MAZOR ROBOTICS LTD.

CONSOLIDATED
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011

Consolidated Financial Statements as of December 31, 2011

Contents

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Auditors' Report to the Shareholders of Mazor Robotics Ltd.

We have audited the accompanying consolidated statements of financial position of Mazor Robotics Ltd. (hereinafter – "the Company") as of December 31, 2011 and 2010 and the related consolidated income statements, statements of changes in equity and statements of cash flows, for each of the three years, the last of which ended December 31, 2011. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that 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 Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Without qualifying our above opinion, we call attention to that mentioned in Note 1C regarding the format of the Company's operations in the forthcoming years.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2011, and our report dated March 23, 2011 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, March 26, 2012

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Auditors' Report to the Shareholders of Mazor Robotics Ltd. Regarding the Audit of Internal Control Components over Financial Reporting in accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Mazor Robotics Ltd. and its subsidiary (hereinafter together – "the Company") as of December 31, 2011. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over the sales process; (3) controls over the procurement process (4) controls over the salary process (all these are named together "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2011 and 2010 and for each of the three years, the last of which ended December 31, 2011 and our report dated March 23, 2011 expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, March 26, 2012

Consolidated Statements of Financial Position as at December 31

	Note	2011 NIS thousands	2010 NIS thousands
Assets			
Cash and cash equivalents	5	**6,324**	17,042
Short-term deposits	6	**7,102**	-
Short-term investments	6	**48,130**	47,325
Trade receivables	7	**5,181**	2,983
Other accounts receivable	7	**1,025**	993
Inventory	8	**5,065**	4,143
Total current assets		**72,827**	72,486
Prepaid expenses on account of lease of motor vehicles	9, 18B	**212**	168
Deferred taxes	17	**333**	-
Fixed assets, net	10	**2,000**	794
Intangible assets, net	11	**2,670**	3,822
Total non-current assets		**5,215**	4,784
Total assets		**78,042**	77,270

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

Consolidated Statements of Financial Position as at December 31

	Note	2011 NIS thousands	2010 NIS thousands
Current liabilities			
Trade payables	12	**3,807**	4,208
Other accounts payable	13	**7,007**	4,288
Convertible debentures	14	**13,356**	-
Total current liabilities		**24,170**	8,496
Convertible debentures	14	**-**	11,688
Employee benefits	15	**726**	554
Liabilities to the Chief Scientist	16	**1,626**	2,781
Total non-current liabilities		**2,352**	15,023
Total liabilities		**26,522**	23,519
Equity	27		
Share capital		**222**	197
Share premium		**210,106**	181,183
Receipts on account of options		**5,669**	11,390
Receipts on account of conversion option of convertible debentures		**3,084**	3,084
Capital reserve for share-based payment transactions		**10,973**	8,747
Accumulated loss		**(178,534)**	(150,850)
Total equity		**51,520**	53,751
Total liabilities and equity		**78,042**	77,270

Jonathan Adereth	Ori Hadomi	Sharon Levita
Chairman of the Board	CEO	CFO

Date of approval of the financial statements: March 26, 2012

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

Consolidated Income Statements for the Year Ended December 31

	Note	2011 NIS thousands	2010 NIS thousands	2009 NIS thousands
Revenues	19	**21,302**	14,846	5,320
Cost of sales	21	**6,725**	3,587	1,855
Gross profit		**14,577**	11,259	3,465
Selling and marketing expenses	22	**25,018**	* 17,137	* 9,654
General and administrative expenses	23	**5,867**	* 5,315	* 4,645
Research and development expenses, net	24	**10,959**	* 8,552	* 5,427
Operating loss		**(27,267)**	(19,745)	(16,261)
Financing income	25	**2,735**	2,204	2,206
Financing expenses	25	**(3,394)**	(3,955)	(2,978)
Financing expenses, net		**(659)**	(1,751)	(772)
Loss before taxes on income		**(27,926)**	(21,496)	(17,033)
Taxes on income (tax saving)	17	**(242)**	28	19
Loss for the year		**(27,684)**	(21,524)	(17,052)
Loss per share				
Basic and diluted loss per share (in NIS)	29	**(1.27)**	(1.09)	(1.12)

* Reclassified. See Note 2I.

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

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Receipts on account of options	Receipts on account of conversion option	Capital reserve for share-based payment transactions	Accumulated loss	Total
	NIS thousands						
For the year ended December 31, 2011							
Balance as at January 1, 2011	197	181,183	11,390	3,084	8,747	(150,850)	53,751
Issuance of options and shares	**24**	**20,006**	**2,970**	**-**	**-**	**-**	**23,000**
Options exercised into shares	**1**	**232**	**(6)**	**-**	**(35)**	**-**	**192**
Expired options	**-**	**8,685**	**(8,685)**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**2,261**	**-**	**2,261**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(27,684)**	**(27,684)**
Balance as at December 31, 2011	**222**	**210,106**	**5,669**	**3,084**	**10,973**	**(178,534)**	**51,520**
For the year ended December 31, 2010							
Balance as at January 1, 2010	197	180,803	11,390	3,084	6,898	(129,326)	73,046
Options exercised into shares	[2] -	380	-	-	(107)	-	273
Share-based payments	-	-	-	-	1,956	-	1,956
Loss for the year	-	-	-	-	-	(21,524)	(21,524)
Balance as at December 31, 2010	197	181,183	11,390	3,084	8,747	(150,850)	53,751
For the year ended December 31, 2009							
Balance as at January 1, 2009	142	139,203	8,711	3,084	5,534	(112,274)	44,400
Public issuance of parcel[1]	53	37,956	5,033	-	753	-	43,795
Employee options exercised into shares	2	965	-	-	(960)	-	7
Expired options	-	2,354	(2,354)	-	-	-	-
Share-based payments	-	-	-	-	1,896	-	1,896
Expired employee options	-	325	-	-	(325)	-	-
Loss for the year	-	-	-	-	-	(17,052)	(17,052)
Balance as at December 31, 2009	197	180,803	11,390	3,084	6,898	(129,326)	73,046

(1) Net of issuance expenses in the amount of NIS 4,105 thousand and net of the value of options that were allotted to underwriters in the amount of NIS 753 thousand and were included in a capital reserve for share-based payments, see also Note 27C(4).

(2) Less than NIS 1 thousand.

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	2011	2010	2009
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Loss for the year	**(27,684)**	(21,524)	(17,052)
Adjustments:			
Depreciation and amortization	**1,612**	1,417	613
Financing expenses (income), net	**736**	1,082	(211)
Capital gain on sale of fixed assets	**-**	(5)	-
Share-based payment transactions	**2,261**	1,956	1,896
Taxes on income	**(242)**	28	19
	4,367	4,478	2,317
Change in inventory	**(1,603)**	(3,093)	329
Change in trade and other accounts receivable	**(2,230)**	(2,207)	(824)
Change in prepaid expenses on account of lease of motor vehicles	**(44)**	3	(35)
Change in trade and other accounts payable	**1,442**	4,089	85
Change in employee benefits	**172**	(96)	167
	(2,263)	(1,304)	(278)
Interest received	**2,055**	2,464	1,781
Interest paid	**(825)**	(825)	(826)
Income tax received	**-**	76	97
Income tax paid	**(91)**	(28)	(19)
	1,139	1,687	1,033
Net cash used in operating activities	**(24,441)**	(16,663)	(13,980)
Cash flows from investing activities			
Proceeds from sale of fixed assets	**-**	5	-
Proceeds from sale (acquisition) of short-term investments, net	**(7,919)**	21,765	(18,623)
Acquisition of fixed assets	**(984)**	(575)	(215)
Development costs capitalized to intangible assets	**-**	(1,051)	(2,194)
Net cash from (used in) investing activities	**(8,904)**	20,144	(21,032)
Cash flows from financing activities			
Proceeds from options and shares issue, net	**23,000**	-	43,795
Proceeds from exercise of options to employees and service providers	**192**	273	7
Receipt of loan from the Chief Scientist	**-**	631	339
Repayment of loan to the Chief Scientist	**(806)**	(101)	(149)
Net cash from financing activities	**22,386**	803	43,992
Net increase (decrease) in cash and cash equivalents	**(10,959)**	4,284	8,980
Cash and cash equivalents at beginning of year	**17,042**	13,354	4,213
Effect of exchange rate fluctuations on cash and cash equivalents	**241**	(596)	161
Cash and cash equivalents at end of year	**6,324**	17,042	13,354

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

Note 1 - Reporting Entity

A. Mazor Robotics Ltd. (hereinafter – the "Company") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 7 HaEeshel St., Caesarea industrial park, Caesarea, Israel. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its wholly owned subsidiary, Mazor Robotics Inc. (together referred to as the "Group"). The Company engages in the field of robotic-guided surgery (image guided surgery, also called Computer Assisted Surgery), primarily through highly-accurate guiding and navigating of surgical instruments in order to reduce surgical invasiveness. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange from August 2007.

B. **Definitions**

In these financial statements –

(1) International Financial Reporting Standards (hereinafter – IFRS) – Standards and interpretations that were adopted by the International Accounting Standards Board (IASB) and which include international financial reporting standards and international accounting standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) or interpretations of the Standing Interpretations Committee (SIC), respectively.

(2) The Company – Mazor Robotics Ltd.

(3) The Group – Mazor Robotics Ltd. and its subsidiary.

(4) Subsidiary – A company, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

(5) Related party – Within its meaning in IAS 24 (2009), "Related Party Disclosures".

(6) Interested parties – Within their meaning in Paragraph (1) of the definition of an "interested party" in Section 1 of the Securities Law - 1968.

(7) CPI – The Consumer Price Index as published by the Central Bureau of Statistics.

C. The Company has a continuing negative cash flow from operating activities. In the opinion of management of the Company, which is based on a cash flow forecast, the Company has the ability to continue operating in the existing format and to meet its liabilities in the foreseeable future, but it will require additional financing in order to realize its business plans in the forthcoming years including in order to finance the plans for marketing and promoting the Company's products. If additional financing for marketing the Company's products is not obtained by the end of 2012, the Company will take various actions to reduce expenses, including suspending projects under development and cutting back on marketing activity. The Company will continue to focus on the primary target market, the USA.

Note 2 - Basis of Preparation

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The Group adopted IFRSs for the first time in 2008, with the date of transition to IFRSs being January 1, 2007. The financial statements have been prepared also in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 26, 2012.

B. Functional and presentation currency

These consolidated financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for short-term investments measured at fair value through profit or loss, inventory (measured at the lower of cost or net realizable value) and assets and liabilities for employee benefits. For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

The value of non-monetary assets and equity items that were measured on the historical cost basis was adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy was considered hyperinflationary.

D. Operating cycle

The Company's normal operating cycle does not exceed one year. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included in the notes to the financial statements.

F. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Note 2 - Basis of Preparation (cont'd)

F. Use of estimates and judgments (cont'd)

Critical estimates

Presented hereunder is information about critical estimates, made while implementing Group accounting policies and which have a most significant effect on the financial statements:

Inventory impairment – Inventory is measured at the lower of cost and net realizable value. The Company examines the net realizable value of inventory at every cutoff date on the basis of a forecast of revenues anticipated from sale of the inventory as expected at every cutoff date. Changes in the Company's estimates may lead to changes in the impairment provision for inventory.

Measurement of the liability to the Chief Scientist – The liability to the Chief Scientist is calculated according to the forecasted payments of royalties to the Chief Scientist on the basis of the Company's forecast of revenues on which it expects to pay royalties. The liability is presented at present value according to a discount rate that is based on the Company's risk rate at the date of receiving the grant. The Company examines on each statement of financial position date whether there have been any events or changes in circumstances which would indicate a change in the forecasted sales of products supported by the Chief Scientist that has an effect on the liability to the Chief Scientist. The sales forecast is based on past experience and the Company's best assessment of the economic conditions that will prevail in the future period of the sales forecast. Changes in the value of the liability are recognized in the statement of income.

Share-based payment – The Group grants share purchase options to employees and consultants. The value of the work services or consultation services that were received in consideration for these awards is measured at the grant date on the basis of the fair value of the awarded equity instruments. The value of the transactions, measured as described above, is recognized as an expense over the vesting period of the right. Concurrently with the periodic recognition of an expense, an increase is recognized in a capital reserve, within the Group's equity. The Group estimates the fair value of share-based payments on the basis of accepted economic models.

Capitalization of development costs – Development costs are capitalized according to the accounting policy described in Note 3E to the financial statements. The capitalization of the costs is based on management's judgment regarding technological and economic feasibility, which generally exists when a product development project reaches a defined milestone, or when the Company enters into a transaction to sell the know-how deriving from the development.

Measurement of deferred income – The Group regularly enters into multiple-element transactions with its customers, which usually include a system, consumables and a warranty for one year. The Group recognizes revenue from multiple-element transactions according to the accounting policy described in Note 3 to the financial statements. Deferred income is calculated on the basis of the fair value of those components the Company assesses it will supply to customers with which it has multiple-element transactions. The Company's assessment, in the absence of historical data, is based on forecasts and estimates. The discount rate used is based on the Company's risk rate at the date of each transaction (see also Note 3J(3)).

Recognition of deferred tax asset in respect of tax losses – Management of the Company evaluates whether it is probable that in the foreseeable future there will be taxable profits against which losses can be utilized, and accordingly it recognizes (or does not recognize) a deferred tax asset. For further information on losses for which a deferred tax asset was recognized, see Note 17 regarding taxes on income.

Note 2 - Basis of Preparation (cont'd)

G. Changes in accounting policies

(1) Related party disclosures

As from January 1, 2011 the Group applies IAS 24 (2009) Related Party Disclosures (hereinafter – "the Standard"). The Standard includes changes in the definition of a related party and changes with respect to disclosures required by government related entities. The Standard was applied retrospectively.

For the purpose of applying the Standard for the first time, the Group mapped its relationships with related parties. Two new related parties have been identified according to the new definition and as a result of the mapping. For further information regarding material transactions and balances with the new related parties that were identified see Note 26 on related and interested parties.

(2) Financial instruments – Amendments to disclosures

As from January 1, 2011 the Group applies the amendment to IFRS 7 Financial Instruments: Disclosures – Amendments to disclosures (hereinafter – "the Amendment") – The Amendment requires the addition of an explicit declaration that the interaction between the qualitative and quantitative disclosures enables the users of the financial statements to better assess the Group's exposure to risks arising from financial instruments. Furthermore, the clause stating that quantitative disclosures are not required when the risk is immaterial was removed, and certain disclosure requirements regarding credit risk were amended while others were removed.

The required disclosures are reflected in these financial statements. For further information see Note 31 on financial instruments.

H. Capital management – objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company such as credit providers and employees of the Company, and sustain future development of the business. Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

I. Change in classification

The Company reclassified certain expenses in the statement of income for the years 2010 and 2009 so that they would be consistent with the presentation of those expenses in the statements for 2011. The effect on the statements of income is as follows:

	For the year ended December 31, 2010		
	As reported in the past	Effect of reclassified	As reported in these statements
	NIS thousands	NIS thousands	NIS thousands
Selling and marketing expenses	16,489	648	**17,137**
General and administrative expenses	6,284	(969)	**5,315**
Research and development expenses	8,231	321	**8,552**
	31,004	-	**31,004**

	For the year ended December 31, 2009		
	As reported in the past	Effect of reclassified	As reported in these statements
	NIS thousands	NIS thousands	NIS thousands
Selling and marketing expenses	9,176	478	**9,654**
General and administrative expenses	5,403	(758)	**4,645**
Research and development expenses	5,147	280	**5,427**
	19,726	-	**19,726**

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

A. Basis of consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(2) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

C. Financial instruments

(1) Non-derivative financial assets

<u>Initial recognition of financial assets</u>
The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments in marketable securities, deposits, trade and other receivables, and cash and cash equivalents.

<u>Derecognition of financial assets</u>
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.
Regular way sales of financial assets are recognized on the trade date, meaning on the date the Company undertook to sell the asset.

See (2) hereunder regarding the offset of financial assets and financial liabilities.

The Group classifies its financial assets according to the following categories:

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(1) Non-derivative financial assets (cont'd)

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, providing that the designation is intended to prevent an accounting mismatch, or the asset is a combined instrument including an embedded derivative. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets designated at fair value through profit or loss comprise investments in marketable securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade receivables, deposits, other accounts receivable and cash and cash equivalents.

Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

(2) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise convertible debentures, liability to the Chief Scientist, trade and other accounts payable.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(3) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, where the number of shares to be issued in respect thereto does not vary and which have a fixed conversion price.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the liability component are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

(4) CPI-linked assets and liabilities that are not valued at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is valued every period in accordance with the actual increase/decrease in the CPI.

(5) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

(6) Issuance of parcel of securities

(a) The consideration received from the issuance of a parcel of securities is attributed at first to financial liabilities that are measured each period at fair value through profit or loss, and then to financial liabilities that are measured only upon initial recognition at fair value. The remaining amount is the value of the equity component.

(b) Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described in sub-paragraph (a) above.

D. Fixed assets

(1) Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

(2) Subsequent costs

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Computers	3 years
Machinary and equipment	7 years
Demonstration equipment	4 years
Office furniture and equipment	10-17 years
Motor vehicles	5 years
Leasehold improvements	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

E. Intangible assets

(1) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

As regards part of the Company's products, technological feasibility may occur only when the Company's clinical trials succeed. Sometimes the costs incurred between the successful completion of the product's development and successful clinical trials, and the time the product is ready for sale are immaterial, so that in reality all the development costs will be recognized in profit or loss as incurred.

The expenditure capitalized includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

(2) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(3) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets of 4 years, from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

F. Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the moving average method, and includes expenditure incurred in acquiring the inventory and the costs incurred in bringing it to its existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Impairment

(1) Financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. All individually significant financial assets are assessed for specific impairment. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(2) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

(2) Non-financial assets (cont'd)

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amounts of the assets in the cash-generating unit on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

H. Employee benefits

(1) Post-employment benefits

Most of the Group's employees are subject to Section 14 of the Severance Pay Law and therefore practically all of the post-employment plans of the Group are classified as defined contribution plans.

<u>Defined contribution plans</u>

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(2) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified as short-term benefits or as other long-term benefits according to the time the liability is due to be settled.

(3) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

I. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(1) Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Note 3 - Significant Accounting Policies (cont'd)

I. Provisions (cont'd)

(2) Legal claims

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

J. Revenue

(1) Goods sold

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Revenue is recognized when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

(2) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(3) Multiple element sale agreements

Revenues from sale agreements that include a number of elements such as: instruments, consumable elements and support agreements, are split into separate accounting units and are recognized separately with respect to each accounting unit. The consideration received is allocated to the various elements on the basis of their relative fair value. If the fair value of the supplied element cannot be reliably estimated, the revenue allocated to the supplied element is determined on the basis of the difference between the total amount of the consideration as provided in the agreement and the fair value of the undelivered element.

An element constitutes a separate accounting unit if, and only if, it has a separate value to the customer and there is reliable and objective evidence regarding the fair value of the undelivered elements. Elements that were not split into an accounting unit due to non-compliance with the conditions specified above are grouped together under one accounting unit. Revenues from the various accounting units are recognized when the conditions for recognizing the revenues from the elements included in that same accounting unit according to their type have been complied with.

K. Chief Scientist grants

Grants from the Chief Scientist in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognized in profit or loss. The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction of development expenses.

Note 3 - Significant Accounting Policies (cont'd)

L. Financing income and expenses

Financing income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognized as it accrues using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established.

Financing expenses comprise interest expense on debentures, changes in time value of provisions, liability to the Chief Scientist as well as changes in the fair value of financial assets at fair value through profit or loss and losses from foreign currency. Borrowing costs, are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

M. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity if they relate to items recognized directly in equity.. Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future and to the extent the Group controls the date of reversal. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

N. Loss per share

The Group presents basic and diluted loss per share data for its ordinary shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise convertible debentures, share options and share options granted to employees.

Note 3 - Significant Accounting Policies (cont'd)

O. New standards and interpretations not yet adopted

(1) IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard") – This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

The Standard is effective for annual periods beginning on or after January 1, 2015 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard.

The Group is examining the effect of adopting the Standard on the financial statements with no plans for early adoption.

Note 3 - Significant Accounting Policies (cont'd)

O. New standards and interpretations not yet adopted (cont'd)

(2) A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities

The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in associates.

Presented hereunder are the new standards that were issued:
IFRS 10 *Consolidated Financial Statements* (hereinafter – "IFRS 10"). IFRS 10 replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* and the requirements of SIC-12 *Consolidation – Special Purpose Entities* with respect to the consolidation of financial statements, so that the requirements of IAS 27 will continue to be valid only for separate financial statements.

IFRS 10 introduces a new single control model for determining whether an investor controls an investee and should therefore consolidate it. This model is implemented with respect to all investees. According to the model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.

IFRS 10 is applicable retrospectively (with a certain relief) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided and that the entire new suite of standards is early adopted, meaning also the additional standards that were issued at the same time – IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Involvement with Other Entities*, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosure of Involvement with Other Entities* (hereinafter – "IFRS 12"). IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities.
IFRS 12 is applicable for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that the entire new suite of standards is early adopted, meaning also the additional standards that were issued at the same time – IFRS 11 *Joint Arrangements,* IFRS 10 *Consolidated Financial Statements,* IAS 27 (2011) and IAS 28 (2011).
Nevertheless, it is permitted to voluntarily provide the additional disclosures required by IFRS 12 prior to its adoption without early adopting the other standards.

The Group has not yet started assessing the effects of adopting the standards on its financial statements.

IFRS 13 *Fair Value Measurement* (hereinafter – "IFRS 13"). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value.

IFRS 13 applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Nevertheless, IFRS 13 does not apply to share based payment transactions within the scope of IFRS 2 *Share-Based Payment* and leasing transactions within the scope of IAS 17 *Leases*.
IFRS 13 does not apply to measurements that are similar to but are not fair value (such as the measurement of the net realizable value of inventory, in accordance with IAS 2 *Inventories*, and the measurement of value in use, in accordance with IAS 36 *Impairment of Assets*).

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

The Group has not yet started assessing the effects of adopting IFRS 13 on its financial statements.

Note 4 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A. Investments in debt instruments

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

B. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to the market terms of similar liabilities that do not have a conversion option.

C. Share-based payment transactions

The fair value of share options granted to employees and service providers is measured using the binomial model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on the weighted average historic volatility adjusted for changes expected due to publicly available information), the employee turnover rate, an early exercise coefficient, expected dividends, and the risk-free interest rate (based on government debentures). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 5 - Cash and Cash Equivalents

	December 31	
	2011	**2010**
	NIS thousands	**NIS thousands**
Current balances in banks	**6,045**	9,521
Deposits for three months period	**279**	7,521
	6,324	17,042

As at December 31, 2011, the deposits include a daily deposit bearing annual interest of 0.6% linked to the prime interest rate.
The Group's exposure to credit and currency risks, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 6 - Short-term Deposits and Investments

Breakdown according to type of investment

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Short-term deposits		
Deposits in NIS	**7,102**	-
Investments in marketable securities		
CPI-linked government debentures	**16,206**	16,056
Government debentures	**23,562**	22,341
CPI-linked corporate debentures	**5,713**	5,671
Corporate debentures	**869**	701
US$-linked corporate debentures	**1,780**	2,556
	48,130	47,325

As at December 31, 2011 the deposits in NIS include a six-month deposit bearing annual interest of 2.98% linked to the Prime interest.
The Group's exposure to credit, interest rate and currency risks, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 7 - Trade and Other Accounts Receivable

Current assets

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Trade receivables		
Open accounts	**5,189**	2,991
Less – provision for doubtful debts	**(8)**	(8)
	5,181	2,983
Other accounts receivable		
Institutions	**666**	631
Prepaid expenses	**287**	191
Advances to suppliers	**41**	170
Other receivables	**31**	1
	1,025	993

The Group's exposure to currency risk, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 8 - Inventories

	December 31	
	2011	**2010**
	NIS thousands	**NIS thousands**
Raw materials and spare parts	**2,824**	1,870
Inventory of work in progress	**106**	14
Inventory of finished goods	**2,757**	2,845
	5,687	4,729
Less – inventory impairment provision	**(622)**	(586)
	5,065	4,143

Note 9 - Prepaid Expenses on Account of Lease of Motor Vehicles

CPI-linked, non-interest bearing NIS denominated deposits that were granted in favor of leasing companies as security for the fulfillment of motor vehicle lease contracts (see also Note 18B). The deposits constitute payment on account of the last three lease months of each of the leased motor vehicles.

Note 10 - Fixed Assets

	Vehicles	**Machinery and equipment**	**Office furniture and equipment**	**Leasehold improvements**	**Computers**	**Total**
			NIS thousands			
Cost:						
Balance at January 1, 2011	125	268	237	324	1,436	2,390
Additions	**-**	**803**	**73**	**28**	**762**	**1,666**
Balance as at December 31, 2011	**125**	**1,071**	**310**	**352**	**2,198**	**4,056**
Balance at January 1, 2010	-	885	166	233	1,157	2,441
Additions	125	-	71	91	288	575
Disposals	-	(617)	-	-	(9)	(626)
Balance as at December 31, 2010	125	268	237	324	1,436	2,390
Depreciation						
Balance at January 1, 2011	5	207	77	155	1,152	1,596
Depreciation for the year	**19**	**85**	**22**	**74**	**260**	**460**
Balance as at December 31, 2011	**24**	**292**	**99**	**229**	**1,412**	**2,056**
Balance at January 1, 2010	-	435	60	72	1,022	1,043
Depreciation for the year	5	389	17	83	139	
Disposals	-	(617)	-	-	(9)	546
Balance as at December 31, 2010	5	207	77	155	1,152	1,596
Carrying amount						
Balance at January 1, 2010	-	450	106	161	135	852
Balance at December 31, 2010	120	61	160	169	284	794
Balance at December 31, 2011	**101**	**779**	**211**	**123**	**786**	**2,000**

Note 11 - Intangible Assets

As from July 1, 2008 and following receipt of approval from the American Food and Drug Administration (the FDA), beginning from the third quarter of 2008 and until completing development of the product in the third quarter of 2010, the Group capitalized development costs relating to one of its products in accordance with the requirements of IAS 38 as described in Note 3E.

Presented hereunder is the movement in the balance of intangible assets during the year:

	Development costs
Cost	
Balance as at January 1, 2010	3,555
Internally developed addition	1,051
Balance as at December 31, 2010	4,606
Internally developed additions	**-**
Balance as at December 31, 2011	**4,606**
Amortization	
Balance as at January 1, 2010	-
Amortization for the year	784
Balance as at December 31, 2010	784
Amortization for the year	**1,152**
Balance as at December 31, 2011	**1,936**
Carrying amount	
December 31, 2010	3,822
December 31, 2011	**2,670**

Note 12 – Trade Payables

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Open accounts	**3,518**	3,695
Checks and notes payable	**289**	513
	3,807	4,208

Note 13 - Other Accounts Payable

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Accrued expenses	**758**	468
Institutions	**383**	-
Liabilities to the Chief Scientist (see Note 16)	**1,982**	1,106
Salary and related liabilities	**2,494**	1,941
Liabilities to non-employee interested and related parties	**55**	41
Deferred income	**1,335**	732
	7,007	4,288

See Note 26 on related and interested parties for information on payables due to related and interested parties. The Group's exposure to currency and liquidity risks related to certain payables is disclosed in Note 31 on financial instruments.

Note 14 - Convertible Debentures

A. General

On December 6, 2007 the Company issued NIS 15,000,000 par value of Series A debentures, which are payable in one amount on November 29, 2012, are unlinked and bear annual interest of 5.5%. The interest on the Series A debentures is payable once a year on November 29 of each of the years 2008 through 2012. The Series A debentures are convertible into ordinary shares of NIS 0.01 par value each, on any trading day from the date they are listed for trade until November 14, 2012, so that each NIS 14 par value of the debentures' principal is convertible into one ordinary share of the Company of NIS 0.01 par value subject to the adjustments specified in the prospectus that was issued on November 29, 2007 (hereinafter – "the prospectus").

The balance of the debentures is presented net of issuance expenses and is amortized using the effective interest method according to a discount rate of 19.66%, which was calculated by an independent external valuer. No debentures have been converted into shares as at December 31, 2011.

The issuance proceeds were recorded on the date of issuance as follows:

	NIS thousands
Proceeds from issuance of convertible debentures	12,150
Transaction costs	(938)
Net proceeds	11,212
Amount recognized as equity (see B hereunder)	3,084
Amount initially recognized as liability	8,128

B. Convertible component

The convertible component of the debentures comprises an equity component to which the balance of the issuance proceeds was allocated after allocation of the proceeds to the net liability component less transaction costs of NIS 258 thousand.

C. Movement

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Balance as at January 1*	**11,688**	10,300
Accrued financing expenses	**2,493**	2,213
Interest paid	**(825)**	(825)
Balance as at December 31*	**13,356**	11,688

* Does not include accrued interest in the amount of NIS 72 thousand (2010: NIS 72 thousand) which is presented under accrued expenses.

Note 15 - Employee Benefits

Employee benefits include post-employment benefits in respect of which the Group has defined benefit plans for which it deposits amounts in appropriate insurance policies. Furthermore, the Company has a defined contribution plan in respect of some of its employees who are in the scope of Section 14 of the Severance Pay Law – 1963.
As regards short-term benefits see Note 13 on other accounts payable.
As regards share-based payments see Note 28 on share-based payments.

Post-employment benefit plans – defined contribution plan

	For the year ended December 31		
	2011	2010	2008
	NIS thousands	NIS thousands	NIS thousands
Amount recognized as expense in respect of defined contribution plan	**172**	224	140

Note 16 - Liabilities to the Chief Scientist*

	December 31	
	2011	2010
	NIS thousands	NIS thousands
Balance as at January 1	**3,887**	3,062
Amounts received	**-**	631
Royalties paid during the year	**(806)**	(101)
Amounts recognized in the statement of income	**527**	295
	3,608	3,887
Presentation in the statement of financial position:		
Current liabilities	**1,982**	1,106
Long-term liabilities	**1,626**	2,781
	3,608	3,887

* The Group is obligated to pay royalties to the Government of Israel in respect of sales of products in which the Government participated in their development by means of grants. The royalties are primarily calculated at the rate of 3%-3.5% of the sales of such products, and amount to no more than the amount of the grant that was received plus interest at the Libor rate. The total amount of the grants received until December 31, 2011 with the addition of Libor interest as accepted is US$ 1.2 million. The Group evaluates that it will return the grant it received and therefore it recognized a liability in respect thereto.

Note 17 - Taxes on Income

A. Details regarding the tax environment of the Group

(1) Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009, which provided, inter alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: In the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and as from the 2016 tax year the company tax rate will be 18%.

On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) – 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, will be cancelled and the company tax rate will be 25% as from 2012.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates specified in the Economic Efficiency Law.

(b) On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the Official Gazette (hereinafter – "the Temporary Order"). In accordance with the Temporary Order, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) (hereinafter – "Standard 29") shall not apply when determining the taxable income for the 2007-2009 tax years even if it was applied when preparing the financial statements.
As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) when determining the taxable income for 2010 and 2011.

(2) Taxation under inflation

The Income Tax Law (Adjustments for Inflation) – 1985 (hereinafter – the Law) is effective as from the 1985 tax year. The Law introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis.

On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter – the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law ceased at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

In accordance with the Amendment, as from the 2008 tax year, income for tax purposes is no longer adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses are no longer linked to the CPI, so that these amounts are adjusted until the end of the 2007 tax year after which they ceased to be linked to the CPI. The effect of the Amendment to the Adjustments Law is reflected in the calculation of current and deferred taxes as from 2008.

Note 17 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

(3) Benefits under the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Law")

(a) In April 2004 the Company was granted "Approved Enterprise" status in accordance with the Law for the Encouragement of Capital Investments with respect to a plan to construct a plant in Caesarea for the manufacture of systems for assisting and guiding complex surgical procedures. In February 2007 the aforementioned approved enterprise status was revoked at the request of the Company, and in respect of an expansion of its plant in the Caesarea industrial park it was granted "Beneficiary Enterprise" status per the definition of this term in the Law. In accordance with this status, the Company will be entitled to the tax benefits provided by the Law with respect to income of the beneficiary enterprise from productive activity. Income of the beneficiary enterprise from productive activity will be exempt from tax for two years from the year in which the Company first has taxable income, and will be subject to tax of 25% in the following 5 years, providing that 12 years have not passed from the beginning of the year of election (2005). In the event of a dividend distribution from income that is exempt from company tax, as aforementioned, the Company will be required to pay tax of 25% on that income. In July 2009 the Company submitted a request that 2008 be the year of election.

In addition, in the event of a change in the field of activity and/or business model and/or a significant reduction in production levels or in product variety, the tax ruling will become void. The Company will be controlled and managed in Israel throughout the benefit period.

(b) On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – "the Amendment to the Law"). The Amendment to the Law was published in the Official Gazette on January 6, 2011. The Amendment to the Law is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law. Companies can choose to not be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the "Ireland track" and the "Strategic" track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits, such as: for a preferred enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

Note 17 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

(3) Benefits under the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Law") (cont'd)

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall continue to apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. Furthermore, the Amendment to the Law provides relief (hereinafter – "the relief") with respect to tax paid on a dividend received by an Israeli company from profits of an approved/ alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice. (a distribution from profits of the exempt enterprise will be subject to tax by the distributing company).

The Company meets the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track. The Company has not yet notified the authorities of the first date it wishes to be included in the scope of the law. The unrecognized deferred tax balances as at December 31, 2011 are calculated on the basis of the tax rates provided in the amendment to the law.

(4) Taxation of the subsidiary in the USA

The tax rates applicable to the subsidiary incorporated in the USA is company tax of up to 35% plus state tax of 4.5% to 9.5% (according to the tax rates in the states in which the subsidiary operates). Furthermore, certain states in which the subsidiary operates have a minimum tax rate.

Israel and the USA have a double tax prevention treaty. According to the treaty, dividends and interest are subject to withholding tax of 12.% and 17.5%, respectively.

B. Composition of income tax expense

	For the year ended December 31		
	2011	**2010**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Current tax expense			
U.S. federal tax	**91**	28	19
Deferred tax income			
Creation of tax asset in subsidiary in respect of losses for which no deferred taxes were created in the past	**(333)**	-	-

Note 17 - Taxes on Income (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

	For the year ended December 31		
	2011	**2010**	**2009**
	NIS thousands	**NIS thousands**	**NIS thousands**
Loss before taxes on income	**(27,926)**	(21,496)	(17,391)
Primary tax rate of the Company	**24%**	25%	26%
Tax calculated according to the Company's primary tax rate	**(6,702)**	(5,374)	(4,522)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	**(169)**	48	27
Non-deductible expenses	**1,040**	507	493
Utilization of tax losses from prior years for which deferred taxes were not created	**(198)**	-	-
Creation of deferred taxes in respect of losses from previous years for which deferred taxes were not created in the past	**(333)**	-	-
Tax losses and benefits for which deferred taxes were not created including effect of change in tax rates	**6,120**	4,805	4,002
Other differences	**-**	42	19
Income tax expense (tax saving)	**(242)**	28	19

D. Deferred tax assets and liabilities

(1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31	
	2011	**2010**
	NIS thousands	**NIS thousands**
Deductible temporary differences, net	**1,787**	1,528
Tax losses	**16,411**	13,414
Losses of subsidiary	**5,462**	4,568
	23,660	19,510

The deductible temporary differences and tax losses do not expire under current tax legislation in Israel. On the other hand, the losses of the subsidiary in the USA can be used for up to a period of 20 years according to the tax laws of its state of incorporation. The Group did not recognize deferred tax assets in respect of these items since it is not probable that future taxable profit will be available against which they can be utilized, other than a tax asset in the amount of NIS 333 thousand in respect of losses of the subsidiary that are likely to utilized.

(2) Carry-forward tax losses and deductions

As at the reporting date the Company has carry-forward tax losses in the amount of NIS 137 million (2010: NIS 114 million) for which deferred taxes were not created.

E. Tax assessments

The Company has received tax assessments that are considered final up to and including the year ended 2007.

The subsidiary in the USA has received tax assessments that are considered final up to and including the year ended 2007.

Note 18 - Commitments

A. The Company and the subsidiary have lease agreements with respect to the buildings they use. The agreements will end in 2014 and 2013, respectively. The Company provided a promissory note in the amount of NIS 60 thousand as security for the lease.

The rent payments for buildings in Israel are linked to the CPI and for those in the USA are linked to the exchange rate of the US dollar. The minimum annual lease payments under the agreements are as follows:

	December 31, 2011
	NIS thousands
2011	**498**
2012	**348**
2013	**301**
	1,147

The lease payments amounted to NIS 497 thousand in 2011 (2010: NIS 245 thousand).

B. The Company leases motor vehicles under operating lease agreements for a period 36 months. As regards these agreements, the Company has deposited amounts as security for the future rent payments. As at the reporting date the balance of prepaid expenses on account of the lease of motor vehicles is NIS 212 thousand (see Note 9). The deposits are linked to the CPI and do not bear interest. The minimum annual payments according to the agreements are as follows:

	December 31, 2011
	NIS thousands
2011	**816**
2012	**603**
2013	**176**
	1,595

The lease motor vehicles payments amounted to NIS 759 thousand in 2011 (2010: NIS 627 thousand).

C. In February 2007 the Company signed a software development agreement with a third party (hereinafter: “the developer”). According to the agreement, the developer will provide to the Company software research and development services that are essential to the development of one of the Company’s products. In consideration of the development services, the Company will pay to the developer an amount of US$ 33 thousand per month according to an exchange rate of no less than NIS 4.25 per dollar (up to a maximum period of 18 months) and will also pay royalties at the rate of 6% of the sales of the future product, which will be gradually reduced to 1% in the tenth year of selling the product, less the cost of use licenses the Company will have to acquire in order to use the software that will be developed by the developer and less the monthly payments paid as from the seventh month of the agreement. The Company and the developer signed an extension to the development services agreement for an hourly rate.

D. On April 28, 2008 the Company entered into a succession of strategic collaboration agreements (hereinafter – the agreements) with a medical center in the USA – Cleveland Clinic Foundation (hereinafter – CCF) for the purpose of jointly developing a group of products for stabilizing the spinal cord with the use of the Company’s guidance technology. According to the agreements the Company received, inter alia, an exclusive worldwide license to two patents owned by CCF for the development of unique fixation implants for the spinal cord. Subject to the successful completion of the development, the Company intends to act to receive regulatory approvals for the products in both the USA and Europe.

In consideration for the rights that were granted to the Company under the agreements, the Company paid CCF an immaterial lump sum and additional immaterial amounts for completing milestones. In addition, the Company undertook to pay royalties at a gradually declining rate on net sales, as defined in the agreement, as well as a commission from the income from sublicenses of the products for a period of 15 years from the receipt of FDA approval.

Note 18 - Commitments (cont'd)

E. On June 8, 2009 the Company received the Chief Scientist's approval to participation in the research and development of the Company's GO-LIF procedure. The Chief Scientist will participate in 40% of a maximum budget of NIS 3,445 thousand, subject to complying with the provisions of the R&D Law, the regulations promulgated under it and budgeting procedures.
In 2009 the Company received an amount of NIS 482 thousand in cash on account of the grant and in 2010 it received another NIS 896 thousand. No grants were received in 2011.

F. In January 2009 the Company entered into an unbinding agreement in principle with the distributor Med Net, which is subject to the signing of a final agreement, regarding the incorporation of a subsidiary of Med Net in Germany named Mazor Surgical Technologies UG.
As at the date of the financial statements, the agreement in principle did not reach the stage of a final agreement, so instead, in January 2012 the Company entered into a distribution agreement with Mazor Robotics GmbH (hereinafter: "Mazor Germany"), which replaces the aforementioned agreement in principle. According to the agreement, the Company will grant to Mazor Germany exclusive distribution rights in Germany, Austria and Switzerland ("the territory") with respect to various products of the Company, and limited service also in other European countries according to the needs of the Company, and will also finance marketing costs in the territory and participate in certain expenses of Mazor Germany on the basis of a budget that will be prepared by the Company in advance. The Company granted to Mazor Germany the right to use the name "Mazor", and this right will expire on the last date of a binding agreement. Mazor will provide to Mazor Germany a deposit in the amount of the cost of 3 months of operation as security for participation in expenses as aforementioned, and this deposit will be returned to the Company at the end of the agreement. The intellectual property will at all times continue to be the property of the Company.

Note 19 - Revenues

	For the year ended December 31		
	2011	2010	2009
	NIS thousands	NIS thousands	NIS thousands
Sales of systems	**14,844**	10,959	3,028
Sales of consumables	**3,443**	3,005	1,949
Provision of services and other	**3,015**	882	343
	21,302	14,846	5,320

Note 20 - Segment Reporting

A. Information about reportable segments

The Group has four reportable segments as specified in the table below.
Segment information is presented regarding the Group's geographical segments on the basis of information that is reviewed by the chief operating decision maker.
Segment profits and segment assets are not reviewed by the chief operating decision maker as most of the Company's expenses and assets cannot be attributed and therefore are not presented.

Information regarding the operations of reportable segments in presented in the table below:

	For the year ended December 31, 2011				
	Other	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	**2,200**	**677**	**7,360**	**11,065**	**21,302**

	For the year ended December 31, 2010				
	Other (*)	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	536	3,329	4,588	6,393	14,846

	For the year ended December 31, 2008				
	Other (*)	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	354	1,832	2,820	314	5,320

(*) All the revenues are from customers in Israel

B. Entity level disclosures

The Group's revenues from major customers:

	2011		2010		2009	
Segment	Customer	NIS thousands	Customer	NIS thousands	Customer	NIS thousands
Western Europe	Customer A	**4,662**	Customer A	3,527	Customer A	2,820
USA	Customer F	**2,250**	Customer B	3,329	Customer B	1,832
USA	Customer G	**2,412**	Customer C	1,822		
USA	Customer H	**2,287**	Customer D	2,093		
USA	Customer I	**2,430**	Customer E	2,022		

Information on products and services

The Group's revenues from external parties in respect of each category of similar products and services is presented in Note 19.

Note 21 - Cost of Sales

	For the year ended December 31		
	2011	2010	2009
	NIS thousands	NIS thousands	NIS thousands
Materials and subcontractors	**2,934**	3,268	1,504
Salaries, wages and related expenses	**1,249**	511	423
Share-based payment	**24**	33	49
Depreciation and amortization*	**1,194**	1,043	32
Decrease (increase) in inventory of work in progress	**157**	(255)	28
Decrease (increase) in inventory of finished goods	**384**	(1,183)	(346)
Other manufacturing expenses	**783**	170	165
	6,725	3,587	1,855

* Including amortization of intangible assets.

Note 22 - Selling and Marketing Expenses

	For the year ended December 31		
	2011	2010	2009
	NIS thousands	NIS thousands	NIS thousands
Salaries, wages and related expenses	**10,826**	7,551	3,934
Commissions to marketing representatives overseas	**3,151**	3,541	1,968
Share-based payment	**1,332**	892	629
Advertising, demonstrations and exhibitions	**2,918**	942	645
Foreign travel	**2,740**	1,678	825
Consultation	**2,074**	1,025	275
Depreciation	**147**	178	461
Other selling and marketing expenses	**1,830**	1,330	917
	25,018	17,137	9,654

Note 23 - General and Administrative Expenses

	For the year ended December 31		
	2011	2010	2008
	NIS thousands	NIS thousands	NIS thousands
Salaries, wages and related expenses	**2,809**	2,561	2,054
Share-based payment	**685**	573	694
Professional services	**1,513**	1,174	864
Depreciation	**118**	113	45
Other general and administrative expenses	**742**	894	988
	5,867	5,315	4,645

Note 24 - Research and Development Expenses, Net

	For the year ended December 31		
	2011	**2010**	**2009**
	NIS thousands	**NIS thousands**	**NIS thousands**
Raw materials and subcontractors	**4,903**	5,001	3,615
Salaries, wages and related expenses	**4,354**	3,462	3,342
Share-based payment	**220**	458	566
Depreciation	**153**	83	74
Patent registration expenses	**511**	381	276
Other research and development expenses	**867**	483	422
Total research and development expenses	**11,008**	9,868	8,295
Less – capitalization of development costs*	**-**	(1,051)	(2,194)
Less – participation of the European Union in expenses	**(49)**	-	(531)
Less – participation of the Chief Scientist in expenses	**-**	(265)	(143)
	10,959	8,552	5,427

* As mentioned in Note 11, as from July 2008 the Group began capitalizing development costs relating to one of its products in accordance with IAS 38. Composition of the capitalized development costs:

	For the year ended December 31		
	2011	**2010**	**2009**
	NIS thousands	**NIS thousands**	**NIS thousands**
Materials and subcontractors	**-**	586	1,426
Salaries (including share-based payment)	**-**	414	651
Other	**-**	51	117
	-	1,051	2,194

Note 25 - Financing Income and Expenses

	For the year ended December 31		
	2011	**2010**	**2009**
	NIS thousands	**NIS thousands**	**NIS thousands**
Interest income on bank deposits	**97**	269	353
Interest income and net change in fair value of financial assets held-for-trading	**2,092**	1,935	1,729
Net income from change in exchange rates	**546**	-	124
Financing income recognized in profit or loss	**2,735**	2,204	2,206
Net expenses from change in exchange rates	**-**	(944)	-
Financing expenses on liabilities to the Chief Scientist	**(527)**	(295)	(471)
Interest and amortization of discount on convertible debentures	**(2,496)**	(2,213)	(1,979)
Other financing expenses including commissions	**(371)**	(503)	(528)
Financing expenses recognized in profit or loss	**(3,394)**	(3,955)	(2,978)
Net financing expenses recognized in profit or loss	**(659)**	(1,751)	(772)

Note 26 - Related and Interested Parties

A. Key management personnel compensation (including directors)

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers (such as a car, medical insurance, etc.), and contributes to post-employment defined contribution plans and defined benefit plans on their behalf. Executive officers also participate in the Company's share option program (see Note 28 regarding share-based payments).

Compensation to key management personnel (including directors) that are employed by the Group:

	For the year ended December 31					
	2011		2010		2009	
	Number of people	NIS thousands	Number of people	NIS thousands	Number of people	NIS thousands
Short-term employee benefits	**5**	**4,515**	5	4,641	5	3,273
Share-based payments	**5**	**1,166**	5	1,050	5	781
		5,681		5,691		4,054

Compensation to directors:

	For the year ended December 31					
	2011		2010		2009	
	Number of people	NIS thousands	Number of people	NIS thousands	Number of people	NIS thousands
Total compensation to directors employed by the Company*	**1**	**434**	2	*848	1	*419
Compensation to directors not employed by the Company**	**3**	**197**	3	**252	2	**291

* Including share-based payments in the amount of NIS 47 thousand in 2010 (2009 – NIS 91 thousand).

** Including share-based payments in the amount of NIS 94 thousand in 2010 (2009 – NIS 181 thousand).

B. Engagements between the Company and interested parties

(1) The Company's CEO is entitled to a monthly salary in the amount of NIS 51 thousand for a full time position including social benefits, which include payments for post-employment benefits and the payment of an additional four months' salary when the employment ends, deposits with an advanced study fund and car expenses.

On August 15, 2010 the Company's general meeting approved that as from January 1, 2010 the CEO would be entitled to a monthly salary of NIS 55 thousand for a full time position. In addition, the CEO is entitled to a category 4 or 5 car (the tax on which will be grossed-up by the Company) and to the reimbursement of expenses he incurs in the course of performing his duties as CEO and director according to the Company's policy as decided from time to time by the Board of Directors.

On August 15, 2010 the Company's general meeting approved that as from August 2010 the CEO would relocate to the USA in the framework of his position as the CEO of Mazor USA. The engagement with the CEO in the capacity of CEO of Mazor USA will be in effect until August 2013 and can be extended at the parties' mutual consent. Notwithstanding the aforementioned, engagement of the CEO as the CEO of Mazor USA can be terminated at any time and for any reason (other than in the event of breach of trust) by the CEO or Mazor USA at an advance notice of 60 days.

Note 26 - Related and Interested Parties (cont'd)

B. Engagements between the Company and interested parties (cont'd)

The annual salary of the CEO in his capacity as the CEO of Mazor USA will be US$ 150 thousand and he will be entitled to reimbursement of expenses in the amount of US$ 8.3 thousand per month. The CEO will also be entitled to an annual bonus in the amount of US$ 80 thousand based on the achievement of targets that will be defined by the parties and be approved each year by the Company's Board of Directors ("the targets plan"). After the receipt of an annual bonus, and subject to compliance with the targets plan, for as long as the CEO is entitled to an annual bonus according to the targets plan, any amount in excess of US$ 80 thousand will be granted to the CEO by means of options in the Company of up to US$ 40 thousand, so that the CEO will be entitled to a maximum annual bonus of US$ 80 thousand in cash and US$ 40 thousand in options (see Note 26.D hereunder regarding options that were granted to the CEO as part of the annual bonus for 2010). In the event of the CEO ceasing to work as the CEO of Mazor USA (other than in the event of breach of trust), the CEO will be entitled to the compensation described above for an additional period of 4 months from the date he is no longer employed as the CEO of Mazor USA unless he had commenced working in another subsidiary or subsidiaries.

Further details regarding the agreement between the Company and the CEO with respect to his employment in the USA:

- The Company will pay the CEO's car expenses in the USA up to an annual amount of US$ 12 thousand.
- The CEO will be entitled to 24 days of paid vacation a year and to benefits such as insurance, medical insurance for the CEO's family and additional insurance as customary in the Company.
- The Company will pay the costs of flying the CEO and his family to the USA, the costs of moving the possessions of the CEO and his family to the USA up to an amount of US$ 15 thousand.
- In respect of each year that the CEO resides in the USA, he and his family will be entitled to one annual vacation of two weeks in Israel and to reimbursement of travel expenses, hotel expenses in Israel and car rental expenses in Israel of up to US$ 15 thousand.
- When he finishes his term as the CEO of Mazor USA, the Company will pay the expenses of his and his family's return to Israel including flight expenses, reimbursement of expenses of up to US$ 15 thousand for moving the possessions of the CEO and his family back to Israel, and to a non-recurring bonus of US$ 5 thousand for expenses relating to his return to Israel.
- It is clarified that for as long as the CEO is employed as the CEO of Mazor USA and is entitled to the compensation described above, the Company will not pay to the CEO any other compensation including deposits for social benefits, in respect of his employment as the CEO of the Company.

In 2010 the Company granted to the CEO a non-recurring bonus in the amount of US$ 17.5 thousand (gross) in respect of expenses relating to his relocation to the USA.

(2) On June 28, 2009 the Company's general meeting decided to approve a private offer pursuant to which the Company will allot to the CEO 79,861 non-marketable options that are exercisable into 79,861 ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 6.26 for each underlying share, and their vesting period is 48 months with one quarter of the options vesting on February 17, 2011, and the rest of the options vesting over a period of two years, 9.375% of the options each quarter. On July 9, 2009 the Tel Aviv Stock Exchange approved listing the shares deriving from the aforementioned allotment. The fair value of the options that were granted to the CEO is measured according to the binomial model and is NIS 448 thousand.

The CEO had also received in the past options to purchase 227,645 ordinary shares at an exercise price of NIS 0.01 per share, which were exercised in June 2009 (see Note 27C(3)), and options to purchase 227,645 ordinary shares at an exercise price of US$ 2.18 per share that have not yet been exercised.

Note 26 - Related and Interested Parties (cont'd)

B. Engagements between the Company and interested parties (cont'd)

(3) As from October 2007 the Company's Chairman of the Board (hereinafter – the Chairman) provides management services by means of a company owned by him for a monthly payment of NIS 30 thousand. He is also entitled to social benefits comprised of paid vacation, recreation allowance and severance pay as provided by law. In addition, the Chairman was granted options to purchase shares of the Company at an exercise price of NIS 12.40 per each underlying share.
On November 21, 2010 the general meeting approved adjusting the monthly salary of the Chairman to NIS 35 thousand.

(4) On November 22, 2007 the Company approved letters of appointment for two external directors who were appointed by the Company's general meeting of shareholders on November 27, 2007 and were approved by the Company's Audit Committee, Board of Directors and general meeting in December 2007 and January 2008, respectively, pursuant to which they would be paid fixed annual compensation as provided in the Companies Regulations (Rules regarding Compensation and Expense Reimbursement of External Director) – 2000 ("the compensation regulations").
In addition, each one of them was granted options to purchase 40,000 ordinary shares of the Company at an exercise price of NIS 12.40 per each underlying share.
On November 21, 2010 the Company's general meeting of shareholders approved reappointment of the external directors for an additional period of three years (from November 27, 2010 to November 26, 2013).

(5) On August 15, 2010 the Company's general meeting of shareholders approved and ratified an annual participation compensation of NIS 32 thousand and a per meeting participation compensation of NIS 1.6 thousand for a director of the Company, effective as of January 1, 2010.

Note 27 - Capital and Reserves

A. Share capital

	December 31	
	Ordinary shares	
	2011	**2010**
	Thousands of shares of NIS 0.01 par value	
Issued and paid-in share capital as at January 1	**19,733**	19,703
Issued for cash during the period	**2,421**	-
Exercise of share options during the period	**24**	30
Issued and paid-in share capital as at December 31	**22,178**	19,733
Authorized share capital	**75,000**	50,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

B. Options

	December 31	
	Number of options	
	2011	**2010**
	Thousands of options of NIS 0.01 par value	
Number of outstanding options as at January 1	**7,535**	7,565
Issued during the period*	**968**	-
Exercised during the period	**(15)**	(30)
Expired during the period	**(6,754)**	-
Number of outstanding options as at December 31	**1,734**	7,535

* See C(5) hereunder.

Note 27 - Capital and Reserves (cont'd)

C. Issuances of share capital

(1) Public issuance in 2007

On August 14, 2007 the Company issued a prospectus for the issuance of 3,350,000 ordinary shares of the Company of NIS 0.01 par value each, and 2,512,500 options (Series 1) that are exercisable from the date they are listed for trading until August 30, 2009 into 2,512,500 ordinary shares of NIS 0.01 par value each, such that each option (Series 1) can be exercised into one ordinary share of the Company of NIS 0.01 par value (subject to adjustments – as specified in the prospectus), at an exercise price of NIS 12 payable in cash. Options not exercised by August 30, 2009 will expire and the option holder will not have any right in respect of the Company.

In the framework of the prospectus also 2,512,500 options (Series 2) were issued out of a series of 2,812,500 options (Series 2), that are exercisable from the date they are listed for trading until August 25, 2011 into 2,512,500 ordinary shares of NIS 0.01 par value each, such that each option (Series 2) can be exercised into one ordinary share of the Company of NIS 0.01 par value (subject to adjustments – as specified in the prospectus), at an exercise price of NIS 14 payable in cash. Options not exercised by August 25, 2011 will expire and the option holder will not have any right in respect of the Company.

In the framework of the Company's obligation to the underwriters, in accordance with the underwriting agreement, the Company allotted to the lead managers of the underwriting consortium 300,000 options (Series 2) at no cost, according to the terms of the options (Series 2) that were allotted pursuant to the prospectus from August 2007.

The Company received net proceeds of NIS 36 million (net of issuance expenses of NIS 4 million) from the issuance of the shares, options (Series 1) and options (Series 2).

In 2011, 5,578 options (Series 2) were exercised into 5,578 ordinary shares of NIS 0.01 par value each for a consideration of NIS 79 thousand. The remaining unexercised 2,806,422 options expired on August 25, 2011.

(2) Private placement in 2008

A private placement, within its meaning in Regulation 1 of the Private Placement Regulations, was executed on January 24, 2008 as follows:
An amount of 1,190,476 registered ordinary shares of NIS 0.01 par value each and 595,238 options that will not be listed for trading and are exercisable into 595,238 ordinary shares of NIS 0.01 par value on any business day from the date of their issuance for a period of 48 months at an exercise price of NIS 13 per option. The shares were allotted at the price of NIS 10.50 per share and the options were allotted at no cost, such that in respect of each two offered shares each offeree received also one option.

The Company received proceeds of NIS 12 million (net of issuance expenses of NIS 0.5 million) from the aforesaid issuance.

(3) Exercise of options by the CEO

On June 24, 2009 the Company's CEO exercised 227,645 non-marketable options of the Company into 227,645 ordinary shares of the Company of NIS 0.01 par value each, for the payment of an exercise price of NIS 0.01 per option. In addition, in November a senior employee exercised 16,500 options at the price of NIS 6 thousand for all the exercised options.

Note 27 - Capital and Reserves (cont'd)

C. Issuances of share capital (cont'd)

(4) Shelf registration

- According to the shelf registration prospectus the Company issued on August 26, 2009, on October 22, 2009 the Company issued a shelf registration offer for ordinary shares and marketable options. On the basis of the issuance results at that date, the Company issued to the public 5,263,800 registered ordinary shares of NIS 0.01 par value each as well as 3,947,850 options that are exercisable until August 25, 2011 into 3,947,850 ordinary shares of NIS 0.01 par value each. The gross issuance proceeds amounted to NIS 47,900 thousand. Issuance expenses amounted to NIS 4,105 thousand, not including options to two of the distributors as described in the next paragraph.
  On August 25, 2011, 3,947,850 options that had not been exercised before that date expired.
- On November 1, 2009 the Tel Aviv Stock Exchange approved allotting to two distributors as aforementioned 210,552 non-marketable options that are exercisable into 210,552 ordinary shares of NIS 0.01 par value each at an exercise price of NIS 9.1 for each underlying share (105,276 options to each one of the distributors). The options will be exercisable, fully or partly, on any business day for a period of 3 years from the day of their allotment. The Company assessed the fair value of the aforesaid options at NIS 753 thousand on the basis of the Black & Scholes model. The award was accounted for in accordance with IFRS 2.
  In 2010 and 2011 the underwriters exercised 30,000 options and 10,000 options into 30,000 and 10,000 ordinary shares of the Company for a consideration of NIS 273 thousand and NIS 91 thousand, respectively.

(5) Private placement

In accordance with a decision of the Company's Board of Directors from February 21, 2011, and investment agreements that were signed on February 23, 2011, the Company decided to allot to the investors (as defined hereunder) 2,421,053 ordinary shares of the Company of a par value of NIS 0.01 each and 968,241 non-marketable options that will not be listed for trading and are exercisable into 968,241 ordinary shares of the Company ("the allotted share" and "the options", respectively, and together – "the offered securities") for a total consideration of NIS 23,000 thousand as detailed hereunder:

(1) The Company will allot to The Phoenix Insurance Company Ltd., for itself and for other companies of the Phoenix Group (together "Phoenix"), on the basis of an internal distribution agreed to by the parties, 2,000,000 ordinary shares of the Company of a par value of NIS 0.01 each, and 800,000 non-marketable options that will not be listed for trading and are exercisable into 800,000 ordinary shares of the Company of a par value of NIS 0.01 each over a period of 5 years from the date of their allotment at an exercise price of NIS 14 per each option.

(2) The Company will allot to Leader Issuances (1993) Ltd. 421,053 ordinary shares of the Company of a par value of NIS 0.01 each, and 168,421 non-marketable options that will not be listed for trading and are exercisable into 168,421 ordinary shares of the Company of a par value of NIS 0.01 each over a period of 5 years from the date of closing at an exercise price of NIS 14 per each option.

The fair value of each one of the options offered to the offerees is NIS 1.9 and the fair value of all the options allotted to the offerees is NIS 1,840,000.

According to the binomial model, on the grant date the fair value of each one of the options is NIS 3.7 and the fair value of all the option allotted to the offerees is NIS 3,582 thousand.

The Company split the overall consideration from the issuance pro rata to the fair value of the equity instruments that were issued so that an amount of NIS 2,970 thousand was recognized as proceeds from options and an amount of NIS 20,030 thousand was included in share capital and premium.

Note 28 - Share-Based Payments

A. Allotment of options to employees and directors of the Company

The Company regularly compensates its employees, directors and members of the advisory committee by means of options to purchase shares of the Company. As at December 31, 2011 the Company has allotted options to purchase 3,143,506 ordinary shares of the Company of NIS 0.01 par value each. All the grants are equity grants.
As at that date, options to purchase 1,321,609 ordinary shares are exercisable.

B. The fair value of the options granted by the Company is based on an option pricing model.

The table below summarizes the grant terms and the parameters that were used to determine the fair value of the benefit:

Grant date	Number of instruments	Vesting period (Years)	Contractual life of the options (Years)	Interest rate	Expected volatility	Average exercise price*	Share price that served as a basis for pricing the option	Overall fair value of the benefit on the grant date
				%	%	US $	US $	NIS thousands
March 15-December 31,								
2005	590,491	2-3	10	4	64-77	1.4-2.7	1.6-2.1	2,745
2006	162,261	2-4	10	4	64-75	1.8-2.7	2.2-2.9	1,074
2007	135,630	2-4	10	4	64-75	2.2-2.8	2.9-3.2	1,091
2008	371,500	2-4	10	4	64-75	2.8-3.5	2.8-3.2	1,857
2009 (see F hereunder)	479,740	2-4	10	6	62-63	1.65	2.4-2.6	2,588
2010 (see E hereunder)	546,200	2-4	10	6	44-63	2.08-2.92	2.3-3.13	2,890
2011 (see D hereunder)	339,980	2-4	7	6	47-48	2.54	2.54	1,706

* The exercise price is stated in US dollars other than in allotments made as from 2008 that are stated in NIS.
** The conversion ratio is one share for each one of the instruments.

Expected volatility is estimated by considering historic share price volatility of the Company and companies engaged in activities like those of the Company. The contractual life of the option is determined on the basis of management's estimate of the period the employees will hold the option taking into consideration their position with the Company and the Company's past experience. The risk-free interest rate was determined on the basis of non-interest bearing shekel-denominated Government debentures with a remaining life equal to the expected life of the options.

Note 28 - Share-Based Payments (cont'd)

C. The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
	US dollars		US dollars		US dollars	
Balance at January 1	**2.03**	**2,153,226**	2.63	1,658,026	2.42	1,512,397
Forfeited during the year	**2.54**	**(84,448)**	1.9	(51,000)	2.52	(89,966)
Exercised during the year	**0.76**	**(8,800)**	-	-	0.09	(244,145)
Granted during the year	**2.54**	**339,980**	2.78	546,200	1.65	479,740
Outstanding at December 31	**2.35**	**2,399,958**	2.03	2,153,226	2.63	1,658,026
Exercisable at December 31	**2.32**	**1,321,609**	2.62	1,140,786	0.93	777,331

With respect to options granted to related parties, see Note 26 on related and interested parties.

D. Grant of options in 2011

On May 30, 2011 the Company's Board of Directors approved granting options of the Company to employees, directors, consultants and other service providers of the Company and the subsidiary ("2011 option plan"). The Company will be able to grant up to 2,191,632 options at any time throughout a period of 10 years from the date of approval of the plan according to the terms of the plan.

On June 28, 2011 the Company issued an offering memorandum for employees and officers of the Company together with a private placement and material private placement memorandum with respect to 1,400,000 registered options, not listed for trading, which are exercisable into up to 1,400,000 registered ordinary shares of the Company of a par value of NIS 0.01 each (subject to adjustments), which are offered at no cost to employees, officers and consultants of the Company and the Company's subsidiary, including the Company's CEO and directors of the Company. On July 24, 2011 the Stock Exchange approved listing for trading the securities included in the offering memorandum.

Options that were allotted according to the offering memorandum:

- According to the decision of the Company's Board of Directors from December 20, 2010, four senior employees were granted 200,000 options (non-marketable) that are exercisable into 200,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, which have a vesting period of 48 months, with 50% of the options vesting on December 20, 2012, 25% vesting on December 20, 2013 and another 25% vesting on December 20, 2014. The fair value of the options that were granted is measured according to the binomial model and is NIS 975 thousand.
- According to the decision of the Company's Board of Directors from November 21, 2010, a consultant of the Company was granted 35,000 options (non-marketable) that are exercisable into 35,000 registered ordinary shares of the Company of a par value of NIS 0.01 each at an exercise price of NIS 9.743 per share. The vesting period of the options is 2 years from the grant date, at which time all the granted options will vest.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 193 thousand.

Note 28 - Share-Based Payments (cont'd)

D. Grant of options in 2011 (cont'd)

- According to the decisions of the Company's Board of Directors from March 23, 2011 and June 20, 2011, seven employees were granted 92,500 options (non-marketable) that are exercisable into 92,500 ordinary shares of the Company at an exercise price of NIS 9.692 and NIS 8.325 per share, which have a vesting period of 48 months, with 50% of the options vesting after two years, 25% vesting after three years and another 25% vesting after four years. The fair value of the options that were granted is measured according to the binomial model and is NIS 480 thousand.
- According to the decision of the Company's Board of Directors from March 23, 2011 the CEO of the Company was granted 12,480 options (non-marketable) that are exercisable into 12,480 ordinary shares of the Company of a par value of NIS 0.01 each at an exercise price of NIS 9.939 per share, which have a vesting period of 24 months, with 50% of the options vesting on January 1, 2012, 25% vesting on July 1, 2012 and another 25% vesting on January 1, 2013. The fair value of the options that were granted is measured according to the binomial model and is NIS 58 thousand.
  The options were granted as part of the annual bonus for 2010 the CEO is entitled to receive according to the employment contract that was approved by the general shareholders' meeting as mentioned in Note 26.B(1).

  Exercise of non-marketable options in 2011:

  - In 2011, employees of the Company exercised 8,800 non-marketable options into 8,800 ordinary shares of a par value of NIS 0.01 each for a consideration of NIS 22 thousand.

E. Grant of options in 2010

- On February 15, 2010 the Company's Board of Directors approved a private placement granting 120,000 options to three managers of the Company according to an offering memorandum that was issued on July 12, 2009. The exercise price of the options is NIS 8.29 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 573 thousand.
- On March 22, 2010 the Company's Board of Directors approved a private placement granting 39,000 options to an employee of the Company according to an offering memorandum that was issued on July 12, 2009. The exercise price of the options is NIS 10.14 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 183 thousand.
- On May 17, 2010 the Company's Board of Directors approved a private placement granting 26,200 options to two consultants of the Company. The exercise price of the options is NIS 10.85 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 194 thousand.

Note 28 - Share-Based Payments (cont'd)

E. Grant of options in 2010 (cont'd)

- On November 25, 2010 the Company's Board of Directors approved a private placement granting 361,000 options to four managers and three consultants of the Company according to an offering memorandum of the Company from 2003. The exercise price of the options is NIS 10.36 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 1,940 thousand.

F. Grant of options in 2009

- On May 20, 2009 the Company issued an options offering memorandum (hereinafter – the offering memorandum) that was amended on June 18, 2009 and July 12, 2009. Until the date of the offering memorandum the Company had granted 1,798,298 ordinary shares according to an option plan from 2003 that authorized the grant of 2,300,000 options. As at the date of the offering memorandum, 571,702 options have not yet been granted. According to the offering memorandum, up to 50 employees and officers who are not interested parties in the Company and the subsidiary will be allotted, at no cost, up to 571,702 non-marketable options of the Company that are exercisable into 571,702 registered ordinary shares of the Company of NIS 0.01 par value each (hereinafter – the options). Assuming exercise of all the options, the shares deriving from the exercise of the options will constitute 1.6% of the issued and paid-in capital of the Company (after the allotment) on a fully diluted basis. The options that are granted to the offerees will be listed for trading on the stock exchange only upon their exercise.

  The exercise price of 401,679 of the aforesaid options will be NIS 6.26 and of 170,023 options will be the average share price in the thirty days preceding the date of the decision to allot the options (hereinafter – the exercise price). The exercise price is subject to adjustments as specified in the offering memorandum resulting from the distribution of bonus shares, participation in an issuance of rights and a dividend distribution. The options that are granted to an offeree on a certain date will vest and become exercisable according to the time schedule in the aforementioned plan.
  On July 14, 2009 the Stock Exchange approved listing for trading the 571,702 ordinary shares of NIS 0.01 par value each that will derive from the exercise of the options included in the offering memorandum.
- On July 19, 2009, twenty nine of the Company's employees were granted 399,679 options according to the offering memorandum. Of the options granted, 25% are exercisable as from February 17, 2011 with the rest being exercisable in 8 equal portions, one every quarter, from February 17, 2011 until February 17, 2013. The fair value of the options is measured according to the binomial model and is NIS 2,140 thousand. The Company commenced recognizing salary expenses in respect of the aforesaid options as from the first date of the benefit period, April 13, 2009, the date on which the Company provided notice to all the offerees regarding the grant of the options, subject to any approvals required by law.
- See Note 26B(2) regarding the grant of options to the Company's CEO in 2009.

Note 29 - Loss Per Share

A. Basic loss per share

The calculation of basic loss per share as at December 31, 2011 was based on the loss attributable to ordinary shareholders divided by a weighted average number of ordinary shares outstanding of 19,717 thousand (2009: NIS 15.2 thousand shares, 2008: 14.1 thousand shares), calculated as follows:

B. Loss attributable to ordinary shareholders

	For the year ended December 31		
	2011	**2010**	**2009**
	Continuing operations	**Continuing operations**	**Continuing operations**
	NIS thousands	**NIS thousands**	**NIS thousands**
Loss for the year	**27,684**	21,524	17,052
Loss attributable to ordinary shareholders	**27,684**	21,524	17,052

C. Weighted average number of ordinary shares

	For the year ended December 31		
	2011	**2010**	**2009**
	Continuing operations	**Continuing operations**	**Continuing operations**
	NIS thousands	**NIS thousands**	**NIS thousands**
Balance as at January 1	**19,733**	19,702	14,193
Effect of shares issued during the year	**2,082**	15	1,087
Weighted average number of ordinary shares used to calculate basic loss per share	**21,815**	19,717	15,280

D. Diluted loss per share

The Company did not present information on the diluted loss per share because of the anti-dilutive effect of convertible securities.

Note 30 - Financial Risk Management

A. Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency, interest and other market price risks)

B. Risk management framework

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, as well as from short-term investments.

<u>Trade and other receivables</u>
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate have only a small effect on the credit risk. Approximately 46% of the Group's revenue is attributable to sales transactions with two wholesale customers that operate in Eastern and Western Europe. Nevertheless, there is no geographical concentration of credit risk and rarely are losses incurred following payment defaults of Group customers.

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this provision are specific loss components that relate to individually significant exposures.

<u>Investments</u>
The Group limits its exposure to credit risk by investing only in bank deposits and debentures and only with counterparties that have a credit rating of at least A+ according to the rating accepted in Israel. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Note 30 - Financial Risk Management (cont'd)

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations when due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The biotechnology industry in which the Company operates is characterized by high competition and high business risks as a result of frequent technological changes. Penetration of the market requires investing substantial financial resources and continuous development. The Company's future success depends on a number of matters including the quality of the product, its price, receipt of regulatory approvals and the creation of a relative advantage over competitors, as well as obtaining the financial resources required for marketing the products and launching them in the market.

As at the date of the financial statements, the Company has financial resources that enable it to continue developing its products according to the business plan. Nonetheless, the Company has continuing negative cash flows from operating activities. In the opinion of management of the Company, which is based on a cash flow forecast, the Company has the ability to continue operating in its present structure and to meet its liabilities in the forthcoming year.

E. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

<u>Currency risk</u>

The Group is exposed to currency risk on sales, purchases and liabilities to the Chief Scientist that are denominated in a currency other than the functional currency of the Group (the NIS).. The currencies in which these transactions primarily are denominated are NIS, euro and the US dollar.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

<u>Interest rate risk</u>

The Group is exposed to changes in interest rates, primarily possible changes in the risk-free market interest rate which may have an effect on the fair value of the Group's financial assets.

Note 31 - Financial Instruments

A. Credit risk

(1) Exposure to credit risk

The maximum exposure to credit risk for trade receivables, other receivables, and other investments at the reporting date by type of counterparty was:

	December 31	
	2011	2010
	Carrying amount	Carrying amount
	NIS thousands	
CPI-linked government debentures	**16,206**	16,056
Government debentures	**23,562**	22,341
CPI-linked corporate debentures	**5,713**	5,671
US$-linked corporate debentures	**1,780**	2,556
Corporate debentures	**869**	701
Deposits in NIS	**7,102**	-
Trade receivable	**5,181**	2,983
Cash and cash equivalents	**6,324**	17,042
	66,737	67,350

The maximum exposure to credit risk for trade and other receivables and other investments at the reporting date by type of counterparty was as follows:

	December 31	
	2011	2010
	Carrying amount	Carrying amount
	NIS thousands	
Wholesale customers	**2,329**	2,736
End-user customers	**2,852**	247
Debentures issued by the Government of Israel	**39,768**	38,397
Debentures issued by other entities:	**8,362**	8,928
Banking entities	**13,426**	17,042
	66,737	67,350

(2) Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2011		2010	
	Gross	Impairment	Gross	Impairment
	NIS thousands		NIS thousands	
Not past due	**5,087**	**-**	2,446	-
Past due 0-30 days	**94**	**-**	520	-
Past due more than 121 days	**8**	**(8)**	25	(8)
	5,189	**(8)**	2,991	(8)

The movement in the provision for impairment in respect of trade receivables and other receivables was as follows:

	December 31		
	2011	2010	2009
	NIS thousands		
Balance as at January 1	**(8)**	(23)	(23)
Impairment loss recognized	**-**	15	-
Balance as at December 31	**(8)**	(8)	(23)

Note 31 - Financial Instruments (cont'd)

B. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2011					
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
	NIS thousands					
Non-derivative financial liabilities						
Trade payables	**3,807**	**3,807**	**3,807**	**-**	**-**	**-**
Other accounts payable	**3,687**	**3,687**	**3,687**	**-**	**-**	**-**
Convertible debentures*	**13,356**	**15,825**	**-**	**15,825**	**-**	**-**
Liability to Chief Scientist	**3,608**	**4,713**	**476**	**900**	**1,411**	**1,926**
Total	**24,458**	**28,032**	**7,970**	**16,725**	**1,411**	**1,926**

	December 31, 2010					
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
	NIS thousands					
Non-derivative financial liabilities						
Trade payables	4,208	4,208	4,208	-	-	-
Other accounts payable	2,351	2,351	2,351	-	-	-
Convertible debentures*	11,760	16,650	-	825	15,825	-
Liability to Chief Scientist	3,887	5,560	662	662	3,004	1,232
Total	22,206	28,769	7,221	1,487	18,829	1,232

* Including accrued interest

C. Linkage and foreign currency risks

(1) The exposure to linkage and foreign currency risk

The Group's exposure to linkage and foreign currency risk was as follows based on notional amounts:

	December 31, 2011				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Euro	Total
	NIS thousands				
Current assets					
Cash and cash equivalents	**1,758**	**-**	**4,408**	**158**	**6,324**
Short-term investments and deposits	**31,533**	**21,919**	**1,780**	**-**	**55,232**
Trade receivables	**145**	**-**	**2,740**	**2,296**	**5,181**
Current liabilities					
Trade payables	**(2,821)**	**-**	**(809)**	**(177)**	**(3,807)**
Other accounts payable	**(1,844)**	**-**	**(3,825)**	**-**	**(5,669)**
Non-current liabilities					
Convertible debentures	**(13,356)**	**-**	**-**	**-**	**(13,356)**
Liabilities to the Chief Scientist	**-**	**-**	**(1,626)**	**-**	**(1,626)**
	15,415	**21,919**	**2,668**	**2,277**	**42,279**

Note 31 - Financial Instruments (cont'd)

C. Linkage and foreign currency risks (cont'd)

(1) The exposure to linkage and foreign currency risk (cont'd)

	December 31, 2010				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Euro	Total
	NIS thousands				
Current assets					
Cash and cash equivalents	9,518	-	4,187	3,337	17,042
Short-term investments and deposits	23,042	21,727	2,556	-	47,325
Trade receivables	81	-	164	2,738	2,983
Current liabilities					
Trade payables	(3,425)	-	(701)	(82)	(4,208)
Other accounts payable	(1,469)	-	(2,060)	-	(3,529)
Non-current liabilities					
Convertible debentures	(11,688)	-	-	-	(11,688)
Liabilities to the Chief Scientist	-	-	(2,781)	-	(2,781)
	16,059	21,727	1,698	5,993	45,477

Information regarding the CPI and significant exchange rates:

	For the year ended			For the year ended		
	2011	2010	2009	2011	2010	2009
	% of change			Spot price at the reporting date		
I US dollar	**7.7**	(6)	(0.7)	**3.821**	3.549	3.775
1 euro	**4.2**	(13)	2.7	**4.938**	4.738	5.442
CPI in points	**2.1**	2.7	3.9	**110.3**	108	105.2

* According to an average basis of 2008=100.

(2) Sensitivity analysis

A strengthening of the NIS against the following currencies as at December 31, 2010 and an increase in the CPI would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. This analysis does not include off-balance sheet liabilities relating to the Group's commitments.

	December 31, 2011	
	Equity	Profit (loss)
	NIS thousands	NIS thousands
Increase of 5% in CPI	**977**	**977**
Increase of 5% in the exchange rate of:		
US dollar	**44**	**44**
Euro	**114**	**114**

	December 31, 2010	
	Equity	Profit (loss)
	NIS thousands	NIS thousands
Increase of 5% in CPI	1,095	1,095
Increase of 5% in the exchange rate of:		
US dollar	68	68
Euro	300	300

A weakening of the NIS against the above currencies at the same rates and a decrease in the CPI at the same rate as at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Note 31 - Financial Instruments (cont'd)

D. Interest rate risk

(1) Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	December 31	
	2011	2010
	Carrying amount	Carrying amount
	NIS thousands	NIS thousands
Fixed rate instruments		
CPI-linked government debentures	**16,206**	16,056
Government debentures	**23,562**	22,341
CPI-linked corporate debentures	**5,713**	5,671
US$-linked corporate debentures	**1,780**	2,556
Unlinked corporate debentures	**869**	701
Convertible debentures	**(13,356)**	(11,688)
	34,774	35,637
Variable rate instruments		
NIS deposits	**7,102**	-
Liability to the Chief Scientist	**(3,608)**	(3,887)
	(10,710)	(3,887)

E. Fair value

Fair value hierarchy

Investments held for trading are presented at fair value through profit or loss. The fair value is determined on the basis of quoted prices (unadjusted) in active markets for identical instruments (level 1).

Note 32 - Group Entities

Subsidiaries

	Country of incorporation	The Company's ownership interest	Loans the Company granted to the subsidiary	Total investment in the subsidiary
			NIS thousands	NIS thousands
2011				
Mazor Robotics Inc.	USA	**100%**	**13,107**	**(8,574)**
2010				
Mazor Robotics Inc.	USA	100%	10,785	(7,791)

Note 33 - Subsequent Events

(1) On February 22, 2012 the Company announced that it had signed an agreement for the sale of a robotic Renaissance system to Tri-City Medical Center, a hospital in California, USA.

(2) On March 12, 2012 the Company announced that it had received an order to supply three Renaissance systems and also a first payment on account of the said order. This order was received as part of the exclusive distribution agreement the Company had signed with Cicele Science & Technology Co. Ltd. from China.

(3) On February 22, 2012 the Company announced that it had signed an agreement for the sale of a robotic Renaissance system to the Florida Hospital chain of hospitals. The system will be installed at the Celebration Health Hospital in Orlando, Florida, USA.