TRANSLATION FROM HEREW ORIGINAL

BIO VIEW LTD.

2015 ANNUAL REPORT

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TRANSLATION FROM HEBREW ORIGINAL

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, 2015 and 2014 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, 2015. 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, 2015 and 2014 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, 2015, in accordance with International Financial Reporting Standards (hereafter – IFRS) and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010.

Tel-Aviv, Israel
March 10, 2016

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2015	December 31 2014
Assets		NIS in thousands	
CURRENT ASSETS:			
Cash and cash equivalents	5	18,384	13,427
Accounts receivable:	6		
Trade		3,031	5,065
Other		710	424
Inventory	7	3,475	4,801
		25,600	23,717
NON-CURRENT ASSETS :			
Restricted cash	13a	109	109
Deposits		72	66
Intangible assets	9	484	518
Deferred income tax	10	6,580	6,105
Property and equipment - net	8	534	611
		7,779	7,409
T O T A L ASSETS		33,379	31,126
Liabilities and equity			
CURRENT LIABILITIES:			
Accounts payable:	11		
Trade		1,043	1,526
Other		1,846	2,553
Royalties to Chief Scientist	12	1,285	1,129
Deferred income		3,227	3,981
Provisions	12	487	324
		7,888	9,513
NON-CURRENT LIABILITIES:			
Liability for employee rights upon retirement - net	14	295	265
Deferred income		268	198
Liability for royalties to Chief Scientist	12	1,940	2,968
		2,503	3,431
COMMITMENTS AND CONTINGENT LIABILITIES	13		
T O T A L LIABILITIES		10,391	12,944
EQUITY ATTRIBUTED TO COMPANY'S OWNERS:	15		
Ordinary shares		138	135
Share premium		51,409	50,700
Capital surplus in respect of warrants		554	502
Other comprehensive loss reserves		(196)	(172)
Accumulated deficit		(28,917)	(32,983)
TOTAL EQUITY		22,988	18,182
TOTAL LIABILITIES AND EQUITY		33,379	31,126

Yasha Sutton	**Dr. Alan Schwebel**	**Marina Wolfson**
Director	**CEO**	**VP Finance**

On March 10, 2016, the Board of Directors granted Mr. Yasha Sutton the authority to sign the report in place the Chairman of the Board, Mr. Emmanuel Gill.

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Note	Year ended December 31 2015	2014	2013
		NIS in thousands		
REVENUE	16a	34,534	30,242	23,026
COST OF SALES	16b	13,054	10,703	8,236
GROSS PROFIT		21,480	19,539	14,790
RESEARCH AND DEVELOPMENT EXPENSES	16c	5,564	5,242	5,691
SELLING AND MARKETING EXPENSES	16d	6,989	7,005	5,824
GENERAL AND ADMINISTRATIVE EXPENSES	16e	4,853	5,224	4,234
OTHER EXPENSES (INCOME)	16f	25	(1,053)	266
EXPENSES (INCOME) IN RESPECT OF CHANGES IN PROVISION FOR ROYALTIES TO CHIEF SCIENTIST (EXCLUDING FINANCING COMPONENT)		204	610	(132)
OPERATING PROFIT (LOSS)		3,845	2,511	(1,093)
FINANCE EXPENSES	16g	179	295	182
FINANCE INCOME	16h	(157)	(24)	(88)
FINANCE EXPENSES – net		22	271	94
INCOME (LOSS) BEFORE TAXES ON INCOME		3,823	2,240	(1,187)
INCOME TAX (TAX BENEFITS)	10	(243)	132	(111)
NET INCOME (LOSS) FOR THE YEAR		4,066	2,108	(1,076)
		NIS		
EARNINGS (LOSSES) PER SHARE:	17			
Basic income (loss) per share		0.30	0.16	(0.08)
Diluted income (loss) per share		0.29	0.15	(0.08)

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

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
INCOME (LOSS) FOR THE YEAR	4,066	2,108	(1,076)
OTHER COMPREHENSIVE INCOME (LOSS):			
Items that will not be reclassified to profit or loss - remeasurement of post-employment benefit obligations	(30)	(117)	(48)
Items that may be subsequently reclassified to profit or loss -exchange differences arising from translation of the net investment in foreign operations	6	305	(158)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(24)	188	(206)
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	4,042	2,296	(1,282)

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, 2013	134	50,391	338	(154)	(34,015)	16,694
CHANGES IN THE YEAR ENDED DECEMBER 31, 2013:						
Total comprehensive income (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
CHANGES IN THE YEAR ENDED DECEMBER 31, 2014:						
Total comprehensive loss				188	2,108	2,296
Exercise and expiry of warrants by employees	1	173	(44)			130
Expenses in respect of options to employees			107			107
BALANCE AT DECEMBER 31, 2014	135	50,700	502	(172)	(32,983)	18,182
CHANGES IN THE YEAR ENDED DECEMBER 31, 2015:						
Total comprehensive income				(24)	4,066	4,042
Exercise of warrants by employees	3	709	(156)			556
Expenses in respect of options to employees			208			208
BALANCE AT DECEMBER 31, 2015	138	51,409	554	(196)	(28,917)	22,988

* An amount lower than NIS 1 thousand.

The accompanying notes are an integral part of these financial statements

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BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash generated in (used in) operations (see appendix A)	5,365	3,703	(2,680)
Income tax paid – net	(703)	(426)	(236)
Net cash provided by (used in operating activities)	4,662	3,277	(2,916)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(210)	(111)	(203)
Deposits – net	(6)	(2)	(6)
Net cash used in investing activities	(216)	(113)	(209)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of royalties for repayment of liability for acquisition of intangible asset	-	(229)	(56)
Exercise of warrants into shares by employees	556	131	88
Net cash provided by (used in financing activities)	556	(98)	32
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,002	3,066	(3,093)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,427	9,859	13,295
PROFITS (LOSSES) FROM EXCHANE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(45)	502	(343)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	18,384	13,427	9,859

The accompanying notes are an integral part of these financial statements

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BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2015	2014	2013
	NIS in thousands		
APPENDIXES TO STATEMENT OF CASH FLOWS:			
(a) Net cash provided by operating activities:			
Income (loss) before taxes on income	3,823	2,240	(1,187)
Adjustments in respect of – income and expense not involving cash flows:			
Depreciation and amortization	389	498	537
Amounts charged in respect of options to employees	208	107	149
Losses (income) from exchange differences on cash and cash equivalents	62	(51)	68
	4,482	2,794	(433)
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	2,039	1,732	(2,311)
Other	24	(152)	242
Decrease (increase) in inventory	1,254	(801)	190
Increase (decrease) in accounts payable and accruals:			
Trade	(483)	294	(493)
Other (including provision for warranty)	(386)	196	481
Decrease in provision for royalties to Chief Scientist	(872)	(185)	(766)
Increase (decrease) in deferred income (including long-term liabilities)		(175)	410
	(693)	909	(2,247)
Net cash provided by (used in) operating activities	883	3,703	(2,680)
(b) Information regarding cash interest received	5,365	24	88

The accompanying notes are an integral part of these financial statements

BIO VIEW LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

Bio View Ltd. (hereafter – the company) was incorporated in Israel on August 18, 1998 and commenced operations in 2000. The company and its subsidiary (hereafter – the group) is engaged in the research, development, manufacture, marketing and sale of computerized systems for identification of rate cells and test for detection of cancer. The fully consolidated subsidiary of the company - BioView (USA) Inc. (incorporated in Delaware USA) (hereinafter - the subsidiary) - is mainly engaged in the marketing and selling of the group's products in North America. The group has one operating segment.

On June 30, 2013 the company and Abbott Molecular Inc. (hereafter – Abbott) entered into agreement where under Abbott shall serve as the global distributor of BioView'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. For information regarding principal customer see note 16a.

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.

On December 22, 2015, the Company and Diagnostic Solutions Pty entered into agreement, where under Bio View granted Diagnostic Solutions Pty exclusive distribution rights for the marketing of the early-detection lung cancer test in Australia and New Zealand. The term of the agreement is 3 years.

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, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, 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.

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

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that 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. 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.

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".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 statement of profit or loss 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.

d. Property and equipment

Property and equipment are initially recognized at acquisition cost. Repair and maintenance are charged to the statement of profit or 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:

	Years
Machinery and equipment	6-7
Office furniture and equipment	6-7
Computers	3

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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).

e. 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Intangible assets:

a) Intellectual property acquired by the group is presented at historical cost. As of December 31, 2015, impairment of this asset has not yet begun and it is subject to impairment test at least once a year; see also g. bellow.

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.

f. Impairment of non-monetary assets

Assets that have an indefinite useful life, such as goodwill as well as intangible assets that are not yet available for use, are not amortized and are tested annually for impairment. Other assets are tested 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.

g. 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").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The Company applies the following accounting policy:

1) For Chief Scientist grants received through January 1, 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.

2) 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. 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 (see also sections k and l below).

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.

The group did not carry out the group assessment, since in the opinion of the group the assessment has no effect on the financial statements and is immaterial.

i. 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 spare parts 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):

j. 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 impairment of accounts receivable (hereafter – "provision for impairment" or "provision for impairment of accounts receivable"). As for the method used to determine the provision for impairment and accounting treatment applied thereto in subsequent periods, see i(3) above.

k. 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.

l. 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 (net of tax) from issuance proceeds.

m. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. 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 it 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 taxes 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 10c, in the event of a dividend distribution of income originating from tax-exempted approved and benefited enterprises, the distributed amount will be taxed at the rate the company would have been liable to pay had the exemption never granted. In the event of such distribution, the tax charge will be recognized as an expense in comprehensive income (loss).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

o. 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.

Interest rate used by the Company for discounting expected future cash flows for computation the liability for defined benefit obligation is based on the interest rate of high-quality NIS corporate bonds.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

2) Vacation and recreation pay

Every employee is legally entitled to vacation and recreation benefits, which are computed on an annual basis. This entitlement is based on the term of employment. The group charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee.

Where the group expects that the liability in respect of the vacation pay benefit will be settled within 12 months from the end of the reporting period during which the employees provided the relating services, the liability in respect of this benefit is measured in accordance with the additional amount, which the group expects to pay in respect of the unutilized benefit accrued as of the end of the reporting period. If the group does not expect that the liability in respect of the vacation pay benefit will be settled within 12 months from the end of the said reporting period, this liability will be measured using the method applied to measure the defined benefit liability (see 1) above.

3) 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.

p. Revenue recognition

The group recognizes income upon installation of the product at the customer; 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

q. 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.

r. 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.

s. Provisions

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. New International Financial Reporting Standards, Amendments to Standards and New interpretations:

1) Standards, amendments and interpretations to existing standards that are not yet effective and that the Group has not adopted early, as follows:

a) IFRS 9 "Financial Instrument" (hereinafter - "IFRS 9" or "the standard")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 "Financial Instrument: Recognition and Measurement" that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

The standard presents a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39, which is based on the incurred loss model.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The group is assessing IFRS 9’s impact on its financial statements.

b) IFRS 15 "Revenue from Contracts with Customers" (hereinafter - IFRS 15)

IFRS 15 will replace after its first-time adoption the guidance on revenue recognition in current IFRSs.

The core principle of IFRS 15 is that revenue from contracts with customers should be recognized using the method that best depicts the transfer of control of goods and services to the customer, the amount of consideration that the entity expects to be entitled to in exchange for transferring promised goods or services to a customer.

IFRS 15 has a single model for revenue recognition, based on a five-step approach:

1) Identify the contract(s) with the customer
2) Identify the separate performance obligations in the contract
3) Determine the transaction price
4) Allocate the transaction price to separate performance obligations
5) Recognize revenue when (or as) each performance obligation is satisfied

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 15 covers accounting for a variety of issues related to implementation of that model, including: recognition of contractual variable consideration, adjustment of contractual transaction price to reflect the time value of money, and cost of obtaining and fulfilling the contract.

The standard expands the disclosure requirements about revenue, and, among other things, requires quantitative and qualitative information about significant management judgments that were considered for determining the amount of revenue recognized.

On July 22, 2015, the IASB decided to defer the effective date of the standard by one year, such that the standard will be applied retrospectively for annual periods beginning on or after January 1, 2018 with some exceptions as provided in the transitional provisions of IFRS 15.
According to IFRS 15, early adoption is permitted. The Group is assessing the expected impact of IFRS 15 on its financial statements.

c) IFRS 16 "Leases"

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 - "Leases"(hereafter – "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.
IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The group is assessing the expected impact of IFRS 16 on the 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:

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

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 6,105 thousand.

b. Liability to pay royalties to the Chief Scientist

The present value of liabilities for payment of royalties to the Chief Scientist (see note 13) dependents 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 37 thousand and NIS 43 thousand, as of December 31, 2015 and 2014, respectively.

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 7.

d. Provision for impairment of accounts receivable

Measurement of the provision for impairment of accounts receivable is done specifically for accounts whose collection is doubtful, see note 6l.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANICAL 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.

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

(a) Market risks:

Foreign exchange risks

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

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

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

The company's finance department risk management policy is to hedge some of the expected cash flows in foreign currencies associated with material exposures

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.

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

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 2016-2018.

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	
	2015	2014
	NIS in thousands	
AAA+	13,593	9,364
No S&P rating*	4,791	4,063
	18,384	13,427

* Belmont Savings Bank.

In the years ended December 31, 2015 and 2014, the terms were not reset for any financial assets of the financial assets that are not overdue.

2) Concentration of credit risks

Most of the group's sales are made to several customers in the USA.

As to a principal customer, see note 16a. The balance of the principal customer (Abbott) as of December 31, 2015 is NIS 11,766 thousand. 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, 2015.

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NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - CASH AND CASH EQUIVALENT:

	December 31	
	2015	2014
	NIS in thousands	
Cash in bank and cash on hand	8,288	8,702
Short-term bank deposits	10,096	4,725
	18,384	13,427

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

	December 31	
	2015	2014
	NIS in thousands	
NIS	7,055	4,736
US dollar	10,366	7,738
Euro	862	953
UK Pound	101	-
	18,384	13,427

NOTE 6 - ACCOUNTS RECEIVABLE:

a. Trade receivable accounts

As of December 31, 2015 and 2014, the trade receivable balance is composed only of open accounts.

As of December 31, 2015 and 2014, receivables in the total amount of NIS 1,961 thousand and NIS 2,408 thousand, respectively are overdue from their contractual repayment date. These balances are in respect of several independent customers; based on group's experience in recent years, these customers fully repaid their debts.

The balance of the provision for impairment of accounts receivable as of December 31, 2015, 2014 and 2013 is NIS 710 thousand, NIS 414 thousand and NIS 193 thousand, respectively. The expense for impaired and bad debt for the years ended December 31, 2015, 2014 and 2013 is NIS 350 thousand, NIS 803 thousand and NIS 70 thousand, respectively. An impairment of a former distributor's debt was recognized during the reported year. As to potential legal claim in connection with this debt, see note 12.

NOTE 6 - ACCOUNTS RECEIVABLE (continued):

The aging of those receivable balances (after deduction of provision for impairment of accounts receivable) is as follows:

	December 31	
	2015	2014
	NIS in thousands	
Up to three months	1,549	1,525
More than three months	412	883
	1,961	2,408

b. **Other:**

	December 31	
	2015	2014
	NIS in thousands	
Employees	17	13
Prepaid expenses	199	179
Institutions	490	194
Income receivable	4	38
	710	424

As of December 31, 2015 and 2014, the group's books of accounts do not include a provision for impairment of accounts receivable in respect of other receivables.

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

	December 31	
	2015	2014
	NIS in thousands	
Trade receivables:		
US dollar	2,928	5,070
Euro	72	465
Pound Sterling	31	
	3,031	5,535
Other receivable:		
NIS	180	124
US dollar	327	83
	507	207

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 3,593 thousand and NIS 5,742 thousand as of December 31, 2015 and 2014, respectively. The group does not hold any securities in respect of those receivable balances.

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NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - INVENTORY:

Composed as follows:

	December 31	
	2015	2014
	NIS in thousands	
Raw materials and spare parts*	3,230	3,691
Finished goods	245	1,110
	3,475	4,801

This balance includes a provision for impairment of spare parts inventory amounting to NIS 1,121 thousand and NIS 1,160 thousand as of December 31, 2015 and 2014, respectively. The amounts of impairment included in the cost of sales item in the statement of income for the years 2015, 2014 and 2013 are NIS 510 thousand, NIS 287 thousand and NIS 1 thousand, respectively, see also note 3c.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment are composed as follows:

	December 31	
	2015	2014
	NIS in thousands	
Machinery and equipment	145	217
Furniture and office equipment (including computers)	389	394
	534	611

NOTE 9 - INTANGIBLE ASSETS:

Composed as follows:

	December 31	
	2015	**2014**
	NIS in thousands	
Patent rights (a)	484	484
Software	-	34
	484	518

(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 13b).
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.

NOTE 10 - 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.

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. 26% 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. Those expenses are classified to marketing and selling expenses.

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.

NOTE 10 - TAXES ON INCOME (continued):

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:
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, 2015, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - TAXES ON INCOME (continued):

This amendment includes benefit programs replacing the ones within the scope of the Encouragement Law.
Tax rates applicable to the company (whose plant in not located in development area A) under the law are:

"Benefited enterprise":

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. 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 31,990 thousand and NIS 34,792 thousand as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the company did not create deferred taxes in respect of losses amounting to NIS 2,161 thousand and NIS 8,693 thousand, respectively.

e. Deferred income tax:

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

	December 31	
	2015	**2014**
	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	5,334	5,616
Deferred tax assets expected to be recoverable within 12 months after date of statement of financial position	1,246	517
	6,580	6,133
Deferred tax liabilities -		
deferred tax assets expected to be recoverable within 12 months after date of statement of financial position	-	(28)
	-	(28)
Net deferred tax	6,580	6,105

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - TAXES ON INCOME (continued):

2) The composition of deferred taxes as of the date of these financial statements and the changes thereof in these years is 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, 2014	(175)	617	1,143	4,212	5,797
Changes in 2014 -					
amount carried to income	147	(52)	241	(28)	308
Balance at December 31, 2014	(28)	565	1,384	4,184	6,105
Changes in 2015 -					
amount carried to income	28	(142)	1	588	475
Balance at December 31, 2015	-	423	1,385	4,772	6,580

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

3) As of December 31, 2014 and 2015, deferred taxes are computed based on a tax rate of 16% applicable to benefited enterprises.

f. Income tax included in comprehensive income (loss) for the reported periods:

1) As follows:

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands		
Current taxes:			
Current taxes on income of the reported year	199	450	389
Expenses (income) on previous years	33	-	23
	232	450	412
Change in deferred taxes	(475)	(318)	(523)
Income tax expenses (income)	(243)	132	(111)

Current assets on income generated in the reported year are for the subsidiary only. In 2015, current taxes are computed based on an average tax rate of 32% (2014 – 34%; 2013 – 40%).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - TAXES ON INCOME (continued):

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		
	2015	**2014**	**2013**
	NIS in thousands		
Income (loss) before income tax, as reported in the consolidated statement of income	3,823	2,240	(1,187)
Theoretical tax on this income or loss	1,013	594	(297)
Increase in taxes due to different tax rates of foreign subsidiary	19	134	131
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	(1,050)	(208)	-
Increase (decrease) resulting from deferred taxes created at different tax rates	(291)	(283)	(144)
Non-deductible expenses	19	60	168
Other	14	(165)	107
Taxes on previous years	33	-	23
Taxes on income	(243)	132	(111)

g. Tax assessments

As a general rule, tax assessments filed by the company and the subsidiary through the year 2011 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".

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUALS:

	December 31 2015	December 31 2014
	NIS in thousands	
a. Trade:		
Domestic open accounts	470	600
Open accounts abroad	241	472
Checks payable	332	454
	1,043	1,526
NIS	660	447
US dollar	383	1,079
	1,043	1,526
b. Other:		
Payroll and related expenses	775	1,301
Provision for vacation and recreation pay	700	582
Accrued expenses	371	510
Income tax payable	-	160
	1,846	2,553

The fair value of accounts payable approximates their carrying amounts since the effect of discounting is immaterial.

NOTE 12 - 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, 2015	4,097	324	4,421
Changes during the year ended December 31, 2015:			
Amounts charged to statement of income:			
Additional provisions and exchange differences	343	163	506
Amounts paid during the period in respect of royalties	(1,215)		(1,215)
Balance at December 31, 2015	3,225	487	3,712

* 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - PROVISIONS AND OTHER LIABILITIES (continued)**:**

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).

The nominal (undiscounted) outstanding liability for government grants as of December 31, 2015, is NIS 3,380 thousand, and arise from participation of the Israeli government in the development cost of its products, less royalties that have been paid by the Company as of December 31, 2015.

b) Provision for warranty

The group usually offers its customers 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.

c) Contingent liabilities:

On June 20, 2014, the Company received a letter from a former distributor, whose outstanding debt to the Company as of the date of signing the financial statements is $108 thousand, regarding the circumstances of termination of the engagement with that distributor, following a distribution agreement with Abbott. The legal counsel of the Company responded to the letter, rejecting outright all the claims in it. In the opinion of the Company's legal counsel, the likelihood of the claim, if filed, to be accepted is low. However, since a settlement of this claim is possible, management created a provision for its maximum settlement amount, which is presented as a reduction from the accounts receivable balance.

NOTE 13 - 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 745 thousand 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 thousand. The term of the guarantees is extended every year and also promissory notes in the total amount of NIS 767 thousand 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 thousand.

3) The group entered into operating lease agreements for vehicles it uses. The agreements shall expire in the years 2016-2018. The lease fees are linked to the CPI.
The projected lease fees for the years 2016-2018 in respect of the vehicles the company uses are as follows:

Year	NIS in thousands
2016	165
2017	97
2018	50

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)**:**

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 9a 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 thousand 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 thousand and U.S $20 thousand at the end of the first and the second years, respectively, from the effective date for purchase of the license and U.S $30 thousand at the end of the third years and the remaining years to the end of the term of the agreement.

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.

NOTE 14 - 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		
	2015	2014	2013
	NIS in thousands		
Present value of liabilities funded	1,621	1,421	1,239
Fair value of plan assets	(1,326)	(1,156)	(1,091)
Balance of liability presented in the statement of financial position	295	265	148

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 - EMPLOYEE RIGHTS UPON RETIREMENT (continued)**:**

Below are the principal actuarial assumptions taken into account for the defined contribution plans:

	December 31	
	2015	2014
	NIS in thousands	
Discount rate	2.15%	2.1%
Rate of increase in CPI	0.90%	0.98%
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.

e. Employee benefits expenses:

	2015	2014	2013
	NIS in thousands		
Payroll and related expenses*	12,694	11,451	11,228
Benefit in respect of share options granted to employees	208	107	149
	12,902	11,558	11,377
Number of employees of December 31	30	30	29

* The amount charged as an expense in respect of a defined contribution plan in 2015, 2014 and 2013 is NIS 349 thousand, NIS 298 thousand and NIS 266 thousand, respectively.

NOTE 15 - EQUITY:

a. Share capital:

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

	Number of shares	
	December 31	
	2015	2014
Authorized share capital ordinary shares	40,000,000	40,000,000
Issued and paid share capital ordinary shares*	13,840,227	13,540,801

	NIS	
	December 31	
	2015	2014
Authorized share capital ordinary shares*	400,000	400,000
Issued and paid share capital ordinary shares	138,402	135,408

* The shares are traded in the Tel-Aviv Stock Exchange at a price of NIS 4.345 per NIS 0.01 share – as of December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EQUITY (continued):

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

b. Share-based payment:

1) 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 thousand. 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, 2015, 160,000 options are exercisable. Each option that will not be exercised will expire in July 2018.

2) On November 20, 2014, the Board of Directors of the Company approved a new option plan, with similar terms to the 2009 plan, allocation of 600,000 options.

On March 19, 2015 the company granted 200,000 options to company's employees under the terms of the 2014 plan; 25,000 options out of the said 200,000 options were granted to the company's CEO and a company director and 22,500 options were granted to the Deputy CEO. The exercise price of these options is NIS 3.11 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 323 thousand. This value is based on the following assumptions: as of the date of grant: expected volatility of 59%; average risk-free interest rate of 1.24%; expected term until exercise of 6 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: in March 2016, 2017 and 2018, respectively.

c. The following table summarizes the options granted to employees in the years 2013-2015:

	Year ended December 31					
	2015		**2014**		**2013**	
	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	636,167	2.76	747,334	2.52	650,667	2.72
Granted	200,000	3.11		-	257,500	2.89
Expired	-		3,000	71.09	99,334	5.18
Exercised	299,426	1.86	108,167	1.17	61,499	1.44
Outstanding at end of year*	536,741	3.09	636,167	2.76	747,334	2.52
Exercisable at end of year	303,685	2.76	464,500	2.12	507,834	2.19

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - EQUITY (continued):

The overall consideration received in these exercises amounts to NIS 556 thousand, NIS 131 thousand and NIS 88 thousand in the years ended December 31, 2015, 2014 and 2013, respectively.

The options exercised during 2015 lead to the issuance of 299,426 shares (2014: 108,167 shares, 2013 – 61,499 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								
2015			2014			2013		
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
536,741	2.32-3.11	3.09	173,667	0.01-1.55	0.55	278,334	0.01-1.55	3.20
			462,500	1.56-2.89	2.51	466,000	1.56-2.89	5.50
						3,000	2.90-63.98	3.00

NOTE 16 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS:

a. Revenues

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
Revenues from sale of systems, upgrades disposable products and others	25,113	22,207	15,207
Revenues from lease of systems and	580	595	604
software licenses	8,841	7,440	7,215
Revenues from service contracts	*34,534	*30,242	23,026
*Including sales to the Abbott group	19,787	10,447	3,602

Revenues by geographic areas:

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
USA	20,970	22,516	18,467
Israel	-	5	19
Other countries	13,564	7,721	4,540
	34,534	30,242	23,026

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued):

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
b. Cost of sales:			
Purchase of materials	8,384	7,621	4,561
Payroll	2,574	2,634	2,529
Other expenses	1,231	1,253	1,117
Decrease (increase) in finished goods inventory	865	(805)	29
	13,054	10,703	8,236
c. Research and development expenses:			
Payroll and related expenses	3,199	2,940	3,035
Expenses relating to clinical trial	1,474	1,587	1,782
Depreciation	240	241	264
Professional fees	543	194	298
Travel abroad	46	44	82
Other	62	236	230
	5,564	5,242	5,691
d. Selling and marketing expenses:			
Payroll and related expenses	4,817	4,399	3,759
Advertisement and sales promotion	149	171	218
Professional services	601	587	363
Travel	720	891	782
Office maintenance	280	312	336
Depreciation	97	220	185
Tax on sale of medical devices	166	189	136
Registration of products and trademarks		183	
Other	159	53	45
	6,989	7,005	5,824
e. General and administrative expenses:			
Payroll and related expenses	1,675	1,746	1,560
Professional fees	908	775	857
Rent and office maintenance	1,087	1,029	967
Legal and contingent expenses	280	423	233
Subsistence, entertainment, travel and sundry	377	300	395
Expenses relating to impairment of accounts receivable and bad debt	350	803	70
Communication	102	89	88
Insurance	74	59	64
	4,853	5,224	4,234
f. Other expenses (income):			
Sublease income	-	(19)	(86)
Exchange difference expenses (income)	25	(1,034)	352
	25	(1,053)	266
g. Financing expenses:			
Bank commissions	40	40	37
Loss (income) from derivatives		105	(9)
Financing component in provision for royalties to chief scientist	139	150	154
	179	295	182

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued):

	Year ended December 31		
	2015	2014	2013
	NIS in thousands		
h. Financing income:			
Income from derivatives	131		9
Interest on deposits	24	88	208

NOTE 17 - 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		
	2015	2014	2013
	NIS in thousands		
Income (loss) attributed to company's owners - in thousands of NIS	4,066	2,108	(1,076)
Weighted average of number of shares used in computation of earnings (loss) per share	13,710,229	13,505,118	13,420,850
Basic income (loss) per share (in NIS)	0.30	0.16	(0.08)

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.

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

	Year ended December 31		
	2015	2014	2013
Weighted average number of shares used in computation of basic earnings (loss) per share	13,710,229	13,505,118	13,420,850
Adjustments in respect of incremental shares in respect of exercise of options in computation of earnings (loss) per share	116,487	144,292	-
Weighted average of number of shares used in computation of diluted earnings (loss) per share	13,826,716	13,649,410	13,420,850
Diluted earnings (loss) per share in NIS	0.29	0.15	(0.08)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 -TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES AND RELATED PARTIES

"Interested parties" - as defined in the Israeli Securities Regulations (Annual Financial Statements), 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		
	2015	2014	2013
	NIS in thousands		
Benefits to interested parties:			
Payroll and related expenses to interested party employed in the group	1,622	1,554	1,504
Share based payments	58	38	53
Number of persons to which the benefits relate	2	2	2
Remuneration to directors not employed in the group	319	342	332
Number of persons to which the benefits relate	6	6	6
	1,999	1,934	1,889

b. Balances with interested parties and related parties:

	December 31	
	2015	2014
	NIS in thousands	
Accounts payable and accruals (does not bear interest)	187	10