Disclaimer

The following is an unofficial translation into the English language, for convenience purposes only, of the quarterly report of Itamar Medical Ltd. (the "**Company**") for the three months ended March 31, 2018 (the "**Quarterly Report**") that originally were prepared in the Hebrew language.

The full, legal and binding version of the Quarterly Report for all purposes is the Hebrew version, filed by the Company with the Israel Securities Authority and published on the MAGNA website: www.magna.isa.go.il, on May 17, 2018.

In the event of a contradiction or inconsistency between this translation and the Hebrew version of the Quarterly Report, the provisions of the Hebrew version shall prevail.

This translation was not carried out by the Company, nor checked by the Company, and accordingly, the Company does not guarantee that the translation fully, correctly or accurately reflects the Hebrew version of the Quarterly Report and its contents.

Neither the Company, nor any of its directors, employees, advisors or other office holders, accepts any responsibility on any grounds whatsoever to any other person in connection with this translation into English of the Quarterly Report. The Company assumes no liability for any damages or loss of any kind (including, without limitation, indirect, special, incidental, punitive or consequential damages,) that might arise from the use of this translated version of the Quarterly Report.

Readers are advised to read the authoritative Hebrew version of the Quarterly Report in all matters, which may affect them, and/or their decisions in any way. The following are links to the Company's Annual Report in Hebrew:

http://www.magna.isa.gov.il/details.aspx?id=012311&reference=2018-01-049045#?id=012311&reference=2018-01-

ITAMAR MEDICAL LTD.

QUARTERLY REPORT

AS OF MARCH 31, 2018

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ITAMAR MEDICAL LTD.

PART A

SIGNIFICANT CHANGES AND NEW ISSUES THAT HAVE OCCURRED IN THE CORPORATE BUSINESS

SIGNIFICANT CHANGES AND NEW ISSUES THAT HAVE OCCURRED IN THE CORPORATE BUSINESS IN THE QUARTER ENDED MARCH 31,2018

Pursuant to Regulation 39a of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Reports Regulations**"), details of the significant changes and new issues that have occurred in the business of Itamar Medical Ltd. (the "**Company**") since the publication of the Company's annual report for the year ended December 31, 2017, which was published on March 15, 2018 (Reference No. 2018-01-020331) (the "**2017 Annual Report**") and up to the publication date of this report.

The terms that follow shall have the meaning that is intended for them in the 2017 Annual Report, unless otherwise stated.

This chapter of the quarterly report has been prepared with the assumption that the chapter on Description of the Corporate Business Affairs of the 2017 Annual Report is available to the reader.

1. The FDA had received for examination the the WatchPAT300™ platform

On April 8, 2018, the Company reported that the U.S. Food and Drug Administration (the "**FDA**") had received for examination the next generation of sleep products, the WatchPAT300, which is the first in a series of planned submissions of a platform that implements a new technology that enables fast data transfer with a small, lightweight device, reduced production costs and infrastructure for future capabilities, such as wireless communication options. The new device has been submitted to the FDA for identical indications to the existing device.

The Company estimates that the FDA takes six to 12 months to complete the examination process, and based on past experience, there is a high probability of approval.

For more information, see the immediate report of April 18, 2018 (Reference No. 2018-01-028680), which the information contained therein, is included in this report by way of reference.

The Company's assessments regarding the new technology's ability to reduce production costs and its ability to provide infrastructure for future capabilities, such as wireless communication options, as well as the Company's assessment of the length of time required for the FDA examination process and the high probability of approval constitute forward-looking information, as this term is defined in the Securities Law, 1968. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of, or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, among others, to a delay in the FDA approval process or to delay in research and development or cost of future raw materials.

2. Convening annual and extraordinary general meeting of the Company's shareholders

On May 23, 2018, an annual and extraordinary general meeting of the Company's shareholders (in this section: the "**meeting**") was convened, which approved:

On March 29, 2018, the Company convened an annual and extraordinary general meeting of the Company's shareholders (in this section: the "**meeting**") which is scheduled to convene on May 23, 2018 and on its agenda the following subjects:

2.1 The re-appointment of Dr. Giora Yaron, Martin Gerstel, Ilan Biran, Christopher M. Cleary, Jonathan Kolber and Sami Totah.

2.2 Approval of a material private allotment of shares to interested parties and other shareholders in the Company.

2.3 Updating the salary of Mr. Gilad Glick, the Company's President and Chief Executive Officer.

2.4 Updating the vesting conditions of unregistered options and restricted share units granted to the Company's President and Chief Executive Officer.

2.5 Approval of annual bonus plan for the Company's President and Chief Executive Officer.

2.6 Transition to reporting format in accordance with the SEC rules.

2.7 The reappointment of the firm of Somekh Chaikin as the Company's independent auditor for 2018 and the empowering of the Company's Board of Directors to set their fees.

2.8 Discussion of the Company's financial statements for 2017.

For more information, see the report on the calling of a general meeting of the shareholders, dated March 29, 2018, as amended and supplemented on May 9, 2018 (Reference No. 2018-01-027798 and 2018-01-036912), which the information contained therein, is included in this report by way of reference.

3 Convening an extraordinary general meeting of the holders of the Company's Warrants (Series 4)

On March 29, 2018, the Company convened an extraordinary general meeting of the holders of the Company's Warrants (Series 4) , which is scheduled to convene on May 23, 2018, and on its agenda approval of transition to reporting format in accordance with the SEC rules..

For more information, see the report on the calling of the meeting of the warrants' holders, dated, March 29, 2018 (Reference No. 2018-01-033985), which the information contained therein, is included in this report by way of reference.

4 Reorganization of Medtronic's holdings in the Company

On May 2, 2018, Medtronic International Technology, Inc. ("**Medtronic**") informed the Company that as part of the reorganization of a wide portfolio of investments by Medtronic (which also includes its holdings in the Company) its holdings in the Company were transferred to MS Pace LP, a limited partnership incorporated in Delaware, U.S. (the "Partnership"), such that the Partnership holds approximately 14.3% of the Company's issued and outstanding share capital. Medtronic holds 51% of the holdings in the General Partner in the Partnership. The Company was also informed that Medtronic will transfer to the Partnership the Company's shares that will be issued to it as part of the private offering, if approved, as detailed in Section c. above.

The Company was also informed that the general partner in the Partnership is MS Pace Management, LLC, a corporation incorporated in Delaware, in which Medtronic, through Medtronic, Inc., holds a 51% stake and the remaining 49% are held by Sightline MS GP, LLC, a third party, incorporated in Delaware, U.S. Medtronic also holds 20% of the holdings in the partnership as a limited partner.

The Company was further informed that it was agreed that Medtronic would transfer to the partnership the additional shares of the Company that will be issued to Medtronic as part of the a private offering, if and to the extent approved by the Company's shareholders, as specified in the report on the calling of a general meeting of the shareholders, dated April 1, 2018 (Reference No. 2018-01-027798).

Medtronic informed the company that the transfer of shares from Medtronic to the partnership was part of the reorganization of a broad portfolio of Medtronic investments (which also includes its holdings in the Company).

For more information, see the immediate report of May 3, 2018 (Reference No. 2018-01-035391), which the information contained therein, is included in this report by way of reference.

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ITAMAR MEDICAL LTD.

PART B

BOARD OF DIRECTORS' REPORT ON THE STATE OF CORPORATE AFFAIRS AS OF MARCH 31, 2018

BOARD OF DIRECTORS' REPORT FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018

We hereby present the Board of Directors' Report of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company"**) and its subsidiaries (the "**Group**") as of March 31, 2018 which includes the Company's consolidated financial results for the three-month period ended March 31, 2018 (the "**reporting period**", or the "quarter")), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report as of March 31, 2018 is provided with the assumption that the annual report for the year ended December 31, 2017, issued by the Company on March 14, 2018 (Reference No. 2018-01-020331) (the "**2017 Annual Report**") is available to the reader. Data included in this Annual Report, which are stated as of the issuance date are true as of May 16, 2018.

Definitions:

"TASE"	The Tel Aviv Stock Exchange Ltd.
"dollar", "$"	The U.S. dollar.
The "Securities Law"	The Israeli Securities Law, 1968.
"Series L Notes"	Company notes (Series L), which were issued to the public in March 2013, were listed for trading on the TASE, were convertible into the Company's ordinary shares and were fully repaid on February 28, 2018

Preparation of the financial statements

The financial statements enclosed in Part C of this Report are prepared in accordance with International Financial Reporting Standards ("**IFRS**") and in conformity with the Regulations. The functional currency and the reporting currency of the financial statements is the dollar. For more information, see Note 2b to the Company's financial statements as of December 31, 2017, which are included in the 2017 Annual Report.

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Chapter A – Board of Directors' Explanations of the State of Company's Affairs

1. Summary description of the Company

The Company is engaged in development, manufacturing, marketing, selling and leasing of the PAT™ ("**PAT**") signal based non-invasive medical devices and other non-invasive devices, and associated support services for the diagnosis and assessment of various medical conditions, principally sleep breathing disorders and cardiologic diseases.

The Company has two products: WatchPAT™ ("**WatchPAT**") and EndoPAT™ ("**EndoPAT**"). For more information about the Company's products, see Section 8 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

The WatchPAT product is the Company's main product, and the Company's business strategy is focused on this product (see also below) and it includes reusable devices and disposable probes. This product diagnoses sleep breathing disorders apnea, which has been proven, among others, to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart.

As part of the Company's strategy, the U.S. subsidiary launched in January 2015 the "Total Sleep Solution" ("**TSS**"), which is a package of products and services providing a comprehensive solution which combines diagnosis and treatment of sleep apnea, including

ancillary services' designed principally for cardiac medicine (clinics and departments around hospitals). For more information on the TSS, see Section 8.5 in Part A of this Annual Report, which the information contained therein, is included in this Report by way of reference. As part of the TSS, in the third quarter of 2016, the Company started marketing and selling in the U.S. a solution for the treating of sleep apnea using PAP devices (positive airway pressure) manufactured by the U.S. corporation, DeVilbiss Healthcare ("**DeVilbiss"**) and accessories. In addition, during the third quarter of 2017, the U.S. subsidiary signed an additional distribution agreement with Philips Respironics Inc. ("**Philips**") in which the subsidiary received non-exclusive and limited distribution rights of medical equipment manufactured by Philips (including the PAP device and its associated derivatives) for the treatment of sleep apnea in the field of cardiology. For more information on the principles agreement with DeVilbiss and on the distribution agreement with Philips, see Section 8.6 of Part A of the 2017Annual Report, which the information contained therein, is included in this Report by way of reference.

In accordance with its strategic plan, the Company currently focuses on marketing the WatchPAT product and the TSS in the cardiology field, emphasizing the U.S. market, which is its principal comprehensive sleep solution market, while continuing operations on the general sleep disorder market. At the same time, the Company continues its efforts to market the WatchPAT product on the Japanese, Chinese and the European markets, which the Company considers to be the markets with a material potential to increase its revenues, after the U.S. market. Under the TSS model, the Company is moving from a sale of devices and probes to a sale of tests (Test as a Service – TaaS). Under this model, the actual charge is made at the time of the sale of tests, when the Company provides the cardiologists with the WatchPAT devices, and the charge at the time of purchase of the test covers the price of the probe and the rental of the device and related services (Cost per Test). This model is a substantial component in the acceleration of gaining new customers, since it does not require pre-capital investment by the customers.

In the framework of the Company's efforts to develop the diagnostic capabilities of the WatchPAT product, on February 24, 2017, the U.S. Food and Drug Administration (the "**FDA**") approved an innovative and upgraded version of the WatchPAT product. The innovative version of the product integrates a new SPB (Snoring and Body Position) chest sensor which facilitates, in addition to all available capabilities, the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. For further details, see Section 8.2 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

For details regarding the publication of the American Academy of Sleep Medication (the "**AASM**"), the leading American medical institution in the field of sleep disorders, which for the first time and directly endorse the PAT technology, see Section 8.2 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

On November 20, 2017, the AIM Specialty Health® ("**AIM**"), which is the body that manages the insurance coverage policy for some of the insurance companies and organizations that bear the costs of medical treatment under private medical insurance in the U.S (the "**medical insurers**"), updated its guidelines for medical insurers (the "**AIM Guidelines**"), so that they will include the changes in the AASM Guidelines described above and as a result, for example, the three largest insurers in Massachusetts, BCS, Tuffs and Harvard Pilgram have already changed the coverage policy and included the WatchPAT product in their coverage policy. The Company estimates that the proportion of insureds that are not covered for the WatchPAT tests out of all private health insureds in the U.S. ranges from 15% to 20%. In the Company's opinion, the update in the AIM Guidelines may lead to the inclusion of the WatchPAT test in the basket of medical examinations and procedures covered by some of the medical insurers who have not yet cover their insureds for this test, including medical insurers belonging to the large umbrella

organization Blue Cross Blue Shield in other states in the U.S. Such a move could significantly increase the number of insured individuals in the U.S. who are entitled to coverage for home sleep tests performed through the WatchPAT device and may therefore contribute to an increase in the Company's revenues from this product in the U.S. as from 2018. For further details, see Section 8.2 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

The other product of the Company is EndoPAT, which is used to diagnose endothelial dysfunction, which is a key indicator of potential cardio-vascular disease. As of the date of this report, the selling and marketing efforts pertaining to this product are secondary to the efforts relating to the WatchPAT product. They are mainly focused on sales for the research purposes in general and focusing on pharma testing.

Both products have FDA approval in the United States, CE approval in Europe, MHLW approval in Japan, CFDA approval in China and in other markets.

For more information about the Company's strategy, see Section 31 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

The Company's assumptions regarding the effect of the update of the AIM Guidelines on the inclusion of the WatchPAT test in the basket of tests and procedures reimbursable by private health insurers in the U.S. and its possible impact on the Company's revenues constitute forward-looking information, as this term is defined in the Securities Law. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, among others, to delay in negotiations with distributors and/or delay in research and development and/or change in market structure and requirements or market competition and/or financing difficulties which could impact the development of Company business, or non-inclusion of the WatchPAT product in the basket of tests and procedures reimbursable by health insurers for reasons unconnected to the AASM guideline and/or in the event that the AIM Guidelines are not eventually updated or the update will take effect later than expected, or in the event that certain medical insurers decide not to include the WatchPAT test is in the basket of tests eligible for coverage despite the update of the AIM Guidelines.

2. Major events during and after the reported period

The Company's revenues increased by approximately 26% in the current quarter, as compared to the corresponding quarter last year. Revenues from Watch PAT (including PAP devices), which is the focus of the Company's strategy, increased by approximately 41% in the current quarter, as compared to the corresponding quarter last year This increase is the result of an increase in the sale of probes and tests.

The Company continues to maintain a high gross margin, while in the current quarter it increased to 778%, compared with 76% in the corresponding quarter last year.

Moreover, there is a continuous decrease in the Non-IFRS cash basis operating loss in the last two years from $2.2 million in the first quarter of 2016 to $0.5 million in the current quarter.

During the first quarter of 2018, the Company focused on several significant areas, as described below, in order to further support the growth trend in the current year:

a. The Company continues its efforts to promote the TSS in the United States, as described in Section 1 above, and to improve that solution; this is in addition to the sale of devices and probes to customers in the sleep area. In this context, the Company made a transition from the normal sales model (devices and probes sales) to the sale of medical tests. The Company recently launched a package of logistics services, the WatchPAT Direct, which is offered as part of the TSS solution for the Company's customers in the U.S., which includes a contact solution with patients on behalf of the customer by telephone and other means to coordinate the sleep check, shipping the devices to the patients' homes and back by mail and instructing them how to carry out the test. This is done from the Company' service center locate in its headquarters in Atlanta, Georgia. The service is for a fee and maintains the average gross profitability of the Company, and a number of large customers have already contacted the Company and purchase this package of services on a regular basis.

   The revenues from sales of tests and probes and PAP devices (revolving sales) in North America in the first constituted approximately 72% of total revenues from sales of WatchPAT (including PAP devices) in North America, as compared to 71% in the first quarter of 2017, an increase of 1%. Moreover, a considerable portion of information on consumption pattern of customers using the TSS services, as well as other medical information thereon, is available to the Company and may be applied thereby for research and marketing purposes, subject to the applicable privacy protection laws, the agreements with the Company's customers and the industry practice.

b. The revenues from EndoPAT continued to decline in the first quarter of 2017, primarily due to the decrease in the Company's marketing efforts and due to the reduction in research funds which purchase this product and the difficulties of caregivers to receive insurance reimbursement for use of this product. The effort to increase the sales of this product in the secondary prevention field, as well as the continued marketing activity in the primary prevention field, which focused primarily on Japan and China did not bring the desired results. Consequently, in January 2017 the Company modified its business strategy so that the company would focus on marketing and sales of TSS in the cardiology field and reduce the marketing and selling activity of this product in Japan. The Company continues the marketing and sales of this product to customers in the pharmaceutical research field worldwide (including in Japan). The Company operates, through an exclusive representative, to find additional distributors and/or strategic partners for this product in Japan. For further details, see Sections 7.3.4 and 8.3 in Part A of the 2017 Annual Report, which the information contained therein is included in this Report by way of reference.

c. Since the Series L Notes were not converted, on February 28, 2018, the Company discharged the remaining 50% of the par value of the Notes, in an amount of approximately NIS 38.1 million (approximately $10.9 million on the payment date). Of this amount, a principal of NIS 6 million (approximately $1.7 million) relating to Notes that were held by three interested parties in the Company, Medtronic International Technology Inc. ("**Medtroni**c")[1], Dr. Giora Yaron, who serves as Chairman of the Board of Directors of the Company (through Itamar Technologies and Investments (1994) Ltd., a company owned and controlled by him) (Jointly: "**Giora Yaron**") and Mr. Martin Gerstel, who serves as a director of the Company, plus the interest that was to be paid to them were not paid. The above interested parties informed the Company that in order to support the Company's business strategy, they

[1] For details regarding the reorganization of Medtronic's holdings in the Company, see Section f below and the Company's immediate report of dated May 3, 2018 (Reference No: 2018-01-035391), which is included in this report by way of reference.

intend to provide the Company with a loan of the same amount. On March 22, 2018, all the above interested parties, with the exception of Mr. Martin Gerstel, have entered into the investment agreements mentioned below. With regard to Mr. Gerstel, it was agreed at that time between the Company and Mr. Gerstel and at his request that the amount of principal and interest up to the date of repayment of the notes will be paid within 90 days (i.e., until June 21, 2018). It is hereby clarified that it was agreed between Mr. Gerstel and the Company that he will not be paid additional interest from the original repayment date of the notes until June 21, 2018.

On March 22, 2018 (after obtaining the approval of the Audit Committee and the Board of Directors for a material private offering to interested parties and other shareholders of the Company), the Company entered into separate investment agreements (each of the agreements will be referred to as the "**Investment Agreement**" or the "**Agreement**" and together, the "**Investment Agreements**" or the "**Agreements**") with the controlling shareholder of the Company, Viola Growth II A.V. LP, a limited partnership, which holds the Company's shares through Viola Growth II (A) LP and Viola Growth II (B) LP (All three jointly referred to as "**Viola**"); Medtronic, an interested party of the Company; Giora Yaron, an interested party of the Company; Yelin-Lapidot Mutual Funds Management Ltd., an interested party of the Company ("**Yelin Lapidot**"), Meitav Dash Provident and Pension Funds Ltd. ("**Meitav-Dash**"), and the Israel Shares – Phoenix Associates ("**Phoenix**") (Jointly: the "**offerees**").

Under the Investment Agreements, subject to the completion of the transaction which is the subject of the investment agreements, the offerees shall invest (directly or, in the case of Yelin Lapidot, Meitav and Phoenix, through mutual funds and/or provident funds and/or pension funds managed thereby) NIS 20,847,157 (approximately $6 million) (the "**Investment Amount**") in consideration for the allotment of 22,013,893 ordinary shares of the Company of NIS 0.01 par value (the "**Shares Offered**") which, immediately after the execution of the transaction, will constitute approximately 7.7% of the Company's issued and outstanding share capital, or approximately 6% of its issued and outstanding share capital, fully diluted.

The investment is carried out at the price of NIS 0.947 per share, a price reflecting a seven percent (7%) discount on the average price in the 15 consecutive trading days through March 15, 2018 (inclusive), the date of issuance of the Company's 2017 financial statements. The shares offered shall be subject to resale restrictions as stipulated by the Securities Law and the regulations published thereunder.

Upon signing the Agreement, Viola, Medtronic[2], Meitav Dash and Phoenix have deposited[3] their share of the investment amount in trust; that amount will be transferred to the Company upon the completion of the transaction. In addition, since Giora Yaron has left the amounts of the last installment of the principal of the Series L Notes, the parties have agreed that these amounts shall be applied to payment of his share of the investment amount.

The Investment Agreements include the customary Company's representations in regarding, inter alia, the Company's reports and the allotment of the offered shares as prescribed by law, and the customary representations of the offerees. Likewise, the investment agreements

[2] As to Medtronic's share of the amount of the investment, the amounts left by Medtronic in respect of the last principal payment and the interest on the Series L Notes were transferred by the Company on March 28, 2018 to a trust account.

[3] Yelin Lapidot has undertaken to transfer its share in the investment amount upon the completion of the transaction, since its investment is implemented through mutual funds.

include the parties' undertakings, including the Company's undertaking to refrain from dividend distribution or issuance of securities convertible into the Company's shares or into rights to such shares (except for the shares to be issued upon the exercise of already outstanding convertible securities issued prior to the signing of the investment agreement and the allotment of options to employees in the normal course of business). It has also been agreed that the Company shall bear the expenses pertaining to the transaction.

The completion of the transaction under the agreements is subject to the customary suspending conditions, such as: (a) approval by the majority of voters at the Company's Shareholders' Meeting, as stipulated by Section 275 of the Companies Law, 1999 (the "**Companies Law**")[4], (b) consent of the TASE to listing of the offered shares for trade, (c) there occurring no material adverse change in the Company's business between the date of the execution of the agreements and the completion of the transaction; and (d) the investment of an Israel currency amount equal to $5 million by all the offerees. As long as the suspending conditions are not met by May 31, 2018 (unless the parties waive them insofar as they are empowered to do so under the terms of the agreements), the entire amount invested shall be refunded to the offerees.

d. In addition, the Company's Board of Directors examines the listing of the Company's shares on the Nasdaq Stock Exchange in the U.S. through an ADR (American Depository Receipt) program and ADRs representing the Company's shares (the "**ADR Plan**"), including the filing of a listing document with the U.S. Securities and Exchange Commission (the "**SEC**") for listing the ADRs and a request to list for trade on the Nasdaq Stock Exchange, as well as to obtain approval from the Company's shareholders for the transition from reporting in accordance with the provisions of Chapter F of the Securities Law to reporting in accordance with the provisions of Chapter 5C of the Securities Law, if and when the process under the ADR Plan is carried out. The ADR Plan does not include capital raising in the U.S. It is hereby clarified that at this stage, the approval of the ADR Plan is only in principle and that its implementation has not yet commenced and that there is no certainty that such a move will be completed and the Company does not undertake to complete the process. In addition, the completion of the process is subject to receipt of the required approvals, including approval by the SEC and the NASDAQ Upon the transition to the reporting format in accordance with Chapter E3 of the Securities Law, i.e., reporting according to U.S. securities laws (including the U.S. Securities Exchange Act of 1934), the Company will report the reports it will file with SEC to MAGNA in accordance with the Securities Law and the regulations promulgated thereunder.

e. In April 2018, the Company reported that the FDA had received for examination the next generation of sleep products, the WatchPAT300, which is the first in a series of planned submissions of a platform that implements a new technology that enables fast data transfer with a small, lightweight device, reduced production costs and infrastructure for future capabilities, such as wireless communication options. The new device has been submitted to the FDA for identical indications to the existing device. The Company estimates that the FDA takes six to 12 months to complete the examination process, and based on past experience, there is a high probability of approval.

f. On May 2, 2018, Medtronic informed the Company that as part of the reorganization of a wide portfolio of investments by Medtronic (which also includes its holdings in the Company) its holdings in the Company were transferred to MS Pace LP, a limited partnership incorporated in Delaware, U.S. (the "**Partnership**"), such that the Partnership

[4] This is because, as of the date of this report, Viola is classified as a controlling shareholder in the Company, and since the investment agreements with the Offerees are part of a single transaction, under identical terms, for caution, all the investment agreements are submitted for approval in accordance with Section 270 (4) of the Companies Law.

holds approximately 14.3% of the Company's issued and outstanding share capital. Medtronic holds 51% of the holdings in the General Partner in the Partnership. The Company was also informed that Medtronic will transfer to the Partnership the Company's shares that will be issued to it as part of the private offering, if approved, as detailed in Section c. above.

g. In May 2018, at the Heart Rhythm 2018 Conference in Boston, U.S., the Company launched SleePath™, an integrated cloud-based sleep apnea patient care pathway management tool for cardiologic patients in general and atrial fibrillation ("**AFib**") patients in particular, which are treated with Philips PAP device. Effective management of sleep apnea is essential for improving outcomes in patients with AFib. The Philips PAP devices report into EncoreAnywhere™, an information system which enables monitoring of the Patient Adherence Management, or and PAMS services which are a unique to intervention model improving patient compliance. Utilizing data from the Philips EncoreAnywhere, SleePath includes a Cardio Sleep Dashboard which allows cardiologists to track multiple aspects of a patient's sleep apnea status anytime. The system monitors follows care pathway progress, from diagnosis status and results, to PAP compliance, (the number of days and hours on PAP and residual sleep apnea). The data is presented in a user-friendly visual format (including statistics for all the cardiologist patients and patient-specific data for each patient), that gives the cardiologist simple understanding of the current status of the sleep apnea as a risk factor. This system which is classified as a medical device data information system and there for is exempt from submission to the FDA and requires registration only.

The information provided above with regard to continued growth of the Company and improvement in its future revenue flow constitutes forward-looking information, as this term is defined in the Securities Law. In addition, the Company's assessments regarding the new technology's ability described in Section e above to reduce production costs and its ability to provide infrastructure for future capabilities, such as wireless communication options, as well as the Company's assessment of the length of time required for the FDA examination process and the high probability of approval constitute forward-looking information, as this term is defined in the Securities Law. Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. These assumptions depend on external and macro-economic factors over which the Company has no influence or limited influence. This information, in whole or in part, may not materialize or may materialize differently due, among others, to a delay in the FDA approval process or to delay in negotiations with distributors and/or delay in research and development and/or change in market structure and requirements or market competition and/or financing difficulties which could impact the development of Company business.

3. The Group's financial position (Development of Items in the Statement of Financial Position)

Item	March 31, 2018	December 31, 2017	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
Cash and cash equivalents (December 31, 2017 and investments in securities)	4,264	10,816	(61%)	Most of the decrease in the first quarter of 2018 derives from the second and final repayment of Series L Notes and payment of interest in respect thereof, and from the cash flows used in operating

Item	March 31, 2018	December 31, 2017	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
				activities in an amount of approximately $1.6 million (including financial expenses and changes in asset and liability items, and the elimination of non-cash expense items, such as doubtful accounts and stock-based payments) (See Section 5 below). On the other hand, these balances, held in Israeli currency, increased due to the withdrawal of $5.0 million from a credit facility from bank, as described in Section 6.3 below.
Current assets	13,309	19,123	(30%)	The decrease is primarily due to the decrease in cash and cash equivalents and investments in securities, as described above.
Non-current assets	2,096	2,154	(3%)	There was no material change in this item.
Current liabilities	10,936	15,767	(31%)	The decrease in the balance of current liabilities derives mainly from the final repayment of principal and interest in respect of the Series L Notes, which was partially offset by an increase of $5.0 million in credit from a bank, as described above. In addition, a sum of $1.0 million was provided to the Company as a short-term loan from two shareholders, part of which will be used as payment on account of a private offering, and the other part will be returned to the shareholder, as described in Section 6.4 below. In addition, there was a decrease in the balance of accounts payables and accrued expenses, which was partially offset by an increase in trade receivables.
Non-current liabilities	2,743	4,133	(34%)	The decrease is mainly due to the following reasons: (i) a decrease of approximately $1.3 million in the fair value of the warrants issued to the Viola Fund (the "**Viola Warrants**") and of the Warrants (Series 4) issued to the public,

Item	March 31, 2018	December 31, 2017	Change - increase (decrease) %	Company explanations
	Dollars in thousands			
				deriving mainly from a decrease of 14.5% in the Company's share price (as of March 31, 2018 compared to December 31, 2017) and shortening the life of the warrants. For information regarding the valuation of the Viola Warrants and the Warrants (Series 4), see Section 17 below; and (ii) a decrease of approximately $0.1 million in the value of the warrants embedded in the Series L Notes due to the repayment of the balance of the principal of the Notes.
Working capital	2,373	3,356	(29%)	The decrease in working capital is mainly due to a decrease in cash and cash equivalents balances and investments in securities, as a result of the repayment of the balance of the principal of the Notes and the financing of current operations, which was partially offset by an increase in credit facility from a bank.
Current ratio	1.2	1.2		
Equity	1,726	1,377	25%	The increase in the equity is resulting mainly from the comprehensive income in the first quarter of 2018. For further information, see the analysis of results of operations in Section 4 below.

4. The Group's operating results (development in statements of operations items)

Below is a summary of operating results (dollars in thousands):

Summary of operating results as presented in the financial statements:

	Three Months Ended March 31,	
	2018	**2017**
Revenues	5,470	4,345
Cost of revenues	1,249	1,062
Gross profit	4,221	3,283
Selling and marketing expenses	2,809	3,116
Research and development expenses	983	1,045
General and administrative expenses	1,313	1,286
Operating loss	(884)	(2,164)
Financial income (expenses) relating to cash and investments	210	1,092
Financial expenses relating to notes and loans	(578)	(2,199)
Gain (loss) on financial derivatives	1,400	2,749
Financial income (expenses), net	1,032	1,6421
Income (loss) before taxes on income	148	(522)
Taxes on income	(36)	(36)
Income (loss) for the period	**112**	**(558)**

Summary of non -IFRS operating results **:

	Three Months Ended March 31,	
	2018	**2017**
Revenues	5,470	4,345
Cost of revenues	1,193	11,016
Gross profit	4,277	3,329
Selling and marketing expenses	2,716	2,765
Research and development expenses	941	976
General and administrative expenses	1,147	1,005
Operating loss	(527)	(1,417)
Financial income relating to cash and investments	210	1,092
Financial expenses relating to notes and loans	(578)	(2,077)
Financial expenses, net	(368)	(985)
Loss before taxes on income	(895)	(2,402
Taxes on income	(36)	(36)
Adjusted loss for the period*	**(931)**	**(2,438)**

Adjustments to income (loss) for the period:

	Three Months Ended March 31,	
	2018	**2017**
Loss for the period – per-IFRS	**112**	**(558)**
Adjustments:		
Depreciation and amortization	115	126
Change in provision for doubtful and bad debt	2	59
Expenses due to share-based payment	240	472
Expenses relating to reduction of manpower	-	212
Loss (gain) on financial derivatives	(1,400)	(2,749)
Total adjustments	(1,043)	(1,880)
Adjusted loss for the period*	**(931)**	**(2,438)**

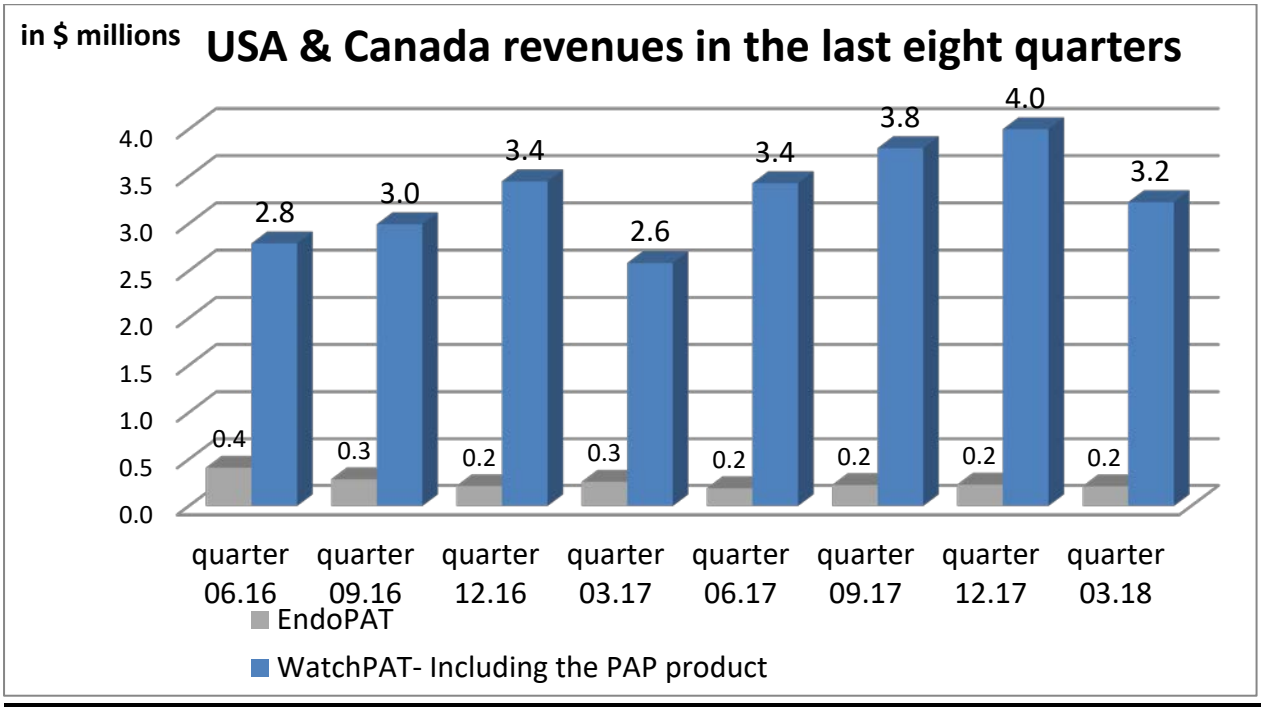
* Non-IFRS adjusted loss, which eliminates non-cash components, or non-recurring components.

** Adjusted information, not in conformity with IFRS rules, which eliminates non-cash components and non-recurring components.

Non-IFRS measures should be considered in addition to, and not as a substitute for, the results presented in accordance with IFRS. The Company presents such non-IFRS measures because management believes that such non-IFRS information is useful because it can enhance the understanding of its ongoing economic performance and therefore uses internally this non-IFRS information to evaluate and manage its operations. The Company has chosen to provide this information to investors to enable them to perform comparison of operating results in a manner similar to how the Company analyzes its operating results.

Information about product revenues (dollars in thousands):

	Three Months Ended March 31,	
	2018	**2017**
WatchPAT and PAP	5,039	3,564
EndoPAT	431	781
	5,470	**4,345**
WatchPAT and PAP	92%	82%
EndoPAT	8%	18%
	100%	**100%**



Analysis of statement of operations data in the first quarter ended March 31, 2018

Item	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
Revenues	5,470	4,345	26%	The increase in revenues in the first quarter of 2018, compared to the corresponding quarter last year is mainly attributable to an increase of approximately 41% in revenues from the WatchPAT product, resulting from an increase in sales of disposables (which are used in each test) sold in the U.S. (total revenues from the sale of the WatchPAT product in the U.S. increased by 26%, compared to the corresponding quarter last year), as well as an increase of 85% in revenues from sale of products under the distribution agreement with Philips Japan. It should be also noted that there was an increase in sales of WatchPAT in the core sleep market as a result of the new AIM Guidelines, as describe in Section 1 above. This increase was partially offset by a decrease of approximately 45% in the revenues from sale of the EndoPAT device (approximately $0.4 million) which is resulting from the trend of decrease in revenues from the sale of the EndoPAT product as described in Section

Item	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
				2b above.
Gross profit	3, 283	4,221	29%	Gross margin in the first quarter of 2018 was approximately 77% of total revenues, compared to approximately 76% in the corresponding quarter last year. The improvement in gross margin on the Company's products is primarily attributable to the streamlining of the production processes in 2016, 2017 and 2018and to the increase in the quantities of the Company's products produced during the quarter.
Selling and marketing expenses	2,809	3,116	(10%)	The decrease in selling and marketing expenses in the first quarter of 2018, compared to the corresponding quarter last year is mainly attributable to: (i) the decrease in payroll expenses, sales commissions and related expenses which resulted from the reduction, in the first quarter of 2017, in the management team of the U.S. subsidiary aimed at adaptation thereof to the new strategy of the Company, which reduced the expenses; (ii) the manpower reduction brought about a decrease in travel expenses of the U.S. subsidiary; (iii) decrease in the operations of the Japanese subsidiary; and (vi) the decrease in expenses related to seminars and trade shows abroad. On the other hand, there was an increase in in consulting expenses, mainly due to the Company's efforts to increase the number of insureds entitled to reimbursement for use of the Company's products, the results of which can be seen in Section 1 above.
Research and development expenses	983	1,045	(6%)	The decrease in research and development expenses in the first quarter of 2018, compared to the corresponding quarter last year, was primarily due to: (i) a decrease in the expenses related to the large-scale clinical study in the U.S. carried out in order to expand the acquaintance of the medical community with the PAT signal (this study is carried out in cooperation with the Faculty of Medicine of the Johns Hopkins University in Baltimore, Maryland), as compared to

Item	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
				the corresponding quarter last year; and (ii) a decrease in expenses of subcontractors and consultants, as compared to the corresponding quarter last year.
General and administrative expenses	1,313	1,286	2%	There was no significant change in general and administrative expenses in the first quarter of 2018, as compared to the corresponding quarter last year.
Operating loss	(884)	(2,164)	(59%)	The decrease in operating loss in the first quarter of 2018, compared to corresponding quarter last year resulted mainly from the increase in revenues and in the gross margin percentage and from the decrease in selling and marketing and research and development expenses, as described above.
Financial income relating to cash and investments	210	1,092	(81%)	The decrease in financial income relating to cash and investments in the first quarter of 2018, compared to the corresponding quarter last year resulted from the decrease in the balances of such items as a result of the repayment of the balance of the principal of the Series L Notes at the end of February 2018. In addition, in the first quarter of 2017, there was a sharp devaluation of 5.5% in the dollar/NIS exchange rate, while in the first quarter of 2018 until the repayment date of the Series L Notes there was a slight appreciation in the dollar/NIS exchange rate. Devaluation in the dollar/NIS exchange rate results in an increase in financial income due to the increase in the dollar value of cash, cash equivalents and marketable securities.
Financial expenses relating to notes and loans	(578)	(2,199)	(74%)	The decrease in financial expenses relating to notes and loans in the first quarter of 2018, compared to the corresponding quarter last year, is primarily due to the repayment of the balance of the principal of the Series L Notes at the end of February 2018. In addition, financial expenses in the corresponding quarter last year included exchange differences resulting from

Item	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
				depreciation in the dollar/NIS exchange rate, which increased the dollar value of the Series L Notes. This decrease was partially offset by an increase in interest expenses due to the withdrawal of short-term bank loan in February 2018.
Gain from derivative instruments	1,400	2,749	(49%)	The increase in gain from l derivative instruments in the first quarter of 2018, compared to the corresponding quarter last year is due to a lower decline in the fair value of the Viola warrants and of the Warrants (Series 4) issued to the public, approximately $1.3 million in the current quarter, compared to $1.5 million in the corresponding quarter last year. In addition, the decline in the fair value of the warrants embedded in the Series L Notes was also lower in the current quarter ($0.1 million, compared to $1.3 million in the corresponding quarter last year) since the notes were fully repaid in February 2018 and the fair value of their embedded warrants was very low at the end of 2017. For information on valuation of the warrants, see Section 17 below.
Income (loss)	112	(558)		The transition to income in first quarter of 2018, compared to a loss in the corresponding quarter last year is mainly attributable to the decrease in the operating loss, partially offset by a decrease in financial income, net, as described above.
Adjustments to income (loss)	(1,043)	(1,880)	(45%)	Most of the change in adjustments to loss in the first quarter of 2018, compared to the corresponding quarter last year derives from valuation of derivative instruments, as described above and from share-based compensation expenses.
Adjusted loss	(931)	(2,438)	(61%)	The decrease in adjusted loss in the first quarter of 2018, compared to the corresponding quarter last year is mainly attributable to the decrease in the operating loss, mainly as a result of increase in revenues, decrease in selling and marketing and research and development expenses and decrease in net

Item	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
				financial expenses, selling and marketing and general and administrative expenses and decrease in financial expenses, net.

5. Liquidity

In the reported period, the Company continued to finance its current operations, as follows: (i) by increasing selling and marketing effort in markets on which Company operations are focused, principally the U.S, Japan and Europe; (ii) funds received by the Company from the issuance of Series L Notes in February 2013, from a private placement of shares to institutional investors during 2014 and funds received in the years 2015 and 2016 from the investment transaction of the Viola Fund and the proceeds from rights offering to the Company's shareholders; and (iii) short-term bank credit, see Section 6.1 below.

Analysis of cash flows for the first quarter of 2018

Activity Type	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
Operating activities	(1,627)	(3,230)	(50%)	The decrease in the cash flows used in operating activities in the first quarter of 2018, as compared to the corresponding quarter last year is primarily due to: (i) the decrease in loss for the quarter (after elimination of non-cash financial expenses, allowance for doubtful accounts and expenses relating to share-based compensation); (ii) a lower increase in accounts payable, other receivables and accrued expenses in the current quarter, compared to the corresponding quarter last year; and (iii) lower interest payments in respect of Series L Notes, as a result of their repayment. Such decrease was partially offset by a higher increase in inventories, compared to the corresponding quarter last year as a result of an increase in the current revenues and in the forecasted revenues and by an increase in accounts receivable in the current quarter, compared to a decrease in the corresponding quarter last year, resulting from the implementation for the first time of International Financial .Reporting Standard No. 15, "Revenue from Contracts with Customers", see Note 3 to the financial statements.
Investing	3,082	(105)		Cash flows provided by investing

Activity Type	For the Three Months Ended March 31,		Change Increase (Decrease) %	Company Explanations
	2018	2017		
	Dollars in thousands			
activities				activities in the first quarter of 2018 resulted from proceeds from realization of marketable securities, partially offset by purchase of fixed assets. Cash used in investing activities resulted from purchase of fixed assets.
Financing activities	(4,913)	(10,377)	(53%)	Cash flows used in financing in the first quarter of 2018 were applied to the repayment of the balance of the principal, which was partially offset by receipt of short-term shareholders' loans (part of which were transferred to a trustee in order to participate in the private offering described in Section 2c above) and draw of a short-term bank loan. Cash flows used in financing in the first quarter of 2017 were applied to the repayment of the first half of the Series L Notes.

* Cash flows from operating activities, including interest payments in respect of Series L Notes and bank loans.

6. Financing sources

6.1 Overview

Since its initial public offering in March 2007, the Group financed its operations primarily by public offerings, private issuances of equity and debt to Viola and to institutional investors and by private loans from shareholders and a credit facility from a bank.

On March 22, 2018, the Company entered into investment agreements with the controlling shareholder, other related parties and institutional investors, of which one is a related party of the Company, under which they will invest in the Company an amount of approximately $6 million in consideration for the allotment of ordinary shares of the Company. For more information, see Section 2c above.

For more information about the Company's financing and grants received from the National Technological Innovation Authority of the Ministry of Economy and Industry (Formerly - the Chief Scientist) (the "**Innovation Authority**"), see Sections 3, 24 and 18.3, respectively, in Part A of the 2017 Annual Report.

6.2 Exercise of convertible securities

In the reported period, employees and office-holders exercised approximately 202 thousand options, for a total consideration of approximately $25 thousand.

6.3 Credit facility with a bank

In March 2017, the Company and an Israeli Bank (the "**Bank**") reached an agreement, which was amended on January 30, 2018 (the "**Credit Agreement**") whereunder the Bank would grant the Company a credit facility (which was not fully utilized through the date of this report) in a total amount of $10 million. The credit facility is comprised of a $6 million long-term loan (the "**Loan**") and a $4 million credit facility against trade accounts receivable, based on specific customer invoices (the "**Credit Facility for Financing Accounts Receivable**"). The Loan may be drawn through February 28, 2019. The loan bears annual interest of quarterly dollar LIBOR + 5.5%, payable quarterly. The principal of the Loan is repayable in equal quarterly installments over three years from the date of the draw. The Credit Facility for Financing Accounts Receivable may be drawn through January 12, 2019 and is renewable annually. The Credit Facility for Financing Accounts Receivable bears annual interest of monthly dollar LIBOR + 4.25%. The right to draw the credit facility is conditional on the Company's having cash balances of not less than 40% of the amount withdrawn in the Company's account with the Bank. In addition, the Company allotted the Bank 798,088 warrants exercisable for purchase of a like number of its shares at the exercise price of NIS 1.36 per share.

On February 20, 2018, the Company withdrew approximately $5 million from the said credit facility, approximately $2.9 million as a short-term loan and $2.1million Credit Facility for Financing Accounts Receivable. The short-term loan is for the period of three months.

For more information, see Section 24.3 of Part A of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.

In addition, the Company has a credit line in the total amount of NIS 100 thousand with another bank.

6.4 Equity, cash balances, deposits and securities and future equity issues

As of March 31, 2018, the Company has equity of approximately $1,726 thousand.

As of March 31, 2018, the Group has cash and cash equivalents amounting to approximately $4,264 thousand.

On February 28, 2018, the Company used its funds and part of its credit facility from the Bank, described in Section 6.3 above to repay the second installment in respect of its Series L Notes in the amount of $10.9 million, see also Section 2c above.

The Company reviews from time to time options to raise capital, including through issuance in the TASE or through private placement with investors in Israel and/or overseas. The funds raised or to be raised are designated to help the Company realize its growth potential, focusing on its target markets (in line with the Company's strategy), to accelerate development processes and to maintain the Company's capacity to achieve its other business and financial targets (including its financial liabilities).

6.5 Notes and Long- term loans (including current maturities)

The average balance of the notes and the long-term loans in the year ended December 31, 2017, amounted to $8,361 thousand, compared to $13,384 thousand in in the corresponding period last year.

7. Summary of exposure to market risk and management thereof

Sensitivity to change in exchange rates of the dollar against other currencies (sensitivity to dollar revaluation or devaluation against other currencies) (dollars in thousands)

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
NIS	(280)	(141)	(2,800)	141	280
Euro	41	21	411	(21)	(41)

As of the report date, the policy on market risk management and actual risk management are aligned. For more information about the policy and actual risk management, see Section 8 below.

8. Significant events in the reported period

For more information about significant events in the reported period as per Regulation 39a, see Part A of this report.

Chapter B – Exposure to Market Risk and Management Thereof

9. Exposure to market risk and management thereof

Company policy with regard to market risk management

In the reported period the exposure to market risks and the management thereof did not change materially from those described in Section 8 of Part B in the 2017 Annual Report.

10. Linkage basis report

The linkage terms of monetary balances are as follows:

	March 31, 2018					
	dollar	NIS	Euro	Other currencies	Non-monetary items	Total
	Dollars in thousands					
Assets						
Cash and cash equivalents	3,397	769	91	7	-	4,264
Trade receivables (including long-term)	5,695	157	391	-	-	6,243
Other accounts receivable (including prepaid expenses)	183	46	6	-	489	724
Inventories	-	-	-	-	2,534	2,534
Restricted long-term deposits	108	203	-	-	-	311
Fixed assets	-	-	-	-	1,077	1,077
Intangible assets	-	-	-	-	252	252
Total assets	**9,383**	**1,175**	**488**	**7**	**4,352**	**15,405**
Liabilities						
Trade payables	629	900	7	-	-	1,536
Employee benefits	-	-	-	-	612	612
Provisions	-	-	-	-	185	185
Other accounts payable (including accrued expenses)	1,9581	574	70	-	290	2,892
Short-term bank loan	5,000	-	-	-	-	5,000
Derivative instruments	-	1,475	-	-	-	1,475
Other long-term accounts payable	905	78	-	-	-	953
Total liabilities	**8,492**	**4,023**	**77**	**-**	**1,087**	**13,679**
Balance, net	**891**	**(2,848)**	**411**	**7**	**3,265**	**1,726**

	December 31, 2017						
	dollar	NIS unlinked	NIS -linked to the CPI	Euro	Other currencies	Non-monetary items	Total
	Dollars in thousands						
Assets							
Cash and cash equivalents	2,337	5,1241	-	160	22	-	7,643
Marketable securities	-	,1 797	1,376	-	-	-	3,173
Trade receivables (including long-term)	4,952	194	-	689	-	-	5,835
Other accounts receivable (including prepaid expenses)	137	45	-	3	-	569	754
Inventories	-		-	-	-	2,260	2,260
Restricted long-term deposits	108	205	-	-	-	-	313
Fixed assets	-	-	-	-	-	1,022	1,022
Intangible assets	-	-	-	-	-	277	277
Total assets	**7,534**	**7,365**	**1,376**	**852**	**22**	**4,128**	**21,277**
Liabilities			-		-		
Trade payables	382	833	-	47	-	-	1,262
Employee benefits	-	-	-	-	-	533	533
Provisions	-	-	-	-	-	183	183
Other accounts payable (including accrued expenses)	1,877	1,117	-	70	-	339	3,403
Convertible notes	-	10,696	-	-	-	-	10,696
Derivative instruments	-	2,875	-	-	-	-	2,875
Non-current liabilities	905	-	43	-	-	-	948
Total liabilities	**3,164**	**15,521**	**43**	**117**	**-**	**1,055**	**19,900**
Balance, net	**4,370**	**(8,156)**	**1,333**	**735**	**22**	**3,073**	**1,377**

11. Sensitivity analysis

In conformity with the Regulations, below is a report on exposure to financial risks. This report includes sensitivity analysis to fair value of financial instruments. This sensitivity analysis tested the impact of market risk on fair value. Sensitivity analysis was conducted using 5% and 10% change (upwards and downwards). Sensitivity analysis was performed in respect of:

11.1 Sensitivity to changes in exchange rates

- Excess of assets over liabilities (linked and unlinked) in the Israeli CPI indexation report amounts to $2,848 thousand.

- Excess of assets over liabilities in the Euro indexation report, amounts to $411 thousand.

11.1.1 Sensitivity to changes in dollar/NIS exchange rate (dollars in thousands):

This sensitivity analysis is based on the exchange rate as of March 31, 2018 - $0.2846 = NIS 1.

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	77	38	769	(38)	(77)
Trade receivables	16	8	157	(8)	(16)
Other receivables	5	2	46	(2)	(5)
Restricted deposits	20	10	203	(10)	(20)
Trade payables	(90)	(45)	(900)	45	90
Other accounts payable	(57)	(29)	(574)	29	57
Derivative instruments	(148)	(74)	(1,475)	74	148
Short-term loan from shareholders	(103)	(51)	(1,026)	51	103
Total	**(280)**	**(141)**	**(2,800)**	**141**	**280**

11.1.2 Sensitivity to changes in dollar/Euro exchange rate (dollars in thousands):

This sensitivity analysis is based on the exchange rate as of March 31, 2018 - $1.2319 = Euro 1.

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	9	5	91	(5)	(9)
Trade receivables	39	20	391	(20)	(39)
Other receivables	1	-	6	-	(1)
Trade payables	(1)	-	(7)	-	1
Other accounts payable	(7)	(4)	(70)	4	7
Total	**41**	**21**	**411**	**(21)**	**(41)**

Chapter C - Corporate Governance Aspects

12. Charitable donations

The Company has not adopted any policy with regard to charitable donations. The Company made no material charitable donations in the reported period.

13. Directors with accounting and financial expertise

As of the report date, the Board of Directors has not changed its resolution regarding the appropriate minimum required number of directors with accounting and financial expertise as stated the 2017 Annual Report.

14. Independent directors

The Company's bylaws do not stipulate the proportion of independent directors of the total members of the board of directors.

As of the report date, eight directors serve on the Company's Board of Directors, one independent director (Mr. Ilan Biran) s and two external directors (Ms. Yaffa Krindel Sieradzki and Ms. Tzipi Ozer-Armon).

15. Internal Auditor of the Company

On March 14, 2018, after Mr. Yisrael Gevirtz, CPA notified the Company of his desire to terminate his position as the Company's Internal Auditor, the Company's Board of Directors approved, at the recommendation of the Audit Committee, the appointment of Ms. Irena Ben Yakar, CPA a partner at Brightman Almagor Zohar & Co., as the Company's Independent Auditor instead of Mr. Yisrael Gevirtz, CPA.

Item	Details
Name	Ms. Irena Ben Yakar, CPA – Partner at Brightman Almagor Zohar & Co. (Deloitte).
Start of term in office	March 14, 2018
Compliance with statutory provisions	The Auditor is in compliance with provisions of Section 146(b) of the Companies Law and the provisions of Sections 3(a) and 8 of the Internal Audit Law, 1992 (the "**Internal Audit Law**").
Holding of securities of the Company or affiliated entity thereof	As of the report date, the Company is unaware of any holdings of securities of the Company or affiliated entity thereof by Brightman Almagor Zohar & Co., directly or through employees thereof.
Material business or other relations with the Company or affiliated entity thereof	None

Item	Details
Is the Auditor employed by the Company or an external service provider thereto?	The Internal Auditor is not employed by the Company, but rather is an external service provider to the Company (as Partner at Brightman Almagor Zohar & Co. (Deloitte)) - and has no other position with the Company.
Method of appointment	On March 14, 2018, the Company's Board of Directors appointed Ms. Irena Ben Yakar, CPA as the Company's Independent Auditor, at the recommendation of the Audit Committee, based on his education, skills, and extensive experience in internal auditing, taking into account the nature, size, scope of operations and complexity of operations of the Company. For information about the qualifications, education and experience of Ms. Ms. Irena Ben Yakar, see Section 17 of Part D of the 2017 Annual Report, which the information contained therein, is included in this Report by way of reference.
Identity of the Internal Auditor's supervisor within the organization	Dr. Giora Yaron, the Chairman of the Board of Directors.
Remuneration of the Internal Auditor	Remuneration of the Internal Auditor is set at a pre-determined rate per hour. In return for his work, the Company would pay the Internal Auditor NIS 230 per hour. The Board of Directors believes that this remuneration of the Internal Auditor would neither influence nor impair the latter's professional judgment. To the best of the Company's knowledge, the Internal Auditor does not hold any securities of the Company.

During the reporting period, the following material transactions[5] were carried out:

Updating the salary of Mr. Gilad Glick, the Company's President and Chief Executive Officer (the "**CEO**").

Approval of an annual bonus plan for the CEO.

Updating the vesting conditions of unregistered options and restricted share units that were granted to the CEO.

The above transactions were not examined by the Company's internal auditor.

[5] As this term is defined in Section 5(f) of the Fourth Schedule to the Reports Regulations.

Chapter D – Disclosure with Regard to Financial Reporting by the Corporation

16. Subsequent events mentioned in the financial statements

There were no subsequent events that require disclosure in the financial statements.

17. Valuation

Valuation of the Viola Warrants

From the date of commencement of trade in the Series 4 Warrants through September 30, 2016, these warrants were valued at their quoted price, since the International Financial Reporting Standard No. 13 stipulates that the fair value of securities should be measured using their unadjusted quoted price on an active market, whenever available, since that price is the most reliable indication of fair value. Since the terms of the non-marketable warrants issued to Viola are essentially very similar to those of the Series 4 warrants, their value was determined based on the quoted price of the Warrants Series 4 (the differences between the two warrants are immaterial to their value; this is reflected in the valuation of the warrants by an independent valuer).

As from the last quarter of 2016, the number of transactions in the Warrants (Series 4) was very low. Moreover, the prices of such transactions differed significantly, while there were no material changes in the quoted price of the Company's shares (sometimes there even was negative correlation between the fluctuation of the share prices and those of the warrants). The price differences often reflected a very big deviation from the standard deviation. Therefore, in the Company's opinion, as from the last quarter of 2016, there was no "active market" for the Warrants (Series 4) and their prices ceased reflecting their fair value. Consequently, the Company has resolved not to present the warrants at fair value but rather to have recourse to an independent valuer in order to determine the value of the warrants.

Identification of the subject of valuation	Fair value of the Viola Warrants and the Warrants (Series 4) for accounting reporting purposes
Valuation date	March 31, 2018
Date of agreement with the external valuer	November 5, 2015
Value of the subject of valuation shortly before the valuation date had accounting principles, including depreciation and amortization, not required the change in value thereof based on appraisal	NIS 0.24 - 0.25
Value of the subject of valuation based on appraisal	NIS 0.13
Identification of the valuer	
Name of the valuer	PricewaterhouseCoopers Consulting Ltd.
The person rendering the appraisal	Shalom Sofer, CPA (Isr.), Partner in

	Kesselman & Kesselman PricewaterhouseCoopers
Education	BA in accounting and economics summa cum laude and MA in economics summa cum laude, both from the Tel-Aviv University
Appraising experience	About 15 year experience in economic and financial consulting
Dependence on the contractee	No dependence
Indemnification agreements with the appraiser	There is an indemnification agreement
Valuation model applied by the appraiser	Binomial model generally accepted for option valuation
Assumptions upon which the valuation is based:	
Maximum life span of the warrants	1.1 years
Dividend yield	0%
Expected volatility	56.04%
Risk-free interest rate	0.15%

Valued item	Valuer	Valuation date	Number of warrants	Valuation[(1)]	Effect on results[(2)]	Warrants (Series 4) price	Share price	Standard deviation	Discount rate
Viola Warrants	PricewaterhouseCoopers Consulting Ltd.	Effective as of November 5, 2016	31,950	4,848	-	Don't exist	151	59.9%	0.61%
Viola Warrants + Warrants (Series 4)	Market value [(3)]	Effective as of December 31, 2015	38,389	2,696	2,604	27.4	Not relevant		
Viola Warrants + Warrants (Series 4)	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2016	39,877	4,563	(1,873)	134.1	148.7	57.9%	0.43%
Viola Warrants + Warrants (Series 4)	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2017	39,877	2,779	1,784	136.7	134.0	56.1%	0.11%
Viola Warrants + Warrants (Series 4)	PricewaterhouseCoopers Consulting Ltd.	Effective as of March 31, 2018	39,877	1,495	1,284	88.9	114.5	56.0%	0.15%

November 5, 2015 was the date of allocation of the warrants to Viola. It should be noted that additional 1,488,074 warrants, with the same terms, were allotted to Viola on February 1, 2016. As of January 3, 2016, 6,438,152 Warrants (Series 4) are traded in the TASE.

(1) Data in dollars in thousands. The valuation was made in NIS and translated into dollars using the exchange rate prevailing on the valuation date.

(2) Effect on operating results for the reported period in dollars in thousands

(3) Warrants (Series 4) price as of the first trading day, which is January 3, 2016.

For further information on the valuation of the non-marketable Viola Warrants and Warrants (Series 4), see the valuation reports attached to this Report.

The Company's Board of Directors wishes to thank Group's management and employees for their diligent work and contribution to the Company's success.

Dr. Giora Yaron **Chairman of the Board of Directors**	**Gilad Glick** **President and CEO**

Date: May 16, 2018

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

(UNAUDITED)

ITAMAR MEDICAL LTD.

CONSILIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

(UNAUDITED)

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ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31
	2018	2017	2017
	(Unaudited	(Unaudited	(Audited)
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	**4,264**	10,560	7,643
Marketable securities	**-**	2,961	3,173
Trade receivables	**5,838**	4,236	5,362
Other receivables	**673**	707	685
Inventories	**2,534**	1,812	2,260
Total current assets	**13,309**	20,276	19,123
Non-current assets			
Restricted deposits	**311**	315	313
Prepaid expenses	**51**	133	69
Long-term trade receivables	**405**	554	473
Fixed assets	**1,077**	1,063	1,022
Intangible assets	**252**	216	277
Total non-current assets	**2,096**	2,281	2,154
Total assets	**15,405**	22,557	21,277

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	March 31,		December
	2018	2017	2017
	(Unaudited	(Unaudited	(Audited)
Liabilities	U.S. dollars in thousands		
Current liabilities			
Trade payables	**1,536**	520	1,262
Short-term employee benefits	**297**	251	223
Current maturities of convertible notes	**-**	8,978	10,696
Short-term bank loan	**5,000**	-	-
Short-term loan from shareholders, see Note 6b	**1,026**	-	-
Provisions	**185**	170	183
Accrued expenses	**1,083**	953	1,405
Other accounts payable	**1,809**	1,310	1,998
Total current liabilities	**10,936**	12,182	15,767
Non-current liabilities			
Derivative instruments	**1,475**	4,051	2,875
Long-term employee benefits	**315**	171	310
Other long-term accounts payable	**953**	863	948
Total non-current liabilities	**2,743**	5,085	4,133
Total liabilities	**13,679**	17,267	19,900
Equity			
Ordinary share capital	**684**	681	683
Additional paid-in capital	**104,467**	104,392	104,443
Capital reserve in respect of transactions with shareholders	**1,236**	1,151	1,151
Capital reserve in respect of currency translation adjustments	**(9)**	(9)	(9)
Capital reserve in respect of marketable securities available-for-sale	**-**	46	113
Accumulated deficit	**(104,652)**	(100,971)	(105,004)
Total equity	**1,726**	5,290	1,377
Total liabilities and equity	**15,405**	22,557	21,277

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Shy Basson, Chief Financial Officer

Date of approval date of the financial statements: May 16, 2018

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Year Ended December 31,
	2018	2017	2017
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Revenues	**5,470**	4,345	20,701
Cost of revenues	**1,249**	1,062	5,002
Gross profit	**4,221**	3,283	15,699
Selling and marketing expenses	**2,809**	3,116	12,140
Research and development expenses	**983**	1,045	4,129
General and administrative expenses	**1,313**	1,286	5,278
Operating loss	**(884)**	(2,164)	(5,848)
Financial income relating to cash and investments	**210**	1,092	1,591
Financial expenses relating to notes and loans	**(578)**	(2,199)	(4,884)
Gain from derivatives instruments, net	**1,400**	2,749	3,925
Financial income, net	**1,032**	1,642	632
income (loss) before income taxes	**148**	(522)	(5,216)
Income taxes	**(36)**	(36)	(85)
income (loss) for the period	**112**	(558)	(5,301)
Basic earnings (loss) per share (in U.S. dollars)	**0.00**	(0.00)	(0.02)
Diluted earnings (loss) per share (in U.S. dollars)	**0.00**	(0.01)	(0.02)

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS

	Three Months Ended March 31,		Year Ended December 31,
	2018	2017	2017
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Income (los) for the period	**112**	(558)	(5,301)
Other comprehensive loss items that will not be carried to the statement of operations			
Remeasurement of defined benefit plan, net of tax	**-**	-	(112)
Total other comprehensive loss for the period that will not be carried to the statement of operations, net of tax	**-**	-	(112)
Other comprehensive income items, which, after preliminary recognition in comprehensive income (loss), were or will be carried to the statement of operations			
Net change in fair value of marketable securities available-for-sale, net of tax	**(113)**	91	158
Total other comprehensive income items which, after initial recognition in comprehensive income (loss), were or will be carried to the statement of operations, net of tax	**(113)**	91	158
Other comprehensive income (loss) for the period	**(113)**	91	46
Total comprehensive loss for the period	**(1)**	(467)	(5,255)

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for- sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the three months ended March 31, 2018 (Unaudited)							
Balance as of January 1, 2018 (Audited)	**683**	**104,443**	**1,151**	**(9)**	**113**	**(105,004)**	**1,377**
Total comprehensive loss for the period:							
Income for the period	**-**	**-**	**-**	**-**	**-**	**112**	**112**
Other comprehensive loss for the period, net of tax	**-**	**-**	**-**	**-**	**(113)**	**-**	**(113)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(113)**	**112**	**(1)**
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	**1**	**24**	**-**	**-**	**-**	**-**	**25**
Share-based payment	**-**	**-**	**-**	**-**	**-**	**240**	**240**
Capital reserve from transactions with shareholders	**-**	**-**	**85**	**-**	**-**	**-**	**85**
Balance as of March 31, 2018 (Unaudited)	**684**	**104,467**	**1,236**	**(9)**	**-**	**(104,652)**	**1,726**
For the three months ended March 31, 2017 (Unaudited)							
Balance as of January 1, 2017 (Audited)	679	104,350	1,151	(9)	(45)	(100,885)	5,241
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(558)	(558)
Other comprehensive income for the period, net of tax	-	-	-	-	91	-	91
Total comprehensive loss for the period	-	-	-	-	91	(558)	(467)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	2	42	-	-	-	-	44
Share-based payment	-	-	-	-	-	472	472
Balance as of March 31, 2017 (Unaudited)	681	104,392	1,151	(9)	46	(100,971)	5,290

* Representing an amount of less than $ 1thousand.

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQITY

	Ordinary share capital	Additional paid-in capital	Capital reserve in respect of transactions with shareholders	Capital reserve in respect of currency translation adjustments	Capital reserve in respect of securities available-for- sale	Accumulated deficit	Total
	U.S. dollars in thousands						
For the year ended December 31, 2017 (Audited)							
Balance as of January 1, 2017 (Audited)	679	104,350	1,151	(9)	(45)	(100,885)	5,241
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	(5,301)	(5,301)
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	158	(112)	46
Total comprehensive loss for the year	-	-	-	-	158	(5,413)	(5,255)
Transactions carried directly to equity:							
Issuance of shares due to the exercise of options	4	93	-	-	-	-	97
Share-based payment	-	-	-	-	-	1,294	1,294
Balance as of December 31, 2017 (Audited)	683	104,443	1,151	(9)	113	(105,004)	1,377

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

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Three Months Ended March 31,		Year Ended December
	2018	2017	2017
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Cash flows from operating activities			
Income (loss) for the period	**112**	(558)	(5,301)
Adjustments for:			
Depreciation and amortization	**115**	126	509
Share-based payment	**240**	472	1,294
Loss (gain) from sale of fixed assets	**-**	7	(8)
Change in provision for doubtful and bad debt	**2**	59	147
Net financial cost	**389**	971	3,133
Gain from revaluation of derivatives	**(1,400)**	(2,749)	(3,925)
Decrease (increase) in trade receivables	**(410)**	300	(833)
Decrease in other accounts receivable	**30**	83	169
Increase in inventories	**(387)**	(113)	(711)
Increase (decrease) trade payables	**269**	(779)	(66)
Increase (decrease) in other accounts payable and accrued expenses	**(227)**	(252)	669
Increase in employee benefits	**79**	68	67
Increase in provisions	**2**	3	16
Income tax expenses	**36**	36	85
Taxes paid during the period	**(4)**	(15)	(83)
Interest received during the period	**-**	12	18
Interest paid during the period	**(473)**	(901)	(1,362)
Net cash used in operating activities	**(1,627)**	(3,230)	(6,182)
Cash flow from investing activities			
Sale of securities available-for-sale	**3,109**	-	-
Purchase of fixed assets and intangible assets and capitalization of development expenses	**(27)**	(87)	(296)
Investment in pledged deposits	**-**	(18)	(22)
Net cash provided by (used in) investing activities	**3,082**	(105)	(318)
Cash flow for financing activities			
Short-term bank credit	**5,000**	-	-
Repayment of notes	**(9,939)**	(10,421)	(10,421)
Proceeds from exercise of share options	**25**	44	97
Net cash used in financing activities	**(4,914)**	(10,377)	(10,324)
Decrease in cash and cash equivalents	**(3,459)**	(13,712)	(16,824)
Cash and cash equivalents at beginning of period	**7,643**	23,358	23,358
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**79**	914	1,109
Cash and cash equivalent balance at end of period	**4,264**	10,560	7,643
Non-cash financing activity – repayment of notes to related parties against receipt of a loan	**1,076**	**-**	**-**

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

NOTE 1 – GENERAL

Reporting entity and the Company's financial position

Itamar Medical Ltd. (the "**Company**") is domicile and was incorporated in Israel on January 15, 1997. The Company's registered office is 9 Halamish Street, Northern Industrial Zone, Caesarea, Israel. The Company's securities are listed for trading on the Tel Aviv Stock Exchange Ltd. ("**TASE**").

The Company, together with its subsidiaries, is engaged in the research and development, marketing, selling and leasing of non-invasive medical devices and associated support services mainly for the diagnosis and assessment of cardiology disease and sleep breathing disorders. The unique proprietary technology developed by the Company is capable of measuring the Peripheral Arterial Tonometry; PAT™ ("**PAT**") signal. The PAT signal accurately measures the changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. The peripheral arterial volume is measured, using the PAT technology, by way of a thimble-shaped probe, which fits over the patient's finger and transmits information to a computer-based processing system, which monitors the PAT signal and diagnoses the patient's medical condition.

The Company develops and markets two medical devices that are based on our PAT technology: WatchPAT™ ("**WatchPAT**)" and EndoPAT™ ("**EndoPAT**").

The WatchPAT device diagnoses sleep breathing disorders, which are proven, amongst other things, to be a major contributor to heart disease, and if treated, improve the patient's cardiac condition.

The EndoPAT product diagnoses endothelial dysfunction that has been shown to predict cardiovascular disease.

The condensed consolidated financial statements of the Company and its subsidiaries (the "**Group**") as of March 31, 2018 and for the period ended on that date include the financial statements of the Company and its subsidiaries.

The Company's total equity as of March 31, 2018 amounted to $1,726 thousand, and it had negative cash flows from operating activities in the three months ended March 31, 2018 totaled $1,627 thousand.

The management and the Board of Directors are of the opinion that based on the positive trend of its operating results, the credit facility from bank (see Note 6a) and the Company's ability to update its budget to business developments, the Company has enough financial resources in order to continue its business activities in the foreseeing future. In addition, the management continuously assesses its actual results, compared its approved budget and its financial covenants is able to respond by reducing its operating expenses in case it does not meet its targets.

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International Financial Reporting Standards ("IFRS")

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". Accordingly, they do not contain all the information required in full annual financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial Statements as of December 31, 2017 and for the year then ended (the "**Annual Financial Statements**").

In addition, these financial statements have been prepared in accordance with Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed interim consolidated financial statements were approved by the Board of Directors on May 16, 2018.

b. Use of estimates, assumptions and judgments

The preparation of interim condensed consolidated financial statements in conformity with IFRS 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 those estimates.

Management judgment at the time of applying the Group's accounting policy, and the basic assumptions used in the assessments involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these interim condensed consolidated financial statements are the same as those applied by the Group in its 2016 consolidated financial statements.

New standards and interpretations adopted in the reported period

Commencing from January 1, 2018, the Group adopted the new standards and amendments to the standards described below:

(1) IFRS 9 (2014), "Financial Instruments"

Commencing from January 2018, the Group adopted IFRS 9 (2014) (in this Section: the "**Standard**"), which replaced IAS 39, "Financial Instruments: Recognition and Measurement".

The Standard is a final version of the Standard, which includes updated directives for the classification and measurement of financial instruments, as well as a new model for measuring the impairment of financial assets. These provisions are added to the chapter on "Hedge Accounting - General" published in 2013.

The Group elected to apply the Standard, effective January 1, 2018, without restating the comparative figures. The implementation of the standard did not have a material effect on the financial statements.

(2) IFRS 15, "Revenue from Contracts with Customers"

Commencing from January 2018, the Group adopted IFRS 15 (in this Section: "**IFRS 15**" or the "**Standard**"), which prescribes guidelines regarding revenue recognition.

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier adoption is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial

application: full retrospective application; full retrospective application with practical expedients; or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet completed.

The Group elected to adopt the standard with the cumulative impact approach, while adjusting retained earnings as of January 1, 2018. In addition, the Group implemented the following exemptions on the transition date:

The Standard presents a new model for revenue recognition with 5-step customer contracts:

(a) Identifying the contract with the customer.

(b) Identifying separate performance obligations in the contract.

(c) Determining the transaction price.

(d) Allocation of the transaction price to separate performance obligations.

(e) Recognition of revenue upon fulfillment of the performance obligations.

The Group recognizes revenues when the customer obtains control over the products or services that have been secured. The revenue is measured according to the amount of consideration that the Group expects to be entitled to in return for the transfer of products or services promised to the customer, other than amounts collected in favor of third parties.

As part of the initial adoption of the Standard, the Group elected to implement the following exemptions:

(a) Application of the cumulative impact approach only for contracts that have not been concluded at the date of transition; as well as

(b) Examining the aggregate impact of changes in the contract that occurred before the date of initial application, instead of an examination of each change separately.

Under the Standard, the incremental costs of obtaining a contract with a customer are recognized as an asset when it is probable that the Group will repay these costs. Accordingly, commissions paid to agents for obtaining a contract with a customer are recognized as an asset and are amortized on a systematic basis consistent with the transfer to the customer of the products or services to which the asset relates.

Contractual asset and contract liability

A contract asset is recognized when the Group has a right to a consideration for products or services that the Group has transferred to the customer when that right is contingent upon a factor other than the passage of time, for example in the future performance of the Group. Contract assets are classified as receivables when the rights to receive them become unconditional.

A contract liability is recognized when the Group is required to transfer products or services to the customer for which it received payment from the customer (or the date of payment of the amount passed).

Offsetting contract assets and contract liabilities

An asset and a liability in respect of the same contract are presented in net in the statement of financial position, but a contract asset and liability arising from different contracts is presented on a gross basis in the statement of financial position.

The table below presents the expected effect of the implementation of IFRS 15 on the relevant items in the statement of financial position as of January 1, 2018:

	in accordance with previous policy	Change	in accordance with IFRS 15
	U.S. dollars in thousands		
Trade receivable	5,362	333	5,695
Contract liabilities	(193)	(333)	(527)

The table below presents the effect on the statement of financial position as of March 31, 2018, assuming that the previous policy regarding recognition of revenue was applicable to be applied in the three-month period ended March 31, 2018:

	in accordance with previous policy	Change	in accordance with IFRS 15
	U.S. dollars in thousands		
Trade receivable	5,432	406	5,838
Contract liabilities	(170)	(406)	(576)

In addition, the Group examined the expected effects of the implementation of IFRS 15 and in its assessment of the implementation of IFRS 15 is not expected to have a material effect on its operating results.

NOTE 4 – FINANCIAL INSTRUMENTS

a. Financial instruments that are measured at fair value for disclosure purposes only

The carrying value of cash and cash equivalents, trade receivables, other receivables, bank deposits, restricted deposits, trade payables and other accounts payable, are the same or proximate to their fair value.

The fair value of other financial assets and liabilities, together with the book value shown in the statement of financial condition, are as follows:

	March 31, 2018		March 31, 2017		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value*	Carrying amount	Fair value*
	U.S. dollars in thousands					
	(Unaudited)				(Audited)	
Liabilities						
Short-term loans from shareholders	**1,026**	**1,026**	-	-	-	-
Convertible notes (including accumulated interest and the conversion component)	-	-	10,013	10,991	11,118	11,283

* Based on the quoted market price**.**

b. Fair value hierarchy of instruments measured at fair value

The table below presents an analysis of financial instruments measured at fair value on a periodic basis, using the valuation method pursuant to the fair value levels in the hierarchy.

The different levels were defined as follows:

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Inputs other than quoted priced included within Level 1 that are observable, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (unobservable inputs).

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial liabilities - Derivative instruments	**-**	**-**	**1,475**	**1,475**

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets - Marketable securities	2,961	-	-	2,961
Financial liabilities - Derivative instruments	-	-	4,051	4,051

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Audited)			
Financial assets -				
Marketable securities	3,173	-	-	3,173
Financial liabilities -				
Derivative instruments	-	-	2,875	2,875

c. Valuation technique applied in determination of fair value and data types used therein

The fair value of the warrant component embedded in the convertible notes was measured based on observed market data, directly or indirectly, in accordance with the binomial model and based on relevant parameters for the terms of the notes, which are required for the evaluation of their value. The assumptions and the variables for the model include: the base asset (the market price of the share), the exercise price of the warrant, the conversion rate, the lifetime of the warrant, the expected fluctuations in the base asset (the share price) and the yield to maturity of the notes.

The fair value of the warrants issued to Viola and the warrants (Series 4) through September 30, 2016 was measured at quoted market value of the warrants (Series 4), on the basis of the warrants' rate every cut-off date.

Pursuant to financial reporting standards, the price cited in an active market must be used with no adjustment to measure fair value any time it can be obtained, as this price provides the most reliable evidence of fair value. An "active market" is defined as a market where transactions in the asset or liability occur with sufficient frequency and volume, enough to provide information on price on an ongoing basis. When a significant decline occurs in the volume or level of activity in the asset or liability, additional analysis of the transactions or prices is needed, and a change in the valuation technique or the use of multiple valuation techniques may be appropriate.

In connection with said provisions, the position of the Company is that as of the end of 2016 there is no "active market" for the traded warrants (Series 4) primarily due to an ongoing gradual decline in the frequency and volume of trading in the traded warrants, so that the total of units traded over the fourth quarter of 2016, the four quarters of 2017 and the first quarter of 2018, constituted approximately 1.7%, 0.5%, 0.5%, 0.1%, 0.6% and 2.8%, respectively, of the total number of existing units with significant variance in the transactions prices of the warrants without a corresponding material change in the share price. There was often a negative correlation between the change in the share price and the change in the warrants price.

Consequently, the Company estimated the value of the warrants issued to Viola and the warrants (Series 4) as from December 31, 2016 on the basis of an accepted option pricing model, with the assistance of an independent assessor. In addition, the Company gave proper weight to the market at the time. In addition, the Company has given the appropriate weighting to the market prices in the course of the period. The fair value has been measured based on observed market data, directly or indirectly, in accordance with the binomial model and based on relevant parameters for the terms of the warrants that have been issued to Viola warrants and warrants (Series 4), which are required for the evaluation of their value. The assumptions and the variables for the model include: the base asset (the market price of the share), the exercise price of the warrant, the additional amount payable on the exercise, the lifetime of the warrant, the expected fluctuations in the base asset (the share price) and the risk free interest rate for the period

NOTE 5 – SHARE-BASED PAYMENT

a. Grant of options and restricted share units ("RSUs")

On March 14, 2018, the Company's Board of Directors approved a grant of 2,066,193 options and 278,566 RSUs to 21 grantees, as follows:

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of options to two office holders (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	118,374	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016
Grant of options to three key employees (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	118,375	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016
Grant of options to two office holders (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02**	496,882	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to a key employee (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.02**	212,949	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of options to two key employee of the U.S. subsidiary	Each option is exercisable into a share of NIS 0.01 par value	283,932	The options will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the	10 years from January 21, 2016

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
(with service conditions and market conditions)	with an exercise price of NIS 1.10***		share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	
Grant of options to 15employees (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	572,000	2/3 will vest and be exercisable after two years from the date of grant. The remaining 1/3 will vest and become exercisable in four equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche. The first quarterly tranche will vest on June 30, 2020.	5 years from date of grant
Grant of options to a consultant (with service conditions only)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.12*	50,732	25% will vest and become exercisable on March 31, 2019. The remaining 75% will vest and become exercisable in 12 equal quarterly portions, at the end of each calendar quarter commencing on the date of vesting of the first tranche (i.e., March 31, June 30, September 30 and December 31). The first quarterly tranche will vest on June 30, 2019.	10 years from January 21, 2016
Grant of options to a consultant (with service conditions and market conditions)	Each option is exercisable into a share of NIS 0.01 par value with an exercise price of NIS 1.10***	212,949	The options will on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total options		**2,066,193**		
Grant of RSUs to two office holders (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	115,036	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Grant of RSUs to three key employees (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	114,498	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016

The grant date and the entitled employees	The instrument conditions	The number of instruments	Vesting conditions	Contractual duration of the options (years)
Grant of RSUs to a consultant (with service conditions and market conditions)	Each RSU is exercisable into a share of NIS 0.01 par value without any exercise price.	49,032	The RSUs will vest on December 20, 2020 if the share price will be at least NIS 1.70 per share, in which case, the amount of 50% will vest, and if the share price will be NIS 4.24 per share, the entire amount will vest. In the range between these two stock prices, the relative quantity will vest.	10 years from January 21, 2016
Total RSUs		278,566		

* The exercise price of each option is NIS 1.12 (determined based on the average closing price of the Company's share on the TASE, in the 30 trading days prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018, plus 10%).

** The exercise price of each option is NIS 1.02 (determined based on the average closing price of the Company's share on the TASE, in the 30 trading days prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018).

*** The exercise price of each option is NIS 1.10 (determined based on the closing price of the Company's share on the TASE, on the trading day prior to the date of approval of the grant by the Board of Directors, i.e., March 14, 2018).

b. A change of the vesting terms of the options and RSUs granted to the CEO, officers and key employees of the Company and the subsidiaries

On March 14, 2018, the Company's Board of Directors resolved to change the vesting terms of the options and RSUs with service terms and market conditions granted to the CEO and officers and key employees of the Company and its subsidiaries, such that the minimum share price will be NIS 1.70 instead of NIS 2.14 and the exercise period will be December 20, 2020 instead of January 20 2020. There shall be no change in the other terms of the options and the RSUs, including the exercise price and the other vesting conditions. The change in the aforesaid conditions regarding the CEO is subject to the approval of the Company's shareholders.

NOTE 6 – CREDIT FACIK+LITY WITH A BANK, CONVERTIBLE NOTES, LOAN FROM SHAREHOLDERS AND PRIVATE PLACEMENT OF SHARES

a. Credit facility with a bank

On March 29, 2017, the Company and an Israeli Bank (the "**Bank**") reached an agreement (the" **Credit Agreement**") whereunder the Bank would grant the Company a credit facility in a total amount of up to $10 million. The credit facility is comprised of a $6 million long-term loan (the" **Loan**") and a $4 million credit facility against trade accounts receivable, based on specific customer invoices (the "**Credit Facility for Financing Accounts**

Receivable"). The Loan may be drawn and is repayable in equal quarterly installments over three years from the date of the draw. The Loan bears annual interest of quarterly dollar LIBOR + 5.5%, payable quarterly. The Credit Facility for Financing Accounts Receivable may be drawn through March 25, 2018 and is renewable annually. The Credit Facility for Financing Accounts Receivable bears annual interest of monthly dollar LIBOR + 4.25%. The right to draw the credit facility is conditional on the Company's having cash balances of not less than $4 million in the Company's account with the Bank. In addition, the Company allotted the Bank 798,088 warrants exercisable for purchase of 798,088 of the Company's ordinary shares at an exercise price of NIS 1.36 per share.

On January 30, 2018, the Company and the Bank signed an amendment and extension of the validity of the Credit Agreement (the" **Amendment and Extension of the Credit Agreement**"). As part of the Amendment and Extension of the Credit Agreement, the following conditions were agreed upon ,inter alia:

1) The framework of the long-term loan is to be utilized as a long-term loan or as a short-term loan. The exercise period of the framework of this loan will be extended until February 28, 2019, with the manner of repayment of the principal of the short-term loans and the interest thereon will be agreed upon by the parties prior to the draw of the short-term loans.
2) The exercise period of the Credit Facility for Financing Accounts Receivable was extended until January 12, 2019.
3) The credit allocation fee will increase from 0.6% to 0.9%
4) The undertaking in the Credit Agreement to deposit $4 million in the Company's account with the Bank upon the withdrawal of the credit was changed, so that the Company undertakes that from the date of the withdrawal of credit, the balance of the cash in the Company's account with the Bank will not be less than 40% of the amount of credit actually provided to the Company.
5) The warrant exercise period was extended by one year.

To secure the repayment the Loan and the Credit Facility for Financing Accounts Receivable, the Company registered a fixed and floating charge on all of its assets in favor of the Bank.

On February 28, 2018, the Company withdrew approximately $5 million from the credit facility, approximately $2.9 million as a short-term loan and $2.1 million as Credit Facility for Financing Accounts Receivable. The short-term loan is for a period of three months. Of the Company's total cash, the Company is required to maintain a balance of 40% of the amount of the credit, i.e., $2 million is not available for general use by the Company.

The fair value of the warrants is $122 thousand. Following the extension of the exercise period of the warrants, as described above, their fair value increased by $15 thousand.

b. Convertible notes and loan from shareholders

On February 28, 2018, the final repayment date of the second and final payment of the Series L Notes in the total amount of NIS 38,128 thousand par value was received, of which NIS 6 million (approximately $1.7 million), Which were held by three interested parties in the Company who informed the Company that in order to support the Company's business strategy, they intend to provide the Company with a loan of the same amount. If the parties fail to reach agreement on the terms of the loan within 30 days (i.e., until March 23, 2018),

the balance of the principal of the notes and the interest will be paid to the interested parties within 60 days (i.e., until April 22, 2018). The interested parties are Medtronic International Technology Inc. ("**Medtronic**"), Dr. Giora Yaron, who serves as Chairman of the Board of Directors in the Company (through Itamar Technologies and Investments (1994) Ltd., a company owned and controlled by him) ("**Giora Yaron**") and Mr. Martin Gerstel, who serves as a director of the Company . The amount of the loan includes the interest that was supposed to be paid to them.

On March 22, 2018, all of the aforementioned interested parties, with the exception of Mr. Martin Gerstel, entered into the investment agreements described in Section c. below. As to Mr. Martin Gerstel, it was agreed at that time between the Company and Mr. Martin Gerstel, that the repayment of the notes will be repaid within 90 days (i.e., until June 21, 2018.) It is hereby clarified that Mr. Gerstel and the Company agreed that no additional interest will be paid from the original repayment date of the notes until June 21, 2018.

In addition, as part of the investment agreement signed by the Company with Medtronic, the Company transferred the amount of the loan from Medtronic to a trusteeship as stated in Section c. below, thereby repaying the loan to Medtronic, including the accrued interest.

The loans received from interested parties on February 28, 2018 bear no interest. Due to the fact that the loans were received from shareholders who are interested parties, the Company measured them at fair value on the date of the transaction. Due to the fact that this is a capital transaction, the Company recognized the difference between the fair value and the principal amount of the loans granted to equity. The fair value was calculated based on the interest rate customary for such loans. The difference between the amount of the loan principal amount and its fair value, which amounted to $85 thousand, was charged to a capital reserve from transactions with shareholders. The amount of this difference is charged over the period of the loan to the statement of operations as interest expenses.

c. Private offering of shares

On March 22, 2018 (after obtaining the approval of the Audit Committee and the Board of Directors for a material private offering to interested parties and other shareholders of the Company), the Company entered into separate investment agreements (each of the agreements will be referred to as the "Investment Agreement" or the "Agreement" and together, the "**Investment Agreements**" or the "**Agreements**") with the controlling shareholder of the Company, Viola Growth II A.V. LP, a limited partnership, which holds the Company's shares through Viola Growth II (A) LP and Viola Growth II (B) LP (All three jointly referred to as "**Viola**"); Medtronic[1], an interested party of the Company; Giora Yaron, an interested party of the Company; Yelin-Lapidot Mutual Funds Management Ltd., an interested party of the Company ("**Yelin Lapidot**"), Meitav Dash Provident and Pension Funds Ltd. ("**Meitav-Dash**"), the Israel Shares – Phoenix Associates ("**Phoenix**") (Jointly: the "**offerees**").

Under the Investment Agreements, subject to the completion of the transaction which is the subject of the investment agreements, the offerees shall invest (directly or, in the case of Yelin Lapidot, Meitav and Phoenix, through mutual funds and/or provident funds and/or pension funds managed thereby) NIS 20,847,157 (approximately $6 million) (the "**Investment Amount**") in consideration for the allotment of 22,013,893 ordinary shares of the Company of NIS 0.01 par value (the "**Shares Offered**") which, immediately after the execution of the transaction, will constitute approximately 7.7% of the Company's issued

[1] For details regarding the reorganization of Medtronic's holdings in the Company, see below.

and outstanding share capital, or approximately 6% of its issued and outstanding share capital, fully diluted.

The investment is carried out at the price of NIS 0.947 per share, a price reflecting a seven percent (7%) discount on the average price in the 15 consecutive trading days through March 15, 2018 (inclusive), the date of issuance of the Company's 2017 financial statements. The shares offered shall be subject to resale restrictions as stipulated by the Securities Law and the regulations published thereunder.

Upon signing the Agreement, Viola, Medtronic[2] Meitav Dash and Phoenix have deposited[3] their share of the investment amount in trust; that amount will be transferred to the Company upon the completion of the transaction. In addition, since Dr. Giora Yaron has left the amounts of the last installment of the principal of the Series L Notes, the parties have agreed that these amounts shall be applied to payment of his share of the investment amount.

The Investment Agreements include the customary Company's representations in regarding, inter alia, the Company's reports and the allotment of the offered shares as prescribed by law, and the customary representations of the offerees. Likewise, the investment agreements include the parties' undertakings, including the Company's undertaking to refrain from dividend distribution or issuance of securities convertible into the Company's shares or into rights to such shares (except for the shares to be issued upon the exercise of already outstanding convertible securities issued prior to the signing of the investment agreement and the allotment of options to employees in the normal course of business). It has also been agreed that the Company shall bear the expenses pertaining to the transaction.

The completion of the transaction under the agreements is subject to the customary suspending conditions, such as: (a) approval by the majority of voters at the Company's Shareholders' Meeting, as stipulated by Section 275 of the Companies Law[4], (b) consent of the TASE to listing of the offered shares for trade, (c) there occurring no material adverse change in the Company's business between the date of the execution of the agreements and the completion of the transaction; and (d) the investment of an Israel currency amount equal to $5 million by all the offerees. As long as the suspending conditions are not met by May 31, 2018 (unless the parties waive them insofar as they are empowered to do so under the terms of the agreements), the entire amount invested shall be refunded to the offerees.

On May 2, 2018, Medtronic informed the Company that as part of the reorganization of a wide portfolio of investments by Medtronic (which also includes its holdings in the Company) its holdings in the Company were transferred to MS Pace LP, a limited partnership incorporated in Delaware, U.S. (the "**Partnership**"), such that the Partnership

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[2] As to Medtronic's share of the amount of the investment, the amounts left by Medtronic in respect of the last principal payment and the interest on the Series L Notes were transferred by the Company on March 28, 2018 to a trust account.

[3] Yelin Lapidot has undertaken to transfer its share in the investment amount upon the completion of the transaction, since its investment is implemented through mutual funds.

[4] This is because, as at the date of this report, Viola is classified as a controlling shareholder of the Company, and since the investment agreements with the offerees are part of a single transaction, under identical terms, for the sake of caution all the investment agreements are presented for approval pursuant to Section 270 (4) of the Companies Law, 1999 .

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holds approximately 14.3% of the Company's issued and outstanding share capital. Medtronic holds 51% of the holdings in the General Partner in the Partnership. The Company was also informed that Medtronic will transfer to the Partnership the Company's shares that will be issued to it as part of the private offering, if approved, as detailed in Section c. above.

NOTE 7 – REVENUES

The Company operates in one business sector.

The following is a breakdown of revenues according to product groups:

	Three Months Ended March 31,		Year Ended December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
WatchPAT and related products	**5,039**	3,564	18,105
EndoPAT	**431**	781	2,956
	11,546	4,345	20,701

The following is a breakdown of revenues on the basis of geographical regions (based on the geographical location of the customer):

	Three Months Ended March 31,		Year Ended December 31,
	2018	2017	2017
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
United States and Canada	**3,458**	2,902	14,764
Europe	**378**	306	1,746
Israel	**110**	63	260
Asia Pacific (excluding Japan)	**303**	401	759
Japan	**1,208**	653	2,965
Others	**13**	20	207
	5,470	4,345	20,701