THE TRENDLINES GROUP LTD.

INDEPENDENT AUDITORS' REPORT AND AUDITED FINANCIAL STATEMENTS OF THE TRENDLINES GROUP LTD. AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

(U.S. dollars in thousands)

THE TRENDLINES GROUP LTD.

AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL

YEAR ENDED DECEMBER 31, 2015,

INDEX

INDEPENDENT AUDITOR'S REPORT

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The Shareholders and Board of Directors
The Trendlines Group Ltd.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and the Company as of December 31, 2015, and the Group's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Haifa, Israel
March 2, 2016

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

STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

		The Group		The Company	
		December 31,		December 31,	
	Note	2015	2014	2015	2014
Assets					
Current Assets:					
Cash and cash equivalents		6,998	1,536	6,702	950
Short-term investments	8	16,438	1,774	15,038	1,691
Accounts and other receivables	3	428	836	226	662
Short-term loans to portfolio companies	4	136	246	–	–
Total Current Assets		24,000	4,392	21,966	3,303
Non-Current Assets:					
Long-term investment	8	–	962	–	–
Investments in Portfolio Companies	8	84,447	75,623	–	–
Investment in Subsidiaries	7	–	–	62,725	51,169
Investments in companies accounted for under the equity method	7	–	129	–	129
Property, plant and equipment, net	5	541	592	143	145
Total Non-Current Assets		84,988	77,306	62,868	51,443
Total Assets		108,988	81,698	84,834	54,746
Liabilities and Equity					
Current Liabilities:					
Trade and other payables	9	1,078	1,370	651	330
Deferred revenues	2(B)(12)	2,579	3,274	–	–
Total Current Liabilities		3,657	4,644	651	330
Long-Term Liabilities:					
Deferred revenues	2(B)(12)	713	1,203	–	–
Loans from the Israeli Chief Scientist	10	4,449	4,493	–	–
Convertible debentures and warrants	16	–	1,545	–	1,545
Other long-term liabilities		52	14	59	16
Deferred taxes, net	12(D)	15,959	14,102	–	–
Total Long-Term Liabilities		21,173	21,357	59	1,561
Equity:					
Equity Attributable to Equity Holders of the Company:					
Share capital	14	1,315	100	1,315	100
Share premium		54,852	21,404	54,852	21,404
Receipts on account of shares, net	14(B)	–	1,398	–	1,398
Reserve from share-based payment transactions	15	4,203	2,900	4,203	2,900
Retained earnings		23,754	27,053	23,754	27,053
Total		84,124	52,855	84,124	52,855
Non-Controlling Interests		34	2,842	–	–
Total Equity		84,158	55,697	84,124	52,855
Total Liabilities and Equity		108,988	81,698	84,834	54,746

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

U.S. dollars in thousands, except share data

	Note	Year ended December 31, 2015	2014
Income:			
Gain from change in fair value of investments in Portfolio Companies	2(B)(4)	4,960	1,879
Income from services to Portfolio Companies	2(B)(12)	4,274	4,433
Group's share of losses of companies accounted for under the equity method, net	7(B)	(324)	–
Income from contracted R&D services	2(B)(12)	424	1,364
Financial income	17(D)	188	160
Other income		417	717
Total income		9,939	8,553
Expenses:			
Operating, general and administrative expenses	17(A)	6,710	9,085
Marketing expenses		243	320
R&D expenses, net	17(B)	633	1,065
Financial expenses	17(C)	352	938
Expenses before non-recurring, non-cash expenses related to RCL conversion discount upon IPO		7,938	11,408
Non-recurring, non-cash expenses related to RCL conversion discount upon IPO	16(B)	3,775	–
Total expenses		11,713	11,408
Loss before income taxes		(1,774)	(2,855)
Income taxes	12(E)	(1,794)	(1,355)
Net loss and total comprehensive loss		(3,568)	(4,210)
Net loss and total comprehensive loss attributable to:			
Equity holders of the Company		(3,299)	(2,814)
Non-Controlling Interests		(269)	(1,396)
		(3,568)	(4,210)
Net earnings per share attributable to equity holders of the Company (in U.S dollars):	18		
Basic net loss		$ (0.01)	$ (0.01) *)
Diluted net loss		$ (0.01)	$ (0.01) *)

*) Adjusted to reflect the issuance of the Bonus Shares (see also Note 14(F)).

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Attributable to equity holders of the Company							
	Share capital	Share premium	Receipts on share account	Reserve from share-based payment transactions	Retained earnings	Total	Non-Controlling Interests	Total equity
Balance as of January 1, 2014	**96**	**19,628**	**–**	**1,701**	**29,867**	**51,292**	**4,151**	**55,443**
Net loss and total comprehensive loss	–	–	–	–	(2,814)	(2,814)	(1,396)	(4,210)
Cost of share-based payments	–	–	–	2,323	–	2,323	–	2,323
Receipts on account of shares, net (see Note 14(B))	–	–	1,398	–	–	1,398	–	1,398
Exercise of options (see Note 15(B))	3	1,124	–	(1,124)	–	3	–	3
Conversion of Convertible Debentures (see Note 16)	1	652	–	–	–	653	–	653
Issuance of shares to Non-controlling interests	–	–	–	–	–	–	83	83
Deconsolidation of subsidiaries (see Note 7(A)(2))	–	–	–	–	–	–	4	4
Balance as of December 31, 2014	**100**	**21,404**	**1,398**	**2,900**	**27,053**	**52,855**	**2,842**	**55,697**
Net loss and total comprehensive loss	–	–	–	–	(3,299)	(3,299)	(269)	(3,568)
Cost of share-based payments	–	–	–	1,453	–	1,453	–	1,453
Conversion of Convertible Debentures (see Note 16)	1	704	–	–	–	705	–	705
Issuance of shares, net	6	3,510	(1,398)	–	–	2,118	–	2,118
Acquisition of non-controlling interests by issuance of shares (see Note 14(B))	24	2,515	–	–	–	2,539	(2,539)	–
Exercise of options	– *)	140	–	(140)	–	–	–	–
Expiration of options (see Note 15(B))	–	10	–	(10)	–	–	–	–
Issuance of bonus shares	810	(810)	–	–	–	–	–	–
Issuance of shares upon IPO (net of expenses of $4,200)	204	13,565	–	–	–	13,769	–	13,769
Conversion of Convertible Debentures upon IPO (see Note 16)	170	13,814	–	–	–	13,984	–	13,984
Balance as of December 31, 2015	**1,315**	**54,852**	**–**	**4,203**	**23,754**	**84,124**	**34**	**84,158**

*) Represents an amount less than 1$.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2015	**2014**
Cash Flow from Operating Activities:		
Net loss	(3,568)	(4,210)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Depreciation	165	105
Income taxes	1,794	1,355
Gains from changes in fair value of investments in Portfolio Companies	(4,960)	(1,879)
Investments in Portfolio Companies	(1,522)	(1,814)
Proceeds from sale of investments in Portfolio Companies	–	358
Financial expenses (income), net	(255)	351
Non-recurring, non-cash expenses related to RCL conversion discount upon IPO	3,775	–
Income from services to Portfolio Companies	(3,911)	(4,042)
Share-based payments	1,453	2,323
Non-cash issuance expenses of convertible debentures	–	31
Group's share of losses of companies accounted for under the equity method, net	324	–
Changes in asset and liability items:		
Decrease (increase) in short-term loans to Portfolio Companies	(195)	349
Decrease in accounts and other receivables	408	56
Decrease in trade and other payables	(228)	(208)
Increase in long term liabilities	38	–
	(3,114)	(3,015)
Cash paid and received during the year for:		
Interest paid	(68)	(75)
Dividend received	718	295
	650	220
Net cash used in operating activities	(6,032)	(7,005)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2015	2014
Cash Flows from Investment Activities:		
Purchase of property, plant and equipment	(114)	(43)
Investments in short-term investments, net	(13,622)	(1,112)
Proceeds from sale of other investments	–	2,639
Investments in companies accounted for under equity method	(194)	–
Net cash provided by (used in) investing activities	(13,930)	1,484
Cash Flows from Financing Activities:		
Receipts on account of shares, net	–	1,398
Issuance of shares, net	15,887	–
Exercise of options	–	3
Issuance of shares to non-controlling interests	–	83
Loans from the Israeli Chief Scientist	–	218
Issuance of convertible debentures	10,177	2,126
Issuance expenses with respect to issuance of convertible debentures	(520)	–
Repayment of convertible debentures	(120)	(43)
Net cash provided by financing activities	25,424	3,785
Increase(decrease) in cash and cash equivalents	5,462	(1,736)
Cash and cash equivalents at the beginning of the period	1,536	3,272
Cash and cash equivalents at the end of the period	6,998	1,536
Significant non-cash transactions		
Receipt of shares in consideration for sale of investments in Portfolio Company (See Note 8(B)(3))	–	3,974
Repayment by third party of loans from the Israeli Chief Scientist (See Note 8(B)(3))	–	513
Conversion of Convertible Debentures into shares upon IPO (See Note 16)	13,984	–
Conversion of Convertible Debentures into shares (See Note 16)	705	653
Acquisition of non-controlling interests by issuance of shares	2,573	–

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 1:- General

A. Corporate information

The Trendlines Group Ltd. (the “Company”) is engaged in creating and investing in innovation, primarily carried out through its two subsidiaries: Trendlines Agtech - Mofet Ltd. (“Agtech”) and Trendlines Medical - Misgav Ltd. (“Medical”) which are technological incubators, and which represent one business segment for management reporting purposes. The Group investments and other assets are all located within Israel.

On November 26, 2015, the Company completed an initial public offering (“IPO”) on the Catalist of the Singapore Exchange Securities Trading Limited (“SGX-ST”). Upon the IPO, the Company issued 75,760,000 placement shares at S$0.33 per share, for a total of S$25 million (approximately $17,700) in gross proceeds (approximately $13,500 after expenses). In the pre-IPO stage, the Company raised S$13.7 million (approximately $10,177) in Redeemable Convertible Loans (“RCL”) from certain investors, which RCL were converted to shares upon the IPO (at a discount from the listing price - see Note 16) bringing total IPO-related gross proceeds to S$38.7 million (approximately $27,400). The Company is trading on ticker SGX: 42T.

Trendlines Agtech and Trendlines Medical (collectively: the “Trendlines Incubators”) are incubators operating under franchise agreements with the State of Israel, through the Office of the Chief Scientist of the Ministry of Economy (“OCS”), which were due to expire on December 31, 2014. The Trendlines Incubators each submitted formal requests for an extension which were approved by the OCS and accordingly, the OCS extended the franchise period of Trendlines Medical until June 30, 2015 and extended the franchise period of Trendlines Agtech until June 30, 2016, without a competitive bid process.

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

On July 15, 2015, Trendlines Medical submitted the documents for the competitive bid. On September 7, 2015, Trendlines Medical received a letter from the OCS announcing that it was elected as the winning bidder in the aforesaid competitive bid process for the operation of a technological incubator under periphery incubator conditions. On December 15, 2015, Trendlines Medical received formal notice from the OCS of the renewal of its incubator franchise for a period of eight years from January 1, 2016 to December 31, 2023.

Under the terms of the new franchise the OCS has established certain milestones which must be met for Trendlines Medical to retain the franchise. Such milestones include, among others, a minimum number of new portfolio companies to operate under Trendlines Medical during specified time periods from the beginning of the franchise period (at least: 6 within a period of 24 months; 12 within a period of 48 months; and 18 within a period of 72 months) as well as demonstration of additional fundraising by Trendlines Medical and/or the Company, within a period of 24 months from the beginning of the franchise period, for the benefit of incubator operations, in the amount of at least $10,000, with sufficient liquidity, to the satisfaction of the OCS.

On December 21, 2015, Trendlines Agtech submitted the documents for the competitive bid following a new competitive bid process in Trendlines Agtech’s region.

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 1:- General (cont.)

B. Approval of financial statements

These financial statements were approved by the board of directors on March 2, 2016.

C. Since its inception, the Group has had negative cash flows from operations. Accordingly, the Group is still dependent on external financing to fund its activities. During the year ended December 31, 2015, the Company raised approximately $25,400 in private placements, an IPO on SGX-ST and pre-IPO RCL. The Group management believes that these funds, together with its existing financial resources, are sufficient for the Group to meets its obligations as they come due at least for a period of twelve months from the date of approval of the financial statements.

D. Definitions

The Company	-	The Trendlines Group Ltd.
The Group	-	The Company and its consolidated subsidiaries.
Subsidiaries	-	Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Associates	-	Companies in which the Company has significant influence.
Investees	-	Subsidiaries and associates.
Medical	-	Trendlines Medical - Misgav Ltd. (Formerly: Misgav Venture Accelerator Ltd.), a technological incubator - subsidiary of the Company.
Agtech	-	Trendlines Agtech - Mofet Ltd. (Formerly: Mofet B'Yehuda - Industrial Research and Development in Judea Ltd.), a technological incubator - subsidiary of the Company.
Trendlines Incubators/ Incubators	-	Two technological incubators - Medical and Agtech in which the Company exercises control and whose statements are consolidated with those of the Company (see Note 7).
Peripheral Incubator	-	Technological incubator that is situated in a national priority region. Agtech is a Peripheral Incubator.
Project/Portfolio Company	-	A company in which the Incubators invested and is not a subsidiary.
OCS	-	Office of the Chief Scientist of the Israeli Ministry of Economy (formerly the Ministry of Industry, Trade and Labor).
Directive 8.2	-	Directive 8.2 of the Director General of the Ministry of Economy effective regarding the Incubators from August 22, 2001 through August 31, 2007, when the Incubators functioned as non-profit companies.
Old Directive 8.3	-	Directive 8.3 of the Director General of the Ministry of Economy - Technology Entrepreneurship Centers - Pilot Incubators, effective regarding the Incubators from September 1, 2007 (when the Incubators started to function as for-profit companies under the control of The Trendlines Group) through December 31, 2010.
New Directive 8.3	-	Directive 8.3 of the Director General of the Ministry of Economy for Centers of Technology Innovations and Incubators; replaced the Old Directive 8.3, effective regarding the Incubators from January 1, 2011, onwards.
Related parties	-	As defined in IAS 24.
Dollar	-	US dollar.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies

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

A. Basis of preparation

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

A. Basis of preparation (cont.)

Basis of consolidation (cont.)

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

Investments in Associates and Portfolio Companies

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

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

Investment accounted according to Equity method

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

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

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

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

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

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

The Company's investments in its subsidiaries are accounted for using the equity method of accounting in the Company's financial statements.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies

1. Functional currency, presentation currency and foreign currency

a. Functional currency and presentation currency:

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

b. Foreign currency translations:

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

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

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

2. Cash and cash equivalents

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

3. Short-term deposits

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

4. Financial instruments

a. Financial assets

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

4. Financial instruments (cont.)

a. Financial assets (cont.)

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

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

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

Loans and receivables:

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

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

b. Financial liabilities

Financial liabilities are initially recognized at fair value.

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

Financial liabilities at amortized cost less directly attributable transaction costs

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

Financial liabilities at fair value through profit or loss

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

4. Financial instruments (cont.)

c. Derecognition

Financial assets

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

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

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

Financial liabilities

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

d. Offsetting of financial instruments

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

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

5. Fair value measurement

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

5. Fair value measurement (cont.)

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

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

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

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

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

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

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

6. Loans from the Office of the Chief Scientist

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

7. Leases

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

The Group as lessee:

<u>Operating leases:</u>

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

8. Property, plant and equipment

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

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

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

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

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

9. Research and development expenditures

Research and development (“R&D”) expenditures in respect of contracted service agreements, are recognized in profit or loss when incurred.

10. Income taxes

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.

a. Current taxes:

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

b. Deferred taxes:

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

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

10. Income taxes (cont.)

b. Deferred taxes: (cont.)

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.

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

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

11. Share-based payment transactions

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

Equity-settled transactions:

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

The cost of equity-settled transactions is 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.

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

12. Revenue recognition (cont.)

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

a. Revenues from rendering of services

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

b. Dividend income

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

c. Income from services to Portfolio Companies

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

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

d. Income from contracted R&D services

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

13. Earnings per share

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

B. Summary of significant accounting policies (cont.)

14. Provisions

Provisions are 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 some or all of a provision 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 relating to a provision is presented in profit or loss net of any reimbursement.

C. Significant accounting judgments, estimates and assumptions

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

1. Judgments

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

Determination of control

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

2. Estimates and assumptions

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

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

2. Estimates and assumptions (cont.)

Fair value of financial instruments

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

D. Standards issued but not yet effective

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

1. IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 ("IFRS 15"). IFRS 15 replaces IAS 18, "Revenue".

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

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

Step 2: Identify the separate performance obligations in the contract

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

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

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

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

2. IFRS 9 Financial Instruments - Classification and Measurement

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 2:- Significant Accounting Policies (cont.)

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

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

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

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

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

   The amendments are to be applied prospectively. A mandatory effective date has not yet been determined by the IASB but early adoption is permitted.

4. Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

   In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

   The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

   The Company will include the necessary disclosures in the financial statements when applicable.

5. IFRS 16, "Leases":

   In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

   According to the new Standard, lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

   The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

   The Company believes that the new Standard is not expected to have a material impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 3:- Accounts and Other Receivables

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
Trade receivables*)	140	552	140	552
Government authorities	90	128	48	75
Others	198	156	38	35
	428	836	226	662

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

Note 4:- Short-Term Loans to Portfolio Companies

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
To Portfolio Companies - related parties (1)	136	246	–	–

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

Note 5:- Property, Plant and Equipment, Net

The Group

	Leasehold improvements	Office furniture and equipment	Computers and peripheral equipment	Total
Cost:				
Balance as of January 1, 2014	655	189	156	1,000
Additions	18	6	19	43
Balance as of December 31, 2014	673	195	175	1,043
Additions	43	14	57	114
Balance as of December , 2015	716	209	232	1,157
Accumulated depreciation:				
Balance as of January 1, 2014	208	37	101	346
Depreciation	62	20	23	105
Balance as of December 31, 2014	270	57	124	451
Depreciation	86	16	63	165
Balance as at December 31,2015	356	73	187	616
Depreciated cost:				
Balance as of December 31, 2015	360	136	45	541
Balance as of December 31, 2014	403	138	51	592

The Company

	Leasehold improvements	Office furniture and equipment	Computers and peripheral equipment	Total
Depreciated cost:				
Balance as of December 31, 2015	56	61	26	143
Balance as of December 31, 2014	57	64	24	145

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 6:- Fair Value Measurement

A. The following tables present the fair value measurement hierarchy for the Group's and the Company's investments, loans and debentures.

	The Group					
	December 31, 2015			December 31, 2014		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial assets						
Short-term investments *)	–	1,042	1,042	1,296	–	1,296
Investments in Portfolio Companies	625	83,822	84,447	517	75,106	75,623
Long-term investment	–	–	–	–	962	962
	625	84,864	85,489	1,813	76,068	77,881
Financial liabilities						
Loans from OCS	–	4,449	4,449	–	4,493	4,493
Convertible debentures and warrants	–	–	–	–	1,545	1,545
	–	4,449	4,449	–	6,038	6,038

	The Company					
	December 31, 2015			December 31, 2014		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Financial assets						
Short-term investments **)	–	–	–	1,296	–	–
	–	–	–	1,296	–	–
Financial liabilities						
Convertible debentures and warrants	–	–	–	–	1,545	1,545
	–	–	–	–	1,545	1,545

*) Excludes restricted short-term deposits and deposits in banks at amortized cost of $15,396 as of December 31, 2015 and $478 as of December 31, 2014.

**) Excludes restricted short-term deposits and deposits in banks at amortized cost of $15,038 as of December 31, 2015 and $395 as of December 31, 2014.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 6:- Fair Value Measurement (cont.)

B. Valuation process and techniques

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

1. *Publicly traded investment in Associates - Level 1*

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

2. *Investment in privately held Portfolio Companies - Level 3*

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

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

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

C. General Overview of Valuation Approaches used in the Valuation

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

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

1. **Income Approach**

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 6:- Fair Value Measurement (cont.)

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

1. Income Approach (cont.)

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

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

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

2. Market Comparable Approach

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

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

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

3. Cost Approach

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

4. Option Pricing Model (“OPM”)

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 6:- Fair Value Measurement (cont.)

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

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

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investments in Portfolio Companies	DCF	Long-term growth rate for cash flows for subsequent years	3% - 3% (3%)	Increase (decrease) in the growth rate would result in increase (decrease) in fair value
		Long-term operating margin	23% - 34% (29%)	Increase (decrease) in the operating margin would result in increase (decrease) in fair value
		Weighted average cost of capital (WACC)	30%	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
	Market Comparable Approach	Revenue Multiplier	0.8 - 5.74 (2.94)	Increase (decrease) in the revenue multiplier would result in increase (decrease) in fair value
		Weighted average cost of capital (WACC)	30% - 50% (37%)	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
Investments in Portfolio Companies	Cost Approach	Weighted average cost of capital (WACC)	50% - 60% (53%)	Decrease (increase) in the WACC rate would result in increase (decrease) in fair value
Loans from OCS	Black and Scholes formula for option pricing	Value of pledged shares (NIS)	0.0 -7.60 (2.24)	Increase (decrease) in the parameter would result in decrease (increase) in fair value
		Expected term(years)	2 - 4 (2.6)	
		Expected volatility (annual)	40% - 108% (99%)	
		Risk free interest rate	0.1% - 0.6% (0.4%)	
	Present value of the expected cash flows	Risk adjusted discount rate	1% - 6.2% (3.6%)	

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 6:- Fair Value Measurement (cont.)

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

	The Group			
	Investment in Portfolio Companies	Long & Short Term Investment	Loans from OCS	Convertible Debentures and Warrants
As of January 1, 2014	$ 72,059	–	$ (4,955)	–
Total realized gains (losses) recognized in profit or loss *)	3,288	–	(459)	–
Total unrealized gains (losses) recognized in profit or loss *)	(1,409)	13	127	(115)
Additions	5,710	949	281	(2,126)
Conversion to shares	–	–	–	653
Disposals/repayments	(4,542)	–	513	43
As of December 31, 2014	75,106	962	(4,493)	(1,545)
Total realized losses recognized in profit or loss *)	–	–	–	(3,087)
Total unrealized gains recognized in profit or loss *)	4,479	80	44	–
Additions	4,237	–	–	(10,177)
Conversion to shares	–	–	–	14,689
Disposals/repayments	–	–	–	120
As of December 31, 2015	$ 83,822	1,042	$ (4,449)	–

	The Company
	Convertible Debentures and Warrants
As of January 1, 2014	–
Total realized gains (losses) recognized in profit or loss *)	–
Total unrealized gains (losses) recognized in profit or loss *)	(115)
Additions	(2,126)
Conversion to shares	653
Disposals/repayments	43
As of December 31, 2014	(1,545)
Total realized losses recognized in profit or loss *)	(3,087)
Total unrealized gains recognized in profit or loss *)	–
Additions	(10,177)
Conversion to shares	14,689
Disposals/repayments	120
As of December 31, 2015	–

*) Realized and unrealized gains on investments in Portfolio Companies are recorded in “gain from change in fair value of investments in Portfolio Companies” and realized and unrealized gains (losses) on loans from OCS and on convertible debentures and warrants are recorded in “Financial expenses” and in “Non-recurring, non-cash expenses related to RCL conversion discount upon IPO”.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 7:- Investment in Investees

A. Investments in subsidiaries:

	The Company December 31, 2015	The Company December 31, 2014
Investment in shares	56,630	48,806
Investment in loans	6,095	2,363
	62,725	51,169

1. Composition of the Group

The Group has the following significant investments in subsidiaries:

Name	Principal place of business	Proportion (%) of ownership interest
Trendlines Medical – Misgav Ltd.	Israel	100%
Trendlines Agtech – Mofet Ltd.	Israel	100%

2. Summarized financial data of a subsidiary with material non-controlling interests:

In 2015 the Company acquired all of the shares of Agtech (26%) – see Note 14(B) - which were held by non-controlling interests at December 31, 2014:

	December 31, 2014
Statement of financial position at reporting date (as presented in the subsidiary's financial statements):	
Current assets	281
Non-current assets	18,253
Current liabilities	(3,137)
Non-current liabilities	(4,302)
Total equity	11,095

	Year ended December 31, 2014
The subsidiary's operating results (as presented in the subsidiary's financial statements):	
Total revenues	(5,638)
Net income (loss)	(5,267)
Net cash used in operating activities	(150)
Net cash provided by investment activities	–
Net cash provided by financing activities	251
Net change in cash and cash equivalents	101

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 7:- Investment in Investees (cont.)

A. Investments in subsidiaries (cont.)

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

	December 31, 2015	December 31, 2014
Balances of non-controlling interests	–	2,679

	Year ended December 31, 2015	Year ended December 31, 2014
Income (loss) attributable to non-controlling interests	(186)	(1,369)

3. Other information:

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

B. Investments in associates

Additional information on Associates:

	Principal place of business	Company's equity and Voting Rights	Carrying amount	Fair value of publicly Traded Equity
		%	US in thousands	
December 31, 2015:				
E.T.View:	Israel	18.71%		
Shares			–	1,329 *)
Warrants			– **)	
			–	
Maryland Israel/Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			–	
December 31, 2014:				
E.T.View:	Israel	19.73%		
Shares			–	1,742 *)
Warrants			129	
			129	
Maryland Israel/Trendlines Fund GP LLC:	Maryland, United States	50%		
Shares			–	
			129	

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

**) Represents an amount lower than $1.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 8:- Investments in Portfolio Companies

A. Information on Portfolio Companies

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

	December 31 , 2015		December 31, 2014	
	Number of Companies	Fair Value	Number of Companies	Fair Value
Companies in Incubation Period	14	10,746	18	14,178
Incubator Graduate Companies (1)	31	73,076	24	60,928
Public Companies	1	625	1	517
	46	84,447	43	75,623

(1) Includes one Portfolio Company whose fair value amounts to approximately $39,868 at December 31, 2015 and $36,000 at December 31, 2014 (see also Note 8(B)3).

B. Sale transactions

1. On April 17, 2014, Inspiro Medical Ltd. ("Inspiro"), a Portfolio Company held by Medical, was acquired by OPKO Health Inc. ("OPKO"), a public company traded on the New York Stock Exchange. Upon closing, Medical received approximately $358 in cash and approximately $3,974 in shares of the purchaser. Of the shares received, 20% are being held in escrow until April 2016 to secure indemnification obligations and are presented in short-term investments (at December 31, 2014 the fair value of the shares was presented in "Long-term investments"). In addition, the purchaser repaid all obligations to the OCS in connection with the transaction, including the Medical's loan to the OCS in the amount of $513 including accrued interest.

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

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

2. On July 30, 2014, the shareholders of E.T.View Medical Ltd. ("E.T.View") approved the investment agreement between E.T.View and Medical according to which E.T.View issued to Medical 347,594 Ordinary shares in consideration of NIS 1,300,000 (approximately $380). As a result, the ownership interest of Medical and the Group in E.T.View increased to 5% and 25.61%, respectively. (see also Note 7(B)).

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 8:- Investments in Portfolio Companies (cont.)

B. Sale transactions (cont.)

The fair value of this Portfolio Company as of December 31, 2015, is approximately $39,868, which fair value is based on the DCF method. Following are certain factors that could have a significant impact on the valuation.

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

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

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

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

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

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

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

6. On January 27, 2016, subsequent to the reporting period Medical invested an additional $356 in E.T.View Medical Ltd. As a result, the total ownership interest of the Group in E.T.View increased to 27.7%.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 8:- Investments in Portfolio Companies (cont.)

C. Short-term investments

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
Restricted shares in escrow (see Note 8(B)(1))	1,042	–	–	–
Restricted short-term deposits	396	228	38	145
Short-term bank deposits *)	15,000	250	15,000	250
Marketable securities	–	1,296	–	1,296
	16,438	1,774	15,038	1,691

*) Short-term bank deposits are deposits with maturities of more than three months from date of deposit. The deposits are in dollars and bear an annual interest of 0.95% - 1.13%.

Note 9:- Trade and Other Payables

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
Trade payables	241	78	191	30
Employees and payroll accruals	316	231	221	122
Accrued vacation pay	245	205	164	115
Other payable and accrued expenses	276	856	75	63
	1,078	1,370	651	330

Note 10:- Loans from The Israeli Chief Scientist

Composition of Loans from the OCS:

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
Old 8.3 Loans (see Note 13(A)(4))	3,471	3,145	–	–
Operation Loans (see Note 13(A)(5))	978	1,348	–	–
	4,449	4,493	–	–

Note 11:- Financial Instruments

A. Financial risk management objectives and policies:

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 11:- Financial Instruments (cont.)

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

Liquidity risk:

The tables below present the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments:

The Group

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
As of December 31, 2015:							
Trade and other payables	1,078	–	–	–	–	–	1,078
Loans from Chief Scientist *)	–	535	2,041	1,980	3,415	1,264	9,235
	1,078	535	2,041	1,980	3,415	1,264	10,313
As of December 31, 2014:							
Trade and other payables	1,370	–	–	–	–	–	1,370
Loans from Chief Scientist *)	–	–	554	2,033	2,301	6,779	11,667
Convertible Debentures and warrants	137	137	1,510	–	–	–	1,784
	1,507	137	2,064	2,033	2,301	6,779	14,821

The Company

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
As of December 31, 2015:							
Trade and other payables	651	–	–	–	–	–	651
As of December 31, 2014:							
Trade and other payables	330	–	–	–	–	–	330
Convertible Debentures and warrants	137	137	1,510	–	–	–	1,784
	467	137	1,510	–	–	–	2,114

*) The amounts presented represent the full liability based on the principal amounts and future interest. As mentioned in Note 13(A)(5) and 13(A)(6), the loans can be settled by surrendering the pledged shares of the Portfolio Companies.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 11:- Financial Instruments (cont.)

B. Fair Value:

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

Note 12:- Taxes on Income

A. Tax rates applicable to the Group:

The Israeli corporate tax rate is 26.5% in 2015 and 2014.

In January 2016, subsequent to the reporting period, the Israeli corporate tax rate was reduced to 25%.

B. Final tax assessments:

The Company and its Subsidiaries have not received final tax assessments since their incorporation, however, self-assessments are deemed final through the 2011 tax year.

C. Carry forward losses for tax purposes:

Carry forward operating tax losses of the Group total approximately $17,074 as of December 31, 2015. There is no expiration date for the utilization of the carry forward losses. Deferred tax assets of $ 1,954 relating to these losses were recognized in the financial statements.

Deferred tax assets of approximately $ 2,577 relating to carry forward operating losses were not recognized because their utilization in the foreseeable future is not probable.

D. Deferred taxes:

	Statements of financial position				Statements of profit or loss	
	The Group		The Company		Year ended	
	December 31,		December 31,		December 31,	
	2015	2014	2015	2014	2015	2014
Deferred tax liabilities:						
Investment in Portfolio Companies at fair value	15,786	13,542	–	–	2,244	799
Loans from OCS	2,819	3,010	–	–	(191)	(442)
Long-term investment	243	222	–	–	21	222
	18,848	16,774	–	–	2,074	579
Deferred tax assets:						
Carryforward tax losses	1,954	1,307	–	–	(647)	534
Deferred revenues due to loans from OCS	872	1,180	–	–	308	95
Employee benefits	6	22	–	–	16	-
Other	57	163	–	–	106	(133)
	2,889	2,672	–	–	(217)	496
Deferred tax expenses					1,857	1,075
Deferred tax liabilities, net	15,959	14,102	–	–		

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 12:- Taxes on Income (cont.)

D. Deferred taxes (cont.):

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

	The Group		The Company	
	December 31,		December 31,	
	2015	2014	2015	2014
Non-current liabilities	15,959	14,102	–	–

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

The estimated impact of the change in the corporate tax rate described in A above will be a reduction of the deferred tax liability as of January 1, 2016 of approximately $900.

E. Taxes on income included in profit or loss:

	Year ended December 31,	
	2015	2014
Deferred taxes (see also Note 12(D) above)	1,857	1,075
Taxes in respect of previous years	(63)	–
Current tax expenses	–	280
	1,794	1,355

F. Theoretical tax:

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

	Year ended December 31,	
	2015	2014
Loss before taxes on income	(1,774)	(2,855)
Statutory tax rate	26.5%	26.5%
Tax computed at the statutory tax rate	(470)	(757)
Increase (decrease) in taxes on income resulting from the following:		
Non-deductible expenses for tax purposes	1,402	635
Group's share of earnings (losses) of companies accounted for at equity	86	–
Income subject to special tax rates	(190)	–
Unrecognized temporary differences	(15)	232
Increase in unrecognized tax losses	765	903
Taxes in respect of previous years	(63)	–
Other	279	342
Taxes on income	1,794	1,355

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 13:- Commitments, Pledges and Contingent Liabilites

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

1. The Israeli Research and Development Law

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

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

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

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

2. Incubator Activity Under New Directive No. 8.3

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

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

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

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

Typically, the approved budget per new Project Company that operates in the Incubator program is approximately NIS 2,000 (approximately $515). Project Companies in Agtech, a Peripheral Incubator, is entitled to a higher budget of approximately NIS 2,500 (approximately $640), Medical, an Incubator that focuses on medical device projects, is entitled to higher budgets of approximately NIS 3,000 (approximately $770).

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

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 13:- Commitments, Pledges and Contingent Liabilites (cont.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 13:- Commitments, Pledges and Contingent Liabilites (cont.)

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

5. Return of Loans for Incubator Operations Under Directive 8.3

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

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

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

b) Operations Loans that were granted under Old Directive 8.3:

1. Operations Loans received during the period of September 1, 2007 until August 30, 2010 - the State may exercise its lien on the Operating Shares to receive shares in the project company. See Note 13(A)(6) for description of the liens.

2. Operations Loans received after September 1, 2010 - Agtech will repay the loans to the OCS upon the earlier of the following dates:

a. After seven years from the start of the agreement period (i.e., September 1, 2017).

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

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

6. Pledges and Liens According to Directive 8.3

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 13:- Commitments, Pledges and Contingent Liabilites (cont.)

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

7. Incubator Activity Under Directive No. 8.2

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

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

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

As of December 31, 2015 there are three active Project Companies in Medical that were admitted under Directive 8.2.

B. Operating lease agreements:

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

The total lease costs amounted to approximately $ 355 for the year ended December 31, 2015 and $380 for the year ended December 31, 2014.

The future minimum lease payments as of December 31, 2015, are as follows:

First year	$ 300
Second year	125
Third year	114
	$ 539

C. Other:

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

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

   The total management fees amounted to approximately $86 for the year ended December 31, 2015 and $86 for the years ended December 31, 2014.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 13:- Commitments, Pledges and Contingent Liabilites (cont.)

C. Other (cont.):

2. On December 2015, a contractor filed a claim against the Company and two other parties claiming that the Company and the other parties are responsible for the outstanding payment for cetain construction work.

   The amount of the claim is for NIS 617,653 (approximately $158). In the opinion of the Company's legal counsel, based on preliminary review of the claim, it is more likely than not that the claim against the Company will be dismissed without any material unfavorable effect on the Company's financial position or results of operations. However, since the claim is in a preliminary stage, the outcome could be different from the preliminary assessment.

3. The Company received a notice that in January 2016 a claim was filed against an investee company of Trendlines, naming also Trendlines for alleged patent infringement. An arbitration process has begun between the investee and the plaintiff. In the opinion of legal counsel, Trendlines is improperly joined in this claim. Accordingly, management of the Company believes that the outcome of this claim will not have a material effect on the Company's financial position or results of operations.

Note 14:- Equity

A. Composition of Equity:

	December 31, 2015		December 31, 2014	
	Authorized	Issued	Authorized	Issued
	Number of shares			
Ordinary shares NIS 0.01 par value	1,500,000,000	508,657,824	800,000,000	317,939,616

B. Movement in share capital:

a. In 2015, the Company issued 190,718,208 Ordinary shares as follows:

   1. In 2014 the Company received $1,398 (net of issuance expenses of approximately $34), as receipts on account of shares. In 2015, the Company issued 7,600,544 Ordinary shares in consideration of the above mentioned receipts.

   2. During 2015, the Company issued 11,139,024 Ordinary shares to new and existing investors for a total consideration of $2,118 (net of issuance expenses of approximately $72). In addition, the Company issued 99,440 warrants, as issuance costs to an advisor, which were exercised to 99,440 Ordinary shares immediately.

   3. Following a dividend distribution in February 2015 and a change in the Debenture conditions in June 2015, as further described in Note 16, several Debenture holders decided to convert their Debentures into Ordinary shares of the Company and other Debenture holders decided to receive cash as a repayment for part of the Debentures. As a result, Debentures with a par value of CND $862 (approximately $700) were converted into 4,048,400 Ordinary shares of the Company and an amount of approximately CND $146 (approximately $117) was paid by the Company to the Debentures holders. See also Note 1(A).

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 14:- Equity (cont.)

B. Movement in share capital (cont.):

4. In June 2015, the Company signed an agreement with the non-controlling shareholders of Trendlines Agtech ("Share Exchange Agreement"), following which, the Company purchased substantially all of the shares held by the Trendlines Agtech non-controlling shareholders (excluding shares, representing 4% of Agtech's total Ordinary shares, held by an employee share trust on behalf of 4 employees), in exchange for 14,485,312 Ordinary shares of the Company.

   In addition, subject to the consummation of an initial public offering (an "IPO"), within a period of 12 months from the date of the Share Exchange Agreement and the fulfillment of certain other conditions (the "Other Conditions"), the Company shall purchase all of the shares held by the employee share trust in exchange for 2,623,088 Ordinary shares of the Company after which the Company holds 100% of issued share capital of Trendlines Agtech. The Other Conditions include obtaining a certain tax ruling from the Israeli Tax Authority. On November 26, 2015, following the IPO and the achievement of the tax ruling, the Company issued 2,623,088

   Ordinary shares in consideration for all of the shares held by the employee share trust in exchange.

5. In July 2015, two officers and one former employee of the Company exercised 1,247,432 options into 1,247,432 Ordinary shares of the Company for no consideration.

6. On November 26, 2015, as part of the Company's IPO on the Catalist Board of the Singapore Stock Exchange ("SGX-ST"), the Company issued 75,760,000 Ordinary shares in a total consideration of $13,500 (net of issuance expenses of approximately $4,200). See also Note 1(A).

   In addition, the Company issued 2,651,600 Ordinary shares to PrimePartners Corporate Finance Pte Ltd (the "placement agent") in consideration of services totaling $875 which were recorded in the equity as issuance costs.

7. Upon the IPO on the Catalist, the RCL (including an amount of approximately CND $177, or approximately $145, which were converted from Convertible Debentures into RCL – see also Note 16(A)) and the remaining Convertible Debentures with a total par value, including accrued interest, of CND $396 (approximately $286), were automatically converted into 66,379,800 Ordinary shares of the Company. See also Note 16.

8. In November 2015, the Company issued 4,683,568 Ordinary shares in an exercise of warrants as part of a Put/Call agreement signed in July 2007 between the Company and certain shareholders of a Subsidiary.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 14:- Equity (cont.)

B. Movement in share capital (cont.):

b. Issued and outstanding shares:

	Number of shares
Balance at January 1, 2014	303,535,664
Exercise of warrants	210,192
Exercise of employees' options	10,460,448
Conversion of convertible debentures	3,733,312
Balance at December 31, 2014	317,939,616
Issuance of shares	97,151,168
Acquisition of non-controlling interest by issuance of shares	21,791,968
Exercise of warrants	99,440
Exercise of employees' options	1,247,432
Conversion of convertible debentures	70,428,200
Balance at December 31, 2015	508,657,824

C. Warrants:

As of December 31, 2015, the Company has 429,301 warrants outstanding:

1. A grant, for no consideration, of a warrant to purchase 375,168 Ordinary shares of the Company to “Tmura”, the Israeli public service venture fund (a not-for-profit organization which receives donations of equity from Israeli companies), at an exercise price of $0.1845 per share. This warrant may be exercised, in whole or in part, at any time during the period ending 3 years from the date of grant (June 2, 2014).

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

   The Company recorded share-based payment expense in the amount of $4 for the year ended December 31, 2015.

   On January 4, 2016, subsequent to the reporting period, the Board of Directors approved the issuance of 83,925 new Ordinary shares, pursuant to a cashless exercise by Tmura of the warrant granted to Tmura in June 2014.

2. Following the issuance of shares to new and existing investors during 2014, as further described in Note 14(B) above, on October 27, 2014, the Company granted the private placement agent 54,136 compensation warrants (“October 2014 Compensation Warrants”). Each of the October 2014 Compensation Warrants is exercisable only once to acquire one (1) Share at a price of $0.1875 per share until 27 October 2016.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 14:- Equity (cont.)

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

E. On November 2, 2015, a Special General Meeting of Shareholders, approved the increase of the Company's authorized (registered) capital from NIS 1,000,000 to NIS 15,000,000. Following such increase, the authorized share capital of the Company shall be as follows: NIS 15,000,000 divided into 1,500,000,000 Ordinary shares with a par value of NIS 0.01 per share (the "Share Increase").

F. Bonus shares:

On November 12, 2015, the Board of Directors of the Company approved and authorized the allotment and issuance of 311,989,797 Ordinary shares of the Company of NIS 0.01 par value eash as bonus shares to the current Shareholders of the Company (without consideration paid by the Shareholders) (the "Bonus Shares"), in the amount of 7 Ordinary shares per each Ordinary share in the issued share capital of the Company, such that following the issuance of the Bonus Shares. Each shareholder shall hold 8 times the number of Ordinary shares hel by such shareholder prio to the issuance of the Bonus Shares.

All share, option, and per share information presented in the accompanying financial statements have been adjusted to reflect the issuance of the Bonus Shares on a retroactive basis for all periods presented.

G. Capital management:

The Company's objectives for managing capital are:

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

Note 15:- Share-Based Payment

A. Expenses recognized in the financial statements:

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

	Year ended December 31, 2015	Year ended December 31, 2014
Operating, general and administrative expenses	1,388	2,241
R&D expenses	68	82
	1,453	2,323

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 15:- Share-Based Payment (cont.)

B. Employees Stock Option Plan:

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

Under the 2011 Plan, options may be granted to the Group's officers, directors, employees and consultants. The number of Ordinary shares authorized for issuance under the 2011 Plan amount to 53,125,664. In addition, following the adoption of the 2015 Plan, no new options shall be granted under the 2011 Plan, and no additional Ordinary shares shall be reserved for issuance under the 2011 Plan.

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

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

On November 11, 2015, a Special General Meeting of Shareholders approved adoption of The Trendlines 2015 Share Option Plan and the Sub-Plan (the "2015 Plan").

Under this plan at all times until the expiration or termination of the Plan the company should keep reserved a sufficient number of Shares to meet the requirements of the Plan (the "Option Pool"). Any of such Shares which, as of the expiration or termination of the Plan, remain unissued and not subject to outstanding Options, shall at such time cease to be reserved for the purposes of the Plan. Should any Option for any reason expire or be cancelled prior to its exercise or relinquishment in full, such Option may be returned to the pool of Options and may again be granted under the Plan. The aggregate number of Shares reserved as Option Pool in respect of all Options granted under the Plan available to Plan Controlling Shareholders or Associates of the Company's Plan Controlling Shareholders (including adjustments made in accordance with Section 12 of the Plan) shall not exceed 5.0% of the Shares available under the Plan. The number of Shares reserved as Option Pool in respect of all Options granted under the Plan available to each Plan Controlling Shareholder or Associate of our Plan Controlling Shareholder (including adjustments made in accordance with Section 12 of the Plan) shall also not exceed 1.0% of the Shares available under the Plan.

The Exercise Price for each Grantee shall be as determined by Committee appointed by the Board (the "Committee") . The Commitee and specified in the applicable Option Agreement; provided, however, that: (i) unless otherwise determined by the Committee (which determination shall not require shareholder approval, unless so required in order to comply with the provisions of applicable Mandatory Law (including, for the avoidance of doubt, the Listing Manual)), the Exercise Price shall be the Fair Market Value of the Shares on the Date of Grant ("Fair Market Value Option"); and (ii) where the Exercise Price is set at a discount to the Fair Market Value of the Shares, the maximum discount shall not exceed 20.0% of the Fair Market Value of the Shares (or such other percentage or amount as may be determined by the Committee and permitted by the Sponsor or (if required) any other stock exchange on which the Shares are quoted ("Discounted Option").

Fair Market Value Options may be exercised after the first anniversary of the Date of Grant of that Option while Discounted Options may only be exercised after the second anniversary from the Date of Grant of the Option ("Cliff Period"). Unless otherwise determined by the Committee with respect to any specific Grantee and/or to any specific grant following the Cliff Period, the options shall vest upon the lapse of each full additional one (1) month thereafter of the Grantee's continuous Service thereafter, until all the Options vested (that is, 100% of the grant will be vested after three (3) years). Unexercised Options shall expire and terminate and become null and void upon the lapse of 10 years from the Date of Grant.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 15:- Share-Based Payment (cont.)

B. Employees Stock Option Plan (cont.):

On January 6, 2014, the Company's board of directors approved a grant of 3,503,016 options to purchase Ordinary shares of the Company to three employees of the Company at an exercise price of $0.13625. The options vest over a period of 3 years on a monthly basis.

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

In March 2014, two officers of the Company exercised 10,460,448 options into 10,460,448 Ordinary shares of the Company for a total consideration of approximately $3.

On June 2, 2014, the Company's board of directors approved a grant of 38,910,400 options to purchase 38,910,400 Ordinary shares of the Company to employees of the Company and the Trendlines Incubators at an exercise price of $0.1845 per share. The options vest over a period of 3 years. The grant includes 26,545,856 options to two officers of the Company, the Co-Chairmen and Co-Chief Executive officers, which grant was subject to further approval of the shareholders of the Company, which approval was obtained on July 24, 2014.

The grant date fair value of the options in the amount of $4,047 ($2,787 in respect of the options granted to two officers of the Company) was determined using the binomial option pricing model.

In July 2015, two officers and one former employee of the Company exercised 1,247,432 options into 1,247,432 Ordinary shares of the Company for a consideration of less than 1$.

On August 2, 2015, the Company's board of directors approved the grant of 1,600,000 options to purchase 1,600,000 Ordinary shares of the Company to employees of the Company at an exercise price of $0.2011 per share. The options vest over a period of 3 years.

The grant date fair value of the options in the amount of $144 was determined using the binomial option pricing model.

The fair value for options granted during 2015 was estimated using the binomial option pricing model with the following assumptions:

Dividend yield (%)	0
Expected volatility of the share prices (%)	40
Risk-free interest rate (%)	0.3 - 2.2
Expected life of share options (years)	10

The Company recorded share-based payment expense in the amount of $1,453 for the year ended December 31, 2015.

On December 30, 2015, the Company's board of directors approved the grant of 320,000 options to the Company's advisory board. The grant date fair value of the options in the amount of $46 was determined using the binomial option pricing model. The Group didn't recorded any share-based payment expenses in respect of these options for the year ended December 31, 2015.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 15:- Share-Based Payment (cont.)

C. Movement during the Year:

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

	December 31, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		U.S dollars		U.S dollars
Options outstanding at beginning of year	53,554,968	0.17	21,602,000	0.5
Issuance of options during the year	1,600,000	0.2	42,413,416	1.44
Options exercised during the year	(1,247,431)	–	(10,460,448)	0.003
Options forfeited during the period	(781,873)	0.18	–	–
Options outstanding at end of year	53,125,664	0.17	53,554,968	1.35
Options exercisable at end of year	26,933,836	0.157	18,059,432	1.224

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

E. The range of exercise prices for share options outstanding as of Decmber 31, 2015 and December 31, 2014, was $0.0004 - $0.1845.

Note 16:- Convertible Debentures and Warrants

A. Convertible debentures

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

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 16:- Convertible Debentures and Warrants (cont.)

A. Convertible debentures (cont.)

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 16:- Convertible Debentures and Warrants (cont.)

A. Convertible debentures (cont.)

The compensation warrants are in the scope of IFRS 2, and constitute cash settled share based payment transaction which is measured at fair value. Upon initial recognition, given the Debentures were designated at "fair value through profit and loss", the Company recognized the compensation warrants as issuance expenses of the Debentures, also in profit or loss. The liability is re-measured at each reporting date until settlement, with any changes in fair value recognized in profit or loss. For the year ended December 31, 2015, the Company recorded financial income in the amount of $6. As of December 31, 2015 the fair value of the compensation warrants is approximately $10.

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

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

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

(ii) Further amend the CND Debentures to the terms of the debentures issued on the Pre-IPO Financing (the “RCL”);

(iii) Obtain full repayment of the CND Debentures after at least US $5,000 is raised by the Company in equity and/or debt including on the Pre-IPO Financing; or

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

In June 2015, following Amendment No. 1 and the issuance of the Option Notice, several Debentures holders decided to convert their Debentures into Ordinary shares of the Company, other additional Debentures holders decided to obtain full repayment of the Debenture, subject to the conditions as defined in Amendment No. 1 and other additional Debenture holders decided to convert their respective principal amounts and accrued interest as of the June 24, 2015, into Redeemable Convertible Loans denominated in Singapore dollars at the same terms of the Pre-IPO Redeemable Convertible Loans and are accordingly bound by the terms and provisions of the Pre-IPO Redeemable Convertible Loan Agreement as of June 24, 2015. As a result, Debentures with a par value of CND $698 (approximately $569) were converted into 409,139 Ordinary shares of the Company, an amount of approximately CND $81 (approximately $65) was repaid, subject to the conditions as defined in Amendment No.1 and an amount of approximately CND $177 (approximately $145) were converted into Redeemable Convertible Loans in Singapore dollars.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 16:- Convertible Debentures and Warrants (cont.)

A. Convertible debentures (cont.)

Following the Company's IPO on the SGX-ST on November 26, 2015, the remaining Debentures with a total par value, including accrued interest, of CND $396 (approximately $286), were converted into 1,599,800 Ordinary shares of the Company.

The Convertible Debenture's change in fair value of approximately $240 as of November 26, 2015, related to the Convertible Debentures conversion discount upon IPO conversion was recorded as "Financial expense".

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

In June 2015, the Company raised an aggregate amount of Singapore Dollar ("SGD") $13,700,000 (approximately $10,200 after issuance expenses of $100) from the issuance of redeemable convertible loans ("RCL") to certain Pre-IPO investors, based on the terms and conditions set out in the Redeemable Convertible Loan Agreement ("RCL Agreement"). The proceeds from the RCL are to be used for investments, activities related to supporting Portfolio Companies and general working capital purposes. The RCL bear annual interest of 8% (or 10% if the NAV of the Group is lower than $57,611). The principal and interest were repayable upon maturity in two years after issuance, if not converted earlier.

Upon the IPO on the Catalist, the RCL (including an amount of approximately CND $177, or approximately $145, which were converted from Convertible Debentures into RCL (see also Note 16(A)) were automatically converted, in accordance with the RCL Agreement, to 64,780,000 Ordinary shares of the Company. Pursuant to the RCL Agreement, the conversion was at a 35% discount to the Listing price of S$0.33 per share. Half of the Ordinary shares are subject to a "lock up" period of six months and the remaining half are subject to a "lock up" period of 12 months from the date of issuance.

The RCL which included a conversion component (an embedded derivative) was designated upon initial recognition at fair value through profit or loss. Upon the issuance of the RCL at the end of June 2015, the Company recorded a liability in the amount of $10,322 (including an amount of approximately CND $177, or approximately $145, which were converted from Convertible Debentures into RCL – see also Note 16(A)) . Issuance expenses in the amount of $520 were recorded in profit or loss. The fair value of the RCL immediately prior to conversion was calculated by an independent 3rd party valuation specialist by estimating the FV of the Ordinary shares issued upon the conversion of the RCL following the IPO, including a discount for illiquidity due to the "lock up" periods. The discount factor on the IPO price was calculated using the Finnerty model. The FV was determined at S$19,203 or approximately $13,648 (including the fair value of the Convertible Debentures of S$270 or approximately $192 which were converted into RCL). The change in fair value from the date of issuance to the date of conversion in the amount of $3,775 is recorded in profit or loss as a non-recurring, non-cash expense.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 17:- Selected Statements of Operations Data

A. Operating general and administrative expenses

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and related expenses (including share-based payment)	4,303	5,196
Professional services	126	30
Rent and maintenance	378	469
Aborted IPO costs	–	1,540
Consulting	924	352
Communications and offices	203	289
Vehicle maintenance	219	222
Travel abroad	149	248
Depreciation	165	120
Miscellaneous	243	619
	6,710	9,085

B. R&D expenses, net

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and related expenses (including share-based payment)	523	551
Subcontractors and materials	46	462
Others	64	52
	633	1,065

C. Financial expenses

	Year ended December 31, 2015	Year ended December 31, 2014
Interest and revaluation of convertible debentures and warrants	–	194
Debenture issuance expenses	520	–
Commissions and interest, net	29	173
Interest and revaluation expense (income) on loans from the OCS	(5)	332
Write-off of loan to Portfolio Company	54	–
Revaluation of convertible debentures expenses	(240)	–
Exchange rate differences, net	(6)	239
	352	938

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 17:- Selected Statements of Operations Data (cont.)

D. Financial income

	Year ended December 31, 2015	Year ended December 31, 2014
Interest on deposits and loans	–	5
Gain from long and short-term investment	188	155
	188	160

Note 18:- Net Earnings (Loss) per Share

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

	Year ended December 31,			
	2015		2014	
	Weighted number of shares	Net loss attributable to equity holders of the Company	Weighted number of shares	Net loss attributable to equity holders of the Company
	In thousands	U.S in thousands	In thousands	U.S in thousands
For the computation of basic net earnings	365,634	(3,299)	315,952	(2,814)
Effect of potential dilutive Ordinary shares	–	–	–	–
For the computation of diluted net earnings	365,634	(3,299)	315,952	(2,814)

B. To compute diluted net earnings per share for the year 2015 and 2014, options to employees under share-based payment plan and warrants have not been taken into account since their conversion decreases the basic loss per share (anti-dilutive effect).

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

Note 19:- Related Parties Transactions

A. Balances and transactions:

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

	The Group			
	December 31, 2015		December 31, 2014	
	Portfolio Companies	Associates	Portfolio Companies	Associates
Trade receivables	111	–	78	–
Short-term loans	136	–	246	–

	The Company			
	December 31, 2015		December 31, 2014	
	Portfolio Companies	Associates	Portfolio Companies	Associates
Trade receivables	–	–	–	–
Short-term loans	–	–	–	–

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

	Year ended December 31,			
	2015		2014	
	Portfolio Companies	Associates and other related parties	Portfolio Companies	Associates and other related parties
Income from services to Portfolio Companies	4,274	–	4,433	–
Other income	–	175	–	177
Operating, general and administrative expenses	–	(65)	–	(64)

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

Note 19:- Related Parties Transactions (cont.)

B. Compensation of key management personnel of the Group:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and related expenses	1,648	1,618
Share based payment	1,269	1,735
	2,917	3,353

C. On November 2, 2015, a Special General Meeting of Shareholders, approved the entry into and execution by the Company of a new employment agreement effective as of the date of the Proposed Listing, between the Company and each of Mr. Dollinger and Mr. Rhodes, the Chairmen and Chief Executive Officers (each the "Executive" or collectively: the "Executives"). The term of the Executive's employment shall continue for a period of three years from the date of the Proposed Listing ("Initial Term"), provided however, that each of the parties shall be entitled to bring the Executives' employment to an end, at any time, including during the Initial Term, for any reason by providing a written notice 6 months prior to the termination of the Employment Agreement. Upon termination of Executive's employment by the Company other than in circumstances of Termination for Cause or upon resignation of the Executive for Good Reason (as set forth in the Employment Agreement), the Executive shall be entitled (in addition to the prior notice and any statutory payment) to receive from the Company a termination adjustment payment equal to an amount representing his then current monthly Salary multiplied by 6. After the Initial Term, the Executive's employment shall be automatically renewed for successive 12 month periods under the same terms of employment, unless terminated in accordance with the terms contained in the Employment Agreement. Under the terms of the respective Employment Agreements (which are identical), each of the Executives is entitled to a gross monthly salary of NIS 85,500, or approximately $22.5 ("Salary"), an increase of approximately $8.5 in relation to the current salary, as well as an annual bonus in accordance with the provisions of the compensation policy (as shall be adopted and determined, from time to time, by the Company's Remuneration Committee).