ITAMAR MEDICAL LTD.

QUARTERLY REPORT

AS OF JUNE 30, 2016

Table of Contents:

Disclaimer

Set out below is an unofficial translation into the English language, for convenience purposes only, of the financial statements of Itamar Medical Ltd. (the "**Company**") for the nine and three-month period ended June 30, 2016 (the "**Financial Statements**") that originally were prepared in the Hebrew language.

The full, legal and binding version of the Financial Statements 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 August 8, 2016

In the event of a contradiction or inconsistency between this translation and the Hebrew version of the Financial Statements, 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 Financial Statements and its contents.

Neither the Company, nor any of its directors, employees, advisors or other office holders, accept any responsibility on any grounds whatsoever to any other person in connection with this translation into English of the Financial Statements. 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 Financial Statements.

Readers are advised to read the authoritative Hebrew version of the Financial Statements in all matters which may affect them and/or their decisions in any way. Below are links to the Company's Financial Statements in Hebrew:

http://maya.tase.co.il/bursa/report.asp?report_cd=1051586
http://maya.tase.co.il/bursa/report.asp?report_cd=1051586-01&CompCd=1411&Type=Pdf

ITAMAR MEDICAL LTD.

PART A

SIGNIFICANT CHANGES AND REVISIONS

IN THE COMPANY'S BUSINESS

Significant Changes and Innovations in Corporate Business in the Quarter Ended June 30, 2016 and Subsequent thereto

Due to the Company's compliance with the conditions listed in the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (henceforth: "Report Regulations") with regard to its being a "small corporation", the company Board of Directors decided on March 18, 2014 to adopt all the easements determined in the Report Regulations regarding small corporations in the following subjects: a) combining the financial reports of an affiliated company; b) an effectiveness of internal audit report on financial reporting; c) attach a very significant valuation; and d) details of exposure to market risks.

As of January 1, 2016, and in accordance with the instructions of the Report Regulations, the company does not yet meet the definition of the term "small corporation". Therefore, according to regulation instruction 5E(c) of the Report Regulations, the company will continue to apply the above easements up to and including the company's quarterly report for September 30, 2016 (see the company's immediate report from January 7, 2016 (Reference No. 2016-01-005152)).

According to regulation 39a of the Report Regulations, details of significant changes and innovations that occurred in the transactions of Itamar Medical Ltd. (henceforth: **"The Company"**) for the three-month period ending on June 30, 2016 and up to the date of this report's issue follow. Terms used below shall have the meaning given to them in the Company's periodic report for the year 2015, which was issued in March 31, 2016 (Reference No. 2016-01-022878), included in this report by way of reference (henceforth: **"the Periodic Report for the year 2015"**), unless specifically indicated otherwise.

This chapter of the periodic report was prepared under the assumption that the reader has the chapter describing the company's business in the periodic report for the year 2015, as well as the update thereof in the Company's quarterly report as of March 31, 2016, published on May 15, 2016 (ref. No. 2016-01-034392).

1. Extension of the exclusive marketing agreement with Medtronic

On April 19, 2016, the company announced the extension of the marketing agreement from March 2014, as amended and extended in April 2015, between the subsidiary company of the company and Medtronic Inc., the parent company of Medtronic International Technology, Inc. (considered an interested party due to its holdings), under the same conditions, for an additional year that will end on April 28, 2017.
For further details, see the company's immediate report from April 19, 2016 (Reference No.: 2016-01-051553), included in this report as a reference.

2. Agreement for distribution rights of PAP medical equipment to treat sleep apnea syndrome in the USA

In continuation of the company's immediate report from November 30, 2015 (Reference No. 2015-01-169830) (henceforth: **"the previous report"**) and according to the instructions of Section 37 a 2 of the Reports Regulations, on May 4, 2016 the company announced that it had signed a binding and valid agreement in principle (Term Sheet) with an American manufacturer (henceforth: **"the manufacturer"**) of a

medical device for the treatment of sleep apnea syndrome (henceforth: **"Term Sheet"**). According to the term sheet, the company will act as the distributor for a range of medical devices the manufacturer produces, intended for treating sleep apnea syndrome, including PAP (Positive Airway Pressure) devices, masks and accessories, with exclusivity limited to the cardiology sector in the U.S. (and distribution on a non-exclusive basis in other U.S. markets). The commitment is for a period of five years. It is the intention of both parties to conduct good-faith negotiations with the aim of signing a detailed agreement that will be based on the conditions of the Term Sheet by the end of 2016 (henceforth: **"the final agreement"**). The Term sheet binds the parties, and they will act accordingly until the final agreement is signed, so that the company can begin distributing its products immediately.
For further details, see the company's immediate report from May 4, 2016 (Reference No.: 2016-01-058894), included in this report as a reference.

3. <u>Annual General and Special Company Shareholders' Meetings</u>

On May 25, 2016, the annual General and Special meeting of company shareholders was convened (henceforth, for this section: **"the meeting"**). The following topics were approved by the meeting:

3.1 The appointment of Ms. Yaffa Krindel Shiratzky as an external Director for the company and the compensation she will receive;
3.2 The appointment of Ms. Zipporah Ozer-Armon as an external Director for the company and the compensation she will receive;
3.3 A grant of 330,000 non-negotiable options that can be realized as 330,000 ordinary shares of the company to the external director, Ms. Yaffa Krindel Shiratzky;
3.4 A grant of 330,000 non-negotiable options that can be realized as 330,000 ordinary shares of the company to the external director, Ms. Zipporah Ozer-Armon;
3.5 The re-appointment of the company's serving directors who are not external directors: Giora Yaron, Martin Gerstal, Gary Ellis, Ilan Biran (as an independent director), Dr. Shmuel Morry Blumenfeld (as an independent director), Jonathan Kolber and Sami Totah, as well as the compensation they will receive;
3.6 The granting of options to the directors Dr. Giora Yaron, Martin Gerstal, Ilan Biran and Dr. Shmuel Morry Blumenfeld for their service as directors over the coming three terms of service (if, indeed, they are appointed for the terms of service noted), as follows: 265,833 non-negotiable options that can be realized as 265,833 ordinary shares in the company were allocated to Dr. Giora Yaron, 238,333 non-negotiable options that can be realized as 238,333 ordinary shares in the company were allocated to Mr. Martin Gerstal, 265,833 non-negotiable options that can be realized as 265,833 ordinary shares in the company were allocated to Mr. Ilan Biran, and 330,000 non-negotiable options that can be realized as 330,000 ordinary shares in the company were allocated to Dr. Smhuel Morry Blumenfeld;
3.7 Directors' fees to Viola P.A. Fund Management II Ltd. for the service of the directors Jonathan Kolber and Sami Totah;
3.8 The granting of 476,666 non-negotiable options that can be realized as 476,666 ordinary shares in the company for Viola P.A. Fund Management II Ltd. for the service of the directors Jonathan Kolbert and Sami Totah;

3.9 Renewal of the appointment of the accounting firm of Somekh-Chaikin as the company's auditors for 2016 and authorization to the company's Board to determine its fees.

For further details, see the report on convening the annual general and special meeting published on April 14, 2016, its supplemental reports from May 3, 2016 and May 19, 2016 and the immediate report regarding the results of the meeting published May 25, 2016, as amended by a report published June 6, 2016 (reference Nos.: 2016-01-049288, 2016-01-057808, 2016-01-029871, 2016-01-034068 and 2016-01-0454,respectively), included in this report by reference.

4. Submission of an upgraded version of WatchPAT™ for examination by the FDA

On June, 8, 2016, the Company gave notice that it had submitted an innovative and upgraded version of WatchPAT, a product developed thereby and marketed worldwide, for the approval of the US Food and Drugs Administration.

The innovative version of the product integrates an SPB (Snoring and Body Position) chest sensor which, combined with the PAT ™ signal and the advanced algorithms developed by the Company facilitates the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. Moreover, the upgraded version makes it possible to identify Cheyne-Stoke breathing patterns characterizing heart failure patients. At the same time, the Company has filed a preliminary patent registration request for the new invention, based on the new capabilities of the product.

For further details, see the Company's immediate report issued on June 8, 2016 (ref. No. 2016-01-046839) included in this report by reference.

5. Reduction of the minimum age approved by the FDA for use of WatchPAT

In July 2016, the FDA confirmed that the original approval given to the WatchPAT product was extended, so that the product may now be used starting with age 12, rather than 17 in the original approval. This expands the target population for the product. This approval has been received in addition to similar approvals in Europe (CE approval) and in Japan.

For further details, see the Company's immediate report issued on July27, 2016 (ref. No. 2016-01-091213) included in this report by reference.

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ITAMAR MEDICAL LTD.

PART B

REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF COMPANY'S AFFAIRS AS OF JUNE 30, 2016

Board of Directors' Report for the Six -month Period Ended June 30, 2016

We hereby present the Board of Directors' Report of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company"**) and its subsidiaries (the "**Group**") as of June 30, 2016 (the "**report date**"), and the Company's consolidated financial results for the six and three-month periods ended June 30, 20156 (the "**reporting period**" and the "**quarter**", respectively), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report as of June 30, 2015, is provided with the assumption that the annual report for the year ended December 31, 2015, issued by the Company on March 31, 2016 (ref. No. 2016-01-22878; hereafter - the "**Annual Report**") and the Directors' Report as of March 31, 2015, issued on May 25, 2016 (ref. no. 2016-01-34392; hereafter - the "**Q1 2016 Report**), are available to the reader.

Definitions:

Series L Notes	Company notes (Series L), listed for trading on the TASE in March 2013 and convertible into the Company's ordinary shares
Stock Exchange	The Tel Aviv Stock Exchange Ltd. ("**TASE**")
Dollar	U.S. dollar

Preparation of the financial statements

The financial statements enclosed in Part C of this report are prepared in conformity with the Regulations and international financial reporting standards ("**IFRS**"). The functional currency and the reporting currency of the financial statements is dollar. For more information, see Note 2b to the Company's consolidated financial statements.

Chapter A – Board of Directors' Explanations of the State of Corporate Affairs

1. Summary description of the Company

The Company is engaged in research and development, marketing, sales and leasing of non-invasive diagnostic medical devices based on the PAT^{TM} ("**PAT**") signal platform and other devices, and associated support services, for diagnosis and treatment of various diseases, in particular – sleep apnea, with emphasis on cardio-vascular conditions.

he Company has two products: WatchPAT^{TM} ("**WatchPAT"**) and EndoPAT^{TM} ("**EndoPAT"**). For more information about the Company's products, see Section 8 of Part A of the annual report for the year 2015.

WatchPAT diagnoses sleep apnea, which has been proven, inter alia, to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart. EndoPAT is used to diagnose Endothelial function (arterial function), which is a key indicator of potential cardio-vascular disease. Hence, the Company reports on one operating segment, the Cardiology Segment. Both products have CE and FDA approval.

In accordance with its strategic plan, the Company currently focuses on marketing its products (EndoPAT and WatchPAT) in the Cardiology field (while continuing its activities in the sleep breathing disorder field using its WatchPAT device), emphasizing the U.S., Japanese and

Chinese markets, and recently – also the European market, which the Company considers to be the main markets for its products, with a potential to increase its revenues.

As part of the Company's strategy, the US subsidiary launched in January 2015 the Total Sleep Solution ("**TSS**"), which is a family of products and services that address sleep apnea, providing cardiology solutions (clinics and departments around hospitals), improving the Company's business model and turning it from a manufacturer and marketer of medical products to a supplier of comprehensive solutions of: products, training and services as part of patient care. In May 2016, the Company announced plans to expand its product portfolio and provide a comprehensive sleep solution including examinations and diagnosis using the WatchPAT and a solution for the treating of sleep apnea using PAP devices (Positive Airway pressure), a device that pumps air at a constant pressure to prevent prolapse of tissues for patients. For this purpose, the Company has signed a binding principles agreement with a US manufacturer (the "**Manufacturer**") of medical devices for the treatment of sleep apnea syndrome, and according to the principles agreement, the Company will serve as the US distributor of medical devices for treating sleep apnea syndrome, including PAP devices, masks and accessories, with limited exclusivity in the US cardiology market.

For more information about the Company's strategy, see Section 31 of Part A of the annual report for the year 2015.

2. <u>Major events during and after the reported period</u>

In the first half of 2016 the Company's revenues declined by approximately 2% , compared to the corresponding quarter last year, when revenues from Watch PAT, which is the focus of the strategy, increased by approximately 11%, improving the gross margin rate from approximately71% in the first six months of 2015 to approximately74% in the first six months of 2016. The moderate increase in revenue for the WatchPAT was a result of the decline in sales of this product in Europe, while its sales in the US increased by over 30% and from move in the US from an ordinary sale model (sale of equipment and sensors) to the sale of tests, as explained in Section a below.

In the first half of 2016, the Company focused on several material areas, as described below, aspiring to continue the growth in the current year as well:

a. The Company continues to promote and perfect in the U.S. the Total Sleep Solution (TSS) reported in January 2015, which is a family of products and services treating Sleep Apnea and providing cardiology solutions (clinics and departments around hospitals), improving the Company's business model and turning it from a manufacturer and marketer of medical products to a supplier of comprehensive solutions of: products, training and services as part of patient care. The first agreement under this model 'was reached with the Montefiore Medical Center of New York in the United States. For more information, see Section 8.4 of Part A of the 2015 Annual Report and the Company's immediate report of May 4, 2015 (reference number – 2015-01-011139). In addition, in respect of the addition of a treatment solution, see section b below.

In this context, the Company made a transition from the normal sales model (equipment and sensor sales) to the sale of medical tests. In the first stage, the implementation of this model has caused a decline in sales revenues resulting from sales of testing alone (sensors) without the equipment (WatchPAT), as in the past. This means that the Company recognizes the service revenues over a longer period, as compared to recognition of revenues from sales of equipment, but the Company expects that in the long-term this will creates lead to customer dependence on the Company's equipment, which is expected to improve future revenues from sales of sensors. In addition, a considerable portion of information on consumption pattern of clients 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.

b. In May 2016, the Company announced that it signed a binding principles agreement with Drive de Vibiss, a US manufacturer of medical devices for the treatment of sleep apnea, whereby the Company shall serve as the US distributor of medical devices intended for the treatment of sleep apnea, including PAP devices, masks and accessories, with limited exclusivity in the US cardiology market. For more information, see section 2 of Part A of this quarterly report. It should be noted that, in addition to the immediate commercial benefit deriving from sales of medical equipment, the agreement gives the Company access to current information on the consumption patterns and clinical results of the of the PAP devices, transmitted daily directly from hospitals, subject to the applicable privacy protection laws.

c. Focusing the Company's operations in accordance with the Company's strategy was expressed in the support and promotion of material distribution agreements for key target markets: the US, Japan and China. For more information, see Section 12.3 of Part A of the annual report for 2015.

d. On June, 8, 2016, the Company gave notice that it had submitted an innovative and upgraded version of WatchPAT, a product developed thereby and marketed worldwide, for the approval of the US Food and Drugs Administration.

The innovative version of the product integrates an SPB (Snoring and Body Position) chest sensor which, combined with the PAT ™ signal and the advanced algorithms developed by the Company facilitates the differentiation between Central Sleep Apnea and Obstructive Sleep Apnea events. Moreover, the upgraded version makes it possible to identify Cheyne-Stoke breathing patterns characterizing heart failure patients. At the same time, the Company has filed a preliminary patent registration request for the new invention, based on the new capabilities of the product.

The submission was based on comprehensive clinical studies in several sites in the US, Europe and Israel, in which the Company's product was compared to polysomnographic tests, considered the gold standard in the United States. The studies were successful and the results thereof sported the submission. The study results were presented to the convention of the American Sleep Association, held in June 2016 in Denver, Colorado, by Prof. Thomas Penzel of the Berlin, Germany Charite University.

The new capabilities will give the device an added advantage in the cardiology market, on which the Company is focused, since differentiation between the various types of sleep apnea is very important in that field.

e. As reflected in the results for the first half of 2016 and 2015, the decrease in the EndoPAT product revenues continues, due primarily to a reduction in research funding to research institutes, purchasing the EndoPAT product, as well as a delay, and even halt, in the process of obtaining the US insurance indemnification code (category I) for this product. The current insurance indemnification code for this product reduces the possibility of therapists to receive insurance reimbursement for use of the device. Accordingly, at this stage the Company has decided to focus its marketing efforts for the EndoPAT in Japan, where governmental insurance indemnification for the product is available, and China, and to reduce expenses related to this product in other areas.

f. In July 2015 a significant customer of the Company in the US elected to extend a second time by three years up to October 31st 2018 the agreement for the sale of the WatchPAT product, the zzzPAT ™ software and accompanying equipment and the provision of services related to these products. Under this agreement the WatchPAT unified product was added to the package and the commercial terms of the original framework agreement from September 2007 were revised. Revenues from sales to this customer in the year ending on December 31st 2015 amounted to approximately $ 2.9 million (17% of total sales in the same year). In January 2016 the Company expanded its activity to another site of that customer in the US, following which its sales thereto reached approximately $ 2.1 million in the first half of 2016, representing about 24% of total sales in that period. For further details, see Section 11.1 of Part A of the annual report for 2015.

g. In July 2016, the FDA confirmed that the original approval given to the WatchPAT product was extended, so that the product may now be used starting with age 12, rather than 17 in the original approval. This expands the target population for the product. This approval has been received in addition to similar approvals in Europe (CE approval) and in Japan.

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 Israeli 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, *inter alia,* 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 Statements of Financial Position)

Item	June 30, 2016	December 31, 2015	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
Cash and cash equivalents and investments in securities available for sale	31,550	35,729	(12%)	The decrease during the first half of 2016 stems from the uses for the purpose of current operations in the amount of approximately $ 3.25.7 million which includes payment of interest for L Series bonds. On the other hand these balances increased by approximately $ 1.1 million as a

Item	June 30, 2016	December 31, 2015	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
				result of the completion in February 2016, of the third and final stage of the Viola transaction. Another reason for the increase was about 31.5% depreciation of the dollar against the shekel in the first half of 2016.
Current assets	37,420	41,609	(10%)	The decrease is primarily due to the decrease in cash and cash equivalents and in investments in securities available for sale, as described above...
Non-current assets	2,052	2,131	(4%)	There was no significant change in non-current assets.
Current liabilities	12,888	4,620	179%	The increase is primarily due to the reclassification of half of the principal of the Series L notes redeemable in February 2017, in the amount of approximately $ 8.8 million, from non-current liabilities to current liabilities.
Non-current liabilities	19,514	22,169	(12%)	The decrease is primarily due, as stated above, to the reclassification of half of the fund of the Series L notes redeemable in February 2017, in the amount of approximately $8 million, from non-current liabilities to current liabilities. In addition, there was a decrease of approximately $ 1.7 million in the value of the warrants embedded in the L Series notes due mainly to the approximately 12% decline in the price of Company's shares (as of June 30, 2016 compared to December 31, 2015) and as a result of the shortening the life of the L Series notes due to the passage of time. It was partly offset by an increase of approximately $ 6.0 million in the fair value of the warrants issued the Viola Fund in November 2015 and the listed series 4 warrants issued under the rights offering at the end of December

Item	June 30, 2016	December 31, 2015	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
				2015 under the second stage of the Viola investment transaction and an increase of approximately $0.3 million deriving from additional issuance of options the Viola Fund (as part of the third stage of the investment transaction).
Working capital	24,532	36,989	(34%)	The decrease in working capital and the current ratio is primarily due to the reclassification, as stated above, of half of the fund of the Series L bonds from long-term liabilities to short-term liabilities. Another decrease occurred due to a decrease in the balances, as stated above, of cash and cash equivalents and investments in securities available for sale resulting from the financing of current operations.
Current ratio	2.9	9.0		
Shareholders' equity	7,070	16,951	(58%)	The decrease in equity is primarily due to the loss recorded by the Company in the first half of 2016 (for more information, see the analysis of operating results in section 4 below). It was partially offset by an additional investment by Viola in the amount of $ 1 million in the Company shares.

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:

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31
	2016	**2015**	**2016**	**2015**	**2014**
Revenues	8,599	8,783	4,473	4,769	16,807
Cost of revenues	2,197	2,506	1,129	1,422	4,401
Gross profit	6,402	6,277	3,344	3,347	12,406
Selling and marketing expenses	7,203	5,325	3,488	2,823	10,684

Research and development expenses	1,711	1,406	778	727	2,831
General and administrative expenses	3,151	2,107	1,204	979	4,350
Operating loss	(5,663)	(2,561)	(2,126)	(1,182)	(5,459)
Financial income (expenses) relating to cash and investments	524	(190)	(518)	(24)	(354)
Financial expenses relating to notes	(2,296)	(2,621)	(749)	(1,843)	(4,229)
Gain (loss) from financial derivatives	(4,506)	2,501	(2,372)	1,492	7,930
Financial income (expenses), net	(6,278)	(310)	(3,639)	(375)	3,347
Loss before taxes on income	(11,941)	(2,871)	(5,765)	(1,557)	(2,112)
Taxes on income	(79)	(71)	(41)	(36)	(135)
Loss for the period	**(12,020)**	**(2,942)**	**(5,806)**	**(1,593)**	**(2,247)**

Summary of Non -IFRS operating results **:

	Six Months Ended June 30,		**Three Months Ended June 30,**		**Year Ended December 31,**
	2016	**2015**	**2016**	**2015**	**2015**
Revenues	8,599	8,783	4,473	4,769	16,807
Cost of revenues	2,113	2,428	1,092	(1,384)	4,254
Gross profit	6,486	6,355	3,381	3,385	12,553
Selling and marketing expenses	6,873	5,165	3,392	2,760	10,408
Research and development expenses	1,515	1,291	723	687	2,674
General and administrative expenses	2,009	1,836	975	930	3,714
Operating loss	(3,912)	(1,937)	(1,710)	(992)	(4,244)
Financial income (expenses) relating to cash and investments	524	(190)	(518)	(24)	(354)
Financial expenses relating to notes and loans	(2,296)	(2,621)	(749)	(1,843)	(4,229)
Gain (loss) from	-	-	1	-	(32)

financial derivatives					
Financial expenses, net	(1,772)	(2,811)	(1,266)	(1,867)	(4,615)
Loss before taxes on income	(5,684)	(4,748)	(2,976)	(2,859)	(8,859)
Income tax credit (expense)	(79)	(71)	(41)	(36)	(135)
Adjusted loss for the period*	**(5,763)**	**(4,819)**	**(3,017)**	**(2,895)**	**(8,994)**

Adjustments to loss for the period:

	Six Months Ended June 30,		**Three Months Ended June 30,**		**Year Ended December 31,**
	2016	**2015**	**2016**	**2015**	**2015**
Loss for the period – under IFRS	**(12,020)**	**(2,942)**	**(5,806)**	**(1,593)**	**(2,247)**
Adjustments:					
Depreciation and amortization	196	169	95	88	367
Change in provision for doubtful accounts	437	32	44	(9)	52
Share-based payment	1,118	423	277	111	428
Expenses relating to aborted issuance	-		-		368
Revaluation of embedded warrants	4,506	(2,501)	2,373	(1,492)	(7,962)
	6,257	(1,877)	2,789	(1,302)	(6,747)
Adjusted loss for the period*	**(5,763)**	**(4,819)**	**(3,017)**	**(2,895)**	**(8,994)**

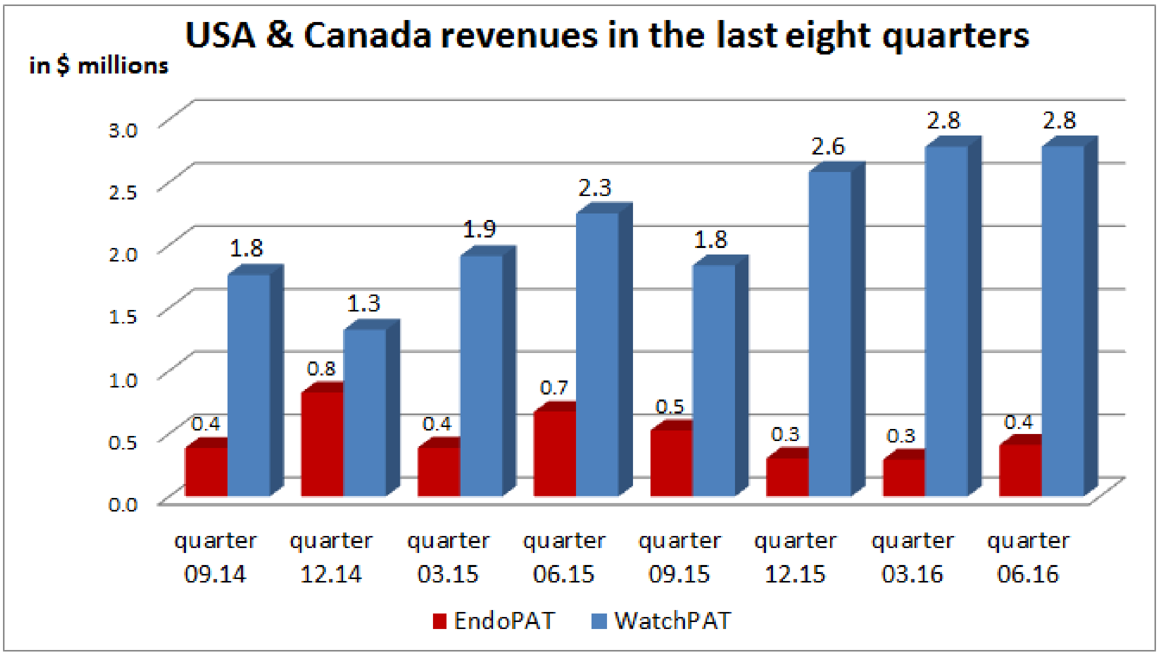
* Non-IFRS adjusted loss, which eliminates non-cash components and the effect non-recurring events.

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

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):

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Year Ended December 31 2015
WatchPAT	7,211	6,491	3,703	3,412	12,414
EndoPAT	1,388	2,292	770	1,357	4,393
	8,599	**8,783**	**4,473**	**4,769**	**16,807**



Analysis of statement of operations data for the first half of 2016

Item	For the six-month period ended June 30, 2016	For the six-month period ended June 30, 2015	Change - increase (decrease) %	Company Explanations
	Dollars in thousands			
Revenues	8,599	8,783	(2%)	The decrease in revenues in the first half of 2016 compared to the corresponding last year is due to the approximately 39% decline in revenues from sales of the EndoPAT product as compared to the corresponding period in 2015, for the reasons explained in item 2f above. In the first half of 2015, revenues from the sales of that product were $ 0.8 million, under the distribution agreements with distributors in China and in Japan. It was partly offset by the increase of approximately 11% in revenues from the WatchPAT product, resulting, among other things, from an increase in the

Item	For the six-month period ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				quantity of products sold under the distribution agreement with Philips Japan, as well as an increase in the quantity sold in the United States (total WatchPAT revenues in the Unites States increased by approximately 34% over those in the corresponding period in the preceding year). The moderate increase in revenue for the WatchPAT product stems mainly from the decrease in sales of this product in Europe.
Gross profit	6,402	6,277	2%	Gross margin in the first half of 2016 is approximately 74% of Group's revenues compared with approximately 71% in the corresponding period in the previous year. Most of the change resulted from streamlining of production and of higher percentage of sales of the new product WatchPAT 200U, the cost of manufacture of which is significantly lower than of the old product.
Selling and marketing expenses	7,203	5,325	35%	The increase in selling and marketing expenses in the first half of 2016 compared to the corresponding period of last year is mainly due to the recruitment of sales and support staff in the US and Japan (increase in the cost of wages, sales commissions and salary related expenses), according to the Company's strategic plans, described in detail in the annual report for 2015. An additional increase occurred in the marketing expenses which include expenses in respect of exhibitions and publications as well as an increase of $ 140,000 related to the allotment of options and restricted share units and the change the terms of options granted to employees and officers (for more information see the outline published on February 4th 2016, reference number: 2016-01-023689 ,as amended on March 8, 2016, ref. No. 2016-01-001791 and on March 21, 2016, ref., No. 2016-01-010950).
Research and	1,711	1,406	22%	The increase in research and development

Item	For the six-month period ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
development expenses				expenses in the first half of 2016 compared to the corresponding period in the previous year was mainly due to the recruitment of research and development personnel for the development of a new generation of products as well as for assistance in the conduct of clinical trials, application development and changes to existing products (increase in salaries and related expenses). Also, there was an increase in expenses for clinical trials necessary in order to satisfy regulatory requirements for new developments. A further increase of about $ 80,000 resulted from granting of options and restricted share units and the change of the terms of options granted to employees and officers.
General and administrative expenses	3,151	2,107	50%	The increase in general and administrative expenses in the first half of 2016 compared to the corresponding period in the previous year is mainly due to an increase in provision for doubtful debts as well as an increase of approximately $460,000 in expenses resulted from granting of options and restricted share units and the change of the terms of options granted to the CEO, officers, employees and directors (for more information see the Company's outline dated February 4, 2016) and the report on the convening of the general meeting (reference number 2016-01-023746), as amended on March 8, 2016 (reference number 2016-01-002070) and on March 13, 2016 (reference number: 2016-01-005169). In addition, payroll expenses increased by approximately $ 0.2 million.
Operating loss	(5,663)	(2,561)	121%	The increase in operating loss in the first half of 2016 compared to the corresponding period in the previous year is mainly attributable to an increase in selling and marketing expenses, research and development expenses and general and administrative expenses, as described above.

Item	For the six-month period ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Financial income (expenses) relating to cash and investments	524	(190)		The transition from financing expenses in the first half of the previous year to financial income in the current period is primarily due to a loss of approximately $0.5 million in respect of Israeli currency money market funds incurred in the first half of 2015 (resulting from the steep appreciation in the dollar-Israeli shekel exchange rate from date of acquisition in mid-2013 and the realization date..
Financial expenses relating to notes and loans	(2,296)	(2,621)	(12%)	The decrease in financial expenses on notes and loans in the first half of 2016 compared to half of 2016 compared to the corresponding period in the previous year was mainly due to repayment of shareholders' loans following the Viola investment agreement in the first half of 2015. In addition, the approximately 3.1% depreciation of the dollar/NIS exchange rate led to an increase in financial expenses due to the increase in the dollar value of the series L notes, while in the current period the depreciation of the dollar/NIS exchange rate was only about 1.4%
Gain (loss) from financial derivatives	(4,506)	2,501		The transition to a loss from derivatives in the first half of 2016 from gain from derivative financial instruments in the corresponding period in the previous year is due to the approximately $ 6.2 million increase in the fair value (non-cash but affecting the income statement) of the options issued to the Viola Fund and of the warrants (series 4) issued to the public. The value of these options and warrants increased in the first half of 2016 by approximately 220%, from 27.4 agorot on December 31, 2015 to 87.0 agorot as of June 30, 2016. These losses were partly offset by the gain from derivative financial instruments resulting from the approximately $1.7 million decline in the fair value of the options embedded in the Company's series L notes due to: (a) shortening the life of the bonds by six

Item	For the six-month period ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				months; (b) the appreciation of the dollar against the shekel; and (c) the approximately 10.9% decline in the Company's share price (as of June 30, 2016 compared to December 31, 2015).
Loss	(12,020)	(2,942)	309%	The increase in loss in the first half of 2016, is due mainly to the increase in net financial expenses, in selling and marketing expensed, in research and development expenses and in general and administrative expenses.
Adjustments to loss	6,257	(1,877)		The main change in adjustments to loss in the first half of 2016 compared to the corresponding period in the previous year is mainly due to the net loss from the revaluation of the warrants and the various options recorded in the current period. In addition, in the current period share-based payments increased to approximately $ 0.7 million in the compared to approximately $ 0.3 million in the corresponding period in the previous the year, and the provision for doubtful debts increased by approximately $ 0.4 million.
Adjusted loss	(5,763)	(4,819)	20%	The increase in the adjusted loss in the first half of 2016 compared to the corresponding period in the previous year despite a decrease in net financial expenses, is due mainly to the increase in selling and marketing expenses, research and development expenses and general and administrative expenses to support the Company's continued growth.

Analysis of statement of operations data for the second quarter of 2016

Item	For the three-month period Ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
Revenues	4,473	4,769	(6%)	The decrease in revenues in the second quarter of 2016 compared to the corresponding last year is due to the

Item	For the three-month period Ended June 30, 2016	2015	Change - increase (decrease) %	Company Explanations
	Dollars in thousands			
				approximately 43% decline in revenues from sales of the EndoPAT product as compared to the corresponding period in 2015, for the reasons explained in item 2f above. In the first half of 2015, revenues from the sales of that product were $ 0.5 million, under the distribution agreements with distributors in China and in Japan. It was partly offset by the increase of approximately 9% in revenues from the WatchPAT product, resulting, among other things, from an increase in the quantity of products sold under the distribution agreement with Philips Japan, as well as an increase in the quantity sold in the United States (total WatchPAT revenues in the Unites States increased by approximately 23% over those in the corresponding period in the preceding year). The moderate increase in revenue for the WatchPAT product stems mainly from the decrease in sales of this product in Europe.
Gross profit	3,344	3,347	(0%)	Gross margin in the second quarter of 2016 is approximately 75% of Group's revenues, compared with approximately 70% in the corresponding period in the previous year, for the reasons given in the comparison between the first half of 2016 and 2015.
Selling and marketing expenses	3,488	2,823	24%	The increase in selling and marketing expenses in the second quarter of 2016 compared to the corresponding period of last year is mainly due to the recruitment of sales and support staff in the US and Japan (increase in the cost of wages, sales commissions and salary related expenses), according to the Company's strategic plans, described in detail in the annual report for 2015. An additional increase occurred in the marketing expenses which include expenses in respect of exhibitions.
Research and development expenses	778	727	7%	The increase in research and development expenses in the second quarter of 2016 compared to the corresponding period in

Item	For the three-month period Ended June 30, 2016	2015	Change - increase (decrease) %	Company Explanations
	Dollars in thousands			
				the previous year was mainly due to the recruitment of research and development personnel for the development of a new generation of products as well as for assistance in the conduct of clinical trials, application development and changes to existing products (increase in salaries and related expenses). Also, there was an increase in expenses for clinical trials necessary in order to satisfy regulatory requirements for new developments.
General and administrative expenses	1,204	979	23%	The increase in general and administrative expenses in the second quarter of 2016 compared to the corresponding period in the previous year is mainly due to x granting of options and restricted share units to the CEO, officers, employees and directors, and from an increase in payroll expenses.
Operating loss	(2,126)	(1,182)	80%	The increase in operating loss in the second quarter of 2016 compared to the corresponding period in the previous year is mainly attributable to an increase in selling and marketing expenses, research and development expenses and general and administrative expenses, as described above.
Financial expenses relating to cash and investments	(518)	(24)	2,058%	The increase in financial expenses relating to cash and investments in the second quarter of 2016 of the previous year to financial income in the current period resulted primarily from the nearly 2.1% appreciation of the dollar relative to Israeli currency (as of June 30, 2016 compared to March 31, 2016), while in the corresponding period last year there was an approximately 5.3% depreciation of the dollar (as of June 30, 2016 compared to March 31, 2016). An appreciation of the dollar reduces the dollar value of cash and investments, thus causing financial expense (or the other way round in the event of devaluation of Israeli currency). In the corresponding period last year the Company incurred a loss of approximately $0.4 million in

Item	For the three-month period Ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				respect of Israeli currency money market funds.
Financial expenses relating to notes and loans	(749)	(1,843)	(59%)	The decrease in financial expenses relating to cash and investments in the second quarter of 2016 of the previous year to financial income in the current period resulted primarily from the effect of the change in the dollar/NIS exchange rate on the series L notes (in the current period there was a nearly 2.1% appreciation of the dollar relative to Israeli currency, while in the corresponding period last year there was an approximately 5.3% depreciation of the dollar). The appreciation of the dollar relative to Israeli currency reduced the book value of the series L notes (thus reducing the current and non-current liabilities in the statement of financial position). As a result, the Company recorded financial income. In addition, in the first quarter of 2015 the Company incurred financial expenses in respect of private shareholders' loans repaid as part of the Viola transaction.
Gain (loss) from financial derivatives	(2,327)	1,492		The transition to a loss from derivatives in the second quarter of 2016 from gain from derivative financial instruments in the corresponding period in the previous year is due to the approximately $ 3.2 million increase in the fair value (non-cash but affecting the income statement) of the options issued to the Viola Fund and of the warrants (series 4) issued to the public. In the second quarter of 2016, the value of these options and warrants increased by approximately 60%, from 54.5 agorot on March 31, 2016 to 87.0 agorot as of June 30, 2016. These losses were partly offset by the gain from derivative financial instruments resulting from the approximately $ 0.9 million decline in the fair value of the options embedded in the Company's series L notes due to: (a) the approximately 6% decline

Item	For the three-month period Ended June 30,		Change - increase (decrease) %	Company Explanations
	2016	2015		
	Dollars in thousands			
				in the Company's share price (as of June 30, 2016 compared to March 31, 2016); (b) the approximately 2.1% appreciation of the dollar against the shekel; and (c) shortening the life of the bonds by three months. In the corresponding period of the preceding year, most of the gain derived from the approximately $ 1.5 million change in the fair value of the options embedded in the series L notes (an approximately 10% decline in the share price in the second quarter of 2015, partially offset by the depreciation of the dollar relative to Israeli currency).
Loss	(5,806)	(1,593)	264%	The increase in loss in the second quarter of 2016, is due mainly to the decrease in net financial income in the current quarter compared to the corresponding quarter last year, for reasons explained above, and from the increase in selling and marketing expenses and in general and administrative expenses.
Adjustments to loss	2,789	(1,302)		The main change in adjustments to loss in the second quarter of 2016 compared to the corresponding period in the previous year is mainly due to the approximately $3.2 million increase in value of the options issued to Viola and of the warrants (series 4) issued to the public. In addition, in the current period share-based payments increased to approximately $0.2 million.
Adjusted loss	(3,017)	(2,895)	4%	The increase in the adjusted loss in the second quarter of 2016 compared to the corresponding period in the previous year is due mainly to the increase in selling and marketing expenses, research and development expenses and general and administrative expenses to support the Company's continued growth. It was partly offset by decrease in net financial expenses.

5. Liquidity

In the reported period, the Company continued raising funds to finance its current operations, as follows: (i) by increasing sales and marketing effort in markets on which Company operations are focused: U.S., Japan and China; and (ii) Funds received from the Company against issuance of the bonds (Series L) in February 2013, from a private placement of shares to institutional investors in 2014 and the funds received from the Viola Fund Investment Transaction in the Company and the rights issue to shareholders.

Analysis of cash flows for the first half of 2016

Activity type	For the six-month period ended June 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
Operating activities	(5,668)	(5,128)	11%	The increase in cash flows used in operating activities in the first half of 2016 compared to the corresponding period in the preceding year stems mainly from: (a)increase in the loss for the current period (after neutralizing the non-cash financial expenses, provisions for doubtful accounts and share-based payments); (b)a sharper decrease in the balance of trade and other accounts payable compared to the corresponding period in the preceding year (partly resulting from the last payment to AMC, a former distributor, in the amount of $ 330,000. Such increase was partly offset by (a) a sharper increase in the balance of trade accounts receivable and in inventories compared to the corresponding period in the preceding year; (b)a decrease in other accounts receivable in the current period, primarily due to VAT refunds, as compared with a decrease in the corresponding period of the previous year.
Investing activities	(105)	5,733		Cash flows used in investing activities in the first half of 2016 were primarily applied for purchase of fixed assets. In the corresponding period of the previous year, the cash flows from investing activities were primarily derived from realization of an investment in Israeli currency money market funds.
Financing activities	1,098	22		Cash flows from financing activities in the first half of 2016 resulted primarily from the issuance of additional shares and options as part of the third and final phase

Activity type	For the six-month period ended June 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
				of the Viola Investment Transaction. In the corresponding period of the previous year, cash flows from financing activities were derived from the exercise of options granted to employees.

Analysis of cash flows for the second quarter of 2016

Activity type	For the three-month period ended June 30,		Change - increase (decrease) %	Company explanations
	2016	2015		
	Dollars in thousands			
Operating activities	(2,426)	(1,955)	24%	The increase in cash flows used for operating activities in the second quarter of 2016 compared to the corresponding quarter of the preceding year stems mainly from: (a)increase in the loss for the current period (after neutralizing the non-cash financial expenses, provisions for doubtful accounts and share-based payments); (b)a sharper decrease in the balance of trade and other accounts payable compared to the corresponding period in the preceding year (partly resulting from the last payment to AMC, a former distributor, in the amount of $ 330,000. Such increase was partly offset by (a) a sharper increase in the balance of trade accounts compared to the corresponding period in the preceding year; (b) a decrease in other accounts receivable in the current period, partially due to VAT refunds.
Investing activities	(16)	4,610		Cash flows used investing activities in the second quarter of 2016 and cash flows provided by investing activities in the corresponding quarter in the previous year are due to the reasons stated in the comparison of the first half of 2016 and 2015.
Financing activities	15	4		Cash flows from financing activities in the second quarter of 2016 and in the corresponding quarter in the previous year were derived from financing activities resulted from the exercise of options granted to employees and office holders.

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.

For more information about the Company's financing and grants received from the Bureau of Chief Scientist of the Ministry of Economic Affairs and Industry, see Sections 3, 24 and 18.3, respectively, in Part A of the Annual Report for 2015.

6.2 Investment transaction with Viola

In February 2015, the Company concluded all three stages the investment transaction of Viola Fund, thereby raising a total (gross) of approximately $30 million (approximately $25.2 million from Viola and approximately $4.8 million by the rights issuance). As of the date of conclusion of the transaction, Viola held approximately 25.5% of the Company's issued and paid-up share capital and the Company considers Viola to be its controlling shareholder.

6.3 Exercise of convertible securities in the course of the report period

In the report year, employees and office-holders exercised approximately 336,000 options. The total proceeds from such exercise were approximately $ 14,000.

6.4 Line of credit from a bank

The Company has a line of credit from a bank in the total amount of NIS 100,000.

6.5 Irrecoverable undertaking to provide a credit facility

In January 2015, the Company received an irrecoverable undertaking to provide a credit facility from three of its shareholders in the total amount of to NIS 9.1 million (approximately $2.3 million) between January 2017 and February 28, 2017. For more information, see Section 24.4 of Part A of the Annual Report for2015 .

6.6 Equity, cash balances, deposits and securities and future raising of capital

As of June 30, 2016, the Company's equity capital was approximately $7,070,000.

As of June 30, 2016, the Group has cash and cash equivalents and investments in securities available for sale amounting to approximately 31,550,000.

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 and to fulfill its liabilities (including repayment of notes (Series L).

6.7 Long-term loans (including current maturities)

The average balance of long-term notes and loans in the first half of 2016 amounted to $16,020,000, compared to $15,573,000 in the corresponding period in the previous 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)

Assets and liabilities	Gain (loss) from change			Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate	Fair value	5% decrease in exchange rate	10% decrease in exchange rate
NIS	(215)	(107)	(2,146)	107	215
EURO	23	11	229	(11)	(23)

Sensitivity to changes in the Company share price

	Gain (loss) from change				Gain (loss) from change		
	68% increase in share price	10% increase in share price	5% increase in share price	Fair value	5% decrease in share price	10% decrease in share price	28% decrease in share price
Convertible notes (series L)	(5,700)	(647)	(295)	(21,770)	304	538	1,269

Sensitivity to changes in the Company's standard deviation

	Gain (loss) from change			Gain (loss) from change	
	10% increase in standard deviation	5% increase in standard deviation	Fair value	5% decrease in standard deviation	10% decrease in standard deviation
Convertible notes (Series L)	(242)	(113)	(21,770)	113	336

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 10 below.

8. Significant events during the quarter

For details of significant events during the quarter, in conformity with Regulation 39a of the Regulations, 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 ended June 30, 2016, there was no significant change in exposure to market risk and management thereof, compared to the description provided in the Company's 2015 Annual Report, issued on March 31, 2016.

10. Linkage basis report

Below are the linkage terms of the monetary balances:

Consolidated	June 30, 2016						
	Dollar	**Un-linked NIS**	**Index linked NIS**	**Euro**	**Other currencies**	**Non-monetary items**	**Total**
	Dollars in thousands						
Assets							
Cash and cash equivalents	3,834	23,656	-	1,010	262	-	28,762
Available-for sale securities	-	1,449	1,339	-	-	-	2,788
Trade receivables	4,224	131	-	265	-	-	4,620
Other receivables (including prepaid expenses)	130	24	-	2	6	356	518
Inventories	-	-	-	-	-	1,609	1,609
Long-term restricted deposit	-	179	-	-	-	-	179
Fixed assets	-	-	-	-	-	755	755
Intangible assets	-	-	-	-	-	241	241
Total assets	**8,188**	**25,439**	**1,339**	**1,277**	**268**	**2,961**	**39,472**
Liabilities							
Trade payables	317	321	-	-	-	-	638
Employee benefits	-	-	-	-	-	396	396
Provisions	-	-	-	-	-	243	243
Other accounts payable and accrued expenses	1,042	1,124	-	38	117	587	2,908
Loans from shareholders	-	-	-	-	-	-	-
Convertible notes	-	16,365	-	-	-	-	16,365
Derivative instruments	-	11,091	-		-	-	11,091
Long-term accounts payable	761	-	-	-	-	-	761
Total liabilities	**2,120**	**28,901**	**-**	**38**	**117**	**1,226**	**32,402**
Carrying amount, net	**6,068**	**(3,462)**	**1,339**	**1,239**	**151**	**1,735**	**7,070**

Consolidated	As at December 31, 2015						
	Dollar	Un-linked NIS	Index linked NIS	Euro	Other currencies	Non-monetary items	Total
	Dollars in thousands						
Assets							
Cash and cash equivalents	4,392	28,197	-	383	47	-	33,019
Available-for sale securities	-	1,467	1,243	-	-	-	2,710
Trade receivables	3,943	117	-	390	-	-	4,450
Other receivables (including prepaid expenses)	119	21	-	5	5	616	766
Inventories	-	-	-	-	-	1,580	1,580
Long-term restricted deposit	-	177	-	-	-	-	177
Fixed assets	-	-	-	-	-	755	755
Intangible assets	-	-	-	-	-	283	283
Total assets	**8,454**	**29,979**	**1,243**	**778**	**52**	**3,234**	**43,740**
Liabilities							
Trade payables	591	448	-	16	-	-	1,055
Employee benefits	-	-	-	-	-	358	358
Provisions	-	-	-	-	-	238	238
Other accounts payable and accrued expenses	1,664	1,050	-	50	49	324	3,137
Loans from shareholders	-	-	-	-	-	-	-
Convertible notes	-	14,906	-	-	-	-	14,906
Derivative instruments	-	6,500	-	-	-	-	6,500
Long-term accounts payable	595	-	-	-	-	-	595
Total liabilities	**2,850**	**22,904**	**-**	**66**	**49**	**920**	**26,789**
Carrying amount, net	**5,604**	**7,075**	**1,243**	**712**	**3**	**2,314**	**16,951**

11. Sensitivity analysis

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 on:

11.1 Sensitivity to changes in exchange rates

- Excess of liabilities over assets in the NIS-linked statement of financial position (linked and not linked) amounts to $ 2,123,000.

- Excess of assets over liabilities in the Euro linked statement of financial position, amounts to $ 1,239,000.

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

This sensitivity analysis is based on the dollar to shekel exchange rate as of June 30, 2016 - $0.2600 per 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	2,366	1,183	23,656	(1,183)	(2,366)
Securities	279	139	2,788	(139)	(279)
Trade receivables	13	7	131	(7)	(13)
Other receivables	2	1	24	(1)	(2)
Deposits	18	9	179	(9)	(18)
Trade payables	(32)	(16)	(321)	16	32
Other accounts payable	(55)	(27)	(546)	27	55
Derivatives	(1,109)	(555)	(11,091)	555	1,109
	(1,697)	(848)	(16,966)	848	1,697
Convertible notes (series L)					
Total	**(215)**	**(107)**	**(2,146)**	**107**	**215**

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

This sensitivity analysis is based on the dollar to Euro exchange rate as of June 30, 2016 - $1.1139 per 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	-	-	-	-	-
Trade receivables	27	13	265	(13)	(27)
Other receivables	-	-	2	-	-
Other accounts payable	(4)	(2)	(38)	2	4
Total	**23**	**11**	**229**	**(11)**	**(23)**

11.2 <u>Sensitivity to change in the market value</u>

11.2.1 Sensitivity to change in the Company share price (dollars in thousands):

	Gain (loss) from change			Fair value	Gain (loss) from change		
	68% increase in share price	10% increase in share price	5% increase in share price		5% decrease in share price	10% decrease in share price	28% decrease in share price
Notes (series L)	(5,700)	(647)	(295)	(21,770)	304	538	1,269

On November 18, 2008 the price of the Company's share declined by approximately 28%; on February 18, 2009, the price of the Company's share increased by approximately 68%.

11.2.2 Sensitivity to change in the Company standard deviation (dollars in thousands):

	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in standard deviation	5% increase in standard deviation		5% decrease in standard deviation	10% decrease in standard deviation
Convertible notes (Series L)	(242)	(113)	(2,117)	113	336

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

At the reporting date, the Board has not changed its determination regarding the minimum number of directors with accounting and financial expertise, compared with the provisions of the 2015 Annual Report.

14. Independent directors

The Company's bylaws do not include a provision concerning the number of independent directors.

Currently, there are nine directors in the Company, two of which are independent directors (Dr. Samuel Morry Blumenfeld and Mr. Ilan Biran) and two external directors.

15. Internal Auditor of the Company

Until May 25, 2016, Mr. Doron Cohen, CPA, a partner in Fahn Kanne Control Management Ltd. (a member firm of the Grant Thornton group) served as the Company's internal auditor. As of the report date, there was no significant change to the information about the Company's Internal Auditor, compared to the description provided in section 15 in Part B of the Company's 2015 Annual Report.

On May 25, 2016, upon the recommendation of the Company's Audit Committee, the Board of Directors resolved to appoint Mr. Yehuda Gevirtz, CPA, also a partner in Fahn Kanne Control Management Ltd., as the internal auditor of the Company instead of Mr. Doron Cohen, with the latter's consent. This did not result in a change in the details of the internal auditor as compared with the information provided in item 15 in Part B of the 2015 annual report, except for the following:

Item	Details
Name	Mr. Yehuda Gevirtz, CPA – partner in Fahn Kanne Control Management Ltd. (a member firm of Grant Thornton).
Commencement of term in office	May 25, 2016
Reasons for appointment	On May 25, 2016, the Company's Board of Directors appointed Mr. Yehuda Gevirtz, CPA as the Company's Internal 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.

The meeting of the Audit Committee held on August 4, 2016, discussed the internal auditor's reports regarding the implementation of his recommendations as to the maintenance of bank accounts, investments and cash flows, disaster recovery plan and the information technology.

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

16. Subsequent events mentioned in the financial statements

For subsequent events in the financial statements, see Note 6 to the Company's financial statements as of June 30, 2016.

17. Valuation

The Company includes in this report the valuation of the options embedded in bonds (Series L), which is considered a very material valuation in a small corporation, as this term is defined in Article 5d (b) (1) of the Reports Regulations. The following are additional details in connection with the valuation, as required under the provisions of Article 8 (b) (1) and (2), 8 (d) and 8 (i) of the Reports Regulations.

Valuation of warrants in convertible notes (Series L)

Subject of valuation	**Fair value of the warrants component of the convertible series L notes for accounting reporting purposes**
Valuation date	June 30, 2016
Date of agreement with the external valuer	March 7, 2013
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 11,100,000
Value of the subject of valuation based on the appraisal	NIS 7,964,000
Identification of the valuer:	
Name of the valuer	PricewaterhouseCoopers Management 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, The Tel-Aviv University, MA in

	economics, The Tel-Aviv University
Appraising experience	About 14 year experience in economic and financial consulting
Dependence on the contractee	There is no dependence between the valuer and the Company
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	
Risk-free unlinked interest	0.08%
Maximum life span of the warrants	1.67 years
Yield to redemption of the straight notes	28.61%

Valued item	**Valuator**	**Valuation date**	**Valuation(1)**	**Resulting effect(2)**	**Share price**	**Standard deviation**	**Discount rate**
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of February 28, 2013	7,450	-	153.7	66.1%	13.80%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of March 12, 2013	1,692	-	156.9	65.9%	13.63%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2013	13,019	(3,877)	203.7	63.0%	13.86%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2014	9,162	3,857	190.9	62.1%	16.78%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of December 31, 2015	3,804	5,358	142.9	60.0%	21.17%
Equity component of convertible notes	PricewaterhouseCoopers Consulting Ltd.	Effective as of March 31, 2016	2,071	1,733	125.2	58.9%	28.61%

The valuation as of February 28, 2013, the date of the public offering, pertains to NIS 62,556,000 par value convertible notes; the valuation as of March 11, 2013, the date of the private placement, pertains to for NIS 13,700,000 par value convertible notes. The valuation as of the report date pertains to total par value issued in the public offering and in the private placement.

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

(2) Resulting effect in dollars in thousands, for the reported period.

For more information regarding the valuation of embedded options in bonds Series L see attached valuation report to this quarterly report.

18. Warning signs

The Company's Board of Directors, at its meeting held on August 8, 2016, discussed the provisions of Regulation 10(b)(14) of the Regulations regarding warning signs. When such warning signs occur within the corporation, a reporting entity should enclose a disclosure of the forecasted cash flow with details of existing and anticipated liabilities of the corporation over the two years following the date of the financial statements (the "**forecasted cash flow statement**" and the "**forecasted cash flow statement period"**, respectively) The only such warning sign which occurs at the Company is continuous negative operating cash flow.

Nevertheless, the Company's Board of Directors has determined that the said warning sign does not indicate any liquidity issue and that there is no reason to suspect that in the projected cash flow period, the Company will become unable to meet its existing and expected obligations in a timely manner, for the following reasons:

At the Board of Directors' meeting, the following matters were discussed, amongst others: (i) the Company's business plan, which includes updated targets and options to align the Company with the markets in which it does business and at which it targets its products; (ii) data with regard to estimated sales volume by the Company for the forecasted cash flow period (including estimates by the Company with regard to continued proceedings for adoption of insurance reimbursement in the U.S. for the Company's products by private insurers); (iii) total Company expenses for the period, adjusted for the Company's economic and business environment; (iv) the Company's current and anticipated liabilities over the forecasted cash flow period, including with respect to the notes (Series L); and (iv) the sources of financing at the Company's disposal, as detailed in item 6 above.

As of June 30, 2016, the Company had cash and cash equivalents and marketable securities of approximately $31,550,000.

The Company's Board of Directors continues to review, from time to time, the need for taking additional measures, including fund raising and/or streamlining measures.

Chapter E – Specific Disclosure for Noteholders

21. Additional information with regard to outstanding convertible notes (Series L)

At the reporting date, there was no change in the notes issued by the Company, compared to the provisions of section 21 of Part II of the Annual Report for 2015, except as described below:

	Convertible notes (Series L)
Par value as of June 30, 2016:	NIS 76,255,261
Par value (according to linkage terms) as of June 30, 2016:	NIS 76,255,261
Accrued interest :	$578,000
Fair value in the financial statements as of June 30, 2016:	$19,014,000 (includes $2,071,000 with respect to the conversion component including accrued interest).
Value on the TASE as of August 4, 2016:	NIS 83,728,000 (for NIS 76,255,000 par value).

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: August 8, 2016

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

(UNAUDITED)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

TABLE OF CONTENTS

KPMG

Somech Chaikin KPMG

17 Ha’Arbaa St., P. O. Box 609

Tel Aviv 6100601

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Auditors' Report to the shareholders of Itamar Medical Ltd.

Introduction

We have reviewed the enclosed consolidated statements on the financial position of Itamar Medical Ltd. and its subsidiaries (hereinafter: the “Group”) including the condensed consolidated statement of financial position as of June 30th 2016 and the condensed consolidated statements of profit and loss, overall income, changes in equity and cash flows for each of the three months and six months in period ending on said date. The Board of Directors and management are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 "Interim Financial Reporting", as well as for the preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970. Our responsibility is to express a conclusion on this interim financial information for these periods based on our review.

The scope of the review

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

Conclusion

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

In addition to the above, based on our review, nothing has come to our attention that causes us to believe that said financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970.

Somekh Chaikin

CPA

August 8th 2016

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)	December 31 2015 (Audited)
	U.S.D in thousands		
Assets			
Current assets			
Cash and cash equivalents	**28,762**	10,243	33,019
Securities available for sale	**2,788**	2,800	2,710
Trade receivables	**3,892**	3,801	3,677
Other receivables	**369**	805	623
Inventories	**1,609**	1,808	1,580
Total current assets	**37,420**	19,457	41,609
Non-current assets			
Restricted deposits	**179**	183	177
Prepaid expenses	**149**	135	143
Long term trade receivables	**728**	677	773
Fixed assets	**755**	582	755
Intangible assets	**241**	336	283
Total non-current assets	**2,052**	1,913	2,131
Total assets	**39,472**	21,370	43,740

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	June 30, 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	U.S.D in thousands		
Liabilities			
Current liabilities			
Trade payables	**638**	966	1,055
Short-term employee benefits	**282**	235	190
Current maturities of convertible notes	**8,817**	-	-
Provisions	**243**	356	238
Payable expenses	**791**	885	1,257
Other accounts payable	**2,117**	2,108	1,880
Total current liabilities	**12,888**	4,550	4,620
Non-current liabilities			
Convertible notes, net of current maturities	**7,548**	14,320	14,906
Long-term loans from shareholders	**-**	1,708	-
Derivative instruments	**11,091**	6,661	6,500
Long-term employee benefits	**114**	90	168
Other long-term accounts payable	**761**	848	595
Total non-current liabilities	**19,514**	23,627	22,169
Total liabilities	**32,402**	28,177	26,789
Equity (equity deficiency)			
Ordinary share capital	**679**	467	670
Additional paid-in capital	**104,348**	80,264	103,344
Capital reserve in respect of transactions with shareholders	**1,151**	1,151	1,151
Capital reserve in respect of currency translation adjustments	**(9)**	(9)	(9)
Capital reserve in respect of securities available-for-sale	**(46)**	6	(54)
Accumulated deficit	**(99,053)**	(88,686)	(88,151)
Total equity (equity deficiency)	**7,070**	(6,807)	16,951
Total liabilities and capital (less equity deficiency)	**39,472**	21,370	43,740

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Joseph Tenne, Chief Financial Officer

Date of approval date of the financial statements: August 8, 2016

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	U.S.D in thousands				
Revenues	**8,599**	8,783	**4,473**	4,769	16,807
Cost of revenues	**2,197**	2,506	**1,129**	1,422	4,401
Gross profit	**6,402**	6,277	**3,344**	3,347	12,406
Sales and marketing expenses	**7,203**	5,325	**3,488**	2,823	10,684
Research and development expenses	**1,711**	1,406	**778**	727	2,831
General and administrative expenses	**3,151**	2,107	**1,204**	979	4,350
Operating loss	**(5,663)**	(2,561)	**(2,126)**	(1,182)	(5,459)
Financial income (expenses) relating to cash and investments	**524**	(190)	**(518)**	(24)	(354)
Financial expenses relating to notes, loans and others	**(2,296)**	(2,621)	**(749)**	(1,843)	(4,229)
Gain (loss) from derivatives instruments	**(4,506)**	2,501	**(2,372)**	1,492	7,930
Financial income (expenses), net	**(6,278)**	(310)	**(3,639)**	(375)	3,347
Loss before income tax	**(11,941)**	(2,871)	**(5,765)**	(1,557)	(2,112)
Income taxes	**(79)**	(71)	**(41)**	(36)	(135)
Loss for period	**(12,020)**	(2,942)	**(5,806)**	(1,593)	(2,247)
Basic loss per share (In USD)	**(0.05)**	(0.02)	**(0.02)**	(0.01)	(0.01)
Diluted loss per share (In USD)	**(0.05)**	(0.02)	**(0.02)**	(0.01)	(0.02)

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudied)		(Unaudied)		(Audited)
	U.S.D in thousands				
Loss for the period	**(12,020)**	(2,942)	**(5,806)**	(1,593)	(2,247)
Other comprehensive loss items that will not be carried to the Statement of Income					
Remeasurement of defined benefit plan, net of tax	**-**	-	**-**	-	(72)
Other comprehensive income (loss) items, which, after preliminary recognition in comprehensive profit, were carried or will be carried to profit or loss					
Net change in fair value of marketable securities available-for-sale, net of tax	**8**	(63)	**(17)**	66	(123)
Net change in fair value of securities available for sale, net of tax, carried to profit and loss	**-**	523	**-**	387	523
Total Other comprehensive income (loss) for the period, net of tax	**8**	460	**(17)**	453	400
Total comprehensive loss for the period	**(12,012)**	(2,482)	**(5,823)**	(1,140)	(1,919)

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (EQUITY DEFICIENCY)

	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.D in thousands						
For the six months ended June 30, 2016 (Unaudited)							
Balance as of January 1, 2016 (Audited)	670	103,344	1,151	(9)	(54)	(88,151)	16,951
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(12,020)	(12,020)
Other comprehensive income for the period, net of tax	-	-	-	-	8	-	8
Total comprehensive loss for the period	-	-	-	-	8	(12,020)	(12,012)
Transactions recognized directly in equity:							
Exercise of options	1	14	-	-	-	-	15
Private placement of shares	8	990	-	-	-	-	998
Share-based payment	-	-	-	-	-	1,118	1,118
Balance as of June 30, 2016 (Unaudited)	679	104,348	1,151	(9)	(46)	(99,053)	7,070
For the six months ended June 30, 2015 (Unaudited)							
Balance as of January 1, 2015 (Audited)	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(2,942)	(2,942)
Other comprehensive income for the period, net of tax	-	-	-	-	460	-	460
Total comprehensive loss for the period	-	-	-	-	460	(2,942)	(2,482)
Transactions recognized directly in equity:							
Issue of shares for exercised options	-*	22	-	-	-	-	22
Share-based payment	-	-	-	-	-	423	423
Balance as of June 30, 2015 (Unaudited)	467	80,264	1,151	(9)	6	(88,686)	(6,807)

* Representing an amount of less than USD 1 thousand.

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

	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.D in thousands						
For the three months ended June 30, 2016							
Balance as of April 1, 2016 (Unaudited)	678	104,334	1,151	(9)	(29)	(93,524)	12,601
Total comprehensive profit for the period:							
Profit for the period	-	-	-	-	-	(5,806)	(5,806)
Other comprehensive income for the period, net of tax	-	-	-	-	(17)	-	(17)
Total comprehensive profit for the period	-	-	-	-	(17)	(5,806)	(5,823)
Transactions recognized directly in equity:							
Exercise of options	1	14	-	-	-	-	15
Share-based payment	-	-	-	-	-	277	277
Balance as of June 30, 2016 (Unaudited)	679	104,348	1,151	(9)	(46)	(99,053)	7,070
For the three months ended June 30, 2015							
Balance as of April 1, 2015 (Unaudited)	467	80,260	1,151	(9)	(447)	(87,204)	(5,782)
Total comprehensive profit for the period:							
Loss for the period	-	-	-	-	-	(1,593)	(1,593)
Other comprehensive income for the period, net of tax	-	-	-	-	453	-	453
Total comprehensive profit for the period	-	-	-	-	453	(1,593)	(1,140)
Transactions recognized directly in equity:							
Issue of shares for exercised options	-*	4	-	-	-	-	4
Share-based payment	-	-	-	-	-	111	111
Balance as of June 30, 2015 (Unaudited)	467	80,264	1,151	(9)	6	(88,686)	(6,807)

* Representing an amount of less than USD 1 thousand.

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

	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.D in thousands						
For the year ended December 31, 2015							
Balance as of January 1, 2015 (Audited)	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	(2,247)	(2,247)
Other comprehensive loss for the year, net of tax	-	-	-	-	400	(72)	328
Total comprehensive loss for the year	-	-	-	-	400	(2,319)	(1,919)
Transactions with owner recognized directly in equity:							
Issue of shares for exercised options	5	149	-	-	-	-	154
Issue of shares, options and warrants	198	22,953	-	-	-	-	23,151
Share-based payment	-	-	-	-	-	428	428
Early repayment of loan from shareholders	-	-	-	-	-	(93)	(93)
Balance as of December 31, 2015 (Audited)	670	103,344	1,151	(9)	(54)	(88,151)	16,951

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	U.S.D in thousands				
Cash flows from operating activities					
profit (Loss) for the period	(12,020)	(2,942)	(5,806)	(1,593)	(2,247)
Adjustments for:					
Depreciation and amortization	196	169	95	88	367
Share-based payment	1,118	423	277	111	428
Change in provision for doubtful and bad debt	437	32	44	(9)	52
Net financial cost	1,791	2,730	1,273	1,851	4,591
(Profit) loss from revaluation of derivatives	4,506	(2,501)	2,373	(1,492)	(7,962)
Increase in trade receivables	(607)	(1,315)	(266)	(1,145)	(1,307)
(Increase) Decrease in other accounts receivable	248	(225)	322	57	(51)
(Increase) Decrease in inventories	(117)	(453)	(97)	117	(268)
(Decrease) Increase trade payables	(378)	(70)	(218)	68	5
Decrease in other accounts payable and accrued expenses	(24)	(229)	(270)	(141)	(412)
Increase (Decrease) in employee benefits	38	100	(96)	86	61
(Decrease) Increase in provisions	5	6	11	8	(112)
Income tax expenses (revenues)	79	96	(7)	52	179
Taxes paid during the period	(116)	(25)	(68)	(16)	(44)
Interest received during the period	17	4	7	3	11
Interest paid during the period	(841)	(928)	-	-	(1,901)
Net cash used in operating activities	(5,668)	(5,128)	(2,426)	(1,955)	(8,610)
Cash flow from investing activities					
Sale of securities available-for-sale	-	6,079	-	4,836	6,080
Purchase of fixed assets and intangible assets and capitalization of development expenses	(105)	(302)	(16)	(226)	(562)
Investment in pledged deposits	-	(44)	-	-	(44)
Net cash from (used in) investing activities	(105)	5,733	(16)	4,610	5,474
Cash flow from financing activities					
Proceeds from issuance of share capital	998	-	-	-	23,151
Proceeds from issuance of warrants	85	-	-	-	5,300
Repayment of shareholders' loan	-	-	-	-	(1,765)
Proceeds from exercise of share options	15	22	15	4	154
Net cash provided by financing activities	1,098	22	15	4	26,840
(Decrease) Increase in cash and cash equivalents	(4,675)	627	(2,427)	2,659	23,704
Cash and cash equivalents at beginning of period	33,019	9,417	31,728	7,269	9,417
Effect of exchange rate fluctuations on balances of cash and cash equivalents	418	199	(539)	315	(102)
Cash and cash equivalent balance at end of period	28,762	10,243	28,762	10,243	33,019

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

ITAMAR MEDICAL LTD.
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2016 (UNAUDITED)

NOTE 1 – GENERAL

a. The reporting entity

Itamar Medical Ltd. (hereinafter: the "**Company**") is a company resident in Israel, incorporated on January 15, 1997; the Company's address of record is 9 Halamish Street, Northern Industrial Zone, Caesarea. The Company's securities are listed for trading on the Tel Aviv Stock Exchange Ltd.

The Company and its subsidiaries are engaged in research, development, manufacturing, marketing, sale and leasing of non-invasive diagnostic medical devices and associated support services for such devices, mainly for the purpose of diagnosing cardio-vascular conditions and sleep breathing disorders. The unique technology developed by the Company can monitor the Peripheral Arterial Tone – PAT® (hereinafter: "**PAT**"). The PAT signal accurately measures 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 diagnoses the patient's medical condition.

The Company develops and markets two PAT-signal based products: WatchPAT™ (hereinafter: "**WatchPAT**") and EndoPAT™ (hereinafter: "**EndoPAT**"). The WatchPAT product diagnoses sleep breathing disorders which were established as, inter alia, significant risk factors in cardiovascular diseases, and treatment of which improves the patient's cardiovascular condition. The EndoPAT product diagnoses endothelial dysfunction, established as a predictor of cardiovascular diseases.

The condensed financial statements of the Company and its subsidiaries (hereinafter: the "**Group**") as of June 30, 2016 and the periods ended on that date, include the financial statements of the Company and its subsidiaries.

b. Completion of the investment agreement with an entity of the Viola Fund Group

On February 1, 2016, the Company completed the third and last stage of the investment transaction with the Viola Fund, in which the Company allocated to the Viola Fund 2,976,148 ordinary shares and 1,488,074 options in consideration for a total amount of 1.1 million United States Dollars (hereinafter: **"USD"**).

The Viola Fund investment transaction was performed in three stages, in the period of November 2015 to February 2016, and in it the Company allocated to the Viola Fund shares and nonnegotiable options of the Company in consideration for a total amount of approximately USD 25.2 million, this simultaneously with the execution of an issue of rights to shareholders under similar terms and for a consideration at the amount of an additional USD 4.8 million, so that the total consideration for the transaction in all its stages amounted to approximately USD 30 million. Upon the completion of the transaction as foregoing, the Viola Fund held approximately 25.5% of the Company's issued and paid-up share capital.

For information on the accounting policy of the private placement to the Viola Fund and the issue of rights carried out in 2015, see Note 16a to the 2015 Consolidated Financial Statements.

NOTE 2 – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a. International Financial Reporting Standards ("IFRS")

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting*. Accordingly, they do not contain all the information required in full annual financial statements. These interim statements should be read in conjunction with the Audited Consolidated Financial Statements as of December 31, 2015 and for the year then ended (hereinafter: 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), 5730 - 1970.

The financial statements were approved by the Board of Directors on August 8, 2016.

b. Use of estimates and judgments

The preparation of the consolidated interim financial statements in conformity with IFRS requires the management to exercise judgment in estimates, appraisals and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. It is clarified that actual results may differ from such estimates.

The management's 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 condensed consolidated interim financial statements are the same as those applied by the Group in its 2015 Consolidated Financial Statements:

NOTE 4 – FINANCIAL INSTRUMENTS

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

The book value of cash and cash equivalents, trade receivables, other receivables, bank deposits, pledged deposits, supplier and service provide liabilities and other accounts payables, are identical or proximate to their fair value, due to the life of these items.

The fair values of other financial assets and liabilities in the books, shown in the Statement of Financial Position, are as follows:

	As of June 30, 2016		As of June 30, 2015		As of December 31, 2015	
	Value	Fair value	Value	Fair value	Value	Fair value
	U.S. dollars in thousands					
	(Unaudited)				(Audited)	
Non-current liabilities						
Loans from shareholders (included accrued interest)	-	-	1,771	1,646		
Notes convertible into shares (including accumulated interest and conversion component)	**19,014**	*** 21,770**	21,566	24,178	19,289	22,181

* measured by the quoted market value

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: Unadjusted quoted prices in active markets for identical instruments.

Level 2: Observable data, whether directly or indirectly, which are not included in Level 1 above.

Level 3: Data not based on observable market data.

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets - available-for- sale securities	**2,788**	**-**	**-**	**2,788**
Financial liabilities - embedded warrants	**1,456**	**7,564**	**2,071**	**11,091**

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets - available-for- sale securities	2,800	-	-	2,800
Financial liabilities - embedded warrants	-	-	6,661*	6,661

***** Reclassified

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Audited)			
Financial assets - available-for- sale securities	2,710	-	-	2,710
Financial liabilities - embedded warrants	-	2,696	3,804	6,500

* Reclassified

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

The fair value of the option component embedded in the convertible notes was measured on the basis of directly or indirectly observable market data, according to the binomial model, on the basis of relevant parameters of the terms of notes identified as necessary in order to evaluate the option component. The assumptions and variables of the model include: the base asset (market price of the share), the exercise price of the option, the conversion ratio, exercise addition, option life, expected volatility of the base assets (price share), risk-free interest rate and repayment rate of return for the bond.

The fair value of the options issued to Viola was measured by the quoted market value of the warrants (Series 4), in light of the fact that the options issued to Viola and the warrants (Series 4) in essence have identical terms.

NOTE 5 – SHARE BASED PAYMENT

On March 16, 2016, the Company allocated to the Company's CEO 3,620,834 new options, replacing all old options yet to mature.

On March 28, 2016, the Company allocated 3,755,847 new options to replace all options given in the past which have not yet matured, to 16 senior employees of the Company (of whom 6 are officeholders), and the terms of 741,314 options allocated in 2014 or afterwards to 65 offerees were updated, so that their exercise terms were cancelled and their vesting period was extended.

The replacement is treated as changing conditions pursuant to the provisions of IFRS 2. The incremental value measured at the date of exchange is not significant.

In addition, during March 2016 employees and officeholders were allocated 14,985,957 additional options and 3,465,761 new restricted stock units. Also, during May 2016 directors were allocated 1,759,999 additional options.

The following table details the new grants and replacements in the period:

Grant date and entitled employees	**Terms of the instrument**	**Number of instruments (in thousands)**	**Vesting conditions**	**Contractual duration of the options (in years)**
Options granted to the Company's CEO and senior employees on January 21 2016 (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.55.	4,183,792 (1,869,467 options replacing old options and 2,314,325 new options) to senior employees.	25% will mature and be exercisable one year after the grant date. The other 75% will mature and be exercisable in 12 equal portions on a quarterly basis, at the end of each calendar quarter starting from the maturing of the first portion (i.e. on March 31, June 30, September 30 and December 31). The first quarterly portion will mature on March 31, 2017).	5 years from the grant date.
Options granted to the Company's CEO and senior employees on January 21, 2016 (at terms of service and market conditions cost)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.40.	17,177,846 (5,507,214 options replacing old options and 11,670,632 new options).	The options will mature after 4 years, if the share price is at least NIS 2.13 per share, in which case a quantity of 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.
Options granted to employees on January 21, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	671,000	2/3 will mature and become exercisable two years after the grant date, and the remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on March 31, 2018.	5 years after the grant date.
Options granted to consultants on January 21, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	250,000	25% will mature and become exercisable one year after the grant date. The remaining 75% will mature and become exercisable in 4 equal portions on a quarterly basis at the end of each calendar quarter from the maturing of the first portion (i.e. on	5 years after the grant date.

Grant date and entitled employees	Terms of the instrument	Number of instruments (in thousands)	Vesting conditions	Contractual duration of the options (in years)
			March 31, June 30, September 30 and December 31). The first quarterly portion will mature on March 31, 2017.	
Options granted to 3 directors on March 16, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.55.	330,000	The options will mature in four equal portions on January 21 of each year from 2017 to 2020.	5 years after the grant date.
Options granted to 4 directors on May 25, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.48 (for the first portion of the 219,999 options). The exercise addition for the 880,000 options that will be granted for the term of the second and the third year service will be determined in the beginning of their vesting period.	1,099,999	The options granted to the directors will be divided as follow: first portion of 219,999 options, second and third portion of 440,000 options, each one. The vesting period of the first portion, for the term of the first year service started on May 25, 2016; The vesting period of the second portion, for the term of the second year service will start on May 25, 2017; The vesting period of the third portion, for the term of the third year service will start on May 25, 2018; Each portion will mature in four equal portions each year upon 4 years.	5 years after the grant date of each grant.
Options granted to 2 external directors on June 17, 2016 (at terms of service cost only)	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition of NIS 1.48.	660,000	The options granted to the directors will be divided as follow: first portion of 219,999 options, second and third portion of 440,000 options each one. The vesting period of the first portion, for the term of the first year service started on May 25, 2016; The vesting period of the second portion, for the term of the second year service will start on May 25, 2017; The vesting period of the third portion, for the term of the third year service will start on May 25, 2018; Each portion will mature in four equal portions each year upon 4 years.	5 years after the grant date of each grant.
Total share options		24,372,637 (7,376,681 replacing old options and 16,995,956 new options)		

Grant date and entitled employees	Terms of the instrument	Number of instruments (in thousands)	Vesting conditions	Contractual duration of the options (in years)
Restricted stock units granted to the Company's CEO on January 21, 2016	Each restricted stock unit is convertible into an ordinary share of NIS 0.01 in nominal value with an exercise addition of NIS 0.30.	1,692,312	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years after the grant date.
Restricted stock units granted to senior employees on January 21, 2016	Each restricted stock unit is convertible into an ordinary share of NIS 0.01 in nominal value without any exercise addition.	1,773,449	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years after the grant date.
Total restricted stock units		3,465,761		
Change of option terms:				
Change of option terms to employees, for exercise conditions granted in 2014 and 2015.	Each option is exercisable into a share of NIS 0.01 in nominal value, with an exercise addition as determined on the original grant date (in the range of between NIS 1.57 and NIS 2.13)	741,314	2/3 will mature and become exercisable two years after the change date, which is January 21, 2016. The remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on March 31, 2018.	10 years after the original grant date.

The fair value on the grant date of the options at terms of service cost only that were granted to directors, the CEO, employees and consultants as foregoing, was assessed using the Black-Scholes model for pricing options.

Due to the complexity of the terms of the options with market condition cost, and due to the complexity of the terms of the restricted stock units, the fair value of these securities was assessed on the grant date using the Monte Carlo simulation.

The parameters used to measure fair value on the grant date of share-based payment plans are presented below:

	Option at terms of service cost only	Options at terms of service and market condition cost	Restricted stock units
Fair value on the grant date (in thousands dollars)	**696 ***	**1,538**	**600**
Number of exercisable shares (in thousands)	**5,325**	**11,671**	**3,466**
Parameters taken into account when calculating fair value:			
Share price (on the grant date) (in NIS)	**1.080 – 1.341**	**1.311 – 1.338**	**1.311 – 1.338**

	Option at terms of service cost only	Options at terms of service and market condition cost	Restricted stock units
Exercise price (in NIS)	**1.31 – 1.55**	**1.40**	**0.00 – 0.30**
Expected volatility (weighted average)	**58.9% - 59.5%**	**59.4% - 59.5%**	**59.4% - 59.5%**
Expected duration (weighted average)	**3 – 6.5 years**	**4.3 years**	**4.3 years**
Risk-free interest rate	**0.4% - 1.28%**	**0.78%**	**0.78%**
Expected dividend rate	**0%**	**0%**	**0%**

The expected volatility was determined on the basis of the historical volatility of the share price. The expected duration of options was determined pursuant to the management's evaluation of the period of employees' holding of them, taking into consideration their position in the Company and the Company's past experience regarding resigning employees. The risk-free interest rate was determined on the basis of NIS government bonds, when their remaining period is equal to the expected duration of the options.

* In order to evaluate the option that were granted to directors in May and June 2015, an expected exercise addition of NIS 1.33 for each option granted to directors, and NIS 1.31 for each option granted to external directors at terms of service of the second and the third year.

NOTE 6 – SUBSEQUENT EVENT

On August 8, 2016, the Board of Directors decided to allocate 1,144,129 options and 72,545 restricted stock units to 19 offerees, as follows:

Grant date and entitled employees	Terms of the instrument	Number of instruments (in thousands)	Vesting conditions	Contractual duration of the options (in years)
Options granted to senior employee (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.41.	81,447	25% will mature and be exercisable one year after the grant date. The other 75% will mature and be exercisable in 12 equal portions on a quarterly basis, at the end of each calendar quarter starting from the maturing of the first portion (i.e. on March 31, June 30, September 30 and December 31). The first quarterly portion will mature on September 30, 2017).	5 years from the grant date.
Options granted to senior employee (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.33.	337,682	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.
Restricted stock units granted to senior employee (at terms of service and market conditions cost)	Each option is exercisable into a share with a nominal value of NIS 0.01, with no exercise addition.	72,545	The restricted stock units will mature after 4 years if the share price is at least NIS 2.13 per share, in which case 50% will mature, while if the share price is NIS 4.24 per share, the entire quantity will mature. In the range between these two share prices, a proportional quantity will mature.	5 years from the grant date.

Grant date and entitled employees	Terms of the instrument	Number of instruments (in thousands)	Vesting conditions	Contractual duration of the options (in years)
Options granted to employees (at terms of service cost only)	Each option is exercisable into a share with a nominal value of NIS 0.01, with an exercise addition of NIS 1.41.	725,000	2/3 will mature and become exercisable two years after the grant date, and the remaining 1/3 will mature and become exercisable in 4 equal portions, on a quarterly basis, at the end of each calendar quarter from the maturing of the first portion. The first quarterly portion will mature on September 30, 2018.	5 years from the grant date.

ITAMAR MEDICAL LTD.

CONDENSED INTERIM FINANCIAL DATA

FROM CONSOLIDATED FINANCIAL STATEMENTS ATTRIBUTED TO THE COMPANY SOLO

AS OF JUNE 30, 2016

(UNAUDITED)

ADDITIONAL SOLO FINANCIAL DATA FROM CONSOLIDATED FINANCIAL STATEMENTS ATTRIBUTED TO THE COMPANY SOLO AS OF JUNE 30, 2016

TABLE OF CONTENTS

KPMG

Somekh Chaikin KPMG

17 Ha'Arbaa St., P. O. Box 609

Tel Aviv 6100601

03 684 8000

To

The shareholders of Itamar Medical Ltd.

Re: Special Report of the Auditors on the interim financial information in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970

Introduction

We have reviewed the enclosed interim financial data provided pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970 of Itamar Medical Ltd. (hereinafter: the "Company") as of June 30th 2016 and for the periods of the three months and six months ending on said date. The Board of Directors and management are responsible for the interim financial information. Our responsibility is to express a conclusion on this interim financial information for these interim periods based on our review.

The scope of the review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that said financial information does not comply, in all material respects, with the disclosure requirements of the provision of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970.

Somekh Chaikin

CPA

August 8th 2016

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2016

	June 30, 2016	June 30, 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	**27,815**	9,537	32,207
Securities available-for-sale	**2,788**	2,800	2,710
Trade receivables	**1,315**	1,577	1,169
Subsidiaries current account	**3,516**	3,605	3,783
Other receivables	**245**	582	430
Inventories	**1,212**	1,294	1,196
Total current assets	**36,891**	19,395	41,495
Non-current assets			
Restricted deposits	**179**	183	177
Prepaid expenses	**66**	48	59
Investment in subsidiaries	**372**	63	350
Fixed assets	**420**	328	424
Intangible assets	**214**	310	255
Total non-current assets	**1,251**	932	1,265
Total assets	**38,142**	20,327	42,760

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2016

	June 30, 2016	June 30, 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Liabilities			
Current liabilities			
Trade payables	**494**	887	942
Short-term employee benefits	**196**	198	144
Current maturities of convertible debentures	**8,817**	-	-
Provisions	**76**	108	79
Payable expenses	**658**	733	1,145
Other accounts payable	**1,273**	1,433	1,237
Total current liabilities	**11,514**	3,359	3,547
Non-current liabilities			
Convertible notes, net of current maturities	**7,548**	14,320	14,906
Loans from shareholders	**-**	1,708	-
Derivative instruments	**11,091**	6,661	6,500
Long-term employee benefits	**114**	90	168
Subsidiaries current account	**44**	148	93
Other long-term accounts payable	**761**	848	595
Total non-current liabilities	**19,558**	23,775	22,262
Total liabilities	**31,072**	27,134	25,809
Capital deficiency			
Ordinary share capital	**679**	467	670
Additional paid-in capital	**104,348**	80,264	103,344
Capital reserve in respect of transactions with shareholders	**1,151**	1,151	1,151
Capital reserve in respect of currency translation adjustments	**(9)**	(9)	(9)
Capital reserve in respect of securities available-for-sale	**(46)**	6	(54)
Accumulated deficit	**(99,053)**	(88,686)	(88,151)
Total equity (equity deficiency)	**7,070**	(6,807)	16,951
Total liabilities and capital (less equity deficiency)	**38,142**	20,327	42,760

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Joseph Tenne, Chief Financial Officer

Date of approval date of the financial statements: August 8, 2016

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF INCOME

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Revenues from external parties	**2,282**	2,968	**1,237**	1,349	5,720
Revenues from inter-company sales	**2,917**	2,866	**1,257**	1,083	5,014
Total revenues	**5,199**	5,834	**2,494**	2,432	10,734
Cost of revenues	**(2,032)**	(2,422)	**(945)**	(1,086)	(4,155)
Gross profit	**3,167**	3,412	**1,549**	1,346	6,579
Sales and marketing expenses	**1,396**	1,329	**607**	743	2,621
Transfer pricing adjustments	**3,573**	1,526	**1,615**	605	3,552
Research and development expenses	**1,711**	1,406	**778**	727	2,831
General and administrative expenses	**1,954**	1,532	**739**	739	3,184
Operating loss	**(5,467)**	(2,381)	**(2,190)**	(1,468)	(5,609)
Financial income (expenses) relating to cash and investments	**426**	(281)	**(578)**	(61)	(530)
Financing expenses relating to notes And others	**(2,268)**	(2,557)	**(743)**	(1,807)	(4,131)
Gain (loss) from derivatives instruments	**(4,506)**	2,501	**(2,372)**	1,492	7,930
Financial income (expenses), net	**(6,348)**	(337)	**(3,693)**	(376)	3,269
Loss before income taxes	**(11,815)**	(2,718)	**(5,883)**	(1,844)	(2,340)
Income taxes	**-**	2	**-**	2	2
Income (loss) from investees	**(205)**	(226)	**77**	249	91
Net loss attributable to equity holders of the Company	**(12,020)**	(2,942)	**(5,806)**	(1,593)	(2,247)

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Loss for the period	**(12,020)**	(2,942)	**(5,806)**	(1,593)	(2,247)
Other comprehensive loss items that will not be carried to the Statement of Income					
Remeasurement of defined benefit plan, net of tax	**-**	-	**-**	-	(72)
Total	**-**	-			(72)
Other comprehensive income (loss) items, which, after preliminary recognition in comprehensive profit, were carried or will be carried to profit or loss					
Net change in fair value of marketable securities available-for-sale, net of tax	**8**	(63)	**(17)**	66	(123)
Net change in fair value of securities available for sale, net of tax, carried to profit and loss	**-**	523	**-**	387	523
Total comprehensive including other income (loss) items, which, after preliminary recognition in comprehensive profit, were carried or will be carried to profit or loss, net of tax	**8**	460	**(17)**	453	400
Total other comprehensive income (loss) for the period	**8**	460	**(17)**	453	328
Total comprehensive loss for the period	**(12,012)**	(2,482)	**(5,823)**	(1,140)	(1,919)

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF CASH FLOWS DATA

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
Loss for the period	**(12,020)**	(2,942)	**(5,806)**	(1,593)	(2,247)
Adjustments for:					
Depreciation and amortization	**116**	111	**56**	58	217
Change in provision for doubtful and bad debt	**20**	36	**(11)**	31	(4)
Net financial cost	**1,804**	2,730	**1,290**	1,852	4,591
(Profit) loss from revaluation of derivatives	**4,506**	(2,501)	**2,373**	(1,492)	(7,962)
Gain with respect to investee	**205**	226	**(77)**	(249)	(91)
Share-based payment	**842**	322	**173**	83	302
(Increase) Decrease in trade receivables	**(166)**	(490)	**(91)**	(79)	(42)
Increase in other accounts receivable	**178**	(132)	**195**	86	9
Increase in current balances with investee	**467**	(1,312)	**457**	(288)	(1,790)
(Increase) Decrease in inventories	**(39)**	(263)	**(148)**	(59)	(172)
(Decrease) Increase trade payables	**(409)**	(38)	**(185)**	114	3
(Decrease) Increase in other accounts payable and accrued expenses	**(283)**	(385)	**(166)**	(340)	(431)
(Decrease) Increase in other long-term accounts payable	**-**	(12)	**(4)**	(6)	-
Increase (Decrease) in employee benefits	**(2)**	84	**(129)**	81	36
(Decrease) Increase in provisions	**(3)**	2	**5**	4	(27)
Income tax (revenues) expenses	**-**	(2)	**-**	(2)	(2)
Interest received during the period	**17**	4	**7**	3	11
Interest paid during the period	**(841)**	(928)	**-**	-	(1,901)
Net cash provided by current operations with respect to transactions with investee	**(200)**	500	**(200)**	200	800
Net cash used in operating activities	**(5,808)**	(4,979)	**(2,257)**	(1,590)	(8,700)
Cash flow from investing activities					
Sale of securities available-for-sale	**-**	6,079	**-**	4,836	6,080
Purchase of fixed assets and intangible assets and capitalization of development expenses	**(87)**	(272)	**(11)**	(193)	(399)
Investment in pledged deposits	**-**	(44)	**-**	-	(44)
Net cash from (used in) investing activities	**(87)**	5,763	**(11)**	4,643	5,637
Cash flow from financing activities					
Proceeds from issuance of share capital	**998**	-	**-**	-	23,151
Proceeds from issuance of warrants	**85**	-	**-**	-	5,300
Loans received from shareholders	**-**	-	**-**	-	(1,765)
Proceeds from exercise of share options	**15**	22	**15**	4	154
Net cash provided by financing activities	**1,098**	22	**15**	4	26,840
Decrease) Increase in cash and cash equivalents	**(4,797)**	806	**(2,253)**	3,057	23,777
Cash and cash equivalents at beginning of period	**32,207**	8,532	**30,620**	6,165	8,532
Effect of exchange rate fluctuations on balances of cash and cash equivalents	**405**	199	**(552)**	315	(102)
Cash and cash equivalent balance at end of period	**27,815**	9,537	**27,815**	9,537	32,207

The accompanying notes are an integral part of these condensed financial data.

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

AS OF JUNE 30, 2016

NOTE 1 – GENERAL

Below is a summary of financial data from the condensed interim consolidated financial statements of the Group as at June 30 2016 (hereinafter: the "**Consolidated Financial Statements**"), published as part of the periodic reports, attributable to the Company (hereinafter: the "**Condensed Interim Financial Information**"), presented in accordance with Regulation 38D and the tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970, regarding the separate condensed consolidated interim financial statements of the corporation. This Condensed Interim Financial Information is to be read together with the separate financial information as of December 31, 2015 and together with the Consolidated Financial Statements as of June 30, 2016.

In this Condensed Interim Financial Information

Definitions

(1)	The Company	-	Itamar Medical Limited
(2)	Subsidiary	-	Subsidiaries, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policy in this separate interim financial information is accordingly to the general the policy of the accountants which were specified in the financial separate information as of December 31, 2015.

ITAMAR MEDICAL LTD.

PART D

CHIEF EXECUTIVE OFFICER'S
CERTIFICATION ACCORDING TO REGULATION 38C(D)(1)

I. Gilad Glick, certify that:

(1) I have reviewed the quarterly report of Itamar Medical Ltd., (the "**Company**") for the second quarter of 2016 (the "**Reports**").

(2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the period covered by the Reports.

(3) Based on my knowledge, the financial statements and other financial information included in the Reports fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports.

(4) I have disclosed to the independent auditor, the Board of Directors and the Audit Committee of the Company's Board of Directors any fraud, whether or not material, that involves the Chief Executive Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company's internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

August 8, 2016

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Gilad Glick,
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S
CERTIFICATION ACCORDING TO REGULATION 38C(D)(2)

I. Joseph Tenne, certify that:

(1) I have reviewed the interim financial statements and other financial information comprised in the interim periodical statements of Itamar Medical Ltd., (the "**Company**") for the second quarter of 2016 (the "**Reports**").

(2) Based on my knowledge, the interim financial statements and other financial information contained in the interim reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which such statements were included, not misleading with respect to the period covered by the Reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports for the interim period fairly represent in all material respects, the financial condition, results of operations and cash flows of the Company as of, and for, the periods reported in the Reports.

(4) I have disclosed to the independent auditor, the Board of Directors and the Audit Committee of the Company's Board of Directors any fraud, whether or not material, that involves the Chief Operating Officer or persons directly subordinate to him, or involve other employees who have a significant role in the Company's internal controls over financial reporting and disclosure.

Nothing stated above detracts from my responsibility or that of any other person, under any law.

August 8, 2016

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Joseph Tenne,
Chief Financial Officer