

MAZOR ROBOTICS LTD. AND ITS SUBSIDIARY

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2012

UNAUDITED

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Auditors' review report to the shareholders of Mazor Robotics Ltd.

Introduction

We have reviewed the accompanying financial information of Mazor Robotics Ltd. and its subsidiary ("the Group"), which comprises the condensed interim consolidated statement of financial position as of September 30, 2012 and the related condensed interim consolidated statements of income, changes in equity and cash flows for the nine and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

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

Haifa, Israel
November 26, 2012

SOMEKH CHAIKIN
Certified Public Accountants (Isr.)

Condensed Interim Consolidated Statements of Financial Position

	<u>September 30,</u>		<u>December 31,</u>
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
ASSETS			
Cash and cash equivalents	47,549	12,171	6,324
Short-term deposits	-	7,053	7,102
Short-term investments	35,381	49,722	48,130
Trade receivables	8,731	3,870	5,181
Other accounts receivable	1,926	1,229	1,025
Inventory	4,674	4,302	5,065
Total current assets	<u>98,261</u>	<u>78,347</u>	<u>72,827</u>
Prepaid expenses on account of lease of motor vehicles	216	211	212
Deferred tax assets	530	-	333
Fixed assets, net	2,792	1,122	2,000
Intangible assets, net	1,806	2,958	2,670
Total non-current assets	<u>5,344</u>	<u>4,291</u>	<u>5,215</u>
Total assets	<u><u>103,605</u></u>	<u><u>82,638</u></u>	<u><u>78,042</u></u>

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

Condensed Interim Consolidated Statements of Financial Position

	<u>September 30,</u>		<u>December 31,</u>
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
LIABILITIES			
Trade payables	3,295	3,886	3,807
Other accounts payable	11,874	7,245	7,007
Convertible debentures	14,641	-	13,356
Total current liabilities	29,810	11,131	24,170
Convertible debentures	-	12,908	-
Derivatives	4,725	-	-
Employee benefits	946	801	726
Liabilities to the Chief Scientist	998	1,888	1,626
Total non-current liabilities	6,669	15,597	2,352
Total liabilities	36,479	26,728	26,522
EQUITY			
Ordinary share capital	292	222	222
Share premium	236,702	210,106	210,106
Receipts on account of options	2,969	5,669	5,669
Receipts on account of conversion option of convertible debentures	3,084	3,084	3,084
Capital reserve for share-based payment transactions	12,662	10,373	10,973
Accumulated deficit	(188,583)	(173,544)	(178,534)
Total equity	67,126	55,910	51,520
Total liabilities and equity	103,605	82,638	78,042

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

Jonathan Adereth
Chairman of the Board

Ori Hadomi
CEO

Sharon Levita
Deputy, CEO, Finance

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

Condensed Interim Consolidated Statements of Income

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues	36,644	14,306	16,239	5,984	21,302
Cost of sales	8,360	*) 4,821	3,264	*) 1,895	6,725
Gross profit	28,284	9,485	12,975	4,089	14,577
Selling and marketing expenses	25,110	*) 18,456	9,393	*) 6,651	25,018
General and administrative expenses	4,948	*) 4,732	1,532	*) 1,346	5,867
Research and development expenses, net	7,703	*) 8,454	2,903	*) 2,859	10,959
Operating loss	(9,477)	(22,157)	(853)	(6,767)	(27,267)
Finance income	2,503	2,065	821	1,428	2,735
Finance expenses	(3,156)	(2,552)	(1,159)	(1,206)	(3,394)
Finance expenses, net	(653)	(487)	(338)	222	(659)
Loss before taxes on income	(10,130)	(22,644)	(1,191)	(6,545)	(27,926)
Taxes on income	(81)	50	(96)	21	(242)
Loss for the period	<u>(10,049)</u>	<u>(22,694)</u>	<u>(1,095)</u>	<u>(6,566)</u>	<u>(27,684)</u>
Loss per share:					
Basic and diluted loss per share (in NIS)	<u>(0.45)</u>	<u>(1.05)</u>	<u>(0.05)</u>	<u>(0.30)</u>	<u>(1.27)</u>

*) Reclassified, see Note 2d.

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

Condensed Interim Consolidated Statements of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Receipts on account of options</u>	<u>Receipts on account of conversion option</u>	<u>Capital reserve for share-based payment transactions</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>NIS in thousands</u>						
Nine months ended September 30, 2012 (unaudited):							
Balance as of January 1, 2012	222	210,106	5,669	3,084	10,973	(178,534)	51,520
Loss for the period	-	-	-	-	-	(10,049)	(10,049)
Issue of options and shares	70	23,884	-	-	-	-	23,954
Exercise of share options	(1)	12	-	-	-	-	12
Expiration of share options	-	2,700	(2,700)	-	-	-	-
Share-based payments	-	-	-	-	1,689	-	1,689
Balance as of September 30, 2012 (unaudited)	<u>292</u>	<u>236,702</u>	<u>2,969</u>	<u>3,084</u>	<u>12,662</u>	<u>(188,583)</u>	<u>67,126</u>
Nine months ended September 30, 2011 (unaudited):							
Balance as of January 1, 2011	197	181,183	11,390	3,084	8,747	(150,850)	53,751
Loss for the period	-	-	-	-	-	(22,694)	(22,694)
Issue of options and shares	24	20,006	2,970	-	-	-	23,000
Exercise of share options	1	232	(6)	-	(35)	-	192
Expiration of share options	-	8,685	(8,685)	-	-	-	-
Share-based payments	-	-	-	-	1,661	-	1,661
Balance as of September 30, 2011 (unaudited)	<u>222</u>	<u>210,106</u>	<u>5,669</u>	<u>3,084</u>	<u>10,373</u>	<u>(173,544)</u>	<u>55,910</u>

1) Represents less than NIS 1 thousand.

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

Condensed Interim Consolidated Statements of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Receipts on account of options</u>	<u>Receipts on account of conversion option</u>	<u>Capital reserve for share-based payment transactions</u>	<u>Accumulated deficit</u>	<u>Total</u>
	NIS in thousands						
Three months ended September 30, 2012 (unaudited):							
Balance as of July 1, 2012	222	212,818	2,969	3,084	12,043	(187,488)	43,648
Loss for the period	-	-	-	-	-	(1,095)	(1,095)
Issue of options and shares	70	23,884	-	-	-	-	23,954
Share-based payments	-	-	-	-	619	-	619
Balance as of September 30, 2012 (unaudited)	<u>292</u>	<u>236,702</u>	<u>2,969</u>	<u>3,084</u>	<u>12,662</u>	<u>(188,583)</u>	<u>67,126</u>
Three months ended September 30, 2011 (unaudited):							
Balance as of July 1, 2011	222	201,421	14,354	3,084	10,182	(166,978)	62,285
Loss for the period	-	-	-	-	-	(6,566)	(6,566)
Expiration of share options	-	8,685	(8,685)	-	-	-	-
Share-based payments	-	-	-	-	191	-	191
Balance as of September 30, 2011 (unaudited)	<u>222</u>	<u>210,106</u>	<u>5,669</u>	<u>3,084</u>	<u>10,373</u>	<u>(173,544)</u>	<u>55,910</u>
Year ended December 31, 2011 (audited):							
Balance as of January 1, 2011	197	181,183	11,390	3,084	8,747	(150,850)	53,751
Issue of options and shares	24	20,006	2,970	-	-	-	23,000
Exercise of share options	1	232	(6)	-	(35)	-	192
Expiration of share options	-	8,685	(8,685)	-	-	-	-
Share-based payments	-	-	-	-	2,261	-	2,261
Loss for the year	-	-	-	-	-	(27,684)	(27,684)
Balance as of December 31, 2011	<u>222</u>	<u>210,106</u>	<u>5,669</u>	<u>3,084</u>	<u>10,973</u>	<u>(178,534)</u>	<u>51,520</u>

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

Condensed Interim Consolidated Statements of Cash Flows

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands				
<u>Cash flows from operating activities:</u>					
Loss for the period	(10,049)	(22,694)	(1,095)	(6,566)	(27,684)
Adjustments:					
Depreciation and amortization	1,471	1,165	515	402	1,612
Finance expenses (income), net	505	(1,050)	880	(546)	736
Share-based payment transactions	1,689	1,661	619	191	2,261
Taxes on income	(81)	50	(96)	21	(242)
	3,584	1,826	1,918	68	4,367
Change in inventory	53	(159)	(428)	(266)	(1,603)
Change in trade and other accounts receivable	(4,451)	(1,123)	(2,210)	(2,909)	(2,230)
Change in prepaid expenses on account of lease of motor vehicles	(4)	(43)	(13)	(21)	(44)
Change in trade and other accounts payable	3,516	1,505	2,682	1,110	1,442
Change in employee benefits	220	247	107	19	172
	(666)	427	138	(2,067)	(2,263)
Interest received	1,600	1,885	68	346	2,055
Interest paid	-	-	-	-	(825)
Taxes paid	(15)	(50)	-	(21)	(91)
	1,585	1,835	68	325	1,139
Net cash provided by (used in) operating activities	(5,546)	(18,606)	1,029	(8,240)	(24,441)
<u>Cash flows from investing activities:</u>					
Proceeds from (purchase of) short-term investments and deposits, net	20,149	(8,264)	4,677	(7,000)	(7,919)
Purchase of fixed assets	(1,062)	(629)	(361)	(215)	(984)
Net cash provided by (used in) investing activities	19,087	(8,893)	4,316	(7,215)	(8,904)
<u>Cash flows from financing activities:</u>					
Proceeds from issue of shares and derivatives	28,552	23,000	28,552	-	23,000
Proceeds from exercise of options to employees and service providers	12	192	-	-	192
Repayment of liability to the Chief Scientist	(1,235)	(806)	(763)	(630)	(806)
Net cash provided by (used in) financing activities	27,329	22,386	27,789	(630)	22,386
Net increase (decrease) in cash and cash equivalents	40,870	(5,113)	33,134	(16,085)	(10,959)
Cash and cash equivalents at the beginning of the period	6,324	17,042	14,473	28,055	17,042
Effect of exchange rate fluctuations on balances of cash and cash equivalents	355	242	(58)	201	241
Cash and cash equivalents at the end of the period	47,549	12,171	47,549	12,171	6,324

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

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)

NOTE 1:- THE REPORTING ENTITY

Mazor Robotics Ltd. ("the Company") is an Israeli resident company which was incorporated in Israel and whose registered office is located at 7 HaEeshel St., Industrial Park, Caesarea, Israel. The condensed consolidated financial statements of the Group as of September 30, 2012 comprise those of the Company and its subsidiary, Mazor Robotics Inc. (collectively, "the Group"). The Company operates in the field of image guided robotic surgery (also called computer assisted surgery), primarily through highly-accurate guiding and navigating of surgical instruments in order to minimize invasive surgery. The Company's securities are listed on the Tel-Aviv Stock Exchange since August 2007.

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 of and for the year ended December 31, 2011 ("annual financial statements"). Furthermore, these financial statements have been prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

These condensed interim consolidated financial statements were authorized for issue by the Group's Board on November 26, 2012.

b. Use of estimates and judgments:

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

The significant judgments made by management in applying the Group's accounting policies and the key assumptions used in estimates involving uncertainties are consistent with those applied in the annual financial statements, except as noted below.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)*Fair value measurement of options into variable number of Company's shares:*

During the third quarter, the Company entered into an investment agreement as described in Note 5 below according to which investors were issued options into variable number of Company's shares representing a financial liability that is a derivative. This liability is measured at fair value using standard valuation technique for this type of instrument (Monte Carlo model) on the basis of observable inputs (such as the price for the Company's share and the NIS/dollar exchange rate) and unobservable inputs (such as standard deviation of the share and the correlation between the share price and the change in the exchange rate). Changes in the financial inputs underlying the model and/or in the valuation technique could cause significant changes in the fair value of said liability.

c. Change in the functional currency:

Until September 26, 2012, the Group's functional currency and presentation currency was the NIS. Since September 27, 2012 ("the date of change") the dollar is the Group's functional currency due to the following reasons:

- A trend of growth in the volume of Group's dollar-denominated revenues which began in 2011 and intensified in 2012. At the end of the third quarter of 2012, the volume of revenues in dollars is stable such that the absolute majority of the Group's revenues are dollar-denominated and the main market which affects the selling price of the Group's products is the market in the U.S.
- Simultaneously with the growth in the volume of Group's dollar-denominated revenues, since 2011 there is an increase in the amount of dollar-denominated operating expenses. At the end of the third quarter of 2012, greater part of the operating expenses was dollar-denominated and, considering the rise in the scope of the activity in the U.S., it is expected in the future too.
- On September 27, 2012, the Company entered into a \$ 15 million worth agreement to raise capital in dollars, as described in Note 5f below.
- Since the date of the approval of the agreement to raise capital in dollars, more than half of the Group's balances of cash and short-term investments are maintained in dollars.

In view of the above, starting September 27, 2012, the Group's functional currency was changed prospectively from NIS into dollars. However, since the date of change is close to the end of the third quarter of 2012, the Group elected to present these financial statements in NIS.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)**

d. Change in classification:

Certain expenses from the statement of income for the nine and three months periods ended September 30, 2011 have been reclassified to conform to their presentation in the financial statements for the period ended September 30, 2012 and in the financial statements for the year ended December 31, 2011. The effect on the statements of income is as follows:

	As previously reported	The effect of reclassification	As presented in these financial statements
	NIS in thousands		
Nine months ended September 30, 2012 (unaudited):			
Cost of sales	4,484	337	4,821
Selling and marketing expenses	17,220	1,236	18,456
General and administrative expenses	6,732	(2,000)	4,732
Research and development expenses	8,027	427	8,454
	<u>36,463</u>	<u>-</u>	<u>36,463</u>
Three months ended September 30, 2012 (unaudited):			
Cost of sales	1,782	113	1,895
Selling and marketing expenses	6,152	499	6,651
General and administrative expenses	2,096	(750)	1,346
Research and development expenses	2,721	138	2,859
	<u>12,751</u>	<u>-</u>	<u>12,751</u>

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policies in these condensed interim consolidated financial statements are consistent with those followed in the annual financial statements, except as noted below.

Options into variable number of Company's shares:

Options into variable number of Company's shares representing a financial liability that is a derivative are measured at fair value in each period. Changes in fair value are recognized immediately in profit or loss as finance income or expenses.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 4:- OPERATING SEGMENTS**

- a. The basis for dividing the segments is consistent with that presented in Note 20 regarding operating segments in the annual financial statements.
- b. Information about reportable segments:

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

	<u>Eastern Europe</u>	<u>Western Europe</u>	<u>U.S.</u>	<u>Other *)</u>	<u>Total</u>
	<u>NIS in thousands</u>				
Nine months ended September 30, 2012 (unaudited):					
Total revenues	<u>125</u>	<u>1,950</u>	<u>31,273</u>	<u>3,296</u>	<u>36,644</u>
Nine months ended September 30, 2011 (unaudited):					
Total revenues	<u>290</u>	<u>6,590</u>	<u>5,529</u>	<u>1,897</u>	<u>14,306</u>
Three months ended September 30, 2012 (unaudited):					
Total revenues	<u>124</u>	<u>787</u>	<u>13,037</u>	<u>2,291</u>	<u>16,239</u>
Three months ended September 30, 2011 (unaudited):					
Total revenues	<u>141</u>	<u>3,938</u>	<u>578</u>	<u>1,327</u>	<u>5,984</u>
Year ended December 31, 2011 (audited):					
Total revenues	<u>677</u>	<u>7,360</u>	<u>11,065</u>	<u>2,200</u>	<u>21,302</u>

*) Sales in Asia are in U.S. dollars.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- a. On January 24, 2012, 595,238 non-tradable options that were allocated in a private placement on January 24, 2008, expired in accordance with the terms of the options after the lapse of 48 months from the date of their allocation. An amount of NIS 2,700 thousand was classified in equity from the item receipts on account of options to the item share premium.
- b. On March 12, 2012, an order to supply three robotics' Renaissance system ("the system") was received along with the first payment for this order. This order was received as part of an exclusive distribution agreement that the Company had signed with Cikel Science & Technology Co. Ltd. of China ("Cikel" and "the distribution agreement", respectively).

According to the distribution agreement, in addition to the acquisition of said systems, Cikel 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 placed, are designated to serve Cikel in establishing the marketing activities for the system among opinion makers in the Chinese market and to pursue the regulatory proceeding with the Chinese authorities. The delivery of the systems is not immediately but will be spread over a period of time that depends on Cikel 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 announced that the regulator in Korea ("the KFDA") had granted a permit to market and to use the Company's Renaissance system ("the system") in Korea. Further to receiving the permit to market from the regulator in Korea, the distributor will act to obtain Reimbursement approvals from the Health insurance agencies in Korea.
- d. On July 15, 2012, the Company received the approval of the American Food and Drug Association ("the FDA") to use the Company's Renaissance system ("the system") in brain surgery. According to the approval that was received, the Company is permitted to market the Renaissance system, which was originally designated for use in many applications in spine surgeries, also for different applications in brain surgery.
- e. On August 7, 2012, the Company published an outline for an offer of securities, at 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 the Company's consultants and service providers ("the offerees") pursuant to a compensation plan which the Board adopted in May 2011.

According to the outline, 1,464,452 options exercisable into up to 1,464,452 registered Ordinary shares of the Company of NIS 0.01 par value each will be granted ("the warrants").

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

1. After receiving all the approvals to allocate under the outline, 150,000 options will be granted to the Company's CEO and 40,000 options to a director at the exercise price of 452.1 agorot per warrant. The warrants will vest during 1 to 3 years provided that the offeree is an employee of the Company on the exercise date. This allocation is subject to the approval of the general meeting which, as of the date of the financial statements, was not convened.
2. According to the outline, 320,000 options will be granted to officers of the Company at the exercise price of 452.1 agorot per warrant. The warrants are vested over 1 to 3 years provided that the offeree is an employee of the Company on the exercise date.
3. According to the outline, 534,000 options will be granted to employees of the Company at the exercise price of 409.09 agorot per warrant. The warrants are vested over 1 to 3 years provided that the offeree is an employee of the Company on the exercise date.
4. The exercise price of the balance of 420,452 options remaining for grant according to the outline, to the extent it is decided to grant them, will be the higher of the closing price of the Company's share on the stock exchange on the date of deciding on the allocation and the average share price in the last 30 trading days to such decision. The warrants are vested during 1 to 3 years provided that the offeree is an employee of the Company on the exercise date.

The fair value of the options approved for grant according to the outline, as above, is based on the binomial option pricing model.

The following table summarizes the terms of grant and the inputs used for the fair value measurement of compensation granted during the period:

<u>Grant date</u>	<u>Offeree</u>	<u>Number of instruments (*)</u>	<u>Vesting term (in years)</u>	<u>Contractual life for the options (in years)</u>	<u>Interest rate</u>	<u>Expected volatility</u>	<u>Average exercise increment</u>	<u>Share price used as a basis for option pricing</u>	<u>Total fair value of the compensation on the grant date</u>
					<u>%</u>	<u>%</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS thousands</u>
5.8.2012	Officers	320,000	1-3	7	2.26-6.09	47.33	4.521	4.521	695
1.7.2012	Employees and consultants	497,000	1-3	7	1.78-6.09	47.23	4.099	4.099	905
1.7.2012	Consultant	5,000	2	7	1.78-6.09	47.23	4.099	4.099	11

*) The conversion ratio is one share into any of the instruments.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

f. As of August 8, 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 Management 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, calculated pursuant to the conversion rate of the NIS to US\$ last published prior to August 8, 2012 (NIS 3.997 , i.e. NIS 3.9970 to US \$1.00 (the "**Investment Amount**" and the "**Rate of Exchange**", respectively).
- (2) In addition, the Company will issue to the Investors, for no further consideration, non-registered 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 up to US\$ 7.5 million, calculated pursuant to the Rate of Exchange (the "**Total Warrant Consideration**").
- (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**"). Such TASE approval was obtained on September 2, 2012, and the closing of the transaction took place as of September 27, 2012.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

- (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**"). The Lock-Up Release Prospectus was published by the Company on October 19, 2012.

For the avoidance of any doubt, it is clarified that the release from the lock-up is effective 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**").

- (6) The Company further undertook to make best commercial efforts to implement a Level 2 American Depository Receipt ("**ADR**") program (the "**ADR Program**") including the listing of American Depository 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 Depository 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, including, for the avoidance of doubt, any Partial Exercise.
- (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 in respect of such 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.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)**NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**(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.

- (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.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)

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

- (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 Depository 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.
- (10) As of September 27, 2012, the first stage of the Investment Agreement was completed and 7,053,529 Issued Shares and Warrants exercisable into up to 7,053,529 Warrant Shares were issued thereunder, and the Investors remitted the Investment Amount to the Company's bank account. The Gross consideration amounted to approximately NIS 29,340 thousand (NIS 28,552 thousand - net of issue expenses). The consideration was allocated to a liability component in respect of options into variable number of Company's shares and the balance was allocated to an equity component. The fair value of the liability component totaled NIS 4,725 thousand. Issue expenses were allocated to the liability and equity components proportionately. The amount attributed to the liability component was recognized directly in finance expenses and the amount attributed to the equity component was deducted from equity.
- (11) 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.

Notes to Condensed Interim Consolidated Financial Statements as of September 30, 2012 (unaudited)

NOTE 6:- EVENTS AFTER THE REPORTING DATE

- a. On October 21, 2012, an order to supply a Renaissance system ("the system") was received from the distributor in Japan, Adachi Medical Instruments. This order was placed as part of an exclusive distribution agreement that the Company had signed with the distributor to market and distributes the Renaissance in Japan. The system that was ordered is designated to facilitate the distributor's preparation procedure towards filing the required documents with the Japanese regulatory authorities.
- b. On October 22, 2012, an order to supply a Renaissance system ("the system") was received from Transmedic Pte Ltd., the East Asia distributor with whom the Company had engaged. The system that was ordered will be placed in Viet Duc Hospital in the capital of Vietnam, Hanoi.
