

MAZOR ROBOTICS LTD.

**CONSOLIDATED
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012**

Consolidated Financial Statements as at December 31, 2012

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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, 2012 and 2011 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years, in the period ended December 31, 2012. 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 audit.

We conducted our audit 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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiary as of December 31, 2012 and 2011 and their results of operations, changes in its equity and cash flows, for each of the three years, in the period ended December 31, 2012, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

As discussed in Note 2B to the financial statements the Company determined that as of September 30, 2012 its functional currency change from New Israel Shekel to the U.S. dollar.

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, 2012, and our report dated March 19, 2012 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International

Haifa, Israel
March 19, 2013



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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 subsidiaries (hereinafter "the Company") as of December 31, 2012. 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 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 general information technology controls; (2) controls over sales process; (3) controls over purchasing process; (4) controls over payroll process (all these hereinafter 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 provide 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, 2012.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years, the last of which ended December 31, 2012 and our report dated 19 March, 2013 expressed an unqualified opinion on those financial statements. We also draw attention to a matter described in Note 2B to the financial statements as to the Company functional currency change from New Israel Shekel to the U.S. dollar.

Somekh Chaikin
Certified Public Accountants (Isr.)

19 March, 2013

Consolidated Statements of Financial Position as at December 31

	<u>Note</u>	<u>2012</u> <u>USD thousands</u>	<u>2011</u> <u>USD thousands</u>
Assets			
Cash and cash equivalents	5	12,797	1,655
Deposits	6	-	1,859
Investments in marketable securities	6	4,156	12,596
Trade receivables	7	1,147	1,356
Other accounts receivable	7	680	268
Inventory	8	1,257	1,326
		<u>20,037</u>	<u>19,060</u>
Total current assets			
Prepaid lease fees	9, 19B	64	55
Deferred tax assets, net	18	80	87
Property and equipment, net	10	766	523
Intangible assets, net	11	387	699
		<u>1,297</u>	<u>1,364</u>
Total non-current assets			
		<u>21,334</u>	<u>20,424</u>
Total assets			

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

Consolidated Statements of Financial Position as at December 31

	Note	2012 USD thousands	2011 USD thousands
Current liabilities			
Trade payables	12	1,318	996
Other accounts payable	13	2,706	1,833
Convertible debentures	14	-	3,495
Total current liabilities		4,024	6,324
Employee benefits	15	199	190
Liabilities to the OCS	16	301	426
Derivative liabilities in account of warrants	17	3,990	-
Total non-current liabilities		4,490	616
Total liabilities		8,514	6,940
Equity			
	28		
Share capital		73	55
Share premium		58,910	51,122
Amounts allocated to share options		554	1,267
Amounts allocated to conversion option		-	795
Capital reserve for share-based payment transactions		3,170	2,787
Foreign currency translation reserve		2,119	2,400
Accumulated loss		(52,006)	(44,942)
Total equity		12,820	13,484
Total liabilities and equity		21,334	20,424

Date of approval of the financial statements: March 19, 2013

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

Consolidated Comprehensive Income Statements for the Year Ended December 31

	Note	2012 USD thousands	2011 USD thousands	2010 USD thousands
Revenues	19	12,175	5,904	3,973
Cost of sales	21	2,893	1,879	961
Gross profit		9,282	4,025	3,012
Research and development expenses, net	24	2,760	3,062	2,292
Selling and marketing expenses	22	8,887	6,990	4,592
General and administrative expenses	23	1,845	1,639	1,424
Operating loss		(4,210)	(7,666)	(5,296)
Financing income	25	925	764	591
Financing expenses	25	(3,756)	(948)	(1,060)
Financing expenses, net		(2,831)	(184)	(469)
Loss before taxes on income		(7,041)	(7,850)	(5,765)
Income tax (benefit) expense	17	23	(68)	8
Loss for the year		(7,064)	(7,782)	(5,773)
Other comprehensive (loss) income:				
Foreign currency translation differences		(281)	(950)	999
Total comprehensive loss for the year		(7,345)	(8,732)	(4,774)
Loss per share				
Basic and diluted loss per share (in USD)	29	(0.29)	(0.36)	(0.29)

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

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Amounts allocated to options	Amounts allocated to conversion option	Capital reserve for share-based payment transactions	Foreign currency translation reserve	Accumulated loss	Total Equity
	USD thousands							
For the year ended December 31, 2012								
Balance as at January 1, 2012	55	51,122	1,267	795	2,787	2,400	(44,942)	13,484
Total comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(7,064)	(7,064)
Other comprehensive income for the year, net of tax	-	-	-	-	-	(281)	-	(281)
Total comprehensive income for the year	-	-	-	-	-	(281)	(7,064)	(7,345)
Issuance of share options and shares	18	6,105	-	-	-	-	-	6,123
Exercise of share options	(1) -	3	-	-	-	-	-	3
Expiration of share options	-	885	(713)	-	(172)	-	-	-
Share-based payments	-	-	-	-	555	-	-	555
Expiration of conversion options	-	795	-	(795)	-	-	-	-
Balance as at December 31, 2012	73	58,910	554	-	3,170	2,119	(52,006)	12,820
For the year ended December 31, 2011								
Balance as at January 1, 2011	48	43,097	2,850	795	2,165	3,350	(37,160)	15,145
Total comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(7,782)	(7,782)
Other comprehensive income for the year, net of tax	-	-	-	-	-	(950)	-	(950)
Total comprehensive income for the year	-	-	-	-	-	(950)	(7,782)	(8,732)
Issuance of share options and shares	7	5,554	825	-	-	-	-	6,386
Exercise of share options	(1) -	65	(2)	-	(10)	-	-	53
Expiration of share options	-	2,406	(2,406)	-	-	-	-	-
Share-based payments	-	-	-	-	632	-	-	632
Balance as at December 31, 2011	55	51,122	1,267	795	2,787	2,400	(44,942)	13,484

(1) Less than USD 1 thousand.

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Amounts allocated to options	Amounts allocated to conversion option	Capital reserve for share-based payment transactions	Foreign currency translation reserve	Accumulated loss	Total Equity
	USD thousands							
For the year ended December 31, 2010								
Balance as at January 1, 2010	48	43,000	2,850	795	1,693	2,351	(31,387)	19,350
Total comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(5,773)	(5,773)
Other comprehensive income for the year, net of tax	-	-	-	-	-	999	-	999
Total comprehensive income for the year	-	-	-	-	-	999	(5,773)	(4,774)
Exercise of share options	⁽¹⁾ -	97	-	-	(27)	-	-	70
Share-based payments	-	-	-	-	499	-	-	499
Balance as at December 31, 2010	<u>48</u>	<u>43,097</u>	<u>2,850</u>	<u>795</u>	<u>2,165</u>	<u>3,350</u>	<u>(37,160)</u>	<u>15,145</u>

⁽¹⁾ Less than USD 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

	2012	2011	2010
	USD	USD	USD
	thousands	thousands	thousands
Cash flows from operating activities			
Loss for the year	(7,064)	(7,782)	(5,773)
Adjustments:			
Depreciation and amortization	545	451	379
Financing expenses (income), net	2,938	205	290
Capital gain on sale of property and equipment	-	-	(1)
Share-based payment transactions	555	632	499
Income tax (benefit) expense	23	(68)	8
	4,061	1,220	1,175
Change in inventory	(51)	(448)	(829)
Change in trade and other accounts receivable	(218)	(623)	(592)
Change in prepaid lease fees	(9)	(12)	1
Change in trade and other accounts payable	1,194	407	1,096
Change in employee benefits	12	48	(26)
	928	(628)	(350)
Interest received	470	574	660
Interest paid	(215)	(218)	(221)
Income tax received	-	-	20
Income tax paid	-	(19)	(8)
	255	337	451
Net cash used in operating activities	(1,820)	(6,853)	(4,497)
Cash flows from investing activities			
Proceeds from sale of property and equipment	-	-	1
Proceeds from sale (acquisition) of deposits and investment in marketable securities, net	9,949	(2,213)	5,831
Acquisition of property and equipment	(372)	(275)	(153)
Development costs recognized as intangible assets	-	-	(282)
Net cash from (used in) investing activities	9,577	(2,488)	5,397
Cash flows from financing activities			
Proceeds from share options and shares issue, net	7,298	6,386	-
Proceeds from exercise of share options to employees and service providers	3	53	70
Repayment of convertible bonds	(3,916)	-	-
Receipt of loans from the OCS	-	-	169
Repayment of loans to the OCS	(317)	(229)	(27)
Net cash from financing activities	3,068	6,210	212
Net increase (decrease) in cash and cash equivalents	10,825	(3,131)	1,112
Cash and cash equivalents at the beginning of the year	1,655	4,802	3,537
Exchange rate differences on cash and cash equivalents	317	(16)	153
Cash and cash equivalents at the end of the year	12,797	1,655	4,802
Supplementary cash flows information:			
Transfer of inventory to fixed assets	87	190	-

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

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 1 - Reporting Entity

A. Mazor Robotics Ltd. (hereinafter – the “Company”) is an Israeli company incorporated in Israel. The address of the Company’s registered office is 7 HaEeshel St., Caesarea Industrial Park, Caesarea, Israel. These consolidated financial statements as at and for the year ended December 31, 2012 comprise the Company and its wholly owned subsidiary, Mazor Robotics Inc. (together referred to as the “Group”). The Group is a leading innovator in spine surgery and has pioneered surgical guidance systems and complementary products in the spine and brain surgical markets that provide a safer surgical environment for patients, surgeons and operating room staff. The Group engages in the development, production and marketing of innovative medical devices for supporting surgical procedures in the field of orthopedics and neurosurgery. The Group operates in the field of image guided surgery (also known as computer assisted surgery) that enables the use of surgical instruments with high precision and minimal invasiveness and that simplifies complex surgical procedures. Since August 2007, the securities of the Company have been registered for trade on the Tel Aviv Stock Exchange .

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 of these standards by 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) CPI – The Consumer Price Index as published by the Israeli Central Bureau of Statistics.
- (7) OCS - Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 2 - Basis of Preparation**A. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB. The Group adopted IFRSs for the first time in 2008, with the date of transition to IFRSs being January 1, 2007.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 19, 2013.

B. Reporting and functional currency

These consolidated financial statements are presented in US dollars (USD), which is the company's functional currency as of the date of these consolidated financial statements.

Change in the functional currency:

The Company determined that its functional currency had changed in September 2012 ("The transition date") from New Israeli Shekels ("NIS") to U.S. dollars ("USD"). This determination resulted from a change in relevant circumstances whereby sales transactions denominated in USD, which began in 2011 and stabilized in 2012, became the primary source of sales revenue, expenses denominated in USD began to exceed those in NIS and the Company completed a USD denominated significant financing transaction. The Company believes that these circumstances indicate a change in its functional currency which will continue to reflect the nature of its future operations.

These financial statements are translated as of the transition date into the Group reporting currency as follows:

- Assets and liabilities are translated at the exchange rate prevailing at the end of the reporting period;
- Income and expenses are translated at the exchange rate prevailing on the date of the relevant transaction (or based on an average exchange rate which is approximate to that rate).
- Capital transactions are translated at exchange rates prevailing on the date of the relevant transaction.
- Adjustments derived from translating the financial statements from the functional currency to the reporting currency as of the transition date are presented in other comprehensive income.

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.

D. 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 affected future periods.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 2 - Basis of Preparation (cont'd)**D. Use of estimates and judgments (cont'd)**Material accounting estimates and judgments

Presented hereunder is information with respect to assumptions and estimates, which were made by the Group's management while implementing Group accounting policies and have a significant risk of resulting in a material adjustment to the financial statements in the future:

Fair value measurement of Warrants convertible into a variable number of Company's shares

During the period, the Company entered into an investment agreement as described in Note 28(6), according to which investors were issued warrants convertible into a variable number of the Company's shares, thereby representing a financial liability that is a derivative instrument. 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 of the Company's shares and the NIS/dollar exchange rate) and the following unobservable inputs: expected volatility, correlation between the share price and the change in the exchange rate, risk-free interest rate, expected life and the probability of mandatory exercise will occur.

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 and could have a material effect upon the valuation results, and thus, on our financial statements

Capitalization of development costs - Development costs are capitalized and recognized as an intangible asset according to the accounting policy described in Note 3E. The capitalization of the costs is based among others 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 that was derived from the development. In determining the amount to be capitalized, management makes assumptions as to the future anticipated cash inflows from the assets.

Recognition of deferred tax assets 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 18 regarding taxes on income.

Fair value measurement of share-based payment transactions - The Group grants share based payment to employees and consultants. The fair value of the share options is measured at grant date on the basis of accepted valuation models and assumptions regarding unobservable inputs used in the valuation models. The value of the transactions, measured as described above, is recognized as an expense over the vesting period. Concurrently with the periodic recognition of an expense, an increase is recognized in a capital reserve, within the Group's equity.

E. Capital management – objectives, procedures and processes

Management's policy is to maintain a solid 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.

Notes to the Consolidated Financial Statements as at December 31, 2012

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

Initial recognition of financial assets

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 are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument (i.e., 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.

Derecognition of financial assets

Financial assets are derecognized when the Group's contractual rights of the Group to the cash flows from the asset expire, or when the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all of 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, which is the date that 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:

Notes to the Consolidated Financial Statements as at December 31, 2012

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. 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 held for trading 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 direct 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 not exposed to significant 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.

(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 direct 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 reevaluated 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.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is revalued 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) Share options

Receipts in respect of share options are classified as equity to the extent that they confer the right to purchase a fixed number of shares for a fixed exercise price.

(7) Issuance of compound financial instruments

(a) The consideration received from the issuance of compound financial instruments, which consist of equity components and liability-classified options, 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 compound financial instruments, as described in sub-paragraph (a) above.

D. Property and Equipment

(1) Recognition and measurement

Property and Equipment 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 property and equipment 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.

(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.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**D. Fixed assets (cont'd)****(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.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the property and equipment, 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
Machinery and equipment	4-7 years
Office furniture and equipment	10-17 years
Motor vehicles	5 years
Leasehold improvements	4-6 years

Depreciation methods, useful lives 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 plans 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;
- the Group intends to and has sufficient resources to complete development and to use or sell the asset.

As regard to some of the Company's products, technological feasibility may occur only when the Company's clinical trials succeed and following receipt of approval from the American Food and Drug Administration (the FDA). 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 of the development costs will be recognized in profit or loss as incurred.

The capitalized expenditure includes the cost of materials, direct labor and overhead costs that are directly attributable to developing 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.

(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 brands, is recognized in profit or loss as incurred.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**E. Intangible assets (cont'd)****(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.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, 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.

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

Capitalized development costs 4 years

Amortization methods and useful lives 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. Management regularly evaluates the necessity of provisions for obsolescence, which may result from excess, slow-moving or obsolete inventories.

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, and 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 recognition of the impairment loss. 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 and deferred tax assets, 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 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").

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 to reduce the carrying amounts of the assets in the cash-generating unit on a pro rata basis.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**G. Impairment (cont'd)****(2) Non-financial assets (cont'd)**

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

Defined contribution plans

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.

(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 that the liability is due to be settled.

(3) Share-based payment transactions

The fair value of share-based payment, measured on the grant date, 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.

J. Revenue RecognitionGeneral

The Group recognizes revenue in accordance with IAS 18 Revenue Recognition, including provisions related to recognition of revenue from multiple-component transactions. Accordingly, the Group recognizes revenue from the sale of goods when:

- The significant risks and rewards of ownership of the goods have been transferred to the customer;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- The amount of revenue can be measured reliably.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**J. Revenue Recognition (cont'd)**

The revenue from sales in the ordinary course of business is measured according to the fair value of the consideration received or receivable, which is based on the selling price of each component, net of discounts.

In general, the Group's sales agreements include several components:

- systems;
- disposable components and accessories; and
- warranty and maintenance services related to the systems sold, which includes replacement parts, software updates, preventive maintenance and on-call support as detailed in the agreement and spare parts.

These components are split into separate accounting units if and only if each component has separate value for the customer and there is reliable evidence of the fair value of the components not yet supplied. Components not split into a separate accounting unit due to non-compliance with the above conditions, are grouped together in a single accounting unit. The revenue from each such accounting unit is recognized upon fulfillment of the conditions for recognition of revenue from the components included therein, according to their type. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. Usually, fair value of the warranty and maintenance services component determined based on the renewal quote offered in the sales agreement.

The timing of revenue recognition from the various components is as follows:

Sales of systems - The revenue from sales of systems is recognized at the time of transfer of the significant risks and rewards of ownership as follows:

- Sales to end customers – Upon the completion of installation of the system, training of at least one surgeon, which typically occurs prior to or concurrent with the system installation, and customer acceptance, if required.
- Sales to distributors - Upon delivery to the distributor, provided that the significant risks and rewards of ownership of the system are transferred to the distributor upon delivery, the distributor has no right of return, receipt of the consideration is probable and not dependent on the distributor's ability to collect from the end customer, the commitment to carry out installation and training for the end customer lies with the distributor and that the distributor has been authorized to perform the installation and training for the end customers. If the above conditions are not met, the Group recognizes revenue at the time of fulfillment of the conditions for recognition of revenue from the end customer.

Disposable components sales –Revenue from the disposable components sales is recognized at the time of the transfer of the significant risks and rewards of ownership as follows:

- In sales to end customers – Upon delivery.
- In sales to distributors –Upon delivery to the distributor, provided that the significant risks and rewards of ownership of the components are transferred to the distributor upon delivery, the distributor has no right of return and that the receipt of the consideration is probable and not dependent on the distributor's ability to collect from the end customer.

Warranty and maintenance services – Revenue from warranty and maintenance services is recognized proportionately over the period of rendering of the service and subject to the other conditions for revenue recognition specified above.

K. OCS grants

Grants from the OCS in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the OCS 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 actual grants received and the fair value of the liability on the date of receiving the grant is recognized as a deduction of development expenses.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**L. Financing income and expenses**

Financing income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains/losses. Interest income is recognized as it accrues using the effective interest method.

Financing expenses comprise interest expense on debentures, liability to the OCS 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 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 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.

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 that 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.

A provision for uncertain tax positions, or reduction in deferred tax asset, is recognized when it is probable that the Group will have to use its economic resources to pay the obligation.

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.

O. New standards and interpretations not yet adopted**(1) IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group is examining the effect of adopting IFRS 9 (2010 and 2009) on the financial statements with no plans for early adoption.

(2) IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group expects that the adoption of the above-mentioned standards will not have a material effect on its consolidated financial statements.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 3 - Significant Accounting Policies (cont'd)**O. New standards and interpretations not yet adopted (cont'd)****(3) IFRS 13 Fair Value Measurement (2011)**

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group expects that the adoption of IFRS 13 (Fair Value measurement) will not have a material effect on its consolidated 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 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 historical volatility), an early exercise multiple, 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.

D. Warrants into variable number of Company's shares

The fair value of this financial liability is measured using standard valuation technique for this type of instrument (Monte Carlo Model) on the basis of observable inputs (such as the price of the Company's shares and the NIS/dollar exchange rate) and the following unobservable inputs: expected volatility, correlation between the share price and the change in the exchange rate, risk-free interest rate, expected life and the probability of mandatory exercise will occur. Changes in this financial liability fair value are realized in the financial expenses.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 5 - Cash and Cash Equivalents**

	December 31	
	2012	2011
	<u>USD thousands</u>	<u>USD thousands</u>
Current balances in banks	11,245	1,582
Deposits held at financial institutions, with original maturity periods of up to three months	<u>1,552</u>	<u>73</u>
	<u>12,797</u>	<u>1,655</u>

As at December 31, 2012 the deposits include a daily deposit bearing annual interest of 0.15%. The Group's exposure to credit and currency risks and a sensitivity analysis for financial assets are disclosed in Note 32 on financial instruments.

Note 6 - Deposits and Investments in Marketable Securities**Breakdown according to type of investment**

	December 31	
	2012	2011
	<u>USD thousands</u>	<u>USD thousands</u>
Short-term deposits		
Deposits held at financial institutions, in NIS	<u>-</u>	<u>1,859</u>
Investments in marketable securities		
CPI-linked government debentures	1,564	4,241
Government debentures	2,013	6,166
CPI-linked corporate debentures	507	1,495
Corporate debentures	72	228
USD-linked corporate debentures	-	466
	<u>4,156</u>	<u>12,596</u>

The Group's exposure to credit, interest rate and currency risks, and a sensitivity analysis for financial assets are disclosed in Note 32 on financial instruments.

Note 7 - Trade and Other Accounts Receivable**Current assets**

	December 31	
	2012	2011
	<u>USD thousands</u>	<u>USD thousands</u>
Trade receivables		
Open accounts	1,149	1,358
Less – provision for doubtful debts	<u>(2)</u>	<u>(2)</u>
	<u>1,147</u>	<u>1,356</u>
Other accounts receivable		
Institutions	203	174
Prepaid expenses	418	75
Advances to suppliers	58	11
Other receivables	<u>1</u>	<u>8</u>
	<u>680</u>	<u>268</u>

The Group's exposure to currency risk, and a sensitivity analysis for financial assets are disclosed in Note 32 on financial instruments.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 8 - Inventory**

	December 31	
	2012	2011
	USD thousands	USD thousands
Raw materials and spare parts	424	684
Work in progress	139	28
Finished goods	694	614
	<u>1,257</u>	<u>1,326</u>

Note 9 - Prepaid Lease Fees

Prepaid lease fees are CPI-linked, non-interest bearing NIS denominated deposits granted in favor of leasing companies as security for the fulfillment of motor vehicle lease contracts (see also Note 19B). The deposits constitute payment on account of the last three lease months of each of the leased motor vehicles.

Note 10 - Property and Equipment

	Vehicles	Machinery and equipment	Office furniture and equipment	Leasehold improvements	Computers	Total
	USD thousands					
Cost:						
Balance as at January 1, 2012	33	280	81	92	575	1,061
Additions	-	132	44	94	189	459
Effect of changes in exchange rates	-	261	(1)	(2)	(4)	254
Balance as at December 31, 2012	<u>33</u>	<u>673</u>	<u>124</u>	<u>184</u>	<u>760</u>	<u>1,774</u>
Balance as at January 1, 2011	35	75	67	91	405	673
Additions	-	224	20	8	213	465
Effect of changes in exchange rates	(2)	(19)	(6)	(7)	(43)	(77)
Balance as at December 31, 2011	<u>33</u>	<u>280</u>	<u>81</u>	<u>92</u>	<u>575</u>	<u>1,061</u>
Depreciation						
Balance as at January 1, 2012	6	76	26	60	370	538
Depreciation for the year	5	60	8	34	124	231
Effect of changes in exchange rates	-	262	(1)	(2)	(20)	239
Balance as at December 31, 2012	<u>11</u>	<u>398</u>	<u>33</u>	<u>92</u>	<u>474</u>	<u>1,008</u>
Balance as at January 1, 2011	1	58	22	43	325	449
Depreciation for the year	5	24	6	21	73	129
Effect of changes in exchange rates	-	(6)	(2)	(4)	(28)	(40)
Balance as at December 31, 2011	<u>6</u>	<u>76</u>	<u>26</u>	<u>60</u>	<u>370</u>	<u>538</u>
Carrying amount						
Balance as at January 1, 2011	34	17	45	48	80	224
Balance as at December 31, 2011	<u>27</u>	<u>204</u>	<u>55</u>	<u>32</u>	<u>205</u>	<u>523</u>
Balance as at December 31, 2012	<u>22</u>	<u>275</u>	<u>91</u>	<u>92</u>	<u>286</u>	<u>766</u>

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 11 - Intangible Assets**

Intangible assets includes capitalized development costs relating to one of its products in accordance with the requirements of IAS 38 as described in Note 3E. Capitalization of development cost started following receipt of clearance to market from the U.S Food and Drug Administration (the FDA), beginning from the third quarter of 2008 and until completion of the development of the product in the third quarter of 2010, the Group capitalized development costs

Presented hereunder is the movement in the balance of intangible assets during the years 2011 and 2012:

	Capitalized development costs
Cost	
Balance as at January 1, 2011	1,298
Foreign currency translation differences	(92)
Balance as at December 31, 2011	1,206
Foreign currency translation differences	41
Balance as at December 31, 2012	1,247
Amortization	
Balance as at January 1, 2011	221
Amortization for the year	322
Foreign currency translation differences	(36)
Balance as at December 31, 2011	507
Amortization for the year	314
Foreign currency translation differences	39
Balance as at December 31, 2012	860
Carrying amount	
December 31, 2011	699
December 31, 2012	387

Note 12 – Trade Payables

	December 31	
	2012	2011
	USD thousands	USD thousands
Open accounts	1,102	921
Checks and notes payable	216	75
	1,318	996

The Group's exposure to currency and liquidity risks related to trade payables is disclosed in Note 32.

Note 13 - Other Accounts Payable

	December 31	
	2012	2011
	USD thousands	USD thousands
Accrued expenses	345	198
Institutions	121	100
Liabilities to the Chief Scientist (see Note 16)	531	519
Salary and related liabilities	1,116	653
Related parties*	17	14
Deferred income	576	349
	2,706	1,833

* See Note 27 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 32 on financial instruments.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 14 - Convertible Debentures****A. General**

On December 6, 2007 the Company issued NIS 15,000,000 par value (approximately USD 3,865 thousand) of Series A debentures, which are payable in one amount on November 29, 2012, and are unlinked and bear annual interest of 5.5%. The interest on the Series A debentures is payable annually on each November 29 of the years 2008 through 2012. The Series A debentures are convertible into ordinary shares with a par value of NIS 0.01 each, on any trading day from the date they are listed for trade until November 14, 2012, so that each NIS 14 (approximately USD 3.6) par value of the debentures' principal is convertible into one ordinary share of the Company with a par value of NIS 0.01 subject to the adjustments specified in the prospectus that was issued on November 29, 2007 (hereinafter – “the prospectus”).

On November 29, 2012 the company paid the full amount of Series A debentures in the amount of NIS 15,000 thousand (approximately USD 3,916 thousand) and the last interest payment in the amount of NIS 825 thousand (approximately 215 thousand USD).

The balance of the debentures is presented net of issuance expenses and the discount related to the conversion feature, and is amortized using the effective interest method according to a discount rate of 19.66%. No debentures have been converted into shares during the debentures duration.

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

	USD thousands
Proceeds from issuance of convertible debentures	3,131
Transaction costs	(242)
Net proceeds	<u>2,889</u>
Amount recognized as equity (see B hereunder)	<u>795</u>
Amount initially recognized as liability	<u>2,094</u>

B. Movement in the liability component

	December 31	
	2012	2011
	USD thousands	USD thousands
Balance as at January 1*	3,495	* 3,293
Accrued interest expenses	681	697
Interest paid	(215)	(231)
Repayment of principal	(3,916)	-
Foreign currency translation differences	(45)	(264)
Balance as at December 31*	<u>-</u>	<u>3,495</u>

* Does not include accrued interest in the amount of NIS 72 thousand (approximately USD 19 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 15 - Employee Benefits**

Employee benefits mostly include post-employment benefits for employees who are in the scope of Section 14 of the Israeli Severance Pay Law – 1963, that are accounted for as defined contribution plans. The Group also has immaterial defined benefit plans for which it deposits amount in appropriate insurance policies.

As regards short-term benefits see Note 13 on other accounts payable.

As regards share-based payments see Note 29 on share-based payments.

Post-employment benefit plans – defined contribution plan

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Amount recognized as expense in respect of defined contribution plan	107	45	63

Note 16 - Liabilities to the OCS*

	December 31	
	2012	2011
	USD thousands	USD thousands
Balance as at January 1	945	1,096
Amounts received	-	-
Royalties paid during the year	(317)	(227)
Amounts recognized in the statement of income	178	147
Foreign currency translation differences	26	(71)
	832	945
Presentation in the statement of financial position:		
Current liabilities	531	519
Long-term liabilities	301	426
	832	945

* The Group is obligated to pay royalties to the OCS in respect of sales of products in which the OCS 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, 2012 with the addition of Libor interest as accepted is USD 1.2 million. The Group evaluates that it is probable that it will return the grants received, and therefore it recognized a liability in respect thereto. The Group is paying royalties since 2006 and expects to settle the entire obligation up to the year 2014.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 17 -Derivative instruments****A. General**

On August 8, 2012, the Company signed an investment agreement in which the Company issued to all the Investors together an aggregate of 7,053,529 Ordinary Shares of the Company each ("Issued Shares") for an aggregate amount of \$7.5 million and non-registered warrants to purchase up to 7,053,529 Ordinary Shares of the Company for an amount equal to the portion of the Investment Amount remitted by each Investor, for no additional consideration.

The warrants issued to the investor to purchase a variable number of the Company's shares, thereby representing a financial liability that is a derivative instrument. This liability is measured at fair value using standard valuation technique for this type of instrument (Monte Carlo model) on the basis inputs :

	<u>December 31</u> <u>2012</u>	<u>date of issuance</u>
observable inputs		
share price (NIS)	8.385	5.734
NIS/dollar Exchange rate	3.733	3.918
unobservable inputs		
expected volatility	44.26%	45.5%
risk-free interest rate	1.71%	2.18%
correlation between the share price and the change in the exchange rate	(13.99%)	(14.71%)
estimated life - if mandatory exercise will occur (years)	0.48	0.74
estimated life - if mandatory exercise will not occur (years)	2.74	3

Exercise price - for each Warrant Share that is the lower of: (a) NIS 6.00 (approximately 1.5 USD); and (b) the average price of the Company's share on the TASE in the 10 trading days preceding exercise (according to the Rate of Exchange)

The Company estimate that there is a 90% probability of mandatory exercise will occur.

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

	<u>USD thousands</u>
Proceeds from share options and shares issue	7,500
issuance expenses	(202)
Proceeds, net	7,298
Amount recorded as equity	6,123
Amount recorded as liabilities	1,175

* issuance expensed that allocated to the Derivative instruments recorded to financial expenses (33 USD)

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 17 -Derivative instruments****B. Movement in the Derivative instruments**

	<u>USD thousands</u>
date of issuance	1,175
financial expenses	2,815
As of December 31, 2012	<u>3,990</u>

Effect of changes in share price over the fair value :

	<u>fair value of Derivative instruments</u>				
	<u>10.062</u>	<u>9.224</u>	<u>8.385</u>	<u>7.547</u>	<u>6.708</u>
<u>share price</u>	<u>20%</u>	<u>10%</u>	<u>0%</u>	<u>-10%</u>	<u>-20%</u>
<u>Change</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>
Effect of changes in the company's share price over the fair Value	<u>(1,989)</u>	<u>(1,052)</u>	<u>-</u>	<u>1,030</u>	<u>1,879</u>

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 18 - 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, a gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rate in 2010 and 2011 was 25% and 24%, respectively.

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.

- (b) On February 4, 2010 Amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”) was published in the Official Gazette. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (hereinafter – “the Temporary Order”). On January 12, 2012 Amendment 188 to the Ordinance was issued, by which the Temporary Order was amended so that Standard 29 shall not apply also when determining the taxable income for 2010 and 2011.

(2) Benefits under the Israeli 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 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.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 18 - Taxes on Income (cont'd)****A. Details regarding the tax environment of the Group (cont'd)****(2) Benefits under the Israeli Law for the Encouragement of Capital Investments – 1959 (hereinafter - “the Law”) (cont'd)****(b) (cont'd)**

The Amendment provides that the existing tax benefit tracks were eliminated 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 of the company's income entitled to benefits, such as: in the 2011-2012 tax years – a tax rate of 15%, in the 2013-2014 tax years – a tax rate of 12.5%, and as from the 2015 tax year – a tax rate of 12%.

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 inclusion in the scope of the tax benefits track. The Company has not yet notified the authorities of the first date on which it wishes to be included in the scope of the law.

(3) Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company is an ‘industrial company’ as defined by this law and as such is entitled to certain tax benefits, consisting mainly of accelerated depreciation as prescribed by regulations published under the Inflationary Adjustments Law, recognition of share issuance costs as an expense over three years and amortization of patents and certain other intangible property.

(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 3% 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 12.5% and 17.5%, respectively.

B. Composition of income tax (benefit) expense

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Current tax expense			
Current tax	16	19	8
Deferred tax income			
Creation of tax asset in subsidiary	7	(87)	-

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 18 - 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		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Loss before taxes on income	(7,041)	(7,850)	(5,765)
Primary tax rate of the Company	25%	24%	25%
Tax calculated according to the Company's primary tax rate	(1,760)	(1,884)	(1,441)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	21	4	(6)
Non-deductible expenses	257	284	200
Utilization of tax losses for which deferred taxes were not created in prior years	(66)	(4)	(105)
Creation of deferred taxes in respect of tax losses for which deferred taxes were not created in prior years	(37)	(87)	-
Tax losses and benefits for which deferred tax assets were not created	1,819	1,601	1,352
Currency differences	(213)	-	-
Other differences	2	18	8
Income tax (benefit) expense	23	(68)	8

D. Deferred tax assets and liabilities**(1) The Company has recognized deferred tax assets and liabilities in respect of the following items:**

	December 31	
	2012	2011
	USD thousands	USD thousands
Marketable securities and other temporary differences	(65)	-
Tax losses	145	87
	80	87

Deferred taxes in respect of the losses of the U.S. subsidiary were recognized, following the profitability of the U.S. subsidiary in recent years and convincing evidence that the U.S. subsidiary will experience sufficient taxable profit in the near future.

(2) Unrecognized deferred tax assets

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

	December 31	
	2012	2011
	USD thousands	USD thousands
Deductible temporary differences, net	6,496	3,344
Tax losses	42,292	39,703

The deductible temporary differences and tax losses incurred by the Israeli company do not expire under current tax legislation in Israel.

In general, 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 utilization of the subsidiary's tax losses has been limited to \$207,100 per year, by an "ownership change" under Section 382 of the Internal Revenue Code (the "Code"), which occurred during July 2009. An "ownership change" generally is a 50% increase in ownership over a three-year period by stockholders who directly or indirectly own at least 5 percent of the Company's stock. The limitation applies to all tax losses existing at the time of the ownership change.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 18 - Taxes on Income (cont'd)****D. Deferred tax assets and liabilities (cont'd)****(2) Unrecognized deferred tax assets (cont'd)**

The amount of benefits the Company may receive from the operating loss carry forwards for income tax purposes is further dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, such as additional changes in ownership the effects of which cannot be determined.

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 deferred tax asset in respect of losses of the subsidiary that will probably be utilized.

E. Tax assessments

Tax years up to and including the year ended 2008 are considered final.

Note 19 - Commitments

A. The Company and the subsidiary have operating 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 (approximately USD 16 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 stated at the US dollar. The minimum annual lease payments under the agreements are as follows:

	<u>December 31, 2012</u>
	<u>USD thousands</u>
2013	109
2014	99
	<u>208</u>

The lease payments amounted in 2012 to NIS 509 thousand (approximately USD 136 thousand) (2011: NIS 497 thousand (approximately USD 130 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 239 thousand (approximately USD 64 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:

	<u>December 31, 2012</u>
	<u>USD thousands</u>
2013	184
2014	85
2015	25
	<u>294</u>

The lease motor vehicles payments amounted to NIS 776 thousand (approximately USD 205 thousand) in 2012 (2011: NIS 759 thousand (approximately USD 199 thousand)).

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 19 - Commitments (cont'd)**

- C. In January 2012 the Company entered into a distribution agreement with Mazor Robotics GmbH (hereinafter: "Mazor Germany"). 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 pay a monthly fee to support penetration cost to the territory. The monthly fee will be agreed by both parties in advanced each calendar year. The monthly fee will be paid 3 months in advance each calendar month. 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. The intellectual property will at all times continue to be the property of the Company. The agreement will continue until terminated by other parties within 180 days written notice. During the 180 day advance notice the company will continue to pay the monthly fee as agreed. An amount of 46 thousands Euro was agreed as the monthly fee for the year 2012.

Note 20 - Revenues

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Sales of systems	8,656	4,114	2,933
Sales of consumables	1,918	954	804
Services and other	1,601	836	236
	12,175	5,904	3,973

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 21 - 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 regularly reviewed by the chief operating decision maker.

Segment profits and segment assets are not reviewed regularly by the chief operating decision maker, as most of the Company's expenses and assets cannot be reasonably allocated and therefore are not reviewed.

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

	For the year ended December 31, 2012				
	USA	Eastern Europe	Western Europe	Asia	Total
	USD thousands				
Total revenues	9,474	51	632	2,018	12,175
	For the year ended December 31, 2011				
	USA	Eastern Europe	Western Europe	Asia	Total
	USD thousands				
Total revenues	3,067	188	2,040	609	5,904
	For the year ended December 31, 2010				
	USA	Eastern Europe	Western Europe	Asia (*)	Total
	USD thousands				
Total revenues	1,711	891	1,228	143	3,973

(*) All the revenues are from customers in Israel

B. Entity level disclosures**The Group's revenues from major customers:**

Segment	2012		2011		2010	
	Customer	USD thousands	Customer	USD thousands	Customer	USD thousands
Western Europe			Customer A	1,303	Customer A	945
USA	Customer J	1,446	Customer F	629	Customer B	892
USA			Customer G	674	Customer C	488
USA			Customer H	639	Customer D	561
USA			Customer I	679	Customer E	542

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 20.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 22 - Cost of Sales**

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Materials and subcontractors	1,602	971	490
Salaries, wages and related expenses	654	355	146
Depreciation and amortization*	332	334	279
Other manufacturing expenses	305	219	46
	2,893	1,879	961

* Including amortization of intangible assets.

Note 23 - Selling and Marketing Expenses

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Salaries, wages and related expenses	5,063	3,397	2,262
Commissions to marketing representatives overseas	585	880	949
Advertising, demonstrations and exhibitions	1,006	815	252
Foreign travel	1,133	766	450
Consultation	227	580	275
Depreciation	91	41	48
Other selling and marketing expenses	782	511	356
	8,887	6,990	4,592

Note 24 - General and Administrative Expenses

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Salaries, wages and related expenses	1,042	976	840
Professional services	580	423	314
Depreciation	52	33	30
Other general and administrative expenses	171	207	240
	1,845	1,639	1,424

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 25 - Research and Development Expenses, Net**

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Raw materials and subcontractors	953	1,370	1,340
Salaries, wages and related expenses	1,412	1,278	1,050
Depreciation	69	43	22
Patent registration expenses	125	143	102
Other research and development expenses	201	242	130
Total research and development expenses	2,760	3,076	2,644
Less – capitalization of development costs**	-	-	(281)
Less – participation of the European Union in expenses*	-	(14)	-
Less – participation of the Chief Scientist in expenses	-	-	(71)
	2,760	3,062	2,292

* Grants received from European Union do not carry a commitment to refund or royalties.

** As mentioned in Note 11, as of 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:

Note 26 - Financing Income and Expenses

	For the year ended December 31		
	2012	2011	2010
	USD thousands	USD thousands	USD thousands
Interest income on bank deposits	11	27	72
Interest income and net change in fair value of financial assets held-for-trading	543	584	519
Net income from change in exchange rates	371	153	-
Financing income recognized in profit or loss	925	764	591
Net expenses from change in exchange rates	-	-	(253)
Financing expenses on liabilities to the Chief Scientist	(178)	(147)	(79)
Effective interest on convertible debentures	(681)	(697)	(593)
Change in fair value of derivative liability in account of warrants	(2,815)	-	-
Other financing expenses including commissions	(82)	(104)	(135)
Financing expenses recognized in profit or loss	(3,756)	(948)	(1,060)
Net financing expenses recognized in profit or loss	(2,831)	(184)	(469)

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 27 - Related 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 plans on their behalf. Executive officers also participate in the Company's share option program (see Note 29 regarding share-based payments).

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

	For the year ended December 31					
	2012		2011		2010	
	Number of people	USD thousands	Number of people	USD thousands	Number of people	USD thousands
Short-term employee benefits	6	1,945	5	1,182	5	1,308
Share-based payments	6	311	5	305	5	296
		<u>2,256</u>		<u>1,487</u>		<u>1,604</u>

Compensation to directors:

	For the year ended December 31					
	2012		2011		2010	
	Number of people	USD Thousands	Number of people	USD thousands	Number of people	USD thousands
Total compensation to directors employed by the Company*	1	<u>116</u>	1	<u>121</u>	2	<u>* 227</u>
Compensation to independent directors**	3	<u>*** 67</u>	3	<u>55</u>	3	<u>** 68</u>

* Including share-based payments in the amount of NIS 47 thousand (approximately USD 13 thousand) in 2010.

** Including share-based payments in the amount of NIS 94 thousand (approximately USD 26 thousand) in 2010.

*** Including share-based payments in the amount of NIS 13 thousand (approximately USD 3 thousand) in 2012.

B. Engagements between the Company and related parties

- (1) 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.

The annual salary of the CEO in his capacity as the CEO of Mazor USA will be USD 150 thousand and 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 up to USD 120 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 USD 80 thousand will be granted to the CEO by means of options in the Company of up to USD 40 thousand, so that the CEO will be entitled to a maximum annual bonus of USD 80 thousand in cash and USD 40 thousand in options (see Note 29C 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 four months from the date that he is no longer employed as the CEO of Mazor USA unless he had commenced working in another subsidiary or subsidiaries.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 27 - Related Parties (cont'd)****B. Engagements between the Company and related parties (cont'd)**

(2) On June 28, 2009 the Company's general meeting decided to approve a private offer pursuant to which the Company will grant to the CEO 79,861 non-marketable options that are exercisable into 79,861 ordinary shares of the Company with a par value of NIS 0.01 par value. 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 remaining 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 the listing of the shares with respect to the aforementioned grant. The fair value of the options that were granted to the CEO is NIS 498 thousand (approximately USD 132 thousand) and is measured according to the binomial model (see Note 29). See also note 29(c) in respect of additional share-based compensation to the CEO during the period.

The CEO had also received 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 28C(3)), and options to purchase 227,645 ordinary shares at an exercise price of USD 2.18 per share that have not yet been exercised.

(3) As from October 2007 the Company's Chairman of the Board (hereinafter – the Chairman) provides management services for a monthly payment of NIS 30 thousand (approximately USD 7.8 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 (approximately USD 3.3) per each underlying share.

On November 21, 2010 the general meeting approved adjusting the monthly payment of the Chairman to NIS 35 thousand (approximately USD 9.86 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 external director was granted options to purchase 40,000 ordinary shares of the Company at an exercise price of NIS 12.40 (approximately USD 3.30) per each underlying share.

On November 21, 2010 the Company's general meeting of shareholders approved the 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 (approximately USD 8.3 thousand) and a per meeting participation compensation of NIS 1.6 thousand (approximately USD 0.4 thousand) for a director of the Company, effective as of January 1, 2010.

(6) On December 4, 2012 the Company's general meeting of shareholders approved additional share based compensation to one of the external directors - see Note 29(c).

Note 28 - Capital and Reserves**A. Share capital**

	December 31	
	Ordinary shares	
	2012	2011
	Thousands of shares of	
	NIS 0.01 par value	
Issued and paid-in share capital as at January 1	22,178	19,733
Issued for cash during the period	7,053	2,421
Exercise of share options during the period	4	24
Issued and paid-in share capital as at December 31	29,235	22,178
Authorized share capital	75,000	75,000

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

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 28 - Capital and Reserves (cont'd)****B. Share Options**

	December 31	
	Number of options	
	2012	2011
	Thousands of options of NIS 0.01 par value	
Number of outstanding options as at January 1	1,734	7,535
Issued during the period*	7,053	968
Exercised during the period	-	(15)
Expired during the period	(765)	(6,754)
Number of outstanding options as at December 31	<u>8,022</u>	<u>1,734</u>

* See C(6) hereunder.

For additional information regarding options to employees see note 29D.

C. Issuances of share capital**(1) Public issuance in 2007**

On August 14, 2007 the Company issued a prospectus in TASE for the issuance of 3,350,000 ordinary shares of the Company with a par value of NIS 0.01 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 with a par value of NIS 0.01, such that each option (Series 1) can be exercised into one ordinary share of the Company with a par value of NIS 0.01 (subject to adjustments – as specified in the prospectus), at an exercise price of NIS 12 (approximately USD 2.80) payable in cash. Options that were not exercised by August 30, 2009 expired and the option holder does not have any right in respect of the Company.

In the framework of the prospectus 2,512,500 options (Series 2) were also issued out of a series of 2,812,500 options (Series 2) and are exercisable from the date that they are listed for trading until August 25, 2011 into 2,512,500 ordinary shares with a par value of NIS 0.01, such that each option (Series 2) can be exercised into one ordinary share of the Company with a par value of NIS 0.01 (subject to adjustments – as specified in the prospectus), at an exercise price of NIS 14 (approximately USD 3.30) payable in cash. Options that were not exercised by August 25, 2011 expired and the option holder does not have any right in respect of the Company.

In the framework of the Company's obligation to the underwriters and 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 USD 8,427 thousand (net of issuance expenses of USD 930 thousand) 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 with a par value of NIS 0.01 for a consideration of USD 20.6 thousand. The remaining unexercised 2,806,922 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 with a par value of NIS 0.01 and 595,238 options that will not be listed for trading and are exercisable into 595,238 ordinary shares with a par value of NIS 0.01 any business day from the date of their issuance for a period of 48 months at an exercise price of NIS 13 (approximately USD 3.53) per option. The shares were allotted at the price of NIS 10.50 (approximately USD 2.85) per share and the options were allotted at no cost, such that in respect of each two offered shares each offeree also received one option.

The Company received proceeds of USD 3,269 thousand (net of issuance expenses of USD 130 thousand) from the aforesaid issuance.

On January 24, 2012 - 595,238 options from this grant expired.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 28 - Capital and Reserves (cont'd)****C. Issuances of share capital (cont'd)****(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 with a par value of NIS 0.01, for the payment of an exercise price of NIS 0.01 per option. In addition, in November a senior employee exercised 16,500 options in November 2009 at the price of NIS 6 thousand (approximately USD 2 thousand) for all of the exercised options.

(4) Shelf registration

- According to the shelf registration prospectus that the Company issued on August 26, 2009 the Company issued a shelf registration offer for ordinary shares and marketable options on October 22, 2009. On the basis of the issuance results at that date, the Company issued to the public 5,263,800 registered ordinary shares with a par value of NIS 0.01 as well as 3,947,850 options that are exercisable until August 25, 2011 into 3,947,850 ordinary shares with a par value of NIS 0.01. The gross issuance proceeds amounted to USD 12,615 thousand. Issuance expenses amounted to USD 1,081 thousand, not including options to two of the distributors as described in the next paragraph.

On August 25, 2011, 3,947,850 unexercised options 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 with a par value of NIS 0.01 at an exercise price of NIS 9.1 (approximately USD 1.58 thousand) 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 three years from the day of their allotment. The Company assessed the fair value of the aforesaid options at USD 198 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 USD 70 thousand and USD 23.8 thousand, respectively.

On November 2012 170,552 options from this grant expired.

(5) Private placement - 2011

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 with a par value of NIS 0.01 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 USD 6,386 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 with a par value of NIS 0.01, and 800,000 non-marketable options that will not be listed for trading and are exercisable into 800,000 ordinary shares of the Company with a par value of NIS 0.01 over a period of five years from the date of their allotment at an exercise price of NIS 14 (approximately USD 3.88) per option.
- (2) The Company will allot to Leader Issuances (1993) Ltd. 421,053 ordinary shares of the Company with a par value of NIS 0.01, and 168,421 non-marketable options that will not be listed for trading and are exercisable into 168,421 ordinary shares of the Company with a par value of NIS 0.01 over a period of five years from the date of closing at an exercise price of NIS 14 (approximately USD 3.88) per each option.

According to the binomial model, on the grant date the fair value of each one of the options is USD 1.02 and the fair value of all the option allotted to the offerees is USD 995 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 USD 825 thousand was recognized as proceeds from options and an amount of USD 5,561 thousand was included in share capital and premium.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 28 - Capital and Reserves (cont'd)

C. Issuances of share capital (cont'd)

(6) Private placement - 2012

On August 8, 2012, the Company signed an 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 (together: "Investors"), pursuant to which the Investors initially invested a total amount of US\$ 7.5 million, and agreed that, upon the fulfillment of certain conditions as specified in the Oracle Agreement, they will invest an additional amount of up to \$7.5 million. In connection with the Oracle Agreement the Company issued to all the Investors together an aggregate of 7,053,529 Ordinary Shares of the Company each ("Issued Shares") for an aggregate amount of \$7.5 million, or the Invested Amount, reflecting a price per Issued Share of NIS 4.25 (approximately 1.06 USD) (based on the exchange rate of August 8, 2012, of NIS 3.997 to \$1, or the Rate of Exchange). In addition, the Company issued to the Investors for no additional consideration, non-registered warrants to purchase up to 7,053,529 Ordinary Shares of the Company 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"). The Warrants are exercisable for a period of 36 months from September 27, 2012 ("The Closing Date") in consideration for payment of an exercise price for each Warrant Share that is the lower of: (a) NIS 6.00 (approximately 1.5 USD); and (b) the average price of the Company's share on the TASE in the 10 trading days preceding exercise (according to the Rate of Exchange) ("Determining Average Price"). Notwithstanding the foregoing, if the Determining Average Price is lower than NIS 4.25 (approximately 1.06 USD) (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 (approximately 1.5 USD)).

The Company 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.

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 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 (1.5 USD); 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 (approximately 1.06 USD), 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 (approximately 1.5 USD) 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 (approximately 1.5 USD) 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.

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 Warrants were issued thereunder and the Investors remitted the Investment amount to the Company's bank account.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 28 - Capital and Reserves (cont'd)****C. Issuances of share capital (cont'd)****(6) Private placement - 2012 (cont'd)**

The gross consideration amounted to approximately USD 7,500 thousand (USD 7,298 thousand - net of issue expenses in the amount of USD 202 thousand). 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 USD 1,208 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.

Note 29 - Share-Based Payments**A. Grant of share 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, 2012 the Company has granted options to purchase 4,413,506 ordinary shares of the Company with a par value of NIS 0.01. All of the grants are equity grants.

As at that date, options to purchase 1,826,848 ordinary shares are exercisable.

B. As of December 31, 2012, the Company has 2 stock option plans for employees, directory, consultants and other service providers of the company and the subsidiary.

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.

As of December 31, 2012, there are 199,452 additional options available for grant under the 2011 Share Option Plan.

C. 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 DD/MM/YEAR	Offerees	Number of instruments*	Vesting period (Years)	Contractual life of the options (Years)	Interest rate %	Expected volatility %	Average exercise price* USD	Share price	Total fair value of the benefit on the grant date USD thousands
								that served as a basis for pricing the option* USD	
19/7/2009	Employees	399,879	2-4	10	1.3-7	62-63	1.65	2.6	533
9/7/2009	CEO	79,861	2-4	10	2-7.2	62-63	1.65	2.4	132
15/2/2010	Officers	120,000	2-4	10	2-7.2	62-65	2.34	2.38	154
22/3/2010	Employees	39,000	2-4	10	2-7.2	60-63	2.86	3.13	49
17/5/2010	Consultants	26,200	2-4	10	2-7.2	60-64	3.06	2.8	52
25/11/2010	Consultants	361,000	2-4	10	2.2-6.4	44-64	2.92	2.68	520
21/11/2010	Consultants	35,000	2	7	2.2-6.4	47-48	2.54	2.54	52
20/12/2010	Officers	200,000	2-4	7	2.3-6	47-48	2.54	2.54	261
23/3/2011	Employees	35,000	2-4	7	3.2-6.3	47-48	2.54	2.54	51
23/3/2011	CEO	12,480	2-4	7	3.2-6.3	47-48	2.54	2.54	16
20/6/2011	Employees	57,500	2-4	7	3.2-6.3	47-48	2.54	2.54	83
1/7/2012	Consultants	5,000	2	7	1.8-5.8	47-48	1.04	1.04	3
1/7/2012	Employees	480,000	1-3	7	1.8-5.8	47-48	1.39	1.04	223
5/8/2012	Officers	320,000	1-3	7	1.8-5.8	47-48	1.16	1.13	173
4/12/2012	CEO	150,000	1-3	7	1.8-5.8	47-48	1.15	2.19	200
4/12/2012	Director	40,000	1-3	7	1.8-5.8	47-48	1.15	2.19	53
11/12/2012	Employees	255,000	1-3	7	1.8-5.8	47-48	2.24	2.33	263
11/12/2012	Officers	20,000	1-3	7	1.8-5.8	47-48	2.24	2.33	23

* The exercise price and share price are denominated in NIS .

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 29 - Share-Based Payments (cont'd)**

C. (cont'd)

Expected volatility is estimated by considering historic share price volatility of the Company and companies engaged in activities like those of the Company. The expected term of the option is determined on the basis of management's estimate of the period that the employees will hold the option with consideration of 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 term of the options.

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

	Weighted average exercise price*	Number of options	Weighted average exercise price*	Number of options	Weighted average exercise price*	Number of options
	2012	2012	2011	2011	2010	2010
	US dollars		US dollars		US dollars	
Balance at January 1	2.35	2,399,958	2.03	2,153,226	2.63	1,658,026
Forfeited during the year	1.94	(38,300)	2.54	(84,448)	1.9	(51,000)
Exercised during the year	0.91	(3,850)	0.76	(8,800)	-	-
Granted during the year	1.40	1,270,000	2.54	339,980	2.78	546,200
Outstanding at December 31	<u>2.06</u>	<u>3,627,808</u>	<u>2.35</u>	<u>2,399,958</u>	<u>2.03</u>	<u>2,153,226</u>
Exercisable at December 31	<u>2.37</u>	<u>1,826,848</u>	<u>2.32</u>	<u>1,321,609</u>	<u>2.62</u>	<u>1,140,786</u>

* The exercise price is denominated in NIS .

With respect to options granted to related parties, see Note 27 on related and interested parties.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 30 - Loss Per Share****A. Basic loss per share**

The calculation of basic loss per share as at December 31, 2012 was based on the loss attributable to ordinary shareholders divided by a weighted average number of ordinary shares outstanding calculated as follows:

B. Loss attributable to ordinary shareholders

	For the year ended December 31		
	2012	2011	2010
	Continuing operations	Continuing operations	Continuing operations
	USD thousands	USD thousands	USD thousands
Loss for the year	<u>7,064</u>	<u>7,782</u>	<u>5,773</u>

C. Weighted average number of ordinary shares

	For the year ended December 31		
	2012	2011	2010
	Continuing operations	Continuing operations	Continuing operations
	thousands	thousands	thousands
Balance as at January 1	<u>22,178</u>	<u>19,733</u>	<u>19,702</u>
Effect of shares issued during the year	<u>1,833</u>	<u>2,082</u>	<u>15</u>
Weighted average number of ordinary shares used to calculate basic loss per share	<u>24,011</u>	<u>21,815</u>	<u>19,717</u>

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, options and share based compensation.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 31 - 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 investment in marketable securities.

Trade and other receivables

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.

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

Investments

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.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 31 - 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.

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.

Currency risk

The Group is exposed to currency risk arising primarily from exposure to NIS. Given that the marketable securities are managed in NIS, and that significant portion of the expenses respect of consultants, contractors and Israel salary expenses denominated in NIS. In respect of other monetary assets and liabilities denominated in currency other than the company's functional currency, 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.

Interest rate risk

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 investment in securities.

Notes to the Consolidated Financial Statements as at December 31, 2012

Note 32 - Financial Instruments

A. Credit risk

(1) Exposure to credit risk

The maximum exposure to credit risk for cash and cash equivalents, deposits, short-term investments and trade receivables at the reporting date by type of counterparty was:

	December 31	
	2012	2011
	Carrying amount	Carrying amount
	USD thousands	
CPI-linked government debentures	1,564	4,241
Government debentures	2,013	6,166
CPI-linked corporate debentures	507	1,495
USD-linked corporate debentures	-	466
Corporate debentures	72	228
Deposits in NIS - held at banks	-	1,859
Trade receivables	1,147	1,356
Cash and cash equivalents	12,797	1,655
	18,100	17,466

The Maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	December 31	
	2012	2011
	USD thousands	
Israel	60	38
United States	800	717
Eastern Europe	-	578
Western Europe	25	23
Asia	262	-
	1,147	1,356

(2) Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2012		2011	
	Gross	Impairment	Gross	Impairment
	USD thousands		USD thousands	
Not past due	1,041	-	1,331	-
Past due 0-30 days	106	-	25	-
Past due more than 121 days	2	(2)	2	(2)
	1,149	(2)	1,358	(2)

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

	December 31		
	2012	2011	2010
	USD thousands		
Balance as at January 1	(2)	(2)	(6)
Impairment loss recognized	-	-	4
Balance as at December 31	(2)	(2)	(2)

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 32 - 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, 2012					
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	
	USD thousands					
Non-derivative financial Liabilities						
Trade payables	1,318	1,318	1,318	-	-	
Other accounts payable	1,611	1,611	1,611	-	-	
Liability to OCS	832	940	239	333	369	
Total	<u>3,761</u>	<u>3,869</u>	<u>3,168</u>	<u>333</u>	<u>369</u>	
December 31, 2011						
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
USD thousands						
Non-derivative financial Liabilities						
Trade payables	996	996	996	-	-	-
Other accounts payable	965	965	965	-	-	-
Convertible debentures*	3,496	4,142	-	4,142	-	-
Liability to OCS	944	1,233	125	235	369	504
Total	<u>6,401</u>	<u>7,336</u>	<u>2,086</u>	<u>4,377</u>	<u>369</u>	<u>504</u>

* Including accrued interest

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 32 - Financial Instruments (cont'd)****C. Linkage and foreign currency risks****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, 2012					
	Israeli currency		Foreign currency		Non-	Total
	Unlinked	Linked	US dollar	Euro	monetary	
USD thousands						
CURRENT ASSETS						
Cash and cash equivalents	338	-	11,980	479	-	12,797
Deposits	-	-	-	-	-	-
Investments in marketable securities	2,085	2,071	-	-	-	4,156
Trade receivables	49	-	1,088	10	-	1,147
Other accounts receivable	203	-	-	-	477	680
Inventory	-	-	-	-	1,257	1,257
Total current assets	2,675	2,071	13,068	489	1,734	20,037
Prepaid lease fees	-	64	-	-	-	64
Deferred tax assets, net	-	-	-	-	80	80
Property and equipment, net	-	-	-	-	766	766
Intangible assets, net	-	-	-	-	387	387
Total non-current assets	2,675	2,135	13,068	489	2,967	21,334
CURRENT LIABILITIES						
Trade payables	792	-	455	71	-	1,318
Other accounts payable	756	-	1,374	-	576	2,706
Total current liabilities	1,548	-	1,829	71	576	4,024
Employee benefits	-	-	-	-	199	199
Derivative liabilities in account of warrants	-	-	-	-	3,990	3,990
Liabilities to the OCS	-	-	301	-	-	301
Total liabilities	1,548	-	2,130	71	4,765	8,514
Total balance, net	1,127	2,135	10,938	418	(1,798)	12,820

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 32 - Financial Instruments (cont'd)****C. Linkage and foreign currency risks (cont'd)**

	December 31, 2011					
	Israeli currency		Foreign currency		Non-monetary	Total
	Unlinked	Linked	US dollar	Euro		
	USD thousands					
CURRENT ASSETS						
Cash and cash equivalents	460	-	1,154	41	-	1,655
Deposits	1,859	-	-	-	-	1,859
Investments in marketable securities	6,394	5,736	466	-	-	12,596
Trade receivables	38	-	717	601	-	1,356
Other accounts receivable	182	-	-	-	86	268
Inventory	-	-	-	-	1,326	1,326
Total current assets	8,933	5,736	2,337	642	1,412	19,060
Prepaid lease fees	-	55	-	-	-	55
Deferred tax assets, net	-	-	-	-	87	87
Property and equipment, net	-	-	-	-	523	523
Intangible assets, net	-	-	-	-	699	699
Total non-current assets	8,933	5,791	2,337	642	2,721	20,424
CURRENT LIABILITIES						
Trade payables	738	-	212	46	-	996
Other accounts payable	482	-	1,001	-	350	1,833
Convertible debentures	3,495	-	-	-	-	3,495
Total current liabilities	4,715	-	1,213	46	350	6,324
Employee benefits	-	-	-	-	190	190
Liabilities to the OCS	-	-	426	-	-	426
Total liabilities	4,715	-	1,639	46	540	6,940
Total balance, net	4,218	5,791	698	596	2,181	13,484

Information regarding the CPI and significant exchange rates:

	For the year ended			For the year ended		
	2012	2011	2010	2012	2011	2010
	% of change			Spot price at the reporting date		
1 NIS	2.3	(7.1)	6.4	0.2679	0.2617	0.2818
1 euro	2	(3.2)	(7.4)	1.3183	1.2923	1.3350
CPI in points	1.6	2.1	2.7	112.14	110.3	108

* According to an average basis of 2008=100.

Notes to the Consolidated Financial Statements as at December 31, 2012**Note 32 - 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	
	2012	2011
	Carrying amount	Carrying amount
	<u>USD thousands</u>	<u>USD thousands</u>
Fixed rate instruments		
CPI-linked government debentures	1,564	4,241
Government debentures	2,013	6,166
CPI-linked corporate debentures	507	1,495
USD-linked corporate debentures	-	466
Unlinked corporate debentures	72	228
Convertible debentures	-	(3,495)
	<u>4,156</u>	<u>9,101</u>
Variable rate instruments		
NIS deposits	-	1,859
Liability to the OCS	(832)	(945)
	<u>(832)</u>	<u>914</u>

E. Fair value**Fair value hierarchy**

- As of December 31, 2012 the marketable securities in the amount of USD 4,156 thousand 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).
- As of December 31, 2012 the financial liability that is a derivative instrument in the amount of USD 3,990 thousand presented at fair value (level 3). For more details regarding the fair value calculation and sensitivity analysis see Note 17.

Note 33 - Group Entities**Subsidiaries**

	Country of incorporation	The Company's ownership interest	Loans the Company granted to the subsidiary	Total investment in the subsidiary
			<u>USD thousands</u>	<u>USD thousands</u>
2012				
Mazor Robotics Inc.	USA	100%	6,806	(2,708)
2011				
Mazor Robotics Inc.	USA	100%	3,430	(2,244)