255 of the Companies Law
Not applicable in the Report Year.

(2) Actions under Section 254(a) of the Companies Law which were not approved
Not applicable in the Report Year.

(3) Resolutions that require special approval under Section 270(1) of the Companies Law, provided that it is an irregular transaction as defined in the Companies Law

(a) Approval of an investment in an affiliate
On October 30, 2014, the Company's Board approved the terms of investment in an affiliate in consideration for the issuance of securities. For further details see immediate report regarding a private issuance of Micromedic to the Company, released by Micromedic on October 30, 2014 (TASE reference: 2014-01-184995).

(b) Approval of an investment in an affiliate
On February 23, 2015, the Company's Board approved the terms of investment in an affiliate in consideration for the issuance of securities, such that the transaction shall be consummated, subject to receive of the required approvals in Micromedic, in the

framework of a private offering of Micromedic shares. For further details see immediate report regarding a private issuance of Micromedic to the Company, released by Micromedic on February 25, 2015 (TASE reference: 2015-01-038653).

(4) Exemption, indemnification or undertaking for indemnification, to officers as defined in the Companies Law, as in effect on the Date of the Report

(a) Insurance and Indemnification of Directors and Officers

For details of the terms of the Company's directors' and officers' insurance policy and the letter of undertaking for indemnification customary in the Company, see Regulation 22 above.

March 30, 2015

Date

Bio-Light Life Sciences Investments Ltd.

Name and position of signatories

Israel Makov – Chairman of the Board.

Susana Nahum-Zilberberg - CEO

Chapter 5 – Management Declarations

Declaration of the Chief Executive Officer

I, Suzana Nahum-Zilberberg, CEO, hereby declare that:

1. I have examined the periodic report of BioLight Israeli Life Sciences Investments Ltd. ("**the Company**") for the year 2014 ("**the reports**").

2. To my knowledge, the reports do not include any incorrect presentation of a material fact and no material fact has been left out of them that would be necessary for the presentation in them, in light of the circumstances in which those representations were included, not to be misleading with regard to the reporting period.

3. To my knowledge, the financial reports and other financial information included in the reports accurately reflect, from all material perspectives, the financial situation, the results of activity and the cash flow of the Company as of the dates and for the periods of the reports.

4. I have disclosed the to the Company's auditor, Board of Directors and audit committee, any fraud, whether material or not, in which the CEO or someone directly under him was involved or in which other employees who have a significant function in the internal auditing of financial reporting and disclosure were involved.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 30, 2015
Date

Suzana Nahum-Zilberberg, CEO

Declaration of the Senior Company's Financial Officer

I, Itai Bar Natan, CFO, hereby declare that:

1. I have examined the financial statements and other financial information included BioLight Israeli Life Sciences Investments Ltd. ("**the Company**") reports for the year 2014 ("**the reports**").

2. To my knowledge, the financial statements and other financial information included in the reports do not include any incorrect presentation of a material fact and no material fact has been left out of them that would be necessary for the presentations in them, in light of the circumstances in which those representations were included, not to be misleading with regard reporting period.

3. To my knowledge, the financial statements and any other financial information included in the reports accurately reflect, from all material perspectives, the financial situation, the results of activity and the cash flow of the Company as of the dates and for the periods of the reports.

4. I have disclosed to the Company's auditor, Board of Directors and the audit committee, any fraud, whether material or not, in which the CEO or someone directly under him was involved or in which other employees who have a significant function in internal auditing of financial reporting and disclosure were involved.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 30, 2015
Date

Itai Bar Natan, CFO