Exalenz Bioscience Ltd.

Interim Consolidated Financial Statements as of September 30, 2018

Unaudited

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Auditors' review report to the shareholders of Exalenz Bioscience Ltd.

Introduction

We have reviewed the accompanying financial information of Exalenz Bioscience Ltd. and its subsidiary ("the Company"), which comprises the condensed consolidated statement of financial position as of September 30, 2018 and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the period of nine and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our conclusion, we draw attention to that stated in Note 1c to the consolidated financial statements regarding management's plans to raise capital or to adjust the Company's expense structure to its income structure. The Company's ability to continue operating in the foreseeable future is subject to the realization of management's said plans.

Tel Aviv
November 14, 2018

Kost Forer Gabby & Kasierer
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	September 30, 2018	September 30, 2017	December 31, 2017
	Unaudited	Unaudited	Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,771	1,620	1,631
Short-term deposits	-	250	-
Trade receivables, net	2,277	1,423	2,331
Other accounts receivable	1,401	754	*) 995
Inventories	6,495	2,331	2,962
	14,944	6,378	7,919
NON-CURRENT ASSETS:			
Long-term deposits and other receivables	946	20	*) 121
Restricted cash	115	80	82
Property, plant and equipment, net	445	269	246
Intangible assets, net	173	866	693
	1,679	1,235	1,142
	16,623	7,613	9,061
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current maturities on loan and Credit Line from bank	2,971	-	-
Trade payables	3,088	1,441	2,392
Other accounts payable	1,658	1,608	1,812
Liabilities for government grants	557	515	762
	8,274	3,564	4,966
NON-CURRENT LIABILITIES:			
Loans from bank	4,015	714	1,975
Liabilities for government grants	5,110	5,934	5,766
	9,125	6,648	7,741
EQUITY:			
Share capital	7,030	6,644	6,652
Additional paid-in capital	69,599	65,672	65,707
Reserve from share-based payment transactions	2,261	1,213	1,264
Reserve from transactions with controlling shareholder	2,224	1,393	1,567
Foreign currency translation reserve	1,729	1,729	1,729
Accumulated deficit	(83,619)	(79,250)	(80,565)
	(776)	(2,599)	(3,646)
	16,623	7,613	9,061

*) Reclassified

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

November 14, 2018			
Date of approval of the financial statements	Dr. Uri Geiger Chairman of the Board	Raphael Werner CEO	Roy Golan CFO & President

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands, except share and per share data

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
Revenues	9,816	6,526	3,163	2,536	9,534
Cost of revenues	5,636	4,170	1,631	1,514	5,958
Amortization of intangible asset	520	520	174	174	693
Total cost of revenues	6,156	4,690	1,805	1,688	6,651
Gross profit	3,660	1,836	1,358	848	2,883
Research and development expenses, net	2,792	2,735	855	986	3,888
Selling and marketing expenses, net	2,406	1,773	882	598	2,417
General and administrative expenses	1,978	1,249	767	428	1,700
Prior years fee refund by the FDA	(76)	(88)	-	(88)	(88)
Operating loss	3,440	3,833	1,146	1,076	5,034
Financial income	703	65	236	2	38
Financial expenses	(414)	(347)	(223)	(16)	(467)
Financial income (expenses), net	289	(282)	13	(14)	(429)
Loss before taxes on income	3,151	4,115	1,133	1,090	5,463
Taxes on income (tax benefit)	(97)	8	(56)	(5)	(25)
Total net loss	3,054	4,123	1,077	1,085	5,438
Comprehensive income	3,054	4,123	1,077	1,085	5,438
Basic and diluted loss per share	(0.12)	(0.16)	(0.04)	(0.04)	(0.21)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Reserve from share-based payment transactions	Reserve from transactions with controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total
				Unaudited			
Balance at January 1, 2018 (audited)	6,652	65,707	1,264	1,567	1,729	(80,565)	(3,646)
	-	-	-	-			
Comprehensive loss	-	-	-	-	-	(3,054)	(3,054)
Issuance of shares, net	372	3,845	-	-	-	-	4,217
Exercise of options	6	47	(13)	-	-	-	40
Transaction with controlling shareholder *)	-	-	-	657	-	-	657
Cost of share-based payment	-	-	1,010	-	-	-	1,010
Balance at September 30, 2018	7,030	69,599	2,261	2,224	1,729	(83,619)	(776)

	Share capital	Additional paid-in capital	Reserve from share-based payment transactions	Reserve from transactions with controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total
				Unaudited			
Balance at January 1, 2017 (audited)	6,638	65,632	803	1,284	1,729	(75,127)	959
Comprehensive loss	-	-	-	-	-	(4,123)	(4,123)
Exercise of options	6	33	(10)	-	-	-	29
Transaction with controlling shareholder *)	-	-	-	109	-	-	109
Cost of share-based payment	-	-	427	-	-	-	427
Options expired	-	7	(7)	-	-	-	-
Balance at September 30, 2017	6,644	65,672	1,213	1,393	1,729	(79,250)	(2,599)

*) Net of tax influence

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Reserve from share-based payment transactions	Reserve from transactions with controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total
	Unaudited						
Balance at July 1, 2018	6,658	65,753	1,809	1,891	1,729	(82,542)	(4,702)
Comprehensive loss	-	-	-	-	-	(1,077)	(1,077)
Issuance of shares, net	372	3,845	-	-	-	-	4,217
Exercise of options	*) -	1	*) -	-	-	-	1
Transaction with controlling shareholder **)	-	- -	-	333	-	-	333
Cost of share based-payment	-	-	452	-	-	-	452
Balance at September 30, 2018	7,030	69,599	2,261	2,224	1,729	(83,619)	(776)

	Share Capital	Additional paid-in capital	Reserve from share-based payment transactions	Reserve from transactions with controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total
	Unaudited						
Balance at July 1, 2017	6,638	65,638	996	1,284	1,729	(78,165)	(1,880)
Comprehensive loss	-	-	-	-	-	(1,085)	(1,085)
Exercise of options	6	33	(10)	-	-	-	29
Transaction with controlling shareholder **)	-	-	-	109	-	-	109
Cost of share-based payment	-	-	228	-	-	-	228
Options expired	-	1	(1)	-	-	-	-
Balance at September 30, 2017	6,644	65,672	1,213	1,393	1,729	(79,250)	(2,599)

*) Represents an amount lower than USD 1.

**) Net of tax influence

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Reserve from share-based payment transactions	Reserve from transactions with controlling shareholder	Foreign currency translation reserve	Accumulated deficit	Total
				Audited			
Balance at January 1, 2017	6,638	65,632	803	1,284	1,729	(75,127)	959
Comprehensive loss	-	-	-	-	-	(5,438)	(5,438)
Exercise of options	14	68	(26)	-	-	-	56
Transaction with controlling shareholder *)	-	-	-	283	-	-	283
Cost of share-based payment	-	-	494	-	-	-	494
Options expired	-	7	(7)	-	-	-	-
Balance at December 31, 2017	6,652	65,707	1,264	1,567	1,729	(80,565)	(3,646)

*) Net of tax influence

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	**2017**	**2018**	**2017**	**2017**
	Unaudited				**Audited**
Cash flows from operating activities:					
Loss	(3,054)	(4,123)	(1,077)	(1,085)	(5,438)
Adjustments to reconcile net loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	658	679	227	219	888
Cost of share-based payment	1,010	427	452	228	494
Finance expenses (income), net	(289)	282	(13)	14	429
	1,379	1,388	666	461	1,811
Changes in asset and liability items:					
Decrease (increase) in trade receivables	21	(713)	(157)	(174)	(1,614)
Decrease (increase) in other accounts receivable	(317)	47	(839)	290	*) (141)
Increase in inventories	(3,820)	(644)	(1,528)	(198)	(1,355)
Increase (decrease) in trade payables	583	363	(88)	(214)	1330
Increase (decrease) in other accounts payable	(221)	52	118	134	165
	(3,754)	(895)	(2,494)	(162)	(1,615)
Cash paid and received during the year for:					
Tax paid	(73)	(5)	(10)	-	(5)
Interest paid	(170)	(23)	(93)	(8)	(34)
Interest received	1	5	-	1	4
	(242)	(23)	(103)	(7)	(35)
Net cash used in operating activities	(5,671)	(3,653)	(3,008)	(793)	(5,277)

*) Reclassified

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
Cash flows from investing activities:					
Purchase of property, plant and equipment	(150)	(23)	(24)	(5)	(30)
Investment in long-term deposits	-	(2)	-	(2)	(7)
Withdrawal of bank deposits/restricted cash	(35)	2,544	(40)	(250)	2,794
Net cash provided by (used in) investing activities	(185)	2,519	(64)	(257)	2,757
Cash flows from financing activities:					
Issuance of shares, net	4,217	-	4,217	-	-
Repayment of long-term bank loan	-	(311)	-	-	(311)
Receipt of long-term loan and credit line from banks	5,732	822	2,335	822	2,264
Exercise of options	40	26	13	26	56
Prepaid issuance expenses	(612)	-	(356)	-	*) (59)
Receipt of government grants	-	-	-	-	**) -
Repayment of liability in respect of government grants	(366)	(218)	(200)	(138)	(239)
Net cash provided by financing activities	9,011	319	6,009	710	1,711
Exchange differences on balances of cash and cash equivalents	(15)	51	34	8	56
Increase (decrease) in cash and cash equivalents	3,140	(764)	2,971	(332)	(753)
Cash and cash equivalents at the beginning of the period	1,631	2,384	1,800	1,952	2,384
Cash and cash equivalents at the end of the period	4,771	1,620	4,771	1,620	1,631
Significant non-cash transactions:					
Reclassification inventory to assets	187	138	43	12	144
Non-cash issuance expenses	204	-	204	-	-
Receivables from issuance of shares	-	3	-	3	-

*) Reclassified
**) Represents an amount lower than USD 1.

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

NOTE 1:- GENERAL

a. These consolidated financial statements have been prepared in a condensed format as of September 30, 2018 and for the nine and three months period then ended ("interim consolidated financial statements"). These consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2017 and for the year then ended and accompanying notes ("annual consolidated financial statements").

b. On March 12, 2018, the Company announced the receipt of approval from the US Food and Drug Administration (FDA) to market its lab system and its point of care device for H. pylori detection in the United States for a pediatric usage.

c. The Company has a negative cash flow from operating activities totaling USD 5,671 thousand and a loss totaling USD 3,054 thousand, including net R&D expenses amounting to USD 2,792 thousand, for the period of nine months ended September 30, 2018, and has an accumulated deficit of USD 83,619 thousand as of September 30, 2018.

The Company has a negative cash flow from operating activities totaling USD 3,008 thousand and a loss totaling USD 1,077 thousand, including net R&D expenses amounting to USD 855 thousand, for the period of nine months ended September 30, 2018.

In August 2018, The Company entered into an additional Credit Line Agreement with a bank in an amount of NIS 7.5 million (Approximately USD 2 million) which is secured by an irrevocable guarantee ("the guarantee") and a lien on a deposit of the Company's controlling shareholder (see Note 5E). In addition, On September 5, 2018, the Company raised a total of NIS 15.6 million ($4.4 million - gross before deduction of issue costs) in an equity round (see Note 5K).

Likewise, the Company intends to act to match the total of fund applications to the sum of fund sources to the extent this will be necessary. In view of the foregoing, management estimates that it is likely that the Company will be able to meet its obligations on time in the foreseeable future.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as described below:

b. Revenue from Contracts with Customers:

As detailed in paragraph d(1) below regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company chose to adopt the provisions of the new Standard using the modified retrospective approach with certain reliefs and without restatement of comparative figures. As for the accounting policy on revenue recognition adopted before December 31, 2017, see Note 2(i) to the annual consolidated financial statements. The accounting policy on revenue recognition adopted effective from January 1, 2018 is as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Revenue recognition:

According to the Standard, revenue from contracts with customers is recognized in profit or loss when the control over the asset or service is transferred to the customer. Revenue is measured and recognized at the fair value of the consideration that is expected to be received based on the contract terms, less the amounts collected in favor of third parties (such as taxes). Revenue is recognized in profit or loss to the extent that it is probable that the economic benefits associated with the contract will flow to the Company and that and the costs incurred or to be incurred in respect of the contract can be measured reliably.

When determining the amount of revenue from contracts with customers, the Company examines whether it acts as a main supplier or agent in the contract. When the Company controls the goods or promised service before it is transferred to the customer, it acts as a main supplier. In such cases, the Company recognizes revenue on a gross basis. When the Company acts as agent, it recognizes revenue on a net basis, after deducting the amounts payable to the main supplier.

2. Revenue from sale of goods:

Revenue from sale of goods is recognized in profit or loss at a point in time when the ownership of the goods is passed to the buyer, normally when the goods are delivered to the buyer.

3. Revenue from provision of services:

According to this type of contracts signed with customers, the customer simultaneously receives and consumes the benefits produced by the Company's performance and therefore revenue is recognized over time, in the reporting periods in which the services are provided. The Company charges its customers based on payment terms agreed upon in specific agreements. Payments can be made before or after the service period begins. The Company recognizes the resulting asset or liability in respect of the contract with the customer.

In contracts for providing management and maintenance services when the Company acts as agent, revenue is recognized in the amount of the net consideration for the contract performance, after deducting the amounts payable to the principal supplier.

4. Variable consideration:

The transaction price must be determined separately for each contract with a customer. When exercising this judgment the Company evaluates the effect of each variable consideration in the contract, taking into account discounts, penalties, variations, claims, the existence of a significant financing component in the contract and non-cash consideration. In determining the effect of the variable consideration, the Company is expected to use the "most likely amount" method described in the new Standard. Pursuant to this method, the amount of the consideration is determined based on the single most likely amount in the range of possible consideration amounts in the contract. According to the Standard, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Revenue that consists of warranty services:

In the context of its contracts, the Company provides warranty services to customers based on applicable laws or as customary in the relevant market. In the majority of its contracts, the Company renders warranty services to guarantee the quality of the work performed and not as an additional service to the customer. Accordingly, the warranty does not represent a separate performance obligation and the Company recognizes a provision for warranty in its consolidated financial statements pursuant to the provisions of IAS 37.

In certain contracts, the Company provides warranty services as an additional service to the warranty granted by the Company for the quality of the work performed. In such cases, the Company allocates part of the overall contract consideration for warranty services based on the contractual service cost plus a reasonable margin and recognizes revenue from the rendering of the service over the warranty period.

c. Financial instruments:

As detailed in paragraph d(2) below regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company chose to adopt the provisions of the Standard retrospectively with no restatement of comparative figures. As for the accounting policy on financial instruments adopted before December 31, 2017, see Note 2(p) to the annual consolidated financial statements. The new accounting policy regarding financial instruments is as follows:

1. Financial assets:

Financial assets within the scope of the Standard are measured upon initial recognition at fair value with the addition of transaction costs that can be directly attributed to the financial asset's acquisition, excluding financial assets that are measured at fair value through profit or loss whereby the transaction costs are carried to profit or loss.

The Company classifies and measures debt instruments in the consolidated financial statements based on the following criteria:

- The Company's business model for managing financial assets; and

- The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when the following criteria are met:

The Company's business model consists of holding the financial assets for collecting contractual cash flows therefrom; and the contractual cash flow terms of the financial asset provide entitlement to cash flows which only include principal payments and interest on the unpaid principal on predetermined dates. After initial recognition, the instruments in this category are presented according to their terms at cost with the addition of directly attributable transaction costs using the amortized cost method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Moreover, on the date of initial recognition, an entity may decide, with no right of recourse, to change the classification of a debt instrument to be measured at fair value through profit or loss if such classification eliminates or significantly minimizes measurement or recognition inconsistencies such as when the underlying financial liabilities are also measured at fair value through profit or loss.

2. Impairment of financial assets:

The Company reviews at the end of each reporting period the provision for loss of financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of recognizing a provision for losses:

a. Debt instruments whose credit quality has not significantly deteriorated since their initial recognition date, or whose credit risk is low - the provision for loss that will be recognized in respect of this debt instrument will take into account expected credit losses within 12 months from the reporting date; or

b. Debt instruments whose credit quality has significantly deteriorated since their initial recognition date, or whose credit risk is not low - the provision for loss that will be recognized will take into account expected credit losses over the instrument's remaining term. The Company has adopted the relief in the Standard according to which it assumes the debt instrument's credit risk has not risen significantly from the date of initial recognition if on the reporting date it was determined that the instrument has a low credit risk, for example when the investment in the instrument has been externally rated.

An impairment loss of debt instruments measured at amortized cost is carried to profit or loss against a provision whereas an impairment loss of debt instruments measured at fair value through other comprehensive income will be carried against a capital reserve and will not reduce the carrying amount of the financial asset in the statement of financial position.

The Company has financial assets bearing short-term credit such as trade receivables in respect of which it is required to adopt the relief prescribed in the model and measure the provision for loss in an amount which is equivalent to the expected credit losses throughout the instrument's term. The Company chose to adopt the relief in respect of these financial assets.

3. Derecognition of financial assets:

A financial asset is only derecognized when the following criteria are met:

- The contractual rights to the cash flows from the financial asset expire; or

- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay (guarantee amount).

When the Company continues to recognize an asset based on the level of its continuing involvement therein, the Company also recognizes the underlying liability. The underlying liability is measured in such a manner that the net carrying amount of the transferred asset and the underlying liability is:

- The amortized cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortized cost; or

- The fair value of the rights and obligations retained by the Company, measured individually, if the transferred asset is measured at fair value.

4. Financial liabilities:

Financial liabilities within the scope of the Standard are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability, excluding financial liabilities measured at fair value through profit or loss whose transaction costs are carried to profit or loss.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

d. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that applies to revenue earned from contracts with customers:

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

Step 2: Identify the distinct performance *obligations in the contract*

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

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

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

The new Standard has been adopted for the first time in these consolidated financial statements. The Company chose to adopt the provisions of the new Standard using the modified retrospective approach with certain reliefs and without restatement of comparative figures.

The adoption of this standard had no impact in these consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Initial adoption of IFRS 9, "Financial Instruments":

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

   The new Standard has been applied for the first time retrospectively in these consolidated financial statements with no restatement of comparative figures.

   The adoption of this standard had no impact in these consolidated financial statements.

NOTE 3:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

IFRS 16, "Leases":

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

The effects of the adoption of the new Standard are as follows:

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

- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. At this stage, the Company does not intend to early adopt the new Standard.

NOTE 3:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

The new Standard permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be carried to equity. Also, the Company will restate the comparative figures in its consolidated financial statements. The balance of the liability as of the date of initial adoption of the new Standard as per this approach will be calculated using the interest rate implicit in the lease, unless this rate cannot be easily determined in which case the lessee's incremental borrowing rate of interest.

2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of initial adoption of the new Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial adoption of the new Standard. As for the outstanding right-of-use asset, the Company may apply one of the two following alternatives to account for each lease separately:

- Recognizing an asset in the amount of the recognized liability, with certain adjustments.

- Recognizing an asset as if the asset had always been measured according to the provisions of the new Standard.

Any difference arising on the date of first-time adoption of the new Standard as a result of the modified retrospective approach will be carried to equity.

The Company expects to use the modified retrospective approach for the first-time adoption of the new Standard by measuring the right-of-use asset at an amount based on the lease liability, as presented on the transition date.

At this stage, the Company estimates that the effect of the initial adoption of the new Standard as of January 1, 2019 will result in an increase of USD 315 thousand in the Company's total assets and liabilities. The above quantitative disclosures rely on the effects as they are currently known to the Company based on existing data and parameters. It should be noted that the adoption of the new Standard is not expected to have a significant adverse effect on the Company's compliance with financial covenants relating to the credit line from the bank (See Note 5C). The adoption of the new Standard may require certain adjustments in the Company's future financial statements for 2018, after specific policies have been finalized with respect to the application issues currently under review. In the period leading up to the adoption of the new Standard, the Company will continue to report any other effects of the Standard and provide disclosures of the quantitative effects of its adoption as required by ISA Accounting Staff Position 19-2.

NOTE 4:- REVENUES

The revenues reported in the consolidated financial statements were produced in the Company's country of residence (Israel) and outside thereof, based on the location of the customers and on group of similar products and services in the US, as follows:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	**2017**	**2018**	**2017**	**2017**
	Unaudited		**Unaudited**		**Audited**
US Lab Market	6,377	3,848	2,148	1,635	5,925
US Point Of Care Market	1,426	1,232	368	415	1,657
Israel	1,634	1,015	484	380	1,429
Rest of the world	379	431	163	106	523
	9,816	6,526	3,163	2,536	9,534

NOTE 5:- SIGNIFICANT EVENTS DURING THE PERIOD

A. On February 12, 2018 and March 27, 2018, the Company's Board of Directors and the Company's General Meeting, respectively, approved (following the approval of the Compensation Committee on November 28, 2017 and on December 26, 2017) as follows:

1. The grant of 325,000 non-tradable options of the Company, exercisable into 325,000 shares NIS 1 Par value each, to the Chairman of the Board of Directors and the CEO of the Company (225,000 and 100,000 options, respectively), and the payment of a special success bonus of NIS 660 thousands each (approximately USD 189 thousands), contingent on the successful completion of an issue in the US (which is to be completed by April 2019 according to a company value of at least USD 120 million pre- money)

2. The grant of 85,000 non-tradable options to two officers of the Company, exercisable into 85,000 shares NIS 1 Par value each, and the payment of a special success bonus of NIS 231 thousands (approximately USD 66 thousands) to one of the officers, contingent on the successful completion of an issue in the US (which is to be completed by April 2019 according to a company value of at least USD 120 million pre money).

The vesting terms of 410,000 of the granted options are one-third after a year and the remainder over two years according to a quarterly calculation (for 50% of the 375,000 options there is an acceleration condition upon successful completion of an issue in the US).

The options are exercisable over a period of seven years. The exercise price is NIS 14.25 (USD 4.08), the average share price in the 30 days prior to the grant date. The estimated fair value of the options as of March 27, 2018 is USD 983 thousand.

The following table shows the data used to measure the fair value of the share options granted, as stated, according to the binomial option pricing model:

	March 27, 2018
Dividend yield (%)	-
Expected share price volatility (%)	70.56-83.04
Risk-free interest rate (%)	0.15-1.42
Share price (NIS/USD)	14.11 / 4.05

NOTE 5:- SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

B. On March 22, 2018 and May 1, 2018, the Company's Board of Directors and the General Meeting, respectively, approved the grant of 20,000 non-tradable options of the Company, exercisable into 20,000 shares NIS 1 Par value each, to a new directorate member. The vesting terms of the granted options are one-third after a year and the remainder over two years according to a quarterly calculation. The options are exercisable over a period of seven years. The exercise price is NIS 14.03 (USD 3.88). The estimated fair value of the options as of May 1, 2018 is USD 44 thousand.

The following table shows the data used to measure the fair value of the share options granted, as stated, according to the binomial option pricing model:

	May 1, 2018
Dividend yield (%)	-
Expected share price volatility (%)	69.3-84.06
Risk-free interest rate (%)	0.18-1.6
Share price (NIS/USD)	13.25 / 3.66

C. In March 2018, the Subsidiary had entered with a Bank into a Credit Line Agreement and a Loan Agreement ("the Agreements") not guaranteed by the controlling shareholder. Under the provisions of the Agreements, the Bank is to extend to the Subsidiary a Credit Line for a total of USD 1.5 million as well as a loan of USD 1.5 million, at the following terms:

1. Credit Line – at an annual interest rate of US prime plus 1.4% (and with secured minimum interest at an annual rate of 4.5%). The credit line is available until March 12, 2019 and will be subject to renewal on that date.
2. Loan – at an annual interest rate of US prime plus 2.7% (and with secured minimum interest at an annual rate of 5.8%). The loan is repayable in 21 equal installments starting October 1, 2018, while the interest is payable in monthly installments starting from the loan receipt date.
3. The Company is guarantor for the repayment of the loan and the credit line to the bank. Additionally, the Company and the Subsidiary are to place a floating charge on all their assets in favor of the bank.
4. Key financial covenants – The Agreements stipulate that the Company and the Subsidiary must comply with the following key financial covenants:

   - The Company may not have a negative EBITDA in excess of USD 1 million for the first quarter of 2018; in excess of USD 2 million for the first half of 2018; in excess of USD 2.6 million for the first nine months of 2018; in excess of USD 3 million for 2018; and in excess of USD 300 thousand in the first quarter of 2019.

     Starting from the second quarter of 2019, the Company must present a positive EBITDA. However, if the proceeds of the Company's capital issue exceed USD 10 million, the Company will be exempt from complying with the above financial covenants.

   - The Company must maintain minimum liquidity of USD 500 thousand (i.e. unrestricted and unappropriated cash). However, if the Company presents a positive EBITDA during two consecutive quarters, it will be exempt from complying with this financial covenant.

   - The Company must maintain a current ratio (ratio of current assets to current liabilities in the balance sheet) of at least 1.35 to 1 (1.35:1).

NOTE 5:- SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

- The Company must have minimum quarterly sales. Due to the Company's updated income forecasts for the years 2018-2019 given August 9, 2018, On November 13, 2018 the Bank set an updated minimum quarterly sales covenant of USD 3.15 million for the third quarter of 2018 and a minimum of USD 3.5 million for each calendar quarter thereafter.

5. The loan agreement stipulates that the Company must retain fully ownership of the Subsidiary and that Mr. Moshe Arkin (the Company's controlling shareholder) must hold at least 51% of the Company's issued share capital. As long as there are outstanding balances owed to the bank, the Subsidiary may not distribute a dividend or purchase its own shares.
6. Jurisdiction in respect of the loan (as well as the guarantee) is vested in the competent courts in the state of New York, USA, and in accordance with the laws of that state.

As of September 30, 2018 the Company was in breach with the financial covenants as set forth above. On November 13, 2018, the Company and the bank agreed on an updated minimum quarterly sales covenant for the third quarter.

On March 12, 2018 the Subsidiary received the loan in an amount of USD 1.5 million.

In addition, as of September 30, 2018, the Subsidiary utilized USD 1,471 thousand of the credit line.

D. On July 31, 2017, the Company had contracted with a bank for a credit line totaling NIS 10.5 million (approximately USD 3 million) ("the credit line").

Under the terms of the contract, the loan (the amounts used from the credit line) is subject to annual interest at prime + 0.06%. The annual interest rate on the unused balance of the credit line (interest rate on the books) stands at 0.5%. The credit line is available until December 31, 2019, and the Company may repay it, wholly or partly, before the maturity date or notify the bank at any time of its termination, without any charge.

The credit line is secured by an irrevocable guarantee ("the guarantee") and a lien on a deposit of the Company's controlling shareholder.

On February 1, 2018, the Company utilized the last NIS 2.5 million from the credit line. The value of the benefit (provision of guarantee and lien on deposit) received from the controlling shareholder for the aforementioned use, amounting to USD 145 thousand (net of tax of USD 27 thousand), was recognized in equity under "reserve for transaction with controlling shareholder".

On March 8, 2018, the bank agreed to extend the loan's due date until June 30, 2021. Accordingly, the Company recognized an additional transaction with controlling shareholder in the amount of USD 179 thousand (net of tax of USD 34 thousand) in equity under "reserve for transaction with controlling shareholder".

E. In August 2018, the Company had contracted with a bank for additional credit line totaling NIS 7.5 million (approximately USD 2 million) ("the credit line"). Under the terms of the contract, the credit line is subject to annual interest at prime + 0.06%. The annual interest rate on the unused balance of the credit line (interest rate on the books) stands at 0.5%. The credit line is available until June 30, 2021, and the Company may repay it, wholly or partly, before the maturity date or notify the bank at any time of its termination, without any charge. The credit line is secured by an irrevocable guarantee ("the guarantee") and a lien on a deposit of the Company's controlling shareholder.

NOTE 5:- SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

On August 15, 2018, the Company received the Credit Line. The value of the benefit (provision of guarantee and lien on deposit) received from the controlling shareholder for the aforementioned use, amounting to USD 333 thousand (net of tax of USD 63 thousand), was recognized in equity under "reserve for transaction with controlling shareholder".

F. On February 28, 2018, the FDA notified the Company that it is exempt from payment of the PDUFA fee for 2018 in the amount of USD 304 thousand, which was fully paid by the Company in October 2017. The fund was received on March 26, 2018. On September 30, the Company paid the PDUFA fee for 2019 in the amount of USD 310 thousand.

G. On April 23, 2018, the Company's Board of Directors approved the grant of 25,000 non-tradable options of the Company, exercisable into 25,000 shares NIS 1 Par value each, to a new officer. The vesting terms of the granted options are one-third after a year and the remainder over two years according to a quarterly calculation. The options are exercisable over a period of seven years. The exercise price is NIS 14.05 (USD 3.96). The estimated fair value of the options as of March 23, 2018 is USD 58 thousand. The following table shows the data used to measure the fair value of the share options granted, as stated, according to the binomial option pricing model:

	April 23, 2018
Dividend yield (%)	-
Expected share price volatility (%)	70.51-82.54
Risk-free interest rate (%)	0.18-1.7
Share price (NIS/USD)	14.11 / 3.98

H. On May 15, 2018, the Company's Board of Directors approved the grant of 410,000 non-tradable options of the Company, exercisable into 410,000 shares NIS 1 Par value each, to certain employees and a consultant. The vesting terms of the granted options are one-third after a year and the remainder over two years according to a quarterly calculation. The options are exercisable over a period of seven years. The exercise price of the options is the average share price in the 30 days prior to the grant date, for Israeli employees, which is NIS 13.504 (USD 3.75) , and the share price on the grant date, for non-Israeli employees and the US consultant, which is NIS 13.82 (USD 3.84). The estimated fair value of the options as of May 15, 2018 is USD 921 thousand. The following table shows the data used to measure the fair value of the share options granted, as stated, according to the binomial option pricing model:

	May 15, 2018
Dividend yield (%)	-
Expected share price volatility (%)	70.48-81.98
Risk-free interest rate (%)	0.21-1.72
Share price (NIS/USD)	13.82 / 3.84

NOTE 5:- SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

I. On April 23, 2018 and June 26, 2018, the Company's Board of Directors and the General Meeting, respectively, approved the grant of 342,000 non-tradable options of the Company, exercisable into 342,000 shares NIS 1 Par value each, and the payment of a special success bonus of NIS 450 thousands (approximately USD 124 thousands), contingent on the successful completion of an issue in the US (which is to be completed by April 2019 according to a company value of at least USD 120 million pre- money) to a new officer. The vesting terms of the granted options are one-third after a year and the remainder over two years according to a quarterly calculation. If a Successful Initial Public Offering- at least $120 million Market Value in the US market ("IPO") and will occur prior to April 30, 2019, the first 114,000 Options will vest at the IPO date ("IPO Date") immediately. The remaining 228,000 Options will vest in eight equal quarters starting on the IPO Date. In addition, in case that the Company terminates his employment subsequent to a "change of control" event (double trigger), the remaining unvested options shall vest at that time (acceleration).

The options are exercisable over a period of seven years. The exercise price is NIS 14.05 (USD 3.87). The estimated fair value of the options as of June 26, 2018 is USD 700 thousands. The following table shows the data used to measure the fair value of the share options granted, as stated, according to the binomial option pricing model:

	June 26, 2018
Dividend yield (%)	-
Expected share price volatility (%)	67.03-79.26
Risk-free interest rate (%)	0.21-1.87
Share price (NIS/USD)	13.40 / 3.66

J. During the first nine months of 2018, 23,066 options were exercised into shares for a total consideration of USD 40 thousand.

K. On September 4, 2018, the Company published a Shelf Offering report pursuant to a Shelf Prospectus. In the Shelf Offering report the Company offered to purchase 153,936 units (each unit consisting 10 ordinary shares of NIS 1 par value) at a price of NIS 117 per unit. On September 5, 2018, 133,562 units were exercised (1,335,620 shares of NIS 1 par value), and a total of NIS 15.6 million ($4.4 million) was received (gross before deduction of issue costs).

NOTE 6:- SUBSEQUENT EVENTS

On November 13, 2018 the Company and the bank agreed on an updated minimum quarterly sales covenant for the third quarter above of $3.15 million and a minimum of $3.5 million for each calendar quartet thereafter.

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