

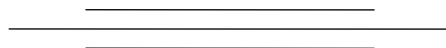
TRANSLATION FROM HEREW ORIGINAL

BIO VIEW LTD.
2013 ANNUAL REPORT

BIO VIEW LTD.
2013 ANNUAL REPORT

TABLE OF CONTENTS

	Page
AUDITORS' REPORT	2
AUDITORS' REPORT TO SHAREHOLDERS OF BIO VIEW LTD ON AUDITING COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING	3
FINANCIAL STATEMENTS – IN NEW ISRAELI SHEKELS (NIS):	
Statement of financial position	4
Statements of income (loss)	5
Statement of comprehensive income (loss)	6
Statement of changes in equity	7
Statement of cash flows	8-9
Notes to financial statements	10-46





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, 2013 and 2012 and the related statements of income (loss), comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012 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, 2013, 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, 2013 and our report dated March 20, 2014 includes an unqualified opinion on the effectiveness of such components.

Tel-Aviv, Israel
March 20, 2014

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, 2013. 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, 2013.

We also audited the Company's financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, in accordance with auditing standards generally accepted in Israel, and our report, dated March 20, 2014 included an unqualified opinion on those financial statements

Tel-Aviv, Israel
March 20, 2014

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2013	2012
Assets		NIS in thousands	
CURRENT ASSETS:			
Cash and cash equivalents	5	9,859	13,295
Accounts receivable:	7		
Trade		6,583	4,594
Other		263	514
Inventory	8	3,623	3,901
		<u>20,328</u>	<u>22,304</u>
NON-CURRENT ASSETS :			
Restricted cash	14a	109	108
Deposits		64	58
Intangible assets	10	657	796
Deferred income tax	11	5,797	5,389
Property and equipment - net	9	887	1,170
		<u>7,514</u>	<u>7,521</u>
TOTAL ASSETS		<u>27,842</u>	<u>29,825</u>
		Liabilities and equity	
CURRENT LIABILITIES:			
Accounts payable:	12		
Trade		1,177	1,705
Other		2,135	1,901
Royalties to Chief Scientist	13	424	401
Deferred income		3,405	3,344
Provisions	13	331	257
		<u>7,472</u>	<u>7,608</u>
NON-CURRENT LIABILITIES:			
Liability for employee rights upon retirement - net	15	148	100
Deferred income tax	11	-	115
Deferred income		543	460
Other		172	201
Liability for royalties to Chief Scientist	13	3,858	4,647
		<u>4,721</u>	<u>5,523</u>
COMMITMENTS AND CONTINGENT LIABILITIES	14		
TOTAL LIABILITIES		<u>12,193</u>	<u>13,131</u>
EQUITY ATTRIBUTED TO COMPANY'S OWNERS:	16		
Ordinary shares		134	134
Share premium		50,527	50,391
Capital surplus in respect of warrants		439	338
Other comprehensive loss reserves		(360)	(154)
Accumulated deficit		(35,091)	(34,015)
TOTAL EQUITY		<u>15,649</u>	<u>16,694</u>
TOTAL LIABILITIES AND EQUITY		<u>27,842</u>	<u>29,825</u>

Emmanuel Gil
Chairman of the
Board

Alan Schwebel
CEO

Marina Wolfson
CFO

Date of approval of financial statements by the Board of Directors: March 20, 2014.

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

BIO VIEW LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Note	Year ended December 31		
		2013	2012	2011
NIS in thousands				
REVENUE	17a	23,026	26,047	26,169
COST OF SALES	17b	8,236	8,889	8,673
GROSS PROFIT		14,790	17,158	17,496
RESEARCH AND DEVELOPMENT EXPENSES	17c	5,691	5,400	3,880
SELLING AND MARKETING EXPENSES	17d	5,824	5,790	5,721
GENERAL AND ADMINISTRATIVE EXPENSES	17e	4,234	4,100	3,794
OTHER EXPENSES (INCOME)	17f	266	191	(353)
EXPENSES (INCOME) IN RESPECT OF CHANGES IN PROVISION FOR ROYALTIES TO CHIEF SCIENTIST (EXCLUDING FINANCING COMPONENT)		(132)	(41)	527
OPERATING PROFIT (LOSS)		(1,093)	1,718	3,927
FINANCE EXPENSES	17g	182	253	333
FINANCE INCOME	17h	(88)	(208)	(171)
FINANCE EXPENSES – net		94	45	162
INCOME (LOSS) BEFORE TAXES ON INCOME		(1,187)	1,673	3,765
INCOME TAX (TAX BENEFITS)	11	(111)	231	(2,811)
NET INCOME (LOSS) FOR THE YEAR		(1,076)	1,442	6,576
		NIS		
EARNINGS (LOSSES) PER SHARE:	18			
Basic income (loss) per share		(0.08)	0.11	0.49
Diluted income (loss) per share		(0.08)	0.11	0.48

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

TRANSLATION FROM HEREW ORIGINAL

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
INCOME (LOSS) FOR THE YEAR	<u>(1,076)</u>	<u>1,442</u>	<u>6,576</u>
OTHER COMPREHENSIVE INCOME (LOSS):			
Items that will not be reclassified to profit or loss - remeasurement of post employment benefit obligations	(48)	-	-
Items that may be subsequently reclassified to profit or loss -exchange differences arising from translation of the net investment in foreign operations	<u>(158)</u>	<u>(61)</u>	<u>109</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	<u>(206)</u>	<u>(61)</u>	<u>109</u>
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>(1,282)</u>	<u>1,381</u>	<u>6,685</u>

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	Other comprehensive loss reserves	Capital deficiency	Total
	NIS in thousands					
BALANCE AT JANUARY 1 2011	131	49,505	775	(202)	(42,033)	8,176
CHANGES IN THE YEAR ENDED DECEMBER 31, 2011:						
Total comprehensive income				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
BALANCE AT DECEMBER 31, 2011	134	50,344	270	(93)	(35,457)	15,198
CHANGES IN THE YEAR ENDED DECEMBER 31, 2012:						
Total comprehensive income (loss)				(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
CHANGES IN THE YEAR ENDED DECEMBER 31, 2013:						
Total comprehensive loss				(206)	(1,076)	(1,282)
Exercise and expiry of warrants by employees	*	136	(48)			88
Expenses in respect of options to employees			149			149
BALANCE AT DECEMBER 31, 2013	134	50,527	439	(360)	(35,091)	15,649

* 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		
	2013	2012	2011
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash generated in (used in) operations (see appendix A)	(2,680)	2,664	3,434
Income tax paid – net	(236)	(314)	(158)
Net cash provided by (used in) operating activities	<u>(2,916)</u>	<u>2,350</u>	<u>3,276</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(203)	(624)	(114)
Acquisition of intangible asset	-	(5)	(117)
Restricted cash	-	(2)	(67)
Deposits – net	(6)	(21)	17
Net cash used in investing activities	<u>(209)</u>	<u>(652)</u>	<u>(281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of royalties	(56)		
Exercise of warrants into shares by employees and consultants	88	24	232
Net cash provided by financing activities	<u>32</u>	<u>24</u>	<u>232</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,093)	1,722	3,227
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,295	11,677	8,369
PROFITS (LOSSES) FROM EXCHANE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(343)	(104)	81
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>9,859</u>	<u>13,295</u>	<u>11,677</u>

BIO VIEW LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2013	2012	2011
	NIS in thousands		
APPENDIXES TO STATEMENT OF CASH FLOWS:			
(a) Net Cash Provided By Operating Activities:			
Income(loss) before taxes on income	(1,187)	1,673	3,765
Adjustments in respect of – income and expense not involving cash flows:			
Depreciation and amortization	537	490	487
Amounts charged in respect of options to employees	149	91	105
Losses from exchange differences on cash and cash equivalents	68	-	-
Retirement benefit obligations – net	-	41	(13)
	(433)	2,295	4,344
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(2,311)	2,058	(1,344)
Other	242	(226)	(76)
Decrease (increase) in inventory	190	(635)	557
Increase (decrease) in accounts payable and accruals:			
Trade	(493)	404	(475)
Other (including provision for warranty)	481	(514)	34
Decrease in provision for royalties to Chief Scientist	(766)	(837)	(156)
Increase in deferred income (including long-term liabilities)	410	119	550
	(2,247)	369	(910)
Net cash provided by (used in) operating activities	(2,680)	2,664	3,434
(b) Supplementary data regarding investing and financing activities not involving cash flows -			
suppliers' credit used for acquisition of intangible asset	-	-	(295)
	-	-	(295)
(c) Information Regarding Cash Interest Received			
	88	208	171

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.

On June 30, 2013 the company and Abbott Molecular Inc. (hereafter – Abbot) entered into agreement where under Abbot shall serve as the global distributor of Bio Biew's systems which are designed to clinical applications and which are based on FISH markers technology. Under the agreement, Abbott shall have exclusive distribution rights of company's products around the world, excluding North America, where Abbott was granted non-exclusive distribution rights. To principal client see note 17a.

On December 29, 2013 the company and Kindstar Global entered into agreement where under Kindstar Global was granted exclusive license to conduct the test for early detection of lung cancer in China, Hong Kong, Macau and Taiwan. The agreement will be in effect for a 3-year period.

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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, 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.

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

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.

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

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:		
2013	(7.02)	1.8
2012	(2.30)	1.4
2011	7.66	2.2

Exchange rate of the dollar as of December 31, 2012 \$1 = NIS 3.471

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

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 (loss).

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

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

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 (loss).

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 (loss) as incurred.

2) Intangible assets:

a) Intellectual property acquired by the group is presented at historical cost. As of December 31, 2013, 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 "cash and cash equivalents", "accounts receivables", "restricted cash and "deposits" in the statement of financial position.

2) Recognition and measurement

The 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.

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 (loss).

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-exempt 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 (loss).

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.

Company's liability with regard to the remaining employees is covered under a defined contribution plan under which the company pays fixed contributions into a separate and independent entity. The company 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

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.

The company recognizes in other comprehensive income remeasurements of the net liability (asset) in respect of defined benefits in the period in which they were incurred. These remeasurements arise as a result of changes in actuarial assumptions, changes in past assumptions and actual results and differences between the return on plan assets and amounts included in net interest on net defined benefit liability (asset).

Past-service costs are recognized immediately in income.

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.

As mentioned above, the company purchases insurance policies and makes contributions to pension and severance pay funds to finance its defined benefit obligation. The company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense commensurate with receipt from employees of the service in respect of which they are entitled for the contributions. Prepaid contributions are recognized as an asset to the extent that a refund of the excess amounts or a reduction in the future payments is available.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 (loss). The total amount to be expensed is determined by reference to the fair value of the options granted:

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 (loss) 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 (loss) 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 (losses) per share

Basic earnings (losses) 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, 2013:

a) IAS 19 (Revised 2011) "Employee Benefits" (hereinafter – the revised IAS 19)

The revised IAS 19, "Employee benefits", introduces significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all types of employee benefits. The key changes are as follows:

- Actuarial gains and losses" are renamed "remeasurements of the defined benefit liability (asset)" (hereinafter - remeasurements), which includes in addition to actuarial gains and losses, certain elements defined in the revised IAS 19. Remeasurements are immediately recognized in "other comprehensive income" (OCI). This eliminates the option for recognition of actuarial gains and losses in profit or loss and also eliminates the option to use of the corridor approach.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- Past-service costs will be recognized immediately in the period no longer be spread over a future-service period to vesting.
- Expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate currently used under IAS 19 to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" methods as used in the previous version of IAS 19.
- The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded.
- Any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.
- There are additional disclosure requirements compared with IAS 19 in its previous version.

The company applied the revised IAS 19 commencing January 1, 2013. The first time application of the IAS 19 did not have a material effect on the comparative figures in the 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.

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 included in the statement of comprehensive income (loss) would have increased against cancelling the deferred tax asset of NIS 5,752 thousand.

BIO VIEW LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 the appropriate discounting rate 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 discounting rate been changed by 1% then the liability in respect of Chief Scientist grants would have increased or decreased by NIS 68 thousands NIS 122 thousands, respectively as of December 31, 2013 and 2012.

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.

(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.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

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

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, 2013, 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 11 thousands (2012 – income would have decreased by NIS 468 thousands), mainly as a result of foreign exchange expenses in respect of the cash and cash equivalents items and the trade receivable item 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.

(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 2014-2019.

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

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

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	
	2013	2012
	N I S i n	
	t h o u s a n d s	
AA+	5,758	9,847
A-	-	838
No S&P rating*	4,101	2,610
	<u>9,859</u>	<u>13,295</u>

* Belmont Savings Bank.

In the years ended December 31, 2013 and 2012, 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 clients in the USA.

As to principal clients, see note 17a. In the opinion of the group, the trade receivable balances of the group do not represent a concentration of credit risk as of December 31, 2013.

NOTE 5 - CASH AND CASH EQUIVALENT:

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
Cash in bank and cash on hand	7,466	4,330
Short-term bank deposits	2,393	8,965
	<u>9,859</u>	<u>13,295</u>

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - CASH AND CASH EQUIVALENT (continued):

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

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
NIS	3,082	8,966
US dollar	6,260	3,988
Euro	446	299
UK Pound	71	42
	<u>9,859</u>	<u>13,295</u>

NOTE 6 - ADDITIONAL DETAILS REGARDING INVESTMENTS IN INVESTEE

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, 2013 and 2012, is NIS 2,872 thousands and 2,749 thousands, respectively.

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

As of December 31, 2013 and 2012, the trade receivable balance is composed only of open accounts.

As of December 31, 2013 and 2012, receivables in the total amount of NIS 1,497 thousands, NIS 3,190 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. The balance of the provision for doubtful accounts as of December 31, 2013 and 2012 is NIS 193 thousands and NIS 132 thousands, respectively. The aging of those receivable balances (after deduction of provision for doubtful accounts) is as follows:

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
Up to three months	521	2,985
More than three months	976	205
	<u>1,497</u>	<u>3,190</u>

b. Other:

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
Employees	9	9
Prepaid expenses	124	171
Institutions	130	310
Income receivable	-	24
	<u>263</u>	<u>514</u>

BIO VIEW LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - ACCOUNTS RECEIVABLE (continued):

As of December 31, 2013 and 2012, 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	
	2013	2012
	N I S i n t h o u s a n d s	
Trade receivables:		
NIS	16	527
US dollar	5,930	4,051
Euro	637	16
	<u>6,583</u>	<u>4,594</u>
Other receivable:		
NIS	130	188
US dollar	9	23
	<u>139</u>	<u>211</u>

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 6,722 thousands and NIS 4,805 thousands as of December 31, 2013 and 2012, respectively. The group does not hold any securities in respect of those receivable balances.

NOTE 8 - INVENTORY

Composed as follows:

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
Raw materials and spare parts*	3,318	3,567
Finished goods	305	334
	<u>3,623</u>	<u>3,901</u>

This balance includes a provision for impairment of spare parts inventory amounting to NIS 1,111 thousands and NIS 1,717 thousands as of December 31, 2013 and 2012, respectively. The amounts of impairment included in the cost of sales item in the statement of income for the years 2013, 2012 and 2011 are NIS 1 thousand, NIS 87 thousands and NIS 668 thousands, respectively, see also note 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 2013, 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					2013	2012
Machinery and equipment	2,978	-	131	(60)	2,787	2,188	224	56	(48)	2,308	479	790
Furniture, office equipment and computers*	1,977	203	-	(11)	2,169	1,613	158	-	(10)	1,761	408	364
Leasehold improvements	201	-	-	-	201	185	16	-	-	201	-	16
	<u>5,156</u>	<u>203</u>	<u>131</u>	<u>(71)</u>	<u>5,157</u>	<u>3,986</u>	<u>398</u>	<u>56</u>	<u>(58)</u>	<u>4,270</u>	<u>887</u>	<u>1,170</u>

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>

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 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, 2011	2010
	NIS in thousands					NIS in thousands						
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>

* Mainly computers

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - PROPERTY AND EQUIPMENT (continued):

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
In Israel	693	754
Abroad	194	416
	<u>887</u>	<u>1,170</u>

NOTE 10 - INTANGIBLE ASSETS:

Composed as follows:

	December 31	
	2013	2012
	N I S i n t h o u s a n d s	
Patent rights(a)	484	484
Software(b)	173	312
	<u>657</u>	<u>796</u>

- (a) In September 2008, the group and the cancer research center, MD Anderson of Houston, Texas USA, 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 a 15-year period. 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; it 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 imaging 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 (2011 – 24%; 2012 and 2013 and thereafter – 25%).

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in the official gazette, which enacts, among other things the increase of the corporate tax rate to 26.5% (instead of 25%) beginning in 2014 and thereafter.

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. 32% 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.

Commencing January 1, 2013 the subsidiary is subject to tax on sale of medical devices in the USA. The tax is calculated as a percentage of the net selling price.

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 on the grossed-up amount in accordance with the tax rate that would have been applicable to the income in the year in which it was accrued had it not been tax exempted.

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, 2013, 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 in not located in development area A) under the law are:

"Benefited enterprise":

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

The Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013, which was published in the official gazette on August 5, 2013, enacts among other things, the increase of the tax rate applicable to preferred income to the effect that commencing 2014 and thereafter the tax rate on the preferred income of companies whose plants are located in an "other development area" shall be 16%.

Benefits to preferred enterprise will be given indefinitely. Under the transitional provisions of the amendment, a company will be allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law. 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 to NIS 36,309 thousands and NIS 34,733 thousands as of December 31, 2013 and 2012, respectively. As of December 31 2013, the company did not create deferred taxes in respect of losses amounting to NIS 9,986 thousands. As of December 31, 2012, the company did not have carryforward losses for which no deferred taxes have been created.

BIO VIEW LTD.

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	
	2013	2012
	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	5,366	4,769
Deferred tax assets expected to be recoverable within 12 months after date of statement of financial position	431	620
	<u>5,797</u>	<u>5,389</u>
Deferred tax liabilities -		
deferred tax assets expected to be recoverable within 12 months after date of statement of	-	(115)
Net deferred tax	<u>5,797</u>	<u>5,274</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, 2012	(224)	546	592	4,399	5,313
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>
Changes in 2013 -					
amount carried to income	49	52	414	8	523
Balance at December 31, 2013	<u>(175)</u>	<u>617</u>	<u>1,143</u>	<u>4,212</u>	<u>5,797</u>

* Mainly due to research and development expenses and deferred income.

- 3) As of December 31, 2013, deferred taxes are computed based on a tax rate of 16%. As of December 31, 2012, deferred taxes are computed based on a tax rate of 12%-12.5%.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

1) As follows:

	For the year ended		
	December 31		
	2013	2012	2011
	NIS in thousands		
Current taxes:			
Current taxes on income of the reported year	389	269	362
Expenses (income) on previous years	23	(77)	
	<u>412</u>	<u>192</u>	<u>362</u>
Change in deferred taxes	<u>(523)</u>	<u>39</u>	<u>(3,173)</u>
Income tax expenses (income)	<u>(111)</u>	<u>231</u>	<u>(2,811)</u>

Current assets on income generated in the reported year are for the subsidiary only. In 2013, current taxes are computed based on an average tax rate of 40% (2012 – 40%; 2011 – 33%).

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 a above) and the actual tax expense:

	For the year ended		
	December 31		
	2013	2012	2011
	NIS in thousands		
Income (loss) before income tax, as reported in the consolidated statement of income	(1,187)	1,673	3,765
Theoretical tax on this income or loss	(297)	418	904
Increase in taxes due to different tax rates of foreign subsidiary	131	101	156
Increase in deferred taxes as a result of changes in tax rates	(1,675)	-	
Increase in tax expenses arising from carryforward losses for which no deferred taxes were created	1,576		
Decrease arising on recognition deferred taxes on carryforward losses and timing differences			(4,110)
Increase (decrease) resulting from deferred taxes created at different tax rates	(144)	(175)	204
Non-deductible expenses	168	20	25
Other	107	(56)	10
Taxes on previous years	23	(77)	-
Taxes on income	<u>(111)</u>	<u>231</u>	<u>(2,811)</u>

BIO VIEW LTD.

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 2009 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	
	2013	2012
	NIS in thousands	
a. Trade:		
Domestic open accounts	154	733
Open accounts abroad	325	266
Checks payable	698	706
	<u>1,177</u>	<u>1,705</u>
NIS	593	852
US dollar	565	853
Euro	19	-
	<u>1,177</u>	<u>1,705</u>
b. Other:		
Payroll and related expenses	939	791
Provision for vacation and recreation pay	500	534
Accrued expenses	457	475
Income tax payable	180	
Other	59	101
	<u>2,135</u>	<u>1,901</u>

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

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Royalties to Chief Scientist (a)*	Other (b)	Total
	NIS in thousands		
Balance at January 1, 2013	5,048	257	5,305
Changes during the year ended December 31, 2013:			
Amounts charged to statement of income:			
Additional provisions and exchange differences	23	74	97
Amounts paid during the period in respect of royalties	(789)		(789)
Balance at December 31, 2013	4,282	331	4,613

* 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 (US dollar linked) with the addition of annual interest at a rate based on LIBOR (see also note 3b).

b) Provision for warranty and provision for contingent liability

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.

BIO VIEW LTD.

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 711 thousands per years
- 2) To secure its liabilities under the building rental 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 109 thousands.
- 3) The group entered into operating lease agreements for vehicles it uses. The agreements shall expire in the years 2014-2016. The lease fees are linked to the CPI. The projected lease fees for the years 2014-2016 in respect of the vehicles the company uses are as follows:

<u>Year</u>	<u>NIS in thousands</u>
2014	186
2015	86
2016	54

b. Intangible assets:

- 1) As to agreement signed in September 2008 between the company and the cancer research center MD Anderson of Houston Texas USA 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 10a 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. Material agreements

For details regarding the distribution agreement signed with Abbott Molecular Inc. and the agreement where under Kindstar Global was granted exclusive license to conduct the test for early detection of lung cancer in China, see note 1 above.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)**d. Contingent liability**

On June 16, 2013, a former office holder of the company filed a legal claim in connection with the circumstances of termination of his employment by the company. Total amount claimed was NIS 700 thousands. The statement of claim reiterates claims made in the past as part of a warning letter which was filed by the former office holder. The company's legal advisors replied to the letter and rejected all claims made therein. The company filed the statement of claim according to the said reply. Based on the opinion of its legal advisors, it is not expected that the legal claim will have a material effect on the company's financial statements.

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		
	2013	2012	2011
	NIS in thousands		
Present value of liabilities funded	1,239	1,260	1,138
Fair value of plan assets	(1,091)	(1,160)	(1,079)
Balance of liability presented in the statement of financial position	<u>148</u>	<u>100</u>	<u>59</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		
	2013	2012	2011
	NIS in thousands		
Balance at beginning of year	1,260	1,138	1,308
Current service cost	114	142	154
Interest costs	40	47	50
Total severance pay paid	(99)	(140)	(56)
Application of Section 14 to an employee	(107)		(350)
Components of remeasurement	31	73	32
Balance at end of year	<u>1,239</u>	<u>1,260</u>	<u>1,138</u>

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EMPLOYEE RIGHTS UPON RETIREMENT (continued):

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Balance at beginning of year	1,160	1,079	1,236
Employer contributions	115	169	269
Total severance pay paid	(99)	(136)	(56)
Application of Section 14 to an employee	(103)		(298)
Amounts transferred to pension		(7)	(10)
Interest income on plan assets	35	44	52
Components of remeasurement	(17)	11	(114)
Balance at end of year	1,091	1,160	1,079

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

	2013	2012	2011
	NIS in thousands		
Current service cost	114	142	154
Interest cost	40	47	50
Interest income on plan assets – net of amounts transferred to pension	(35)	(37)	(42)
Components of remeasurement	48	62	146
Total included in statement of comprehensive income (loss)	167	214	308

Actual return on plan assets amounted in the year ended December 31, 2013, 2012 and 2011 to NIS 17 thousands, NIS 55 thousands and NIS 147 thousands, respectively.

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

	December 31	
	2013	2012
	NIS in thousands	
Discount rate	2.53%	3.3%
Rate of increase in CPI	2.23%	2.2%
Expected rates of retirements	13%	13%
Rates of remuneration growth	3%	3%

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, 2014 amount to NIS 114 thousands.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EMPLOYEE RIGHTS UPON RETIREMENT (continued):**e. Employee benefits expenses:**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>NIS in thousands</u>		
Payroll and related expenses*	11,228	10,769	10,102
Benefit in respect of share options granted to employees	149	91	105
	<u>11,377</u>	<u>10,860</u>	<u>10,207</u>
Number of employees s of December 31	<u>29</u>	<u>30</u>	<u>26</u>

* The amount charged as an expense in respect of a defined contribution plan in 2013, 2012 and 2011 is NIS 266 thousands, NIS 299 thousands and NIS 235 thousands, respectively.

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

1) Composed as follows:

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

	<u>Number of shares</u>	
	<u>December 31</u>	
	<u>2013</u>	<u>2012</u>
Authorized share capital		
Ordinary shares	40,000,000	40,000,000
Issued and paid share capital		
Ordinary shares*	<u>13,432,634</u>	<u>13,371,135</u>
	<u>NIS</u>	
	<u>December 31</u>	
	<u>2013</u>	<u>2012</u>
Authorized share capital		
ordinary shares*	<u>400,000</u>	<u>400,000</u>
Issued and paid share capital		
ordinary shares	<u>134,326</u>	<u>133,518</u>

* The shares are traded in the Tel-Aviv Stock Exchange at a price of NIS 2.739 per NIS 0.01 share – as of December 31, 2013.

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.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - EQUITY (continued):

b. Share-based payment:

- 1) On May 18, 2009, the company's board of directors resolved to adopt a general plan where under the company shall allot from time to time up to 800,000 warrants to purchase ordinary company shares (hereafter – the 2009 plan). On July 19, 2010, company employees were granted 162,500 options under the terms of the 2009 plan, out of which 40,000 options were granted to CEO and a company director and 22,500 to Deputy CEO and a 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: as of the date of grant: expected volatility of 64%; average risk-free interest rate of 4.37%; expected term until exercise of 1.73 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 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, 2013 a total of 124,583 options are exercisable. Each option not exercised would expire in July 2016.

- 2) On May 21, 2013 the company granted 257,500 options to company's employees under the terms of the 2009 plan; 55,000 options out of the said 257,500 options were granted to the company's CEO and a company director and 35,000 options were granted to the Deputy CEO and a director. The exercise price of these options is NIS 2.89 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 272 thousands. This value is based on the following assumptions: as of the date of grant: expected volatility of 62%; average risk-free interest rate of 2.27%; expected term until exercise of 3.55 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 May 2014, 2015 and 2016, respectively. The price of company share in the Stock Exchange close to actual allotment of the said options was NIS 2.507 per share.

As of December 31, 2013, there are no exercisable options. Each option that will not be exercised will expire in July 2018.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - EQUITY (continued):

e. The following table summarizes the options granted to employees in the years 2011-2013:

	Year ended December 31					
	2013		2012		2011	
	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	650,667	2.72	705,567	0.55	738,024	3.03
Granted	257,500	2.89	-	-	162,500	2.32
Expired	99,334	5.18	35,568	25.01	8,434	2.35
Exercised	61,499	1.44	19,332	1.22	186,523	0.01
Outstanding at end of year*	747,334	2.52	650,667	2.72	705,567	0.55
Exercisable at end of year	507,834	2.19	533,084	2.67	431,706	4.84

* 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, 62,000 options and 73,900 options as of December 31, 2013, 2012 and 2011, respectively.

The overall consideration received in these exercises amounts to NIS 88 thousands, NIS 24 thousands and NIS 3 thousands in the years ended December 31, 2013, 2012 and 2011, respectively.

The options exercised during 2013 lead to the issuance of 61,499 shares (2012 – 19,332 shares; 2011 - 186,523 shares).

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							
	2013		2012		2011			
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
278,334	0.01-1.55	3.20	345,667	0.01-1.55	3.19	378,667	0.01-1.55	3.15
466,000	1.56-2.89	5.50	302,000	1.56-5.96	3.60	312,000	1.56-5.96	3.11
3,000	2.90-63.98	3.00	3,000	5.97-68.24	3.00	14,900	5.97-69.85	0.88

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. As of December 31, 2013 there are no exercisable options which were granted to consultants. The number of options granted to consultants and exercisable as of December 31, 2012 and 2011 is 280 options.

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
Revenues from sale of systems and disposable products	*15,207	19,368	20,489
Revenues from lease of systems and software licenses	604	463	108
Revenues from service contracts	<u>7,215</u>	<u>6,216</u>	<u>5,572</u>
	<u>23,026</u>	<u>26,047</u>	<u>26,169</u>

* Including sales to the Abbott group at the total amount of NIS 3,602 thousands.

Revenues by geographic areas:

	Year ended December 31		
	2013	2012	2011
	NIS in thousands		
USA	18,467	19,751	23,641
Israel	19	454	
Other countries	4,540	5,842	2,528
	<u>23,026</u>	<u>26,047</u>	<u>26,169</u>

b. Cost of sales:

Purchase of materials	4,561	4,743	4,286
Payroll	2,529	2,548	2,112
Other expenses	1,117	1,411	1,370
Decrease in finished goods inventory	29	187	905
	<u>8,236</u>	<u>8,889</u>	<u>8,673</u>

c. Research and development expenses:

Payroll and related expenses	3,035	2,863	3,019
Expenses relating to clinical trial	1,782	1,608	18
Depreciation	264	289	238
Professional fees	298	288	212
Expenses relating to patents	134	135	128
Travel abroad	82	34	64
Other	96	183	201
	<u>5,691</u>	<u>5,400</u>	<u>3,880</u>

d. Selling and marketing expenses:

Payroll and related expenses	3,759	3,398	3,486
Advertisement and sales promotion	218	273	258
Professional services	363	718	365
Travel	782	779	827
Office maintenance	336	421	380
Depreciation	185	133	76
Tax on sale of medical devices	136		
Other	45	68	329
	<u>5,824</u>	<u>5,790</u>	<u>5,721</u>

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	For the year ended December 31		
	2013	2012	2011
	NIS in thousands		
e. General and administrative expenses:			
Payroll and related expenses	1,560	1,507	1,695
Professional fees	1,090	1,019	802
Rent and office maintenance	967	882	790
Subsistence, entertainment, travel and sundry	395	407	326
Expenses relating to doubtful accounts	70	132	
Communication	88		
Insurance	64	60	63
	<u>4,234</u>	<u>4,100</u>	<u>3,794</u>
f. Other expenses (income):			
Sublease income	(86)	(51)	(33)
Exchange difference expenses (income)	352	242	(320)
	<u>266</u>	<u>191</u>	<u>(353)</u>
g. Financing expenses:			
Bank commissions	28	53	86
Financing component in provision for royalties to chief scientist	154	200	247
	<u>182</u>	<u>253</u>	<u>333</u>
h. Financing income - interest on deposits	<u>88</u>	<u>208</u>	<u>171</u>

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

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

	For the year ended December 31		
	2013	2012	2011
	NIS in thousands		
Income (loss) attributed to company's owners - in thousands of NIS	(1,076)	1,442	6,576
Weighted average of number of shares used in computation of earnings (loss) per share	13,420,850	13,362,549	13,299,547
Basic income (loss) per share (in NIS)	<u>(0.08)</u>	<u>0.11</u>	<u>0.49</u>

b. Diluted

When calculating the diluted income (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.

BIO VIEW LTD.

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. In calculating the diluted loss per share for 2013 the company did not take into account employee options since they have an anti dilutive effect.

	Year ended December 31		
	2013	2012	2011
Weighted average number of shares used in computation of basic earnings (loss) per share	13,420,850	13,362,549	13,299,547
Adjustments in respect of incremental shares in respect of exercise of options in computation of earnings (loss) per share	-	110,676	292,986
Weighted average of number of shares used in computation of diluted earnings (loss) per share	<u>13,420,850</u>	<u>13,473,225</u>	<u>13,592,533</u>
Diluted earnings (loss) per share in NIS	<u>(0.08)</u>	<u>0.11</u>	<u>0.48</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		
	2013	2012	2011
	NIS in thousands		
Benefits to interested parties:			
Payroll and related expenses to interested party employed in the group	1,504	1,757	1,681
Share based payments	53	34	36
Number of persons to which the benefits relate	2	2	2
Remuneration to directors not employed in the group	332	285	255
Number of persons to which the benefits relate	6	6	6
	<u>1,889</u>	<u>2,076</u>	<u>1,972</u>

b. Balances with interested parties and related parties:

	December 31	
	2013	2012
	NIS in thousands	
Accounts payable and accruals (does not bear interest)	<u>112</u>	<u>97</u>