

MAZOR ROBOTICS Ltd.
and its subsidiary

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2012
(UNAUDITED)**

Condensed Consolidated Financial Statements as at June 30, 2012

Contents

	<u>Page</u>
Review Report to the shareholders	2
Condensed Consolidated Financial Statements as at June 30, 2012 (unaudited)	
Condensed Consolidated Interim Statements of Financial Position	3-4
Condensed Consolidated Interim Statements of Income	5
Condensed Consolidated Interim Statements of Changes in Equity	6
Condensed Consolidated Interim Statements of Cash Flows	7
Notes to the Condensed Consolidated Interim Financial Statements	8-15



Somekh Chaikin

7 Nahum Het Street
PO Box 15142, Haifa 31905
Israel

Telephone 972 4 861 4800
Fax 972 4 861 4844
Internet www.kpmg.co.il

Review Report to the Shareholders of Mazor Robotics Ltd.

Introduction

We have reviewed the accompanying financial information of Mazor Robotics Ltd. and its subsidiary (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2012 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six and three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, August 12, 2012

Condensed Consolidated Interim Statements of Financial Position as at

	June 30,		December 31,
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	14,473	28,055	6,324
Short-term deposits	-	-	7,102
Short-term investments	40,028	48,665	48,130
Trade receivables	6,906	753	5,181
Other accounts receivable	1,541	1,437	1,025
Inventory	4,486	4,036	5,065
Total current assets	67,434	82,946	72,827
Prepaid expenses on account of lease of motor vehicles	203	190	212
Deferred tax assets	342	-	333
Fixed assets, net	2,419	1,021	2,000
Intangible assets, net	2,094	3,246	2,670
Total non-current assets	5,058	4,457	5,215
Total assets	72,492	87,403	78,042

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

Condensed Consolidated Interim Statements of Financial Position as at

	June 30,		December 31,
	2012	2011	2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Trade payables	2,722	2,999	3,807
Other accounts payable	9,048	6,358	7,007
Convertible debentures	14,310	-	13,356
Total current liabilities	26,080	9,357	24,170
Convertible debentures	-	12,478	-
Employee benefits	839	782	726
Liabilities to the Chief Scientist	1,925	2,501	1,626
Total non-current liabilities	2,764	15,761	2,352
Total liabilities	28,844	25,118	26,522
Equity			
Ordinary shares	222	222	222
Share premium	212,818	201,421	210,106
Receipts on account of options	2,969	14,354	5,669
Receipts on account of conversion option of convertible debentures	3,084	3,084	3,084
Capital reserve for share-based payment transactions	12,043	10,182	10,973
Accumulated loss	(187,488)	(166,978)	(178,534)
Total equity	43,648	62,285	51,520
Total liabilities and equity	72,492	87,403	78,042

Jonathan Adereth
Chairman of the Board

Ori Hadomi
CEO

Sharon Levita
CFO

Date of approval of the financial statements: August 12, 2012

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

Condensed Consolidated Interim Income Statements

	For the six months period ended		For the three months period ended		For the year ended
	June 30 2012	June 30 2011	June 30 2012	June 30 2011	December 31 2011
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS thousands		NIS thousands		NIS thousands
Revenues	20,405	8,322	11,183	1,963	21,302
Cost of sales	5,096	*2,926	2,831	*1,206	6,725
Gross profit	15,309	5,396	8,352	757	14,577
Selling and marketing expenses	15,717	*11,805	8,516	*6,420	25,018
General and administrative expenses	3,416	*3,386	1,734	*1,767	5,867
Research and development expenses, net	4,800	*5,595	2,540	*2,881	10,959
Operating loss	(8,624)	(15,390)	(4,438)	(10,311)	(27,267)
Financing income	1,682	637	1,107	404	2,735
Financing expenses	(1,997)	(1,346)	(905)	(563)	(3,394)
Financing expenses, net	(315)	(709)	202	(159)	(659)
Loss before taxes on income	(8,939)	(16,099)	(4,236)	(10,470)	(27,926)
Taxes on income	15	29	6	16	(242)
Loss for the period	(8,954)	(16,128)	(4,242)	(10,486)	(27,684)
Loss per share					
Basic and diluted loss per share (in NIS)	(0.40)	(0.75)	(0.19)	(0.47)	(1.27)

* Reclassified, see Note 2C.

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

Condensed Consolidated Interim 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 six months ended							
June 30, 2012 (Unaudited)							
Balance as at January 1, 2012	222	210,106	5,669	3,084	10,973	(178,534)	51,520
Loss for the period	-	-	-	-	-	(8,954)	(8,954)
Options that have expired	-	2,700	(2,700)	-	-	-	-
Options exercised into shares	-(¹)	12	-	-	-	-	12
Share-based payments	-	-	-	-	1,070	-	1,070
Balance as at June 30, 2012 (Unaudited)	222	212,818	2,969	3,084	12,043	(187,488)	43,648
For the six months ended							
June 30, 2011 (Unaudited)							
Balance as at January 1, 2011	197	181,183	11,390	3,084	8,747	(150,850)	53,751
Loss for the period	-	-	-	-	-	(16,128)	(16,128)
Issuance of options and shares	24	20,006	2,970	-	-	-	23,000
Options exercised into shares	1	232	(6)	-	(35)	-	192
Share-based payments	-	-	-	-	1,470	-	1,470
Balance as at June 30, 2011 (Unaudited)	222	201,421	14,354	3,084	10,182	(166,978)	62,285
For the three months ended							
June 30, 2012 (Unaudited)							
Balance as at January 1, 2012	222	212,806	2,969	3,084	11,587	(183,246)	47,422
Loss for the period	-	-	-	-	-	(4,242)	(4,242)
Options exercised into shares	-(¹)	12	-	-	-	-	12
Share-based payments	-	-	-	-	456	-	456
Balance as at June 30, 2012 (Unaudited)	222	212,818	2,969	3,084	12,043	(187,488)	43,648
For the three months ended							
June 30, 2011 (Unaudited)							
Balance as at January 1, 2011	221	201,306	14,360	3,084	9,522	(156,492)	72,011
Loss for the period	-	-	-	-	-	(10,486)	(10,486)
Options exercised into shares	1	105	(6)	-	-	-	100
Share-based payments	-	-	-	-	660	-	660
Balance as at June 30, 2011 (Unaudited)	222	201,421	14,354	3,084	10,182	(166,978)	62,285
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
Options that have expired	-	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

(¹) Less than NIS 1 thousand.

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

Condensed Consolidated Interim Statements of Cash Flows

	For the six months period ended		For the three months period ended		For the year ended
	June 30 2012	June 30 2011	June 30 2012	June 30 2011	December 31 2011
	Unaudited NIS thousands	Unaudited NIS thousands	Unaudited NIS thousands	Unaudited NIS thousands	Audited NIS thousands
Cash flows from operating activities					
Loss for the period	(8,954)	(16,128)	(4,242)	(10,486)	(27,684)
Adjustments:					
Depreciation and amortization	956	763	486	391	1,612
Financing expenses (income), net	(375)	(504)	(419)	(96)	736
Share-based payment transactions	1,070	1,470	456	660	2,261
Taxes on income	15	29	6	16	(242)
	1,666	1,758	529	971	4,367
Change in inventory	481	107	587	(393)	(1,603)
Change in trade and other accounts receivable	(2,241)	1,786	3,882	2,373	(2,230)
Change in prepaid expenses on account of lease of motor vehicles	9	(22)	(2)	(7)	(44)
Change in trade and other accounts payable	833	395	(807)	764	1,442
Change in employee benefits	113	228	43	187	172
	(805)	2,494	3,703	2,924	(2,263)
Interest received	1,532	1,539	351	454	2,055
Interest paid		-	-	-	(825)
Income tax paid	(15)	(29)	(6)	(16)	(91)
	1,517	1,510	345	438	1,139
Net cash used in operating activities	(6,576)	(10,366)	335	(6,153)	(24,441)
Cash flows from investing activities					
Proceeds from sale (acquisition) of short-term investments, net	15,472	(1,264)	4,174	-	(7,919)
Acquisition of fixed assets	(701)	(414)	(198)	(149)	(984)
Net cash from (used in) investing activities	14,771	(1,678)	3,976	(149)	(8,904)
Cash flows from financing activities					
Proceeds from options and shares issue	-	23,000	-	-	23,000
Proceeds from exercise of options to employees and service providers	12	192	12	100	192
Repayment of loan to the Chief Scientist	(472)	(176)	(472)	-	(806)
Net cash from financing activities	(460)	23,016	(460)	100	22,386
Net increase (decrease) in cash and cash equivalents	7,736	10,972	3,851	(6,202)	(10,959)
Cash and cash equivalents at beginning of the period	6,324	17,042	10,317	34,346	17,042
Effect of exchange rate fluctuations on balance as cash and cash equivalents	413	41	305	(89)	241
Cash and cash equivalents at end of the period	14,473	28,055	14,473	28,055	6,324

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

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)

Note 1 - Reporting Entity

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 condensed consolidated financial statements of the Group as at June 30, 2012 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 as from August 2007.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2011 (hereinafter – “the annual financial statements”). Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on August 12, 2012.

B. 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 significant judgments made by management in applying the Group’s accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 2 - Basis of Preparation (cont'd)****C. Change in classification**

The Company reclassified certain expenses in the statement of income for the six and three months ended June 30, 2011 so as to reflect in a consistent manner their classification in the financial statements for the period ended June 30, 2012 and in the financial statements for the year ended December 31, 2011. The effect on the statements of income is as follows:

	For the six months ended June 30, 2011		
	As reported in the past	Effect of reclassified	As reported in these statements
	NIS thousands	NIS thousands	NIS thousands
Cost of sales	2,702	224	2,926
Selling and marketing expenses	11,068	737	11,805
General and administrative expenses	4,636	(1,250)	3,386
Research and development expenses	5,306	289	5,595
	<u>23,712</u>	<u>-</u>	<u>23,712</u>

	For the three months ended June 30, 2011		
	As reported in the past	Effect of reclassified	As reported in these statements
	NIS thousands	NIS thousands	NIS thousands
Cost of sales	1,111	95	1,206
Selling and marketing expenses	5,983	437	6,420
General and administrative expenses	2,404	(637)	1,767
Research and development expenses	2,776	105	2,881
	<u>12,274</u>	<u>-</u>	<u>12,274</u>

Note 3 - Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

A. New standards and interpretations not yet adopted**(1) Financial Instruments standard, IFRS 9, (hereinafter - "the standard")**

Further to that mentioned in the disclosure on new standards and interpretations not yet adopted in Note 3(O) of the annual financial statements regarding significant accounting policies, the Group is examining the effects of applying the Standard on the financial statements and has no plans for early application

(2) A new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure of Involvement with Other Entities

Further to that mentioned in the disclosure on new standards and interpretations not yet adopted in Note 3(O) of the annual financial statements regarding significant accounting policies, the Group hasn't yet examined the effects of the Standard's application on the financial statements.

(3) IFRS 13 Fair Value Measurement (hereinafter – IFRS 13)

Further to that mentioned in the disclosure on new standards and interpretations not yet adopted in Note 3(O) of the annual financial statements regarding significant accounting policies, the Group has not yet commenced examining the effects of applying the Standard on the financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 4 - Segment Reporting**

A. The basis for the segment division is the same and the said basis is presented in Note 20 "Activity Segments" in the annual financial statements.

B. Information about reportable segments

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

	For the six months ended June 30, 2012				Total
	Eastern Europe	Western Europe	USA	Other	
	NIS thousands				
Total revenues	1	1,163	18,236	1,005	20,405
	For the six months ended June 30, 2011				
	Eastern Europe	Western Europe	USA	* Other	Total
	NIS thousands				
Total revenues	149	2,652	4,952	569	8,322
	For the three months ended June 30, 2012				
	Eastern Europe	Western Europe	USA	Other	Total
	NIS thousands				
Total revenues		563	9,717	903	11,183
	For the three months ended June 30, 2011				
	Eastern Europe	Western Europe	USA	* Other	Total
	NIS thousands				
Total revenues	613	138	737	475	1,963
	For the year ended December 31, 2011				
	Eastern Europe	Western Europe	USA	Other	Total
	NIS thousands				
Total revenues	677	7,360	11,065	2,200	21,302

* All the revenues are from customers in Israel.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 5 - Material Events in the Reporting Period**

- A.** On January 24, 2012, 595,238 options not registered for trade that were allotted in a private placement on January 24, 2008, expired in accordance with the terms of the options after 48 months had passed from the date of their allotment. An amount of NIS 2,700 thousand was reclassified within equity from the item of receipts on account of options to the item of share premium.
- B.** On March 12, 2012 the Company received an order to supply three robotic Renaissance systems (“the system”) together with a first installment for the aforesaid order. This order was received as part of the exclusive distribution agreement the Company had signed with Cicel Science & Technology Co. Ltd. of China (“Cicel” and “the distribution agreement”, respectively).
In the framework of the distribution agreement, in addition to the acquisition of the aforesaid systems, Cicel undertook to work with the Chinese regulator (SFDA) to advance and receive all the regulatory approvals required for receiving a permit to market the system in China. The systems that will be supplied, in accordance with the order that was received, are designated to serve Cicel in building the marketing infrastructure for the system among opinion makers in the Chinese market and to advance the regulatory proceeding with the Chinese authorities. The systems are not supplied immediately rather will be spread over a period of time that depends on Cicel meeting additional conditions provided in the distribution agreement. The first system was supplied in May 2012 and it will be used for regulatory purposes.
- C.** On June 12, 2012 the Company became aware that the regulator in Korea (“the KFDA”) had granted approval to marketing and using the Company’s Renaissance system (“the system”) in Korea.
- D.** On June 24, 2012 the Company submitted to the Securities Authority an initial draft shelf prospectus for offering securities of the Company.

Note 6 - Subsequent events

- A.** On July 15, 2012 the Company received the approval of the American Food and Drug Association (“the FDA”) to the Company’s Renaissance system (“the system”) being used in brain surgery. According to the approval that was received, the Company is permitted to market the Renaissance system, which until now was approved only for various uses in spinal surgery, also for various uses in brain surgery.
- B.** On August 7, 2012, the Company published an outline for an offer of securities, for no consideration, to employees and officers of the Company and of its subsidiary, including the Company’s CEO and a director of the Company, as well as to Company consultants and service providers (hereinafter together – “the Offerees”).

Set forth below are the highlights of the above-mentioned offer:

- (1) In May 2011, the Company’s Board of Directors decided to adopt a remuneration plan (hereinafter – “the Plan”) for Company employees, consultants and officers, by means of a grant of options not registered for trading to Company employees and other service providers. Pursuant to the Plan, a grant was approved of 2,191,632 options exercisable for 2,191,632 of the Company’s ordinary shares. As at the date of the outline, the Company granted pursuant to the Plan, 727,180 options for acquisition of 727,180 ordinary shares, and as at the date of the outline, 1,464,452 options exercisable for 1,464,452 of the Company’s ordinary registered shares of NIS 0.01 par value each (hereinafter – “the Exercise Shares”).

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 6 - Subsequent events (cont'd)**

(2) The exercise price of the 370,000 options to be granted to the Company's CEO, a director and officers (hereinafter – "the Company's Management") immediately after receipt of all the approvals for issuance pursuant to the outline will be 452.1 agurot for every Exercise Share, and the exercise price of the 674,000 options to be granted to the Offerees that are not part of the Company's Management, immediately after receipt of all the approvals for issuance pursuant to the outline will be 409.9 agurot for every Exercise Share. The exercise price of the balance of the 420,452 options remaining for grant pursuant to the outline, to the extent it is decided to issue them, will be the higher of the closing price of a Company share on the Stock Exchange on the date of the issuance decision, as stated, and the average price of a share in the thirty trading days preceding the date of the decision.

(3) Eligibility Dates for Exercise of the Options

- (3.1) With respect to the Offerees that are part of the Company's Management, the vesting period of the 370,000 options to be granted to them, is three years commencing from the effective date for the Company's Management in the following manner: 34% of the options to be granted will vest and will be exercisable after one year from the effective date (that is, August 4, 2013) and the balance of the options will vest over a period of two years (that is, up to August 4, 2015) where in every quarter a quantity of 8.25% of the total number of options will vest, and provided that the Offeree is employed by the Company and/or the subsidiary on the said date.
- (3.2) With respect to the Offerees that are not part of the Company's Management (except for one of the Offerees), the vesting period of the 674,000 options to be granted to them, is three years commencing from the effective date in the following manner: 34% of the options to be granted will vest and will be exercisable after one year from the effective date (that is, June 30, 2013) and the balance of the options will vest over a period of two years (that is, up to June 30, 2015) where in every quarter a quantity of 8.25% of the total number of options will vest, and provided that the Offeree is employed by the Company and/or the subsidiary on the said date / provides services to the Company and/or the subsidiary on the said date.
- (3.3) With respect to one of the Offerees, the vesting period of the 5,000 options granted, is two years commencing from July 1, 2012, the date on which the Company's Board of Directors discussed the said grant (hereinafter in this Section – "the Effective Date"), in such a manner that 100% of the options to be granted to the consultant will be exercisable after two years from the effective date (that is, July 1, 2014), and provided that the consultant will provide services to the Company on the said date.
- (3.4) With respect to the remaining options, the vesting period of the options to be granted to an Offeree on a specific date, is three years commencing from the issuance date, in the following manner: 34% of the options to be granted to the Offeree will vest and will be exercisable after one year from the decision date, and the balance of the options will vest over a period of two years, where in every quarter a quantity of 8.25% of the total number of options will vest, and provided that the Offeree is employed by the Company and/or the subsidiary on the said date.
- C. On August 7, 2012, the Company published a report with respect to convening of an annual and extraordinary General Meeting of the Company's shareholders to be held on September 12, 2012, where on its day's agenda is, among other things, re-appointment of the directors presently serving the Company as at the date of this report (except for the Company's external directors).

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 6 - Subsequent events (cont'd)**

- C. On August 9, 2012 the Company signed an investment agreement with **Oracle Partners, L.P.** and **Oracle Institutional Partners, L.P.**, both of which are managed by Oracle Investment Managements Inc. (collectively, "**Oracle**"), and other investors that are unrelated to the Company, and which, to the best of the Company's knowledge, are unrelated to each other (together: "**Investors**"), pursuant to which the Investors will in the first stage invest a total amount of US\$ 7.5 million (**the "Investment Agreement"**), and in the second stage, upon the fulfillment of certain conditions as specified in the Investment agreement, invest an additional amount of up to US\$ 7.5 million.

To the best of the Company's knowledge, Oracle is a fund that specializes in investing in companies in the medical industry in general and in the medical equipment industry in particular, has material investments in companies specializing in robotic surgery and was founded by Mr. Larry Feinberg who also serves as the president of Oracle.

The highlights of the Investment Agreement are as follows:

- (1) The Company will issue to all the Investors together an aggregate of 7,053,529 Ordinary Shares of the Company par value NIS 0.01 each ("**Issued Shares**") for an aggregate amount of US\$ 7.5 million reflecting a price per Issued Share of NIS 4.25 (the "**Investment Amount**").
- (2) In addition, the Company will issue to the Investors, for no further consideration, nonregistered option warrants to purchase up to 7,053,529 Ordinary Shares of the Company par value NIS 0.01 each for an amount equal to the portion of the Investment Amount remitted by each Investor (the "**Warrants**" and the "**Warrant Shares**", respectively), and in total from all the Investors, Warrant Shares for an aggregate exercise price of US\$ 7.5 million, calculated pursuant to the conversion rate of the NIS to US\$ on August 8, 2012 (the "**Total Warrant Consideration**" and the "**Rate of Exchange**", respectively).
- (3) The Warrants will be exercisable for a period of 36 months from the Closing Date (as defined hereunder) in consideration for payment of an exercise price for each Warrant Share that is the lower of: (a) NIS 6; and (b) the average price of the Company's share on the Tel Aviv Stock Exchange Ltd. ("**TASE**") in the 10 trading days preceding exercise (according to the Rate of Exchange (in this paragraph only: the "**Determining Average Price**"). Notwithstanding the foregoing, if the Determining Average Price is lower than NIS 4.25 (the "**Low Price**"), each Investor will be entitled to exercise only up to 50% of its portion of the Total Warrant Consideration at such Low Price (and any exercise with respect the balance of the Warrant shall be at an Exercise Price of NIS 6.00) .
- (4) The closing of the transaction will take place soon after the obtainment by the Company of approval of the TASE for the registration of the Issued Shares and the Warrant Shares for trading on TASE (the "**Closing Date**").
- (5) The Company undertook to make best commercial efforts to publish a prospectus signed by an authorized Pricing Underwriter or a shelf offering report in order to release the statutory lock-up restrictions from the Issued Shares and the Warrant Shares as soon as practicable and in any case within four months after the Closing Date (the "**Lock-Up Release Prospectus**").

For the avoidance of any doubt, it is clarified that the release from the lock-up will be possible only with respect to those certain Investors that are qualify under the first addendum of the Securities Law-1968 (the "**Securities Law**"), such that the other Investors will be subject to the lock-up rules prescribed by Sections 15A through 15C of the Securities Law and the Securities Regulations (Details regarding Sections 15A and 15C of the Law) -2000 (the "**Locked-up Investors**").

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 6 - Subsequent events (cont'd)**

- (6) The Company further undertook to make best commercial efforts to implement a Level 2 American Depositary Receipt ("ADR") program (the "**ADR Program**") including the listing of American Depositary Shares representing Ordinary Shares of the Company on The NASDAQ Capital Market or The New York Stock Exchange (NYSE) within two hundred and forty (240) days after the Closing Date. The Issued Shares and the Warrant Shares shall be converted into American Depositary Shares, at the Company's expense, immediately following the completion of the implementation of the ADR Program, the completion of the US Exchange Listing and the exercise of the Warrants in connection therewith.
- (7) Listing the ADR on the NASDAQ or NYSE is subject to receiving necessary approvals from the American Securities and Exchange Commission (SEC) and will require the Company to file certain reports with the said stock exchange.
- (8) In the event that within one year from the Closing Date, (i) the Issued Shares and Warrant Shares are released from lock-up by publication of a Lock-up Release Prospectus (other than with respect to the Locked-up Investors) and; (ii) the Company has completed the implementation of the ADR Program described in Paragraphs 6 and 7 above (collectively: the "**Conditions Precedent for a Mandatory Exercise**"), then within 30 days from the date of the Company's notice that it had fulfilled the Conditions Precedent for a Mandatory Exercise, the Company will be entitled, at its discretion, to compel all the Investors to exercise the Warrants at a price that is the lower of: (a) NIS 6.00; and (b) the Determining Average Price in the ten trading days preceding the implementation of the ADR program (in this Paragraph only: the "**Determining Average Price**").
- Notwithstanding the aforementioned, if such Determining Average Price is lower than NIS 4.25, the Company will have the right to compel each Investor to exercise 50% of its portion of the Total Warrant Consideration at such price ("**Partial Exercise**"). In the event that the Determining Average Price equals or exceeds NIS 6.00 per share at any time following such Partial Exercise, the Warrant Holder shall be compelled to exercise the balance of the Warrant issued to it, up to its remaining portion of the Total Warrant Consideration, at an Exercise Price of NIS 6.00 per share within 30 days after the receipt of the Company's notice that it had fulfilled the Conditions Precedent for a Mandatory Exercise.
- In any case of a mandatory exercise as described above, the amount of each Investor's investment under the Warrant will not exceed its portion in the Total Warrant Consideration.

(9) Rights conferred to the Investors:

- (9.1) **Right to representation on the Board of Directors:** The Company's Board of Directors will appoint one director on behalf of the Investors, according to a notice to be provided by the Investors' representative, Oracle, within 60 days from the Closing Date. Subject to the Warrants being exercised in full, and the Company's Board of Directors consisting of no less than 7 members at that time, the Board of directors will appoint an additional director on behalf of the Investors.
- The appointment of any of such directors shall be in effect only until the first general meeting of the Company's shareholders following such appointment. Thereafter, the appointment of such designee(s) shall be subject to their election by the shareholders at the shareholders' general meeting.
- If the appointment of such designee(s) is not approved by the shareholders' general meeting, then for as long as the Investors hold together 10% of the issued and outstanding share capital of the Company, they will have the right to appoint an observer to the Board of Directors.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2012 (unaudited)**Note 6 - Subsequent events (cont'd)**

- (9.2) **Right with respect to sale of ADR:** If in the reasonable judgment of the Investors, after completion of the ADR program and the effectuation of a mandatory exercise of the Warrants, one or more of the Investors is considered an affiliate of the Company (as such term is defined under Rule 144 of the American Securities Act), then the Company will make best commercial efforts, within a specified period, to file with the SEC an appropriate registration statement covering the unrestricted resale of the American Depositary Shares representing the Issued Shares and the Warrant Shares, and will make best commercial efforts to ensure that such registration statement remains as long as one or more of the investors is considered an affiliate as aforesaid.
- (9.3) **Tag-along right:** If, at any time before the fulfillment of the Conditions Precedent for Mandatory Exercise or the lapse of one year from the Closing, whichever is earlier (the "**Entitlement Period**"), the Company offers to sell any of its shares, whether in a registered offering on TASE or otherwise, other than offerings otherwise relating to employee benefit plans or corporate acquisitions or reorganizations (an "**Offering**"), each Investor shall have the right to sell its Issued Shares and Warrant Shares within the framework of such Offering ("**Tag Along Shares**"), pursuant to the terms and conditions of such Offering, up to that number of Tag Along Shares determined by multiplying the total number of Tag Along Shares held by such Investor times a fraction, the numerator of which is the number of Tag Along Shares held by such Investor, and the denominator of which is the total number of issued and outstanding Ordinary Shares of the Company at such time.
- (9.4) **Preemptive right:** In addition to the tag-along right, during the Entitlement Period, each Investor shall be afforded the opportunity to acquire from the Company, for the same price and on the same terms as such securities are proposed to be offered under the Offering, up to the amount of Ordinary Shares required to enable such Investor to maintain its ownership percentage of issued and outstanding share capital of the Company as in effect immediately prior to such Offering, excluding Ordinary Shares purchased by such Investor following the Closing, other than any Ordinary Shares that may be purchased by such Investor through the exercise of any outstanding Warrants..
- (9.5) **Certain Registration Rights in the USA:** Following implementation of the ADR Program, Investors holding together Issued Shares and/or Warrant Shares constituting at least 20% of the issued and outstanding share capital of the Company will have the right to demand, from time to time, subject to certain restrictions, that the Company act to file a registration statement with the American Stock Exchange for the unrestricted sale of the American Depositary Shares representing Ordinary Shares of the Company held by the Investors . The Investors will bear all the registration expenses incurred in connection with such demand registrations.

It is noted, that to the best of the Company's knowledge, based on the representations made by each Investor in the Investment Agreement, there are no agreements or other voting arrangements, oral or written, among the Investors and therefore they are not deemed to be holders in concert as such term is defined in the Securities Law.