

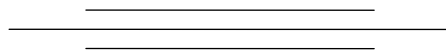
TRANSLATION FROM HEREW ORIGINAL

BIO VIEW LTD.
2012 ANNUAL REPORT

BIO VIEW LTD.
2012 ANNUAL REPORT

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AUDITORS' REPORT

To the shareholders of
BIO VIEW LTD.

We have audited the attached consolidated financial statements of financial position of Bio View Ltd. (hereafter - the company) as of December 31, 2012 and 2011 and the related statements of income or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the consolidated financial position of the company and its subsidiary as of December 31, 2012 and 2011 and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with International Financial Reporting Standards (hereafter – IFRS) and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010.

We have also, pursuant to Standard 104 of the Institute of Certified Public Accountants in Israel "The Audit of Components of Internal Control Over Financial Reporting", audited components of internal control over financial reporting of the company dated December 31, 2012 and our report dated March 14, 2013 includes an unqualified opinion on the effectiveness of such components.

Tel-Aviv, Israel
March 14, 2013

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited



**AUDITORS' REPORT TO SHAREHOLDERS OF BIO VIEW LTD ON AUDITING
COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Pursuant to Section 9b(c) to the Israel Securities Regulations
(Periodic and Immediate Reports), 1970**

We have audited components of internal control over financial reporting of Bio View Ltd. and its subsidiary (hereinafter collectively - the company), as of December 31, 2012. These components of internal control were set as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for assessing the effectiveness of components of internal control over financial reporting included in the accompanying interim financial information for the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard no. 104 of the Institute of Certified Public Accountants in Israel "Audit of the Internal Control Components over Financial Reporting" and amendments thereto (hereafter - "Audit Standard 104"). These components are: (1) entity level controls, including controls over the preparation process and closing of the financial reporting and general controls over information systems, (2) controls over the inventory process (3) controls over the sales process (all of these together are the "audited control components").

We conducted our audits in accordance with Audit Standard 104. This standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance whether these control components have been maintained effectively in all material respects. The audit includes obtaining an understanding of the internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, as well as review and assessment of effective planning and maintaining of these audited control components based on the estimated risk. Our audit, relating to those audited control components, also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control components, unlike internal control of all material processes over financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual influences between the audited control components and those which are not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general and components of internal controls in particular, may not prevent or detect a misstatement. Also, making projections on the basis of any evaluation of effectiveness is subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may be adversely affected.

In our opinion, the company effectively maintained, in all material respects, the audited control components as of December 31, 2012.

We also audited the Company's financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, in accordance with auditing standards generally accepted in Israel, and our report, dated March 14, 2013 included an unqualified opinion on those financial statements

Tel-Aviv, Israel
March 14, 2013

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2012	2011
		NIS in thousands	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	5	13,295	11,677
Accounts receivable:	7		
Trade		4,594	6,726
Other		514	374
Inventory	8	3,901	3,313
		<u>22,304</u>	<u>22,090</u>
NON-CURRENT ASSETS :			
Restricted cash	14a	108	106
Deposits		58	37
Intangible assets	10	796	896
Deferred income tax	11	5,389	5,430
Property and equipment - net	9	1,170	952
		<u>7,521</u>	<u>7,421</u>
T o t a l a s s e t s		<u><u>29,825</u></u>	<u><u>29,511</u></u>
Liabilities and equity			
CURRENT LIABILITIES:			
Accounts payable:	12		
Trade		1,705	1,317
Other		1,901	2,430
Royalties to Chief Scientist	13	401	457
Deferred income		3,344	3,293
Income tax payable	11	-	222
Provision for warranty	13	257	318
		<u>7,608</u>	<u>8,037</u>
NON-CURRENT LIABILITIES:			
Liability for employee rights upon retirement - net	15	100	59
Deferred income tax	11	115	117
Deferred income		460	476
Other		201	196
Liability for royalties to Chief Scientist	14	4,647	5,428
		<u>5,523</u>	<u>6,276</u>
COMMITMENTS AND CONTINGENT LIABILITIES			
T o t a l l i a b i l i t i e s		<u>13,131</u>	<u>14,313</u>
EQUITY ATTRIBUTED TO COMPANY'S OWNERS:			
Ordinary shares		134	134
Share premium		50,391	50,344
Capital surplus in respect of warrants		338	270
Currency translation reserve		(154)	(93)
Accumulated deficit		(34,015)	(35,457)
Total equity		<u>16,694</u>	<u>15,198</u>
Total liabilities and equity		<u><u>29,825</u></u>	<u><u>29,511</u></u>

Marina Wolfson
CFO

Alan Schwebel
CEO

Emmanuel Gil
Chairman of the
Board

Date of approval of financial statements by the Board of Directors: March 14, 2013.

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31		
		2012	2011	2010
NIS in thousands				
REVENUE	17a	26,047	26,169	25,318
COST OF SALES	17b	8,889	8,673	9,833
GROSS PROFIT		17,158	17,496	15,485
RESEARCH AND DEVELOPMENT EXPENSES	17c	5,400	3,880	3,526
SELLING AND MARKETING EXPENSES	17d	5,790	5,721	4,893
GENERAL AND ADMINISTRATIVE EXPENSES	17e	4,100	3,794	3,395
OTHER EXPENSES (INCOME)	17f	191	(353)	388
EXPENSES (INCOME) IN RESPECT OF CHANGES IN PROVISION FOR ROYALTIES TO CHIEF SCIENTIST (EXCLUDING FINANCING COMPONENT)		(41)	527	(565)
OPERATING PROFIT		1,718	3,927	3,848
FINANCE EXPENSES	17g	253	333	360
FINANCE INCOME	17h	(208)	(171)	(19)
FINANCE EXPENSES - net		45	162	341
INCOME BEFORE TAXES ON INCOME		1,673	3,765	3,507
INCOME TAX (TAX BENEFITS)	11	231	(2,811)	(1,729)
INCOME (LOSS) FOR THE YEAR		1,442	6,576	5,236
OTHER COMPREHENSIVE INCOME (LOSS) – CURRENCY TRANSLATION RESERVE		(61)	109	(103)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,381	6,685	5,133
EARNINGS PER SHARE				
BASIC INCOME PER SHARE	18	0.11	0.49	0.41
DILUTED INCOME PER SHARE		0.11	0.48	0.39

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares	Share premium	Warrants	Currency translation reserve	Capital deficiency	Total
	NIS in thousands					
BALANCE AT JANUARY 1, 2010	121	46,686	2,109	(99)	(47,269)	1,548
CHANGES IN THE YEAR ENDED DECEMBER 31, 2010:						
Currency translation reserve				(103)		(103)
Net income for the year					5,236	5,236
Total comprehensive income for the year ended December 31, 2010				(103)	5,236	5,133
Exercise of options into shares by employees	1	25				26
Exercise of listed Series 3 warrants	2	380	(30)			352
Expiry of listed Series 3 warrants		384	(384)			
Expiry of listed Series 2 warrants		998	(998)			
Private placement	7	(*)1,032				1,039
Expenses on options to employees and consultants			78			78
BALANCE AT DECEMBER 31, 2010	131	49,505	775	(202)	(42,033)	8,176
CHANGES IN THE YEAR ENDED DECEMBER 31, 2011:						
Currency translation reserve				109		109
Net income for the year					6,576	6,576
Total comprehensive income for the year ended December 31, 2011				109	6,576	6,685
Exercise and expiry of warrants by employees and consultants	3	839	(610)			232
Expenses in respect of options to employees			105			105
Total comprehensive loss for the year ended December 31, 2011	134	50,344	270	(93)	(35,457)	15,198
CHANGES IN THE YEAR ENDED DECEMBER 31, 2012:						
Currency translation reserve				(61)		(61)
Net income for the year					1,442	1,442
Total comprehensive income for the year ended December 31, 2012				(61)	1,442	1,381
Exercise and expiry of warrants by employees and consultants	**	47	(23)			24
Expenses in respect of options to employees			91			91
BALANCE AT DECEMBER 31, 2012	134	50,391	338	(154)	(34,015)	16,694

* Less issuance costs at NIS 81 thousand.

** An amount lower than NIS 1 thousand.

The accompanying notes are an integral part of these financial statements

BIO VIEW LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash generated in operations (see appendix A)	2,664	3,434	4,098
Income tax paid - net	(314)	(158)	(215)
Net cash provided by operating activities	<u>2,350</u>	<u>3,276</u>	<u>3,883</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(624)	(114)	(452)
Acquisition of intangible asset	(5)	(117)	(39)
Restricted cash	(2)	(67)	
Deposits - net	(21)	17	(3)
Net cash used in investing activities	<u>(652)</u>	<u>(281)</u>	<u>(494)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of equity (net of issuance expenses of NIS 81thousand)	24		1,039
Exercise of listed Series 3 warrants			352
Exercise of warrants into shares by employees and consultants		232	26
Repayment of short-term bank borrowings – net			(417)
Net cash provided by financing activities	<u>24</u>	<u>232</u>	<u>1,000</u>
INCREASE IN CASH AND CASH EQUIVALENTS EQUIVALENTS	1,722	3,227	4,389
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,677	8,369	4,004
PROFITS (LOSSES) FROM EXCHANE DIFFERENCES ON CASH AND CASH EQUIVALENTS	104	81	(24)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>2,350</u></u>	<u><u>11,677</u></u>	<u><u>8,369</u></u>

BIO VIEW LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>		
Appendixes to statement of cash flows:			
(a) Net cash provided by operating activities:			
Income before taxes on income	1,673	3,765	3,507
Adjustments in respect of – income and expense not involving cash flows:			
Depreciation and amortization	490	487	341
Amounts charged in respect of options to employees and Consultants	91	105	78
Retirement benefit obligations – net	41	(13)	20
	<u>2,295</u>	<u>4,344</u>	<u>3,946</u>
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	2,058	(1,344)	(223)
Other	(226)	(76)	171
Decrease (increase) in inventory	(635)	557	(684)
Increase (decrease) in accounts payable and accruals:			
Trade	404	(475)	417
Other (including provision for warranty)	(514)	34	467
Decrease in provision for royalties to Chief Scientist	(837)	(156)	(536)
Increase in deferred income (including long-term liabilities)	119	550	540
	<u>369</u>	<u>(910)</u>	<u>152</u>
Net cash provided by operating activities	<u>2,664</u>	<u>3,434</u>	<u>4,098</u>
(b) Supplementary data regarding investing and financing activities not involving cash flows:			
Suppliers' credit used for acquisition of intangible asset	-	(295)	-
(c) Information regarding cash interest received	<u>208</u>	<u>171</u>	<u>19</u>

The accompanying notes are an integral part of these financial statements

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

Bio View Ltd. (hereafter – the company) was incorporated in Israel on August 18, 1998 and commenced operations in 2000. The company and its subsidiary (hereafter – the group) is engaged in the research, development, manufacture, marketing and sale of computerized systems for identification of rate cells and test for detection of cancer. The fully consolidated subsidiary of the company - BioView (USA) Inc. (incorporated in Delaware USA) (hereinafter - the subsidiary) - is mainly engaged in the marketing and selling of the group's products in North America. The company's shares are traded in the Tel-Aviv Stock Exchange. The Address of the company is 3 Pekeris St. Rehovot.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation:

- 1) The financial statements of the group as of December 31, 2012, 2011 and for each of the three years in the period ended December 31, 2012, are in compliance with International Financial Reporting Standard (hereafter – IFRS) and interpretations to IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC) and include the additional disclosure required under the Israel Securities Regulations (Preparation of Annual Financial Statements), 2010.

The principal accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of amounts funded in respect of employee retirement obligations that are presented at their fair value and subject to the reference below to the period during which Israel's economy was hyper-inflationary.

In accordance with a resolution by the Israeli Accounting Standards Board, dated December 2006, the effective date in which the Israeli economy ceased to be a hyper-inflationary economy, as defined in International Accounting Standard No. 29 - "Financial Reporting in Hyperinflationary Economies" (hereinafter - IAS 29) is December 31, 2003, and accordingly, as required under IAS 29, as from December 31, 2003 (hereinafter - the effective date) the adjustment to changes in the Israeli Consumer Price Index (hereinafter - the CPI) of non-monetary items in financial statements of entities and activities whose functional currency is the New Israeli Shekel (hereinafter - NIS) should be discontinued.

Accordingly, amounts generating from the company, whose functional currency is the NIS, relating to non-monetary assets (including depreciation and amortization thereon), investments in associated companies and equity items that originated prior the effective date, are based on the inflation-adjusted data (based on the December 2003 CPI), as previously reported. All amounts presented in the consolidated financial statements and which are derived from the company after the effective date are presented in these financial statements in nominal values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. Actual results may differ materially from estimates and assumptions used by the group's management.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) The group's operating cycle is 12 months.
- 3) The group analyses the expenses recognized in the statement of income using a classification method based on the expenses' operating characteristic.

b. Consolidated financial statements

Subsidiary

Inter-group transactions, balances and unrealized gains on transactions between the subsidiary and the company are eliminated.

A subsidiary is an entity over which the group has the power to govern the financial and operating policies. A subsidiary is fully consolidated from the date on which control is transferred to the group. It is de-consolidated from the date on which control ceases.

Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the group.

c. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the company's senior management. The company has one operating segment.

d. Translation of Foreign Currency Balances and Transactions:

- 1) Functional and Presentation Currency.

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in NIS, which is the group's functional and presentation currency.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Changes in the exchange rates of the US dollar and the Israeli CPI, in the reported periods are as follows:

	Exchange rate of the US dollar	Israel CPI
	<u>%</u>	<u>%</u>
Year ended December 31:		
2012	(2.30)	1.4
2011	7.66	2.2
2010	(5.99)	2.7

Exchange rate of the dollar as of December 31, 2012 \$1 = NIS 3.733

Exchange rate of the dollar as of December 31, 2011 is \$1=NIS 3.821

Exchange rate of the dollar as of December 31, 2010 is \$1=NIS 3.549

2) Transactions and balances

Transactions made in a currency which is different from the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of comprehensive income.

Gains and losses from changes in exchange rates, relating to royalties to the Chief Scientist, are presented in the statement of comprehensive income (loss) among "income in respect of changes in provision for royalties to Chief Scientist (excluding interest)". All other gains and losses from changes in exchange rates are presented in the statement of comprehensive income among "other income (expenses)".

3) Translation of financial statements of subsidiary:

The results and financial position of the subsidiary, whose functional currency is the US dollar are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognized in comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the income statement as part of the gain or loss on sale.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Property and equipment

Property and equipment are initially recognized at acquisition cost. Repair and maintenance are charged to the statement of income (loss) during the financial period in which they are incurred.

Property and equipment is recognized at cost less accumulated depreciation and impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation and impairment charges on property and equipment stated at cost are carried to the statement of comprehensive income.

Depreciation on other assets is calculated using the straight-line method to depreciate their full cost over their estimated useful lives, as follows:

	<u>Years</u>
Machinery and equipment	6-7
Office furniture and equipment	6-7
Computers	3

Leasehold improvements are amortized using the straight-line method over the shortest of the term of the lease agreement or the estimated useful lives of the improvements.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of statement of financial position.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see g. below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other income (expenses)" in the statement of comprehensive income.

f. Intangible assets:

1) Research and development

Expenditure on research shall be recognized as an expense when it is incurred. Expenditure on development in respect of the design and test of new products or improvement of existing products shall be capitalized as intangible assets when the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use exists;
- Management intends to complete the intangible asset and use or sell it;
- It would be possible to use or sell the intangible asset;
- The way the intangible asset will generate probable future economic benefits is demonstrable;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability of management to measure reliably the expenditure attributable to the intangible asset during its development.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Other development expenditure, which does not satisfy the above conditions, is recognized as an expense when incurred. Research and development expenses that were previously expensed to profit and loss are not capitalized as intangible assets in subsequent reporting periods.

Through the date of these financial statements, the development costs did not meet the said conditions and were therefore charged to the statements of comprehensive income as incurred.

2) Intangible assets:

a) Intellectual property acquired by the group is presented at historical cost. As of December 31, 2012, impairment of this asset has not yet begun and it is subject to impairment test at least once a year; see also g. below.

b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3 years) using the straight line method.

g. Impairment of non-monetary assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (cash-generating units). Non-monetary assets, other than goodwill, that were impaired are reviewed for possible reversal of the impairment recognized at each statement of financial position date.

h. Liability in respect of royalties to the Chief Scientist

Grants received from the Chief Scientist Office in the Ministry of Industry, Commerce and Labor (hereinafter - the Chief Scientist) as participation in R&D performed by the company (hereafter - Chief Scientist Grants) fall into the scope of "forgivable loans" as defined in IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance (hereafter - "IAS 20").

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The Company applies the following accounting policy:

- 1) For Chief Scientist grants received commencing January 1, 2009:

If on the date the right for the chief scientist grant is established (hereafter – entitlement date) the management of the company concludes that there is no reasonable assurance that the chief scientist grant to which entitlement has been established, will not be repaid, the company recognizes a financial liability on that date, which is accounted for under the provisions of IAS 39 regarding financial liabilities measured at amortized cost. The difference between the received grant and the fair value of the said financial liability at date of initial recognition is treated as a government grant recognized in income or loss as a reduction of research and development expenses.

In a case where on entitlement date, company's management reaches the conclusion that there is reasonable assurance that the Chief Scientist grant which was received will not be repaid, the grant is carried, at that date, to income or loss as a reduction of R&D expenses. Should in subsequent periods company's management reaches for the first time to the conclusion that there is no reasonable assurance that the chief scientist grant to which entitlement has been established, will not be repaid the company recognizes a financial liability on that date, which is accounted for under the provisions of IAS 39 regarding financial liabilities measured at amortized cost.

- 2) For Chief Scientist grants received through January 31, 2008

In a case where on entitlement date, company's management reaches the conclusion that there is reasonable assurance that the Chief Scientist grant which was received will not be repaid, the group recognizes the provision, which is measured in accordance with the provisions of IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" (hereafter – IAS 37).

In a case where on entitlement date, the company reaches the conclusion that there is reasonable assurance that the chief scientist grant received will not be repaid, and accordingly, on that date the grant is carried to income or loss and in subsequent periods it becomes for the first time more likely than not that the company will be required to pay royalties to the chief scientist, the group recognizes the provision against income or loss, measured in accordance with the provisions set in IAS 37.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Financial assets:

1) Classification

The group has financial assets, which are loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the statement of financial position date. These are classified as non-current assets. The group's loans and receivables are presented among "accounts receivables", "cash and cash equivalents", "restricted cash and "deposits" in the statement of financial position.

2) Recognition and measurement

Ordinary purchases and sales of financial assets are carried at the date of settlement, which is the date in which the asset was delivered to the group or delivered by the group (settlement date). Such investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership associated with these assets. Loans and receivables are presented at depreciated cost based on the effective interest method.

3) Impairment of financial assets

The group assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

j. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of products in process and finished products - on the basis of production costs, as follows – raw materials and supplies component – identified cost.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as noncurrent assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts (hereafter – "provision for impairment" or "provision for doubtful accounts"). As for the method used to determine the provision for impairment and accounting treatment applied thereto in subsequent periods, see i(3) above.

l. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits, other short-term highly liquid investments with original maturities of three months or less.

m. Share capital

Ordinary shares of the company are classified as share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from issuance proceeds.

n. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Trade payable balances are recognized for the first time at fair value and in subsequent periods they are measured at amortized cost, on the basis of the effective interest method.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Current and deferred income taxes

The tax expense for the reported years includes current and deferred taxes. Taxes are recognized in comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted in the countries in which the company and the subsidiary operate and generate taxable income at the statement of financial position date. Management periodically evaluates the tax aspects applicable to its taxable income based on the relevant tax laws and makes provisions where appropriate.

The group recognizes deferred income tax using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for all temporary differences that are tax deductible, up to the amount of the differences that are expected to be utilized in the future, against taxable income.

The company does not recognize deferred taxes on temporary differences arising on investments in subsidiary, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are set off only if:

- An enforceable legal right exists to set off current tax assets against current tax liabilities, and
- Deferred tax assets and liabilities relate to income tax imposed by the same tax authority on the same entity or on different entities that intend to settle the balances on a net basis.

As indicated in note 11c, in the event of a dividend distribution of income originating from tax-exempted approved and benefited enterprises, the distributed amount will be taxed at the rate the company would have been liable to pay had the exemption never granted. In the event of such distribution, the tax charge will be recognized as an expense in comprehensive income.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Employee benefits:

1) Severance pay and pension obligations

Labor laws and agreements in Israel require the company to pay severance pay to employees dismissed or retiring from their employ in certain other circumstances.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Company's severance pay and pension liability in Israel is usually funded by payments transferred to insurance companies or trustee-administered pension funds. These schemes constitute defined contribution plans since the group makes fixed deposits to a separate and independent entity in respect of its employees in Israel.

As part of the company's defined benefit obligation to relevant employees, the amounts of benefits that such employees are entitled to receive upon retirement is based on the number of years of employment and the employee's last monthly salary.

The retirement benefit obligation as recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Amounts funded for retirement benefits are measured at fair value. These amounts funded represent "plan assets", as defined by IAS 19, and therefore deduced from the balance of retirement benefit obligation for statement of financial position presentation.

The Company carries to income actuarial gains or losses arising from changes in actuarial assumptions and from the differences between assumptions made in the past and actual results; those actuarial gains or losses are charged to income in the period in which they were incurred.

2) Share-Based Compensation.

The group operates a number of equity-settled, share-based compensation plans for employees and consultants, under which the group receives services from employees as consideration for equity instruments (options) of the company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the statement of comprehensive income. The total amount to be expensed is determined by reference to the fair value of the options granted:

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the date of each statement of financial position, the group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Upon exercise of options the company issues new shares. The receipts, net of transaction costs that can be allocated directly are charged to share capital (in par value) and to share premium upon exercise of the options.

q. Revenue recognition

The group recognizes income upon installation of the product at the client; in case of a sale to the distributor, the group recognizes revenue upon shipment of the product to the distributor since the risks attached to the inventory are transferred to the distributor.

Service revenues, mainly support services, are charged proportionately over the term of the agreement on upon performance of the service.

Multiple-element arrangements

The group offers certain arrangements whereby a customer can purchase a personal computer together with a one year servicing agreement. Where such multiple-element arrangement exists, the identifiable amount in respect of the service agreement is deferred and recognized as revenue over the service period.

r. Leases

Where assets are leased to customers under operating leased, they are included in the statement of financial position in accordance with their nature and amortized over the estimated useful lives, in a manner similar to other assets owned by the group.

Lease revenues are recognized over the term of the lease using the straight line method.

In respect of lease of Company's offices and other leases - leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to comprehensive income on a straight-line basis over the period of the lease.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Earnings per share

Basic earnings per share is calculated, as a rule, by dividing the profit (loss) attributable to holders of ordinary company shares by the weighted average number of ordinary shares in issue during the period.

In computing the diluted earnings or loss per share, the weighted average of shares that will be issued, assuming all potential dilutive shares are actually converted into shares is added to the average of ordinary shares used for computing the basic earnings per share. The potential shares are taken into account only when the effect is diluting (i.e. reducing the earnings per share), including options to employees and consultants.

t. Provisions

Provisions are measured based on the present value of the projected cash flow that would be required to compute the liability.

As to liability in respect of royalties to the Chief Scientist, see h. above.

Provisions for warranty are recorded in the books of accounts when the group has an existing legal or constructive liability, it is expected that a negative cash flows shall be required to settle the liabilities, and provided it is possible to make a reliable estimate of the amount of the liability.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

u. New International Financial Reporting Standards, Amendments to Standards and New interpretations

- 1) The provisions of new standards and of amendments to existing standards, which came into effect and are mandatory for reporting periods starting January 1, 2012, are not expected to have a material effect on the group's financial statements.
- 2) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company are not expected to have a material effect on the Company's financial statements.

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NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a. Deferred income tax

The group reviews regularly the recoverability of deferred tax assets in its accounts based on historical taxable income, contractual taxable income, the expected timing of reversing of temporary differences and the implementation of tax planning strategies. If the group will not be able to generate sufficient future taxable income, or in the event of a material change in effective tax rates in the period where the relevant temporary differences become taxable or deductible, the group may be required to cancel some of deferred tax assets or to increase the deferred tax liabilities, and as a result, its effective tax rate may increase and adversely affect its results of operations. Had the group required to cancel its deferred tax assets due to lack of expected taxable income for utilizing the temporary difference, the income tax expense would have increased against cancelling the deferred tax asset of NIS 5,373 thousand.

b. Liability to pay royalties to the Chief Scientist

The present value of liabilities for payment of royalties to the Chief Scientist (see note 13) depends on group's assumptions as to its future revenues and interest rate used for discounting. The appropriate discounting rate for liabilities accounted for under IAS 37 is determined based on the discounting rate of risk-free interest on dollar loans, and for liabilities treated under IAS 39, using the company's discount rate. Discount rate is used in determining the present value of the estimated future cash flows expected to be required to cover the debt to the Chief Scientist. Had the interest rate for discounting been changed by 1% then the provision in respect of Chief Scientist grants would have increased or decreased by NIS 122 thousands and NIS 188 thousands, respectively as of December 31, 2012 and 2011.

c. A provision for impairment of inventory

The decrease in value of the group's spare parts inventory is determined based on group's past experience and the projection as to future use of spare parts; also, this estimate may change as a result of technological changes, see note 8.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management:

1) Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by a finance department of the group under policies approved by group management and by the Board of Directors. Group's finance department identifies, evaluates and hedges financial risks. The board of directors of the company provides principles for overall risk management.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

(a) Market risks:

Foreign exchange risks

The group operates internationally and is exposed to foreign exchange risks arising from exposures to various currencies, primarily with respect to the U.S dollar. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in foreign currency and net foreign investments.

Management has set up a policy to require the company to manage its foreign exchange risk against its functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated and measured in a currency that is not the entity's functional currency.

For that purpose, the group holds a continuous follow-up to the linkage balance and to the foreign currency liabilities-assets ratio and reduces potential exposures through natural hedges. The group works to maintain an amount that approximates the amount of assets and liabilities that are exposed to changes in the exchange rates and links, where possible, its selling prices to clients to the exchange rate of the currency in which the acquisition of the raw material is performed.

The company's finance department risk management policy is to hedge some of the expected cash flows in each principal foreign currency.

As of December 31, 2012, if the functional currency had strengthened by 10% against the US dollar with all other variables held constant, net income would have been higher by NIS 468 thousands (2011 – income would have decreased by NIS 467 thousands), mainly as a result of foreign exchange expenses in respect trade receivable items of the company.

Cash flow interest rate risk

The company received grants from the Chief Scientist in respect of participation in research and development carried out by the company. In accordance with the terms of the grants, royalties would be paid to the Chief Scientist out of revenues derived from sale of products, in the development of which the Chief Scientist participated; the amount would be linked to the dollar with the addition of annual interest at Libor rate.

As to the effect of the rate of discount in respect of provision for royalties to the Chief Scientist, see note 3b.

b) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks (see also note 4b1), as well as credit exposures to receivables, including outstanding receivables and committed transactions.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

c) Liquidity risk

The company does not utilize credit facilities from banks. The company has a liability to pay royalties to the Chief Scientist; this liability is conditional on future sales.

Management monitors rolling forecasts of the group's liquidity reserve composed of cash and cash equivalents on the basis of expected cash flow. This is generally carried out at group level, in accordance with procedures and restrictions set by the group.

In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these cash flows.

All of the group's financial liabilities are repayable within 12 months, except for liabilities to the Chief Scientist accounted for under IAS 39. The carrying amounts of balances repayable within 12 months approximate their fair value since the effect of discount in this period of time is immaterial. Liabilities to the Chief Scientist are expected to mature in 2013-2019.

2) Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stockholders and to maintain an optimal capital structure to reduce the cost of capital.

The group may take certain actions in order to maintain or adjust in capital structure, including issuance of new shares..

b. Financial instruments:

Credit quality of financial assets

1) Based on ratings of the rating agency Standard & Poor

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
AA+	9,847	10,455
A-	838	1,222
No S&P rating (*)	2,610	
	<u>13,295</u>	<u>11,677</u>

(*) Belmont Savings Bank.

In the years ended December 31, 2012 and 2011, the terms were not reset for any financial assets of the financial assets that are not overdue.

2) Concentration of credit risks

Most of the group's sales are made to several customers in the USA. As of the date of these financial statements, the company has no reliance on one customer whose loss may materially affect its business. In the opinion of the group, the group's trade balances do not represent a substantial concentration of credit risks at December 31, 2012.

In the 2012 and 2011 consolidated financial statements, the company did not have revenues from a major customer.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - CASH AND CASH EQUIVALENT:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Cash in bank and cash on hand	4,330	2,503
Short-term bank deposits	8,965	9,174
	<u>13,295</u>	<u>11,677</u>

The currencies in which the cash and cash equivalents are denominated or to which they are linked are:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
NIS	8,966	9,216
US dollar	3,988	2,068
Euro	299	377
UK Pound	42	16
	<u>13,295</u>	<u>11,677</u>

The carrying amounts of the cash and cash equivalents approximate their fair values since the effect of capitalization is immaterial.

NOTE 6 - ADDITIONAL DETAILS REGARDING INVESTMENTS IN INVSTEE

The amount of investment in the subsidiary (fully owned by the company) is computed as a net amount of the total assets, based on the consolidated financial statements, net of all liabilities presented in the entity's consolidated financial statements as of December 31, 2012 and 2011, is NIS 2,749 thousands and 2,379 thousands, respectively.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - ACCOUNTS RECEIVABLE:**a. Trade receivable accounts**

As of December 31, 2012 and 2011, the trade receivable balance is composed only of open accounts.

As of December 31, 2012 and 2011, receivables in the total amount of NIS 3,190 thousands, NIS 3,394 thousands, respectively are overdue from their contractual repayment date. These balances are in respect of several independent clients; based on group's experience in recent years, these clients fully repaid their debts. In 2012, the company recorded a provision for doubtful accounts in the total amount of NIS 132 thousands in respect of a debt balance of a company client. In 2011 and 2010 no expenses were recognized in respect of bad debts and doubtful accounts. The aging of those receivable balances is as follows:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Up to three months	2,985	3,261
More than three months	205	133
	<u>3,190</u>	<u>3,394</u>

b. Other:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Employees	9	10
Prepaid expenses	171	201
Institutions	310	163
Income receivable	24	
	<u>514</u>	<u>374</u>

As of December 31, 2012 and 2011, the group's books of accounts do not include a provision for doubtful accounts in respect of other receivables.

c. The carrying amounts of "trade receivables" and "other receivable" are denominated in the following currencies:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Trade receivables:		
NIS	527	
US dollar	4,051	6,622
Euro	16	104
	<u>4,594</u>	<u>6,726</u>
Other receivable:		
NIS	188	162
US dollar	23	11
	<u>211</u>	<u>173</u>

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - ACCOUNTS RECEIVABLE (continued):

The maximal exposure to credit risks as of date of statement of financial position in respect of accounts receivable balances equals the carrying amount of the whole of accounts receivable group, net of the non-monetary balances (stemming from prepaid expenses), i.e., a total of NIS 4,397 thousands and NIS 6,899 thousands as of December 31, 2012 and 2011, respectively. The group does not hold any securities in respect of those receivable balances.

NOTE 8 - INVENTORY

Composed as follows:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Raw materials and spare parts*	3,567	2,792
Finished goods	334	521
	<u>3,901</u>	<u>3,313</u>

This balance includes a provision for impairment of spare parts inventory amounting to NIS 1,717 thousands and NIS 1,630 thousands as of December 31, 2012 and 2011, respectively. The amounts of impairment included in the cost of sales item in the statement of income for the years 2012, 2011 and 2010 are NIS 87 thousands, NIS 668 thousands, NIS 462 thousands, respectively, see also not 3c.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - PROPERTY AND EQUIPMENT

The composition of fixed assets and the related accumulated depreciation, arranged by principal groupings, and the movement therein in 2012, were as follows:

	C o s t					Accumulated depreciation					Depreciated cost	
	Balance as of beginning of year	Additions	Disposals	Currency translation differences	Balance as of end of year	Balance as of beginning of year	Additions	Disposals	Currency translation differences	Balance as of end of year	December 31	
	NIS in thousands					NIS in thousands					2012	2011
Machinery and equipment	2,398	524	-	56	2,978	1,895	216	-	77	2,188	790	503
Furniture, office equipment and computers	1,881	100	-	(4)	1,977	1,468	149	-	(4)	1,613	364	413
Leasehold improvements	201	-	-	-	201	165	20	-	-	185	16	36
	<u>4,480</u>	<u>624</u>	<u>-</u>	<u>52</u>	<u>5,156</u>	<u>3,528</u>	<u>385</u>	<u>-</u>	<u>73</u>	<u>3,986</u>	<u>1,170</u>	<u>952</u>

The composition of fixed assets and the related accumulated depreciation, arranged by principal groupings, and the movement therein in 2011, were as follows:

	C o s t					Accumulated depreciation					Depreciated cost	
	Balance as of beginning of year	Additions	Disposals	Currency translation differences	Balance as of end of year	Balance as of beginning of year	Additions	Disposals	Currency translation differences	Balance as of end of year	December 31,	
	NIS in thousands					NIS in thousands					2011	2010
Machinery and equipment	2,377	39	108	90	2,398	1,640	330	101	26	1,895	503	737
Furniture, office equipment and computers	1,799	75	5	12	1,881	1,322	137	-	9	1,468	413	477
Leasehold improvements	201	-	-	-	201	145	20	-	-	165	36	56
	<u>4,377</u>	<u>114</u>	<u>113</u>	<u>102</u>	<u>4,480</u>	<u>3,107</u>	<u>487</u>	<u>101</u>	<u>35</u>	<u>3,528</u>	<u>952</u>	<u>1,270</u>

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - PROPERTY AND EQUIPMENT (continued):

The composition of fixed assets and the related accumulated depreciation, arranged by principal groupings, and the movement therein in 2010, were as follows:

	C o s t					Accumulated depreciation				Depreciated cost December 31,		
	Balance as of beginning of year	Additions	Disposals	Currency translation differences	Balance as of end of year	Balance as of beginning of year	Additions	Disposals	Currency translation differences			Balance as of end of year
	NIS in thousands					NIS in thousands						
Machinery and equipment	2,035	343	-	(1)	2,377	1,407	175	-	58	1,640	737	628
Furniture, office equipment and computers	1,699	109	-	(9)	1,799	1,184	146	-	(8)	1,322	477	515
Leasehold improvements	201	-	-	-	201	125	20	-	-	145	56	76
	3,935	452	-	(10)	4,377	2,716	341	-	50	3,107	1,270	1,219

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - PROPERTY AND EQUIPMENT (continued):

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
In Israel	754	574
Abroad	416	378
	<u>1,170</u>	<u>952</u>

NOTE 10 - INTANGIBLE ASSETS:

Composed as follows:

	December 31	
	2012	2011
	N I S i n t h o u s a n d s	
Patent rights(a)	484	484
Software(b)	312	412
	<u>796</u>	<u>896</u>

- a) In September 2008, the group and the cancer research center, MD Anderson of Houston, Texas, entered into an agreement for the exercise of the group's right of first refusal, relating to the purchase of an exclusive license to patents on genetic precursors used for detection of cancer cells in phlegm samples taken from people who are at risk of developing lung cancer. Under the agreement, the right for exclusive use of the patent is for 15 years. Also, after two years from the effective date for the acquisition of the license, MD Anderson has the right to terminate the group's exclusive right to use the patent at any given time if the group is unable to provide written prove that it has commercialized or tried to commercialize a product that is relevant for the patent (see also note 14b). This asset is used as part of the process of research and development related to lung cancer as above, is not amortized but is subject to annual impairment test.
- b) In December 2011, the company and Digital Scientific UK Limited ("DS UK") signed an agreement for the acquisition of rights of the Karyotype software for the purpose of integrating this software into the company's scanning systems. Under the agreement, the company paid a one-off amount at time of signing the agreement and also undertook to pay royalties on basis of its sales in the next three years; a minimal amount of royalties was set in the agreement. This asset is amortized using the straight line method over its useful life (3 years).

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11- TAXES ON INCOME:

a. Corporate taxation in Israel:

The income of the Company from "approved enterprises and "benefited enterprises" is taxed at rates specified in section c blow. The remaining income of the company is taxed at the regular rate (2010 – 25%; 2011 – 24%; 2012 and thereafter – 25%).

b. Subsidiary outside Israel

The subsidiary incorporated in the USA is assessed for tax under the tax laws in its country of residence.

The tax rates applicable to the subsidiary under the US tax laws are Federal graduated corporate tax of app. 35% with the addition of a state tax and a local tax at rates that vary in accordance with the state and city in which the company runs its business.

As a general rule, intercompany transactions between the company and the subsidiary outside Israel are subject to the provisions and reporting requirements of the Income Tax Regulations (Determination of Market Conditions), 2006.

c. Encouragement Laws in Israel:

1) Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - the law).

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the "approved enterprise" or "benefited enterprise" status granted to certain of its enterprises the company is entitled to various tax benefits.

The main tax benefits available to the abovementioned companies are:

a) Reduced tax rates

During the period of benefits - 7 years or 10 years as appropriate - commencing in the first year in which the company earn taxable income from the approved or benefited enterprises (provided the maximum period to which it is restricted by law has not elapsed), the following reduced tax rates or tax exemptions apply to such income from the approved or benefited enterprises they own:

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):

Tax exemption on income from certain approved enterprises or certain benefited enterprises, which had previously opted for the "alternative benefits" track (involving the waiver of investment grants), the length of the exemption period is 2 years, after which the income from these enterprises is taxable at the rate of 25% for additional 5 years.

That part of the income eligible for tax benefits as above is based on the ratio between the turnover attributed to the "approved enterprise" or "benefited enterprise" and the overall turnover of the company.

The period of benefit in respect of the company's principal approved enterprise has not yet commenced.

In the event of a cash dividend distribution (including such a dividend from the income of a dissolving benefited enterprise) from the tax-exempt income, the company will be required to pay tax at a gross rate of 25%.

b) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon the company's fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and the company may be required to refund the amount of the benefits, in whole or in part, with the addition of interest. As of December 31, 2012, the company met the said conditions.

2) Amendment to Israel Capital Investment Encouragement Law, 1959

The Economic Policy Law for 2011 and 2012 (Legislation Amendments), 2011, which was approved by the Knesset (the Israeli Parliament) on December 29, 2010 includes an amendment to the Israel Capital Investments Encouragement Law, 1959 (hereinafter - the amendment). The amendment became effective on January 1, 2011.

This amendment includes benefit programs replacing the ones within the scope of the Encouragement Law.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):

Tax rates applicable to the company (whose plant is not located in development area A) under the law are:

"Benefited enterprise"	
2011-2012	15%
2013-2014	12.5%
2015 and thereafter	12%

Benefits to preferred enterprise will be given indefinitely compared to benefits to special preferred enterprise which are given for 10 years. The benefits are given for a period of 10 years. The benefits will be provided to companies meeting the criteria in the amendment, which in essence are similar to the provisions of the law prior to the amendment. A company can elect the year of election not later of the 2012 tax year, so long as the minimum qualifying investment has started through the end of 2010. Each year, in the benefits period, the company will be able to irreversibly benefit from the above tax rates.

The balance of deferred taxes was computed under the assumption that the company will transition to be governed by this amendment.

d. Carryforward losses

Deferred tax assets on carryforward losses are recognized if the exercise of the relevant tax benefit is expected in the foreseeable future.

Carryforward losses amount NIS 34,733 thousands and NIS 36,953 thousands as of December 31, 2012 and 2011, respectively. As of December 31 2012 and 2011, the company did not have carryforward losses for which no deferred taxes have been created.

Capital loss on securities (including losses on securities from previous years exercised after January 1, 2006) not set off for tax purposes and carried forward, and other capital losses carried forward amount as of December 31, 2010 and 2011 to NIS 189 thousands and NIS 160 thousands, respectively. These losses may be utilized against capital gains (including, since 2006, gains on listed shares) and from the 2010 tax year, current capital losses on securities are deductible against interest and/or dividend income.

The company did not recognize deferred taxes on the carryforward capital losses whose utilization is not expected in the foreseeable future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):**e. Deferred income tax:**

- 1) An analysis of deferred tax assets and liabilities are as follows:

	December 31	
	2012	2011
	NIS in thousands	
Deferred tax assets:		
Deferred tax assets expected to be recoverable after more than 12 months after date of statement of financial position	4,769	4,992
Deferred tax assets expected to be recoverable within 12 months after date of statement of financial position	620	438
	<u>5,389</u>	<u>5,430</u>
Deferred tax liabilities:		
Deferred tax assets expected to be recoverable within 12 months after date of statement of	<u>(115)</u>	
	<u>(115)</u>	<u>(117)</u>
Net deferred tax	<u>5,274</u>	<u>5,313</u>

- 2) The composition of deferred taxes as of the date of these financial statements and the changes thereof in these years are as follows:

	Depreciable assets	Provision for royalties to chief scientist	Other*	For carryforward losses (see d above)	Total
	NIS in thousands				
Balance at January 1, 2011	(94)	834	448	952	2,140
Changes in 2011					
amount carried to income	(130)	(288)	144	3,447	3,173
Balance at December 31, 2011	<u>(224)</u>	<u>546</u>	<u>592</u>	<u>4,399</u>	<u>5,313</u>
Changes in 2012					
amount carried to income	-	19	137	(195)	(39)
Balance at December 31, 2012	<u>(224)</u>	<u>565</u>	<u>729</u>	<u>4,204</u>	<u>5,274</u>

* Mainly due to research and development expenses.

- 3) Deferred taxes are computed based on a tax rate of 12%-12.5%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):**f. Income tax included in comprehensive income for the reported periods:**

1) As follows:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
Current taxes:			
Current taxes on income of the reported year	269	362	197
Expenses (income) on previous years	(77)		214
	<u>192</u>	<u>362</u>	<u>411</u>
Change in deferred taxes	39	(3,173)	(2,140)
Income tax expenses (income)	<u>231</u>	<u>(2,811)</u>	<u>(1,729)</u>

Current assets on income generated in the reported year are for the subsidiary only. In 2012, current taxes are computed based on an average tax rate of 40% (2011 – 33%; 2010 – 38%).

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 13c above) and the actual tax expense:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
Income before income tax, as reported in the consolidated statement of income	<u>1,673</u>	<u>3,765</u>	<u>3,507</u>
Theoretical tax on this income or loss	418	904	877
Increase in taxes due to different tax rates of foreign subsidiary	101	156	118
Decrease arising on recognition deferred taxes on carryforward losses and timing differences	-	(4,110)	(1,776)
Increase (decrease) resulting from deferred taxes created at different tax rates	(175)	204	(363)
Non-deductible expenses	(56)	25	43
Other	-	10	(129)
Decrease in taxes from utilization in the reported of tax losses carried forward from previous years for which no deferred taxes have been recognized in the past		-	(713)
Taxes on previous years	(77)	-	214
Taxes on income	<u>231</u>	<u>(2,811)</u>	<u>(1,729)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - TAXES ON INCOME (continued):**g. Tax assessments**

As a general rule, self tax assessments filed by the company and the subsidiary through the year 2008 are considered to be final (subject to date of filing the tax returns and the periods of limitation under the law).

h. Value Added Tax

The company is registered for VAT purposes as an "authorized dealer".

NOTE 12 - ACCOUNTS PAYABLE AND ACCRUALS:

		December 31	
		2012	2011
		NIS in thousands	
a. Trade:			
	Domestic open accounts	733	434
	Open accounts abroad	266	416
	Checks payable	706	467
		<u>1,705</u>	<u>1,317</u>
	NIS	852	554
	US dollar	853	535
	Euro	-	228
		<u>1,705</u>	<u>1,317</u>
b. Other:			
	Payroll and related expenses	791	1,601
	Provision for vacation and recreation pay	534	424
	Accrued expenses	475	307
	Other	101	98
		<u>1,901</u>	<u>2,430</u>

The fair value of current liabilities approximates their carrying amounts since the effect of discounting is immaterial.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – PROVISIONS AND OTHER LIABILITIES:**Changes in the provisions are as follows:**

	Royalties to Chief Scientist (a)*	Provision for warranty (b)	Total
	NIS in thousands		
Balance at January 1, 2012	5,885	318	6,203
Changes during the year ended December 31, 2012:			
Amounts charged to statement of income:			
Additional provisions and exchange differences	162	(61)	101
Amounts paid during the period in respect of royalties	(999)	-	(999)
Balance at December 31, 2012	<u>5,048</u>	<u>257</u>	<u>5,305</u>

* Including the royalties' component payable to the Chief Scientist which is included among current liabilities.

a) Royalties to the Chief Scientist

The company is committed to pay royalties to the Chief Scientist on proceeds from sales of products of which the Chief Scientist participated in the research and development by way of grants. At the time the grants were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed as above, the company is not obligated to pay any such royalties.

Under the terms of the company's funding from the Chief Scientist as above, royalties of 3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the company (dollar linked) with the addition of annual interest at a rate based on LIBOR (see also note 3b).

b) Provision for warranty

The group usually offers its clients one-year warranty on the products it sells. Group's management makes an estimate of the provision relating to the warranty claims in respect of future product warranty, based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES:**a. Operating lease agreements:**

- 1) The company entered into an operating lease agreement for a building it uses; the agreement terminates in 2017. The annual lease fees linked to the CPI amount to NIS 552 thousands per years
- 2) The group is a party to operating lease agreements for vehicles its uses; the agreements will expire in 2013 through 2015. The lease payments are linked to the CPI.

The projected lease fees for 2013-2015 for the vehicles the company uses are as follows:

	<u>NIS in thousands</u>
2013	163
2014	82
2015	32

- 3) To secure its liabilities under the rent agreement, the group provided the lessor with autonomic Bank Hapoalim guarantees in the total amount of NIS 184 thousands. The term of the guarantees is extended every year and also promissory notes in the total amount of NIS 767 thousands in favor of the lessor and without repayment date. For the purpose of providing the bank guarantees, the group pledged in favor of Bank Hapoalim a NIS deposit held by the group in this bank, in the total amount of NIS 108 thousands.

b. Intangible assets:

- 1) As to agreement signed in September 2008 between the company and the cancer research center MD Anderson of Houston Texas for exercise of the group's right of first refusal, which the group had for the purchase of the exclusive license in rights to patents on genetic precursors used for detection of cancer cells in mucus samples taken from people who have risk of developing lung cancer, see note 10 above.

Under the agreement, the group has undertaken to pay all of MD Anderson's expenses relating to attainment of the patent rights, up to an amount of U.S \$ 75 thousands as well as future expenses of MD Anderson relating to the matter.

The group has also undertaken to pay royalties on a current basis at the rate of 3% of the sales as well as annual non-refundable amounts of U.S \$ 15 thousands and U.S \$ 20 thousands at the end of the first and the second years, respectively, from the effective date for purchase of the license and U.S \$ 30 thousands at the end of the third years and the remaining years to the end of the term of the agreement.

- 2) As to agreement signed in December 2011 between the company and Digital Scientific UK Limited for the acquisition of the rights in the Karyotype software, see note 10b above.

c. Cooperation agreement

On November 28, 2012, the company and Abbott Molecular Inc. signed a cooperation agreement for the development of an automatic scanning solution for the ALK test.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EMPLOYEE RIGHTS UPON RETIREMENT:

- a. Israeli labor laws and agreements require the company to pay severance pay and pensions to employees dismissed or retiring from their employ in certain other circumstances.
- b. The company's pension and severance pay liability to its employees in Israel is covered partly by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the statements of financial positions.
- c. The company in Israel has a liability for payment of severance pay to its employees; these liabilities constitute defined benefit plans. To cover this liability the subsidiaries deposit amounts in funds and managerial insurance policies. The net amount of the liability for termination benefits, included in the statement of financial position, reflects the difference between the liability for termination benefits and the plan assets, as described below:
- d. **Severance pay liability under defined benefit plan**

The amounts presented in the statement of financial position were determined as follows:

	December 31			
	2012	2011	2010	2009
	NIS in thousands			
Present value of liabilities funded	1,260	1,138	1,308	1,320
Fair value of plan assets	(1,160)	(1,079)	(1,236)	(1,268)
Balance of liability presented in the statement of financial position	<u>100</u>	<u>59</u>	<u>72</u>	<u>52</u>

The changes in the retirement benefit obligation that constitute a defined benefit plan during the reported period are as follows:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Balance at beginning of year	1,138	1,308	1,320
Current service cost	142	154	194
Interest costs	47	50	52
Total severance pay paid	(140)	(56)	(440)
Application of Section 14 to an employee		(350)	
Actuarial losses	73	32	182
Balance at end of year	<u>1,260</u>	<u>1,138</u>	<u>1,308</u>

The changes in the fair value of plan asset during the reported periods:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Balance at beginning of year	1,079	1,236	1,268
Employer contributions	169	269	280
Total severance pay paid	(136)	(56)	(425)
Application of Section 14 to an employee		(298)	
Amounts transferred to pension	(7)	(10)	(7)
Expected return on plan assets	44	52	58
Actuarial gains (losses)	11	(114)	62
Balance at end of year	<u>1,160</u>	<u>1,079</u>	<u>1,236</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EMPLOYEE RIGHTS UPON RETIREMENT (continued):

Amounts recognized in the statement of comprehensive income for the reported periods are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>		
Current service cost	142	154	194
Interest cost	47	50	52
Expected return on plan assets – net of amounts transferred to pension	(37)	(42)	(51)
Net actuarial losses recognized during the year	62	146	120
Total included in payroll expenses	<u>214</u>	<u>308</u>	<u>315</u>

Actual return on plan assets amounted in the year ended December 31, 2012, 2011 and 2010 to NIS 55 thousands, NIS 147 thousands, NIS 121 thousands, respectively.

Set forth below are the principal actuarial assumptions taken into account for the defined contribution plans:

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
	<u>NIS in thousands</u>	
Discount rate	3.3%	4.15%
Rate of increase in CPI	2.2%	2.4%
Expected rates of return on plan assets	3.3%	4.15%
Expected rates of retirements	13%	13%
Projected rates of remuneration growth	3%	3%

The expected return on plan's assets is determined taking into account the available projected returns on assets that are used as the basis for the current investment policy. Assumptions as to future mortality rates are determined in accordance with statistics published and past experience in Israel.

Projected deposits in post-retirement defined benefit plans for the year ended December 31, 2012 amount to NIS 169 thousands.

e. Employee benefits expenses:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>		
Payroll and related expenses*	10,316	10,207	8,208
Benefit in respect of share options granted to employees	91	105	78
	<u>10,407</u>	<u>10,312</u>	<u>8,286</u>
Number of employees s of December 31	<u>30</u>	<u>26</u>	<u>24</u>

* The amount charged as an expense in respect of a defined contribution plan in 2012 2011 and 2010 is NIS 299 thousands, NIS 235 thousands, NIS 115 thousands, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - EQUITY:**a. Share capital:**

- 1) Composed as follows:

Share capital is composed of shares of NIS 0.01 par value, as follows:

	Number of shares	
	December 31	
	2012	2011
Authorized share capital		
Ordinary shares	40,000,000	40,000,000
Issued and paid share capital		
Ordinary shares*	13,371,135	13,351,803
	NIS	
	December 31	
	2012	2011
Authorized share capital		
Ordinary shares*	400,000	400,000
Issued and paid share capital		
Ordinary shares	133,518	133,518

* The shares are traded in the Tel-Aviv Stock Exchange at a price of NIS 2.10 per NIS 0.01 share – as of December 31, 2012.

- 2) The ordinary shares confer their holder voting rights and a right to participate in shareholders' meetings (where the owner of a NIS 0.01 par value share has one vote), the right to receive profits and a right to participate in excess of assets upon liquidation of the company.

b. Changes in the capital equity:

On April 25, 2010, the company issued to a company shareholder by way of a material private placement 700,000, ordinary shares of NIS 0.01 par value each. Allocation proceeds amounted to NIS 1,120 thousand. Issuance expenses amounted to NIS 81 thousand.

c. Share-based payment:

- 1) On July 22, 2010, company employees were granted 275,000 options under the terms of the fourth plan, out of which 50,000 options were granted to CEO and a company director and 25,000 to Deputy CEO and a director. The exercise price of these options is NIS 1.55 per share.

The theoretic economic value of the options granted as part of the fourth plan- computed according to the Black-Scholes option-pricing model as of date of grant - is approximately NIS 157 thousands. This value is based on the following assumptions: as of the date of grant: expected volatility of 88%; average risk-free interest rate of 0.45%; expected term until exercise of 1.68 years and expected dividend at 0%. Volatility is based on historical volatility of the company's share price for periods matching the expected term of the option until exercise. Options will vest in three installments: on July 2011, 2012 and 2013, respectively.

The price of company share in the Stock Exchange close to actual allotment of the said options was NIS 1.41 per share.

As of December 31, 2012 a total of 181,667 options are exercisable. Each option not exercised would expire in July 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - EQUITY (continued):

- 2) On July 19, 2011 company employees were granted 162,500 options under the terms of the fourth plan. 40,000 options out of the said options were granted to the company's CEO and director and 22,500 options were granted to the deputy CEO and director. The exercise price of these options is NIS 2.32 per share.

The theoretic economic value of the options granted - computed according to the Black-Scholes option-pricing model as of date of grant - is approximately NIS 131 thousands. This value is based on the following assumptions: expected volatility of 64%, annual average discount rate of 4.37%, expected term until exercise of up to 1.73 years and dividend at the rate of 0%. Volatility is based on historical volatility of the company's share price for periods matching the expected term of the option until exercise. Options will vest in three equal batches: on July 2012, 2013 and 2014, respectively.

The price of company share in the Stock Exchange close to actual allotment of the said options was NIS 2.196 per share.

As of December 31, 2012, 81,250 options are exercisable. Each option that will not be exercised will expire in July 2016.

- e. The following table summarizes the options granted to employees in the years 2010-2012:

	Year ended December 31					
	2012		2011		2010	
	Number of options	Weighted average exercise price in NIS	Number of options	Weighted average exercise price in NIS	Number of options	Weighted average exercise price in NIS
Outstanding at beginning of year	705,567	0.55	738,024	3.03	621,357	3.59
Granted		-	162,500	2.32	275,000	1.55
Expired	35,568	25.01	8,434	2.35	100,759	2.89
Exercised	19,332	1.22	186,523	0.01	57,574	0.45
Outstanding at end of year*	650,667	2.72	705,567	0.55	738,024	3.03
Exercisable at end of year	533,084	2.67	431,706	4.84	427,691	4.02

- * The balance of the options granted prior to March 15, 2005 but after November 7, 2002 and in respect of which the measurement provisions of IFRS 2 were applied retroactively (in accordance with the transitional provisions of the standard), and which are included in the quantity of outstanding options at the end of the period is 62,000 options, 73,900 options and 259,857 options as of December 31, 2012, 2011 and 2010, respectively.

The overall consideration received in these exercises amounts to NIS 24 thousands, NIS 3 thousands and NIS 26 thousand in the years ended December 31, 2012, 2011 and 2010, respectively.

The weighted average of share price on exercise date in 2012, 2011 and 2010 was NIS 1.22, NIS 0.01 and NIS 0.45 per share, respectively.

The options exercised during 2012 lead to the issuance of 19,332 shares (2011 - 186,523 shares; 2010 - 57,574 shares).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - EQUITY (continued):

Set forth below are data as to the exercise price and the remaining contractual lives of the outstanding options at the end of the year:

Year ended December 31								
2012			2011			2010		
Number of options outstanding at end of year	Range of exercise prices	Weighted average of remaining contractual life	Number of options outstanding at end of year	Range of exercise prices	Weighted average of remaining contractual life	Number of options outstanding at end of year	Range of exercise prices	Weighted average of remaining contractual life
345,667	0.01-1.55	3.19	378,667	0.01-1.55	3.15	573,524	0.01-1.55	2.81
302,000	1.56-5.96	3.60	312,000	1.56-5.96	3.11	149,500	1.56-5.96	3.42
3,000	5.97-68.24	3.00	14,900	5.97-69.85	0.88	9,000	5.97-68.96	2.14

f. Options to consultants:

The amounts of the expenses recognized in the company's statements of income for the reported years in respect of the grants of options to the consultant are immaterial.

The number of options granted to consultants and exercisable as of December 31, 2012 is 280 options (as of December 31, 2011 and 2010 – 280 and 140,280 options, respectively).

NOTE 17 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS:**a. Revenues**

	Year ended December 31		
	2012	2011	2010
NIS in thousands			
Revenues from sale of systems and disposable products	19,368	20,489	20,729
Revenues from lease of systems and software licenses	463	108	181
Revenues from service contracts	6,216	5,572	4,408
	26,047	26,169	25,318

* Including revenues from sale of systems that were leased.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued):**Revenues by geographic areas:**

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
USA	19,751	23,641	22,023
Israel	454		
Other countries	5,842	2,528	3,295
	<u>26,047</u>	<u>26,169</u>	<u>25,318</u>
b. Cost of sales:			
Purchase of materials	4,743	4,286	6,498
Payroll	2,548	2,112	1,736
Other expenses	1,411	1,370	2306
Decrease (increase) in finished goods inventory	187	905	(707)
	<u>8,889</u>	<u>8,673</u>	<u>9,833</u>
c. Research and development expenses:			
Payroll and related expenses	2,863	3,019	2,727
Expenses relating to clinical trial	1,608	18	
Depreciation	289	238	270
Professional fees	288	212	310
Expenses relating to patents	135	128	86
Travel abroad	34	64	42
Other	183	201	91
	<u>5,400</u>	<u>3,880</u>	<u>3,526</u>
d. Selling and marketing expenses:			
Payroll and related expenses	3,398	3,486	3,040
Advertisement and sales promotion	273	258	110
Professional services	718	365	208
Travel	779	827	805
Office maintenance	421	380	422
Depreciation	133	76	71
Other	68	329	237
	<u>5,790</u>	<u>5,721</u>	<u>4,893</u>
e. General and administrative expenses:			
Payroll and related expenses	1,507	1,695	1,484
Professional fees	1,019	802	650
Communication	93	118	129
Rent and office maintenance	882	790	741
Subsistence, entertainment and travel	407	326	314
Expenses relating to doubtful accounts	132		
Insurance	60	63	77
	<u>4,100</u>	<u>3,794</u>	<u>3,395</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued):

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
f. Other expenses (income):			
Sublease income	(51)	(33)	(7)
Exchange difference expenses (income)	242	(320)	395
	<u>191</u>	<u>(353)</u>	<u>388</u>
g. Financing expenses:			
Bank commissions	53	86	39
Financing component in provision for royalties to chief scientist	200	247	321
	<u>253</u>	<u>333</u>	<u>360</u>
h. Financing income - interest on deposits	<u>208</u>	<u>171</u>	<u>19</u>

NOTE 18 - EARNING (LOSS) PER SHARE:**a. Basic**

Basic earnings per share are calculated, by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue.

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
Income attributed to company's owners - in thousands of NIS	<u>1,442</u>	<u>6,576</u>	<u>5,236</u>
Weighted average of number of shares used in computation of earnings per share	<u>13,362,549</u>	<u>13,299,547</u>	<u>12,708,261</u>
Basic income per share (in NIS)	<u>0.11</u>	<u>0.49</u>	<u>0.41</u>

b. Diluted

When calculating the diluted loss per share the company adjusts the average number of shares outstanding that was used to calculate the basic earnings per share to include all the ordinary shares that potentially have a dilutive effect.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 - EARNING (LOSS) PER SHARE (continued):

As to options for shares, a calculation is made to determine the number of shares that would have been purchasable at fair value (set at the average annual market price of company's shares) using the monetary value of the options, in accordance with the terms of the options that have not yet vested. The number of shares computed as above is compared to the number of shares that would have been issued assuming the conversion of the options.

	Year ended December 31		
	2012	2011	2010
Weighted average number of shares used in computation of basic earnings per share	13,362,549	13,299,547	12,708,261
Adjustments in respect of incremental shares in respect of exercise of options in computation of earnings per share	110,676	292,986	571,329
Weighted average of number of shares used in computation of diluted earnings per share (in NIS)	<u>13,473,225</u>	<u>13,592,533</u>	<u>13,279,590</u>
Diluted earnings per share	<u>0.11</u>	<u>0.48</u>	<u>0.39</u>

NOTE 19 – TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES AND RELATED PARTIES

"Interested parties" - as defined in the Israeli Securities Regulations, 2010.

"Related Parties" – As defined in IAS 24 – "Related Party Disclosures".

Key management personnel – included together with other entities in the said definition of "related parties" in IAS 24, include the members of the board of directors.

a. Transactions with interested parties and related parties:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
Benefits to interested parties:			
Payroll and related expenses to interested party employed in the group	1,757	1,681	1,644
Share based payments	34	36	31
Number of persons to which the benefits relate	2	2	2
Remuneration to directors not employed in the group	285	255	250
Number of persons to which the benefits relate	6	6	6
	<u>2,076</u>	<u>1,972</u>	<u>1,925</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 19 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES AND RELATED PARTIES (continued):

b. Balances with interested parties and related parties:

	December 31	
	2012	2011
	NIS in thousands	
Accounts payable and accruals (does not bear interest)	<u>97</u>	<u>113</u>

NOTE 20 - SUBSEQUENT EVENTS

8,500 employee options granted to an office holder in the group expired in February and March 2013; 48,333 such options were exercised in the said months. Total consideration arising from exercise was NIS 65 thousands.

