TRANSLATION FROM HEREW ORIGINAL

BIO VIEW LTD.

2016 ANNUAL REPORT

BIO VIEW LTD.

2016 ANNUAL REPORT

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AUDITORS' REPORT

To the shareholders of

BIO VIEW LTD.

We have audited the attached consolidated financial statements of financial position of Bio View Ltd. (hereafter - the company) as of December 31, 2016 and 2015 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, 2016. 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 ur 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, 2016 and 2015 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, 2016, 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 14, 2017

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

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BIO VIEW LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31 2016	December 31 2015
Assets		NIS in thousands	
CURRENT ASSETS:			
Cash and cash equivalents	5	22,163	18,384
Accounts receivable:	6		
Trade		4,649	3,031
Other		906	0
Inventory	7	3,504	3,475
		31,222	25,600
NON-CURRENT ASSETS :			
Restricted deposit	12a	109	109
Other long-term receivables		402	72
Intangible assets	8	484	484
Deferred income tax	9	6,074	6,580
Property and equipment - net		417	534
		7,486	7,779
TOTAL ASSETS		38,708	33,379
Liabilities and equity			
CURRENT LIABILITIES:			
Accounts payable:	10		
Trade		1,306	1,043
Other		2,066	1,846
Royalties to Chief Scientist	11	1,165	1,285
Deferred income		3,933	3,227
Provision for warranty	11	408	487
		8,878	7,888
NON-CURRENT LIABILITIES:			
Liability for employee rights upon retirement - net	13	382	295
Deferred income		782	268
Liability for royalties to Chief Scientist	11	1,061	1,940
		2,225	2,503
COMMITMENTS AND CONTINGENT LIABILITIES	12		
TOTAL LIABILITIES		11,103	10,391
EQUITY ATTRIBUTED TO COMPANY'S OWNERS:	14		
Ordinary shares		139	138
Share premium		51,702	51,409
Capital surplus in respect of warrants		587	554
Other comprehensive loss reserves		(343)	(196)
Accumulated deficit		(24,480)	(28,917)
TOTAL EQUITY		27,605	22,988
TOTAL LIABILITIES AND EQUITY		38,708	33,379

Emmanuel Gill	**Dr. Alan Schwebel**	**Marina Wolfson**
Chairman	**President and CEO**	**VP Finance**

Date of approval of financial statements by the Board of Directors: March 14, 2017.

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

BIO VIEW LTD.

CONSOLIDATED STATEMENT OF INCOME

	Note	2016	2015	2014
		Year ended December 31		
		NIS in thousands		
REVENUE	15a	33,289	34,534	30,242
COST OF SALES	15b	12,114	13,054	10,703
GROSS PROFIT		21,175	21,480	19,539
RESEARCH AND DEVELOPMENT EXPENSES	15c	5,684	5,564	5,242
SELLING AND MARKETING EXPENSES	15d	6,122	6,989	7,005
GENERAL AND ADMINISTRATIVE EXPENSES	15e	4,583	4,853	5,224
OTHER EXPENSES (INCOME)	15f	27	25	(1,053)
EXPENSES IN RESPECT OF CHANGES IN PROVISION FOR ROYALTIES TO CHIEF SCIENTIST (EXCLUDING FINANCING COMPONENT)		23	204	610
OPERATING INCOME		4,736	3,845	2,511
FINANCE EXPENSES	15g	150	179	295
FINANCE INCOME	15h	(74)	(157)	(24)
FINANCE EXPENSES – net		76	22	271
INCOME BEFORE TAXES ON INCOME		4,660	3,823	2,240
INCOME TAX (TAX BENEFITS)	9	223	(243)	132
NET INCOME FOR THE YEAR		4,437	4,066	2,108

	Note	2016	2015	2014
		NIS		
EARNINGS PER SHARE:	16			
Basic income per share		0.32	0.30	0.16
Diluted income per share		0.32	0.29	0.15

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

BIO VIEW LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31		
	2016	**2015**	**2014**
	NIS in thousands		
INCOME FOR THE YEAR	4,437	4,066	2,108
OTHER COMPREHENSIVE INCOME (LOSS):			
Items that will not be reclassified to profit or loss - remeasurement of post-employment benefit obligations	(87)	(30)	(117)
Items that may be subsequently reclassified to profit or loss -exchange differences arising from translation of the net investment in foreign operations	(60)	6	305
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(147)	(24)	188
COMPREHENSIVE INCOME FOR THE YEAR	4,290	4,042	2,296

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

BIO VIEW LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary shares	Share premium	Warrants	Other comprehensive loss reserves	Capital deficiency	Total
	NIS in thousands					
BALANCE AT JANUARY 1, 2014	134	50,527	439	(360)	(35,091)	15,649
CHANGES IN THE YEAR ENDED DECEMBER 31, 2014:						
Total comprehensive income				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 loss				(24)	4,066	4,042
Exercise and expiry 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
CHANGES IN THE YEAR ENDED DECEMBER 31, 2016:						
Total comprehensive income				(147)	4,437	4,290
Exercise of warrants by employees and expirations	1	293	(83)			211
Expenses in respect of employee options			116			116
BALANCE AT DECEMBER 31, 2016	139	51,702	587	(343)	(24,480)	27,605

The accompanying notes are an integral part of these financial statements

BIO VIEW LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31		
	2016	2015	2014
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash generated in operations (see appendix A)	3,840	5,365	3,703
Income tax paid – net	(113)	(703)	(426)
Net cash provided by	3,727	4,662	3,277
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(119)	(210)	(111)
Deposits – net	-	(6)	(2)
Net cash used in investing activities	(119)	(216)	(113)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of royalties for repayment of liability for acquisition of intangible asset	-	-	(229)
Exercise of warrants into shares by employees	211	556	131
Net cash provided by (used in financing activities)	211	556	(98)
INCREASE IN CASH AND CASH EQUIVALENTS	3,819	5,002	3,066
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,384	13,427	9,859
PROFITS (LOSSES) FROM EXCHANE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(40)	(45)	502
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	22,163	18,384	13,427

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

(Concluded) - 2

BIO VIEW LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2016	2015	2014
	NIS in thousands		
APPENDIXES TO STATEMENT OF CASH FLOWS:			
(a) Net cash provided by operating activities:			
Income before taxes on income	4,660	3,823	2,240
Adjustments in respect of – income and expense not involving cash flows:			
Depreciation and amortization	200	389	498
Amounts charged in respect of options to employees	116	208	107
Losses (income) from exchange differences on cash and cash equivalents	(23)	62	(51)
	4,953	4,482	2,794
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(1,648)	2,039	1,732
Other	(136)	24	(152)
Decrease (increase) in inventory	(25)	1,254	(801)
Increase (decrease) in accounts payable and accruals:			
Trade	266	(483)	294
Other (including provision for warranty)	166	(386)	196
Decrease in provision for royalties to Chief Scientist	(999)	(872)	(185)
Increase (decrease) in deferred income (including long-term liabilities)	1,263	(693)	(175)
	(1,113)	883	909
Net cash provided by operating activities	3,840	5,365	3,703
(b) Information regarding cash interest received	74	26	24

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 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. For information regarding principal customer see note 15a.

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 was in effect for a 3-year period. The agreement was extended automatically by one year in light of marketing efforts invested by them. In this period, the Company will assess whether to continue the engagement with Kindstar Global.

The company's shares are traded in the Tel-Aviv Stock Exchange.
The Address of the company is 3 Pekeris St. Rehovot, ISRAEL.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation:

1) The financial statements of the group as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, 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.

Gains and losses from changes in exchange rates, relating to royalties to the Chief Scientist, are presented in the statement of comprehensive income 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 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);

c) All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognized in other comprehensive income (loss). When a foreign operation is fully 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.

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 electronic equipment	6-7
Office furniture and equipment	6-7
Computers	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at least once a year, 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 as incurred.

2) Patent rights

Intellectual property acquired by the group is presented at historical cost. As of December 31, 2016, impairment of this asset has not yet begun and it is subject to impairment test at least once a year; see also g. bellow.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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").

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 recognized 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 recognized 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.

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 and short-term bank deposits 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.

n. Current and deferred income taxes

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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 9c, 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).

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

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:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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 per share

Basic earnings per share is calculated, as a rule, by dividing the profit 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 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

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 standard is not expected to have material impact on the Group's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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 implementing IFRS 15 on its financial statements.
During the year 2017, before the initial implementation of IFRS 15, the Group will make further assessment of the expected effects of the implementation of IFRS 15.
As part of the process mentioned above, which had not yet ended, the Group identified several areas that may be effected by the implementation of IFRS 15:
1. A change in the number of identified individual performance commitments and, as a result, a possible impact of the timing of revenue recognition. 2. Possible recognition of an asset in respect of contract obtaining costs, that are currently recognized immediately in the statement of financial position.
At this stage, the Group intends to apply IFRS 15 on the date in which it will become mandatory, beginning in the first quarter of 2018, electing the transitional provisions that allow recognition of the accumulated impact of first-time adoption as adjustment of opening balance of retained earnings as of January 1, 2018 (i.e. without restatement of comparative information for previous periods).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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:

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 would have increased against cancelling the deferred tax asset of NIS 6,428 thousand.

NOTE 2 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

b. 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.

c. 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.

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. Open positions as of December 31, 2016, are at a notional amount of $600 thousand. The fair value of the derivative is included within other receivables at NIS 12 thousand (2015 - NIS 38 thousand within other receivables).

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.

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

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 2017-2018.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

b. Financial instruments

Credit quality of financial assets:

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

	December 31	
	2016	2015
	NIS in thousands	
AAA+	11,879	13,593
No S&P rating*	10,284	4,791
	22,163	18,384

* Belmont Savings Bank.

In the years ended December 31, 2016 and 2015, 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 15a. The balance of the principal customer (Abbott) as of December 31, 2016 is NIS 3,312 thousand. The credit rating of that customer according to Standard and Poor's is BBB. 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, 2016.

NOTE 5 - CASH AND CASH EQUIVALENT:

	December 31	
	2016	2015
	NIS in thousands	
Cash in bank and cash on hand	4,513	8,288
Short-term bank deposits	17,650	10,096
	22,163	18,384

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

	December 31	
	2016	2015
	NIS in thousands	
NIS	8,675	7,055
US dollar	13,313	10,366
Euro	-	862
GBP	175	101
	21,163	18,384

NOTE 6 - ACCOUNTS RECEIVABLE:

a. Trade receivable accounts

As of December 31, 2016 and 2015, the trade receivable balance is composed only of open accounts. Most receivables are in US dollar. As of December 31, 2016 and 2015, receivables in the total amount of NIS 822 and NIS 1,961 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.

No provision for impairment of accounts receivable exists as of December 31, 2016. As of December 31, 2015, the balance of the provision for impairment of accounts receivable is NIS 710 thousand. The expense for impaired and bad debt for the years ended December 31, 2016, 2015 and 2014 is NIS 8 thousand, NIS 350 thousand and NIS 803 thousand, respectively. An impairment of a former distributor's debt was recognized in 2015, due to potential filing of a legal claim.

The aging of those receivable balances (after deduction of provisions) is as follows:

	December 31	
	2016	2015
	NIS in thousands	
Up to three months	706	1,549
More than three months	116	412
	822	1,961

Of those overdue receivables above, as of the date of approving these financial statements, a total of NIS 575 thousand was fully paid off.

b. Other:

	December 31	
	2016	2015
	NIS in thousands	
Employees	18	17
Prepaid expenses	257	199
Institutions	628	490
Income receivable	3	4
	906	710

As of December 31, 2016 and 2015, the group's books of accounts do not include a provision for impairment of accounts receivable in respect of other receivables.

NOTE 7 - INVENTORY:

Composed as follows:

	December 31	
	2016	2015
	NIS in thousands	
Raw materials and spare parts*	3,342	3,230
Finished goods	162	245
	3,504	3,475

This balance includes a provision for impairment of spare parts inventory amounting to NIS 475 thousand and NIS 1,121 thousand as of December 31, 2016 and 2015, respectively. The amounts of impairment included in the cost of sales item in the statement of income for the years 2016, 2015 and 2014 are NIS 720 thousand, NIS 217 thousand and NIS 287 thousand, respectively, see also note 3b.

An amount of NIS 1,295 thousand is attributed to spare part inventory, of which, NIS 400 thousand is expected to be settled over more than 12 months after the reported period.

NOTE 8 - INTANGIBLE ASSETS

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. Additionally, 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 12b).
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 9 - 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.

According to the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law), which was published in the official gazette on August 5, 2013, the corporate tax rate was increased to 26.5% (as to tax rates on income of preferred enterprises under the Encouragement of Capital investment Law, 1959, see b. below).

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

NOTE 9 - TAXES ON INCOME (continued):

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.

From January 1, 2013 to December 31, 2015, the subsidiary was subject to tax on sale of medical devices in the USA (Medical Device Exercise Tax). The tax is calculated as a percentage of the net selling price. Those expenses are recorded in Selling and Marketing 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.

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 of the Company has not yet commenced, since the Company has a balance of carryforward losses, see paragraph d. below.

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.

NOTE 9 - TAXES ON INCOME (continued):

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, 2016, 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.

As indicated above, the Company has yet to decide whether to be governed by the amendment to the law. If and when the Company decides to be governed by the amendment to the law, it will be entitled to reduced tax rates under the applicable benefits track, as indicated by 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 in August 2013, and also according to the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016, which was issued in December 2016, as follows:

Type of enterprise	Development zone A	Rest of Israel
Preferred enterprise	7.5%	16%

The above benefits will be provided indefinitely, except to special preferred enterprises, which will receive benefit for a period of 10 years. Benefits are to be given to qualifying companies under those laws.

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 28,159 thousand and NIS 31,990 thousand as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the company did create deferred taxes in respect of all losses amounting as of December 31, 2016. The Company expects to utilize carryforward losses until the end of 2022.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - TAXES ON INCOME (continued):

e. **Deferred income tax:**

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

	December 31	
	2016	2015
	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	5,187	5,334
Deferred tax assets expected to be recoverable within 12 months after date of statement of financial position	887	1,246
Net deferred tax	6,074	6,580

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, 2015	(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
Changes in 2016 -					
amount carried to income		(165)	(174)	(167)	(506)
Balance at December 31, 2016	-	258	1,211	4,605	6,074

* Mainly due to research and development expenses, impairment of accounts receivable and deferred income.

3) As of December 31, 2016 and 2015, deferred taxes are computed based on a tax rate of 16% applicable to preferred enterprises.

NOTE 9 - TAXES ON INCOME (continued):

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

1) As follows:

	For the year ended December 31		
	2016	2015	2014
	NIS in thousands		
Current taxes:			
Current taxes on income of the reported year	71	199	440
Expenses on previous years	(354)	33	-
	(283)	232	440
Change in deferred taxes	506	(475)	(308)
Income tax expenses (income)	223	(243)	132

Current assets on income generated in the reported year are for the subsidiary only. In 2016, current taxes are computed based on an average tax rate of 36% (2015 - 32%, 2014 - 34%).

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		
	2016	2015	2014
	NIS in thousands		
Income before income tax, as reported in the consolidated statement of income	4,660	3,823	2,240
Theoretical tax on this income or loss	1,165	1,013	594
Increase in taxes due to different tax rates of foreign subsidiary	21	19	134
Decrease arising on recognition deferred taxes on carryforward losses and timing differences	(346)	(1,050)	(208)
Decrease resulting from deferred taxes created at different tax rates	(340)	(291)	(283)
Non-deductible expenses	23	19	60
Other	54	14	(165)
Taxes on previous years	(354)	33	-
Taxes on income	223	(243)	132

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 10 - ACCOUNTS PAYABLE AND ACCRUALS:

	December 31	
	2016	2015
	NIS in thousands	
a. Trade:		
Domestic open accounts	648	470
Open accounts abroad	247	241
Checks payable	411	332
	1,306	1,043
NIS	867	660
US dollar	439	383
	1,306	1,043
b. Other:		
Payroll and related expenses	823	775
Provision for vacation and recreation pay	819	700
Accrued expenses	412	371
Other	12	-
	2,066	1,846

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

NOTE 11 - PROVISIONS AND OTHER LIABILITIES:

Changes in the provisions are as follows:

	Royalties to Chief Scientist (a)*	Provision for warranty (b)	Total
	NIS in thousands		
Balance at January 1, 2016	3,225	487	3,712
Changes during the year ended December 31, 2016:			
Amounts charged to statement of income:			
Additional provisions and exchange differences	133	(79)	54
Amounts paid during the period in respect of royalties	(1,132)		(1,132)
Balance at December 31, 2016	2,226	408	2,634

* 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.

NOTE 11 - 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.

The nominal (undiscounted) outstanding liability for government grants as of December 31, 2016, is NIS 2,312 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, 2016.

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.

NOTE 12 - 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 2022. The annual lease fees linked to the CPI amount to NIS 764 thousand per year plus VAT.

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 subsidiary engaged in an operating lease agreement for the building it is using until 2020. Annual lease is in US dollar at $35-39 thousand per year.

4) The group entered into operating lease agreements for vehicles it uses. The agreements shall expire in the years 2017-2019. The lease fees are linked to the CPI.
The projected lease fees for the years 2017-2019 in respect of the vehicles the company uses are as follows:

Year	NIS in thousands
2017	195
2018	155
2019	47

NOTE 20 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

b. Intangible assets

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 8a above.

The group has also undertaken to pay royalties on a current basis at the rate of 3% of the sales as well as U.S $30 thousand annually through 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 13 - 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		
	2016	**2015**	**2014**
	NIS in thousands		
Present value of liabilities funded	2,422	1,621	1,421
Fair value of plan assets	(2,040)	(1,326)	(1,156)
Balance of liability presented in the statement of financial position	382	295	265

NOTE 13 - EMPLOYEE RIGHTS UPON RETIREMENT (continued):

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

	December 31	
	2016	2015
	NIS in thousands	
Discount rate	2.80%	2.15%
Rate of increase in CPI	1.20%	0.90%
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:

	2016	2015	2014
	NIS in thousands		
Payroll and related expenses*	13,055	12,694	12,230
Benefit in respect of share options granted to employees	116	208	107
	13,171	12,902	12,337
Number of employees of December 31	31	30	30

* The amount charged as an expense in respect of a defined contribution plan in 2016, 2015 and 2014 is NIS 391 thousand, NIS 349 thousand and NIS 298 thousand, respectively.

NOTE 14 - 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	
	2016	2015
Authorized share capital ordinary shares	40,000,000	40,000,000
Issued and paid share capital ordinary shares*	13,931,135	13,840,227

	NIS	
	December 31	
	2016	2015
Authorized share capital ordinary shares*	400,000	400,000
Issued and paid share capital ordinary shares	139,311	138,402

* The shares are traded on the Tel-Aviv Stock Exchange at a share price of NIS 3.702 per NIS 0.01 share – as of December 31, 2016.

NOTE 14 - 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.

Options will vest in three installments: on May 2014, 2015 and 2016, respectively. The quoted price of company share close to actual allotment of the said options was NIS 2.507 per share.

As of December 31, 2016, 245,833 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.

The quoted price of Company shares close to actual allotment of the said options was NIS 3.13 per share.

As of December 31, 2016, 66,667 options were exercisable. Each unexercised option will expire in March 2025.

c. The following table summarizes the options granted to employees in the years 2014-2016:

	Year ended December 31					
	2016		2015		2014	
	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	536,741	3.09	636,167	2.76	747,334	2.52
Granted	-		200,000	3.11		-
Expired	10,000	3.11	-		3,000	71.09
Exercised	90,908	2.32	299,426	1.86	108,167	1.17
Outstanding at end of year*	435,833	3.30	536,741	3.09	636,167	2.76
Exercisable at end of year	312,500	2.93	250,908	2.68	464,500	2.12

NOTE 14 - EQUITY (continued):

The overall consideration received in these exercises amounts to NIS 211 thousand, NIS 556 thousand and NIS 131 thousand in the years ended December 31, 2016, 2015 and 2014, respectively.

The options exercised during 2016 led to the issuance of 90,908 shares (2015: 299,426 shares, 2014: 108,167 shares).

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								
2016			2015			2014		
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
435,833	2.89-3.11	3.30	536,741	2.32-3.11	3.09	173,667	0.01-1.55	0.55
						462,500	1.56-2.89	2.51

NOTE 15 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS:

a. Revenues

	Year ended December 31		
	2016	2015	2014
	NIS in thousands		
Revenues from sale of systems, upgrades disposable products and others	23,227	25,113	22,207
Revenues from lease of systems and	381	580	595
software licenses	9,681	8,841	7,440
Revenues from service contracts	*33,289	*34,534	*30,242
*Including sales to the Abbott group	17,987	19,787	10,447

Revenues by geographic areas:

	Year ended December 31		
	2016	2015	2014
	NIS in thousands		
USA	22,228	20,970	22,516
Israel	59	-	5
Other countries **	11,002	13,564	7,721
	33,289	34,534	30,242

** Most sales are done through Abbott USA. Abbott's customers are located in Europe, Australia and Asia-Pacific.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued):

	Year ended December 31		
	2016	**2015**	**2014**
	NIS in thousands		
b. Cost of sales:			
Purchase of materials	7,451	8,384	7,621
Payroll and related expenses	3,227	2,574	2,634
Other expenses	1,353	1,231	1,253
Decrease (increase) in finished goods inventory	83	865	(805)
	12,114	13,054	10,703
c. Research and development expenses:			
Payroll and related expenses	3,129	3,199	2,940
Clinical Trial	1,754	1,474	1,587
Depreciation	199	240	241
Professional fees, mainly subcontractors	470	543	194
Travel	59	46	44
Other	73	62	236
	5,684	5,564	5,242
d. Selling and marketing expenses:			
Payroll and related expenses	4,461	4,817	4,399
Advertisement and sales promotion	184	149	171
Professional fees	444	601	587
Travel	640	720	891
Office maintenance	247	280	312
Depreciation	-	97	220
Medical Device Excise Tax	55	166	189
Registration of products and trademarks			183
Other	91	159	53
	6,122	6,989	7,005
e. General and administrative expenses:			
Payroll and related expenses	1,823	1,675	1,746
Professional fees	918	908	775
Rent and office maintenance	1,075	1,087	1,029
Legal and contingent expenses	122	280	423
Subsistence, entertainment, travel and other	482	377	300
Expenses relating to impairment of accounts receivable and bad debt	8	350	803
Communication	95	102	89
Insurance	60	74	59
	4,583	4,853	5,224
f. Other expenses (income):			
Sublease income	-	-	(19)
Exchange difference expenses (income)	27	25	(1,034)
	27	25	(1,053)
g. Financing expenses:			
Bank fees	40	40	40
Loss from derivatives			105
Financing component in provision for royalties to Chief Scientist	110	139	150
	150	179	295

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year ended December 31		
	2016	**2015**	**2014**
	NIS in thousands		
h. Financing income:			
Income from derivatives	20	131	
Interest on deposits	54	26	24
	74	157	24

NOTE 16 - EARNING PER SHARE:

a. Basic

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

	For the year ended December 31		
	2016	**2015**	**2014**
	NIS in thousands		
Income attributed to company's owners - NIS in thousands	4,437	4,066	2,108
Weighted average of number of shares used in computation of earnings per share	13,892,370	13,710,229	13,505,118
Basic income per share (NIS)	0.32	0.30	0.16

b. Diluted

When calculating the diluted income 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		
	2016	**2015**	**2014**
Weighted average number of shares used in computation of basic earnings per share	13,892,370	13,710,229	13,505,118
Adjustments in respect of incremental shares in respect of exercise of options in computation of earnings per share	91,917	116,487	144,292
Weighted average of number of shares used in computation of diluted earnings per share	13,984,287	13,826,716	13,649,410
Diluted earnings per share in NIS	0.32	0.29	0.15

NOTE 17 -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		
	2016	2015	2014
	NIS in thousands		
Benefits to interested parties:			
Payroll and related expenses to interested party employed in the group	969	1,622	1,554
Share based payments	17	58	38
Number of persons to which the benefits relate	1	2	2
Remuneration to directors not employed in the group	341	319	342
Number of persons to which the benefits relate	5	6	6
	1,327	1,999	1,934

b. Balances with interested parties and related parties:

	December 31	
	2016	2015
	NIS in thousands	
Accounts payable and accruals (do not bear interest)	70	187