ITAMAR MEDICAL LTD.

QUARTERLY REPORT

AS OF SEPTEMBER 30, 2015

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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 September 30, 2015 (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 27, 2015

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=1005375-01&Type=Pdf
http://maya.tase.co.il/bursa/report.asp?report_cd=1005375-00&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 September 30, 2015

The Company meets the definition of a "small corporation" in Securities Regulations (Periodic and immediate reports), 1970 (the "**Reporting Regulations**"**).** On March 18, 2014, the Company Board of Directors resolved to adopt the reliefs set forth in section 5d(b) of the Reporting Regulations with regard to a small corporation, as follows: (a) reliefs with regard to mandatory enclosing of financial statements of an associate; (b) reliefs with regard to the report on effectiveness of internal control over financial reporting; (c) relief with regard to mandatory enclosing of highly material valuations; and (d) reliefs with regard to mandatory details of exposure to market risk. Note that due to the carrying amount of convertible debentures (Series L), the Company included in the Board of Directors' Report a chapter on exposure to market risk.

In conformity with Regulation 39a of the Reporting Regulations, below are details of significant changes and innovations which occurred in the business of Itamar Medical Ltd. ("**Itamar Medical**" or the "**Company**") for the three-month period ended September 30, 2015 (the "**reported period**") and through the publication of this report. The following terms shall have the meaning assigned to them in the Company's 2014 annual report, issued on March 24, 2015 (reference: 2015-01-058909) (the "**2014 Annual Report**"), unless explicitly indicated otherwise.

This chapter of the quarterly report has been compiled with the assumption that the chapter "Description of Company affairs" of the 2014 Annual Report and it's updates published in: (i) the Company's quarterly report as of March 31, 2015, issued on May 27, 2015 (reference: 2015-01-029889) and (ii) the Company's quarterly report as of June 30, 2015, issued on June 30, 2015 (reference: 2015-01-106299) are available to the reader.

1. Extension of an agreement with a material customer

As explained in Item1.11 to the 2014 Annual Report, the Company has a master agreement for the sale of the WatchPAT™ product to a material customer (jointly with related entities: **the "Customer"**), for sale of the Company's WatchPAT™ product, the zzzPAT™ software and ancillary devices and for provision of ancillary services for these products.

The agreement regulates various issues, such as timetables for the supply of the Customer's orders and payment therefor, warranty and maintenance services to be rendered by the Company, confidentiality, intellectual property, etc. It does not include the Customer's commitment to purchase defined minimum quantity of the Company's products.

In July 2015, the Company reported a modification of the terms of the master agreement and the extension thereof till October 31, 2018.

For more information see the Company's immediate report dated July 22, 2015 (reference: 2015-01-079251).

2. Reduction of the minimum age for the use of the WatchPAT product

In September 2015, the Company reported that, further to the immediate report of March 10, 2015 (reference: 2015-01-047994), in addition to the approval of for the marketing of the new, improved version of its WatchPAT Unified Probe developed thereby and marketed worldwide, it also received a CE certificate whereby the original approval has been extended so as to allow the use of the WatchPAT Unified Probe commencing with age 12, as compared to 17 in the original approval.

For more information see the Company's immediate report dated September 17, 2015 (reference 2015-01-121125).

3. Annual shareholders meeting and an extraordinary shareholders meeting

3.1. Investment agreement with Viola Private Equity Fund

3.1.1 On October 12. 2015, the Company's shareholders' meeting approved the agreement of August 26, 2015, with an entity in the Viola Fund Group, Viola P.E II A.V. LP, a limited partnership established by Viola Private Equity II (A) L.P. and Viola Private Equity II (B) L.P. (jointly "**Viola**"), whereby Viola would invest in share capital of the Company (the "**Investment Agreement**" or the "**Transaction**") an Israeli currency amount equivalent to $24.1 million, which may increase to $28.4 million (the "**Maximum Investment Amount**"), out of total funds raised amounting to $30 million, in consideration for the Company's shares and warrants.

3.1.2 The first closing of the transaction – allotment of shares and warrants to Viola in consideration for $24.1 million

On November 5, 2015, the Company completed the first closing of the Transaction and allotted 63,900,759 Company shares to Viola at a price of NIS 1.449 per share (the "**Final Price per Share**"), in consideration of $24.1 million. Upon the completion of the first closing of the transaction, Viola holds approximately 26.1% (fully diluted - approximately 27.97%) of the Company's issued and outstanding share capital, and is considered a controlling shareholder. The shares are listed on the Tel Aviv Stock Exchange Ltd. ("**TASE**").

In addition, 31,950,380 non-negotiable warrants (the "Warrants") were allotted to Viola on the said date, at the rate of two Warrants per share, without consideration. The Warrants are exercisable for purchase of one share each, at an exercise price to be computed as follows: for the first 21 months, the exercise price will be NIS 1.642, and during the next 21 months – NIS 1.745, subject to adjustments in the event of merger, allotment of securities, dividend distribution or restructuring of the Company's equity, Viola is entitled to exercise the Warrants by the cashless method.

Upon the completion of the first closing of the transaction, two directors - Mr. Jonathan Kolber and Mr. Sami Totah, proposed by Viola were appointed. The shareholders meeting which approved the entire Transaction approved the appointment of those directors.

Under the terms of the Transaction, a portion of the consideration received from Viola was applied to the repayment of loans amounting to NIS 6.9 million received from Medtronic International Technology, Inc., Dr. Giora Yaron, Mr. Martin Gerstel and Caremi Partners Ltd. However, Medtronic International Technology, Inc., Dr. Giora Yaron and Mr. Martin Gerstel have notified the Company that they would apply the amounts so repaid thereto to the exercise of the rights allotted to them within the framework of the rights offering described below, for a total consideration of approximately NIS 6.2 million.

3.1.3 The second closing of the Transaction – rights offering in the volume of NIS 24 million

Concurrently with the publication of these financial statements, as stipulated by the Investment Agreement, the Company is initiating the offering of shares and warrants to its shareholders, by way of rights offering (i.e. – allotment of shares at the price of NIS 1.449 per share and of at the rate of two warrants per share, without consideration) (the **"Rights Offering**"), for a total gross consideration of up to [1]NIS 24 million (excluding amounts attributed to Viola). The Rights Offering will be carried out by a shelf offering report, by virtue of a shelf prospectus.

3.1.4 The third closing of the Transaction – additional private allotment of shares and Warrants to Viola

Should the rights to be offered in the Rights Offering not be fully taken-up (not including the rights to be offered to Viola), Viola has undertaken to acquire additional shares in the quantity resulting from the division of: (i) the difference between the actual gross proceeds from the Rights Offering and the maximum potential gross proceeds therefrom by (ii) the Final Price per Share of f NIS 1.449.

With respect to the share allotment at this closing, Viola will be granted Warrants, for no additional consideration, at the ratio of one Warrant for every two shares allotted thereto.

3.2. Approval of the reappointment of Somekh Chaikin, CPAs as the Company's independent auditors for the 2015 fiscal year and until the next annual shareholders' meeting and authorization of the Board of Directors to determine the auditors' fees.

[1] The total gross consideration from the issuance of rights will be determined taking into account adjustments for employee options. The anticipated proceeds from such issuance, unadjusted for employee options (the options incorporate a mechanism for an adjustment for the Rights Offering), are approximately NIS 22.5 million.

3.3. Approval of reappointment of two directors who are not external or independent directors, Mr. Gary Ellis and Mr. Martin Gerstel (Joint Chairman of the Board) for another year, until the next annual shareholders' meeting.

3.4. Approval of the increase of the Company's authorized share capital from 500,000,000 ordinary shares of NIS 0.01 par value to 7,500,000 ordinary shares of NIS 0.01 par value and the modification of the Company's bylaws required in order to do so.

3.5. Discussion of the audited 2014 Annual Financial Statements and the Board of Director's Report on the State of Corporate Affairs as of December 31, 2014.

For more information, see the Company's report on the convention of the annual shareholders' meeting and the extraordinary shareholders' meeting dated September 7, 2015 (reference: 2015-01-116085), as amended on September 17, 2015 (reference: 2015-01-1210209), October 6, 2015 (references: 2015-01 - 128328 and 2015-01-128436, respectively, and October 9, 2015 (reference 2015-01-130776), and the immediate report on the resolutions of the shareholders' meeting dated October 12, 2015 (reference: 2015-01-133194).

4. Directors and officers insurance policy

On November 30, 2015, further to the Viola investment transaction, the first closing of which took place on November 5, 2015 (see the Company's immediate report dated November 5, 2015 (reference: 2015-01-149586), following which Viola became *a* controlling shareholder of the Company, in line with the Company's compensation policy and upon the recommendation of the compensation Committee, the Board of Directors resolved to purchase run-off insurance policy to cover the liability of its office holders. The purchase of the run-off policy conforms to the Company's compensation policy, whereunder such policy is to cover the exposure of the Company and its directors and office holders up to the amount of $20 million for the period from January 1, 1997 to November 4, 2015, the date of the first closing of the Viola transaction. The policy is in force for an 84 month period commencing November 5, 2015, and the one time premium therefor does not exceed the maximum premium stipulated by the compensation policy.

On the same date, the Board, upon the recommendation of the Compensation Committee, resolved that the policy should also cover the CEO, Mr. Gilad Glick.

When the run-off policy comes into effect, the existing liability policy of directors and office holders of the Company and its subsidiaries will become null and void. Accordingly, on the same date the Board of Directors, upon the recommendation of the Compensation Committee, resolved to purchase a new policy for the Company's directors and office holders, at terms identical to those of the old policy, except that the new policy will be in effect until December 4, 2016.

The cumulative amount of the annual premium for the new policy, together with the one-time premium for the run-off policy, does not exceed the maximum premium stipulated by the compensation policy.

As recommended by the Compensation Committee, on the same date the Board resolved that the new policy shall apply to the directors Mr. Jonathan Kolber and Mr. Sami Totah, as well as to the CEO, Mr. Gilad Glick.

The purchase of the new policy conforms to the terms of Company's compensation policy, as follows: (i) purchase of policy for the indemnification of office holders and directors of the Company and its subsidiaries; (ii) application of the policy to Mr. Jonathan Kolber and Mr. Sami Totah, who are directors of Viola Private Equity II (*a* controlling shareholder); and (iii) application of the policy to the CEO, Mr. Gilad Glick.

For further details of the principal terms of the policies, see the Company's immediate report dated November 30, 2015 (reference: 2015-01-16985),

5. An extraordinary grant to the CEO

in Part On November 30, 2015, the Compensation Committee and the Board of Directors approved a special grant (hereafter – "**the grant**") equivalent to approximately $67,500, payable in Israeli currency, to Mr. Gilad Glick, the Company's President and CEO, in respect of: (i) the development of the Company's new strategy business and the preliminary measures taken for the implementation thereof, and (ii) his extraordinary efforts and contribution to the closing of the investment transaction with Viola, under which the Company expects to raise funds in a total amount of approximately $30 million. This resolution is subject to approval of the shareholders' meeting. Mr. Glick will not be entitled to social benefits in respect of the grant. For further detail of the Viola transaction, see item 3.1 above.\

The Company intends to bring this grant for the approval of the forthcoming shareholders' meeting, as stipulated by section 272(c1) Of the Companies Law. 1999.

6. An extraordinary grant to the CEO

On November 30, 2015, the Company announced that it negotiations with several leading manufacturers of medical equipment (hereafter – "the manufacturers") aimed at obtaining rights to integrate certain medical devices for the treatment of the sleep apnea syndrome, in the United States and/or other countries, were under way. Such devices include the Continuous Positive Airway Pressure (CPAP) and devices derived therefrom (hereafter – "the products"). These negotiations are in line with the Company's strategy to expand its product mix in the field of total sleep solution and to supply a comprehensive sleep solution which would include tests using the WatchPAT and sleep apnea treatment using CPAP. Negotiations with one manufacturer are in various stages and pertain to various potential manners of agreement. As of the date of issue of this report, the Company is focusing on negotiations with one significant manufacturer for the distribution of the products in the US under exclusivity limited to the field of cardiology.

It should be noted that, as of the date of this report, it is not certain that the negotiations with any of the manufacturers will come to fruition as a binding agreement or what will be the terms of such an agreement, if reached. For further details, see the Company's immediate report dated November 30, 2015 (Reference: 2015-01-169830).

Information provided in this item may be considered forward-looking information, as 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. This information, in whole or in part, may not materialize or may materialize differently due, inter alia, to failure to reach an agreement with the manufacturers or a single manufacturer as to material issues or to other unexpected developments in the negotiations therewith, regulatory changes and/or intellectual property issues pertaining to the products and/or the possibility of distribution thereof in the United States and/or other countries, etc.

7. Amendment of the mechanism of adjustment of unlisted options in respect of the rights offering

On November 2015, the Company announced that the Board of Directors approved an amendment of the provisions of its employee incentive option plan adopted by the Board on February 19, 2007 (hereafter – "**the Israeli plan**") and of its incentive option plan for its employees, consultants and service providers, adopted by the Board on December 29, 2003 (hereafter – "**the 2003 plan**") so as to modify the adjustment mechanism applicable upon issuance of rights, so that, commencing on the date of ***publication of this immediate report*** (as long the Board does not resolve otherwise), unlisted options allotted under the Israeli plan and under the 2003 plan will be eligible for adjustment as follows:

In the event of offering of rights to the Company's shareholders, the number of shares issuable upon exercise of the options shall be adjusted for the rights component, as reflected by the ratio of the closing price of the Company's shares on the TASE trading day preceding the ex-date of the rights offering and the opening price of the Company's share***s*** on the TASE trading day that is the ex-date.

In order to avoid doubt it should be noted that this section will apply to any future rights offering carried out in December 2015, as part of the second closing of the Viola transaction (for further information, see the Company's immediate reports of October 10, 2015, October 12, 2015 and November 5, 2015, references 2015-01-13776, 2015-01-133194 and 2015-01-14986, respectively).

No adjustments will be made in respect of options issued under the other option plans of the Company.

For further information, see the Company's immediate report of November 30, 2015 (reference 2015-01-169932).

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ITAMAR MEDICAL LTD.

PART B

REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF CORPORATE AFFAIRS

AS OF SEPTEMBER 30, 2015

Board of Directors' Report for the Nine -month Period Ended September 30, 2015

We hereby present the Board of Directors' Report of Itamar Medical Ltd. (the "**Company"**) and its subsidiaries (the "**Group**") as of September 30, 2015 (the "**report date**"), and the Company's consolidated financial results for the nine and three-month periods ended September 30, 2015 (the "**reporting period**" or the "**quarter**", respectively), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Regulations**"). The Board of Directors' Report as of September 30, 2015, is provided with the assumption that the annual report for the year ended December 31, 2014, issued by the Company on March 23, 2015 (the "**Annual Report**") is available to the reader.

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 the U.S. dollar ("**dollar**" or "**$**"). For more information, see Note 2b to the Company's consolidated financial statements as of December 31, 2014.

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™ ("**PAT**") signal platform and associated support services, for diagnosis of various diseases, including cardio-vascular conditions, and of sleep breathing disorders.

The unique technology developed by the Company can monitor the PAT signal, which measures change in a patient's peripheral arterial volume as well as various parameters of arterial activity. The parameters of arterial activity accurately reflect the patient's sympathetic nervous system (autonomous (involuntary) nervous system) function, as well as changes to the endothelial system (the cell tissue which covers the interior of all blood vessels).

As of the date of this report, the Company is engaged in the development and marketing of two PAT signal based products, mainly for the diagnosis of cardiological conditions, as well as sleep breathing disorder: WatchPAT™ ("**WatchPAT**") and EndoPAT™ ("**EndoPAT**").

The WatchPAT diagnoses sleep apnea, which has been proven to be a substantial risk factor in cardiac disease. Treatment of such disorders significantly improves the condition of the heart. The WatchPAT is designated for ambulatory diagnosis of sleep breathing disorders and for home use by patients, which may be easily and conveniently operated by the patient. The EndoPAT, is a device for cardiology diagnosis used to diagnose Endothelial function (arterial function), which is a key indicator of the development of arterial sclerosis and other cardio-vascular conditions, allowing for identification of potential cardio-vascular events (such as chest pain, repeat heart attacks and stroke) beyond the tests and tools commonly used today.

2. Major events during and after the reported period

In the first nine months of 2015, the Company focused on several significant areas, as described below, in order to further support growth in this year as well:

a. On October 12. 2015, the Company's shareholders' meeting approved the investment transaction of Viola Fund in the Company. On November 5, 2015 the first closing of the transaction was consummated and the Company allotted to Viola 63,900,759 Company shares and 31,950,380 non-traded warrants exercisable to 31,950,380 additional Company shares at a price of NIS 1.449 per share in consideration of $24.1 million. Upon the first closing, Viola Fund owns approximately 26.1% of the Company's issued and paid-up share capital and the Company considers Viola to be its controlling shareholder. For further details, see Section 3.1 of Part A of the 2014 Annual Report of this report.

b. In January 2015, the U.S. subsidiary launched the Total Sleep Solution ("**TSS**") family of products and services. TSS is intended to provide a complete Sleep Apnea management solution to cardiology medicine (clinics and departments in hospital-based environments). The TSS improves the Company's business model and shifts it from a manufacturer and seller of medical devices to a complete service pathway provider, including products, education and services throughout the patient care pathway. The first agreement using this model was reached in April 2014 with the Montefiore Medical Center in New York City. For further details, see Section 8.4 of Part A of the 2014 Annual Report and the Company's immediate report dated May 4, 2014 (Reference: 2015-01-011139).

   In this context, the Company made a transition from the normal sales model (equipment sales) to the sale of medical tests. In the first stage, the implementation of this model has caused a decline in sales revenues, since the Company recognizes the service revenues over a longer period, as compared to recognition of revenues from sales of equipment, but in the long-term this creates the customer's dependence on the Company's equipment and is expected to improve future revenues.

   In addition, the Company is considering additional cooperation in the field of obstructive sleep apnea.

c. On November 30, 2015, the Company gave notice that it was negotiating with a number of leading manufacturers of medical devices (hereafter – the manufacturers) for rights to integrate certain medical devices for treatment of sleep apnea, including a CPAP (continuous positive airway pressure) device and its derivatives (hereafter – the products) in the United States and/or elsewhere. Negotiations with the manufacturers are a part of the Company's strategy of expanding its product basket in the context of its total sleep solution and establishing itself as a company offering a comprehensive solution to physicians, including checks using its WatchPAT product and a therapeutic answer to sleep apnea using CPAP. Negotiations with each manufacturer are at a different stage and deal with the manner of the potential agreement. As of the date of this report, the Company focuses on negotiations with a certain manufacturer who is a significant player in the market, for the exclusive distribution of its products in the United States, limited to the field of cardiology.

   It should be noted that, as of the date of this report, there is no certainty that any of the above negotiations will lead to a binding contract with any of the manufacturers. Terms of engagement have not been fully agreed with any of the manufacturers and the eventual terms of any contract that might be signed are unclear. For further details, see the Company's immediate report of November 30, 2015 (reference number – 2015-01-169830).

Information provided in this paragraph, in particular with regard to obtaining of integration rights as above, constitutes forward-looking information, as this term is defined in the Israeli Securities Law, 1968 (hereafter – the Securities Law). Forward-looking information is uncertain information with regard to the future, based on information or estimates currently available to the Company, including intents of or assessments by the Company as of the publication date of this report, or which is not entirely dependent on the Company. This information, in whole or in part, may not materialize or may materialize differently due, inter alia, to failure to reach agreement on significant issues with one or more of the manufacturers or other unexpected developments in the negotiations therewith, regulatory changes or new information regarding regulatory issues or ownership of intellectual property and/or the possibility of distribution in the United States or elsewhere, etc.

d. Focusing of activities in line with the Company's strategy, reflected by signing and promotion of significant distribution agreements signed during 2014: (i) in the sleep disorder field, an agreement with Philips Respironics GK, the local Philips representative in Japan,; (ii) an agreement with Medtronic, Inc. in the cardiology field in the U.S., for doctors who specialize in Arrhythmia (electrophysiology). After the completion of the pilot stage which was limited to on geographic area and ended on April 1, 2015, country-wide marketing in the United States commenced; (iii) an exclusive distribution agreement in Japan with Nihon Kohden Corporation ("**Nihon Kohden**") in the field of cardiology and internal medicine, whereby the EndoPAT2000 system and accessories are distributed to customers in Japan, including general practitioners and hospitals; and (iv) an exclusive distribution agreement in China with Beijing Viable Medical Investment Co. Ltd.

   As reflected by the operating results for the reported periods, the trend of decline in revenues from the EndoPAT has continued. It results from the decrease in research funding to research institution which use the EndoPAT product and from delay in the change of the insurance reimbursement code in the U.S., which is expected to accelerate the penetration of the U.S. market. The distribution agreements in Japan and China, as above, which provide, inter alia, for the introduction of the product to new markets and medical public, require a lengthy process. The Company continues investing in Japan and China in order to accelerate the pace of the penetration of the EndoPAT product.

e. In March 2015, the Company entered into representation and distribution agreements with Arterial Health International LLC **(**"**AHI**"). Under the representation agreement, AHI is to be the sole service provider in ten states in various parts of the U.S. for cardiovascular examinations performed using the EndoPAT2000 device on customers under the cardiovascular examination package provided by AHI using mobile laboratories.

f. In June 2015, the Company entered into three year distribution agreement with VeriVita Group AB ("**VeriVita**"), a Scandinavian medical equipment company; the agreement provides for a renewal option. Under that agreement, VeriVita is to distribute the Company's WatchPAT product and it ancillary products in Sweden, Denmark, Norway and Finland.

g. In July 2015, a material U.S. customer elected to extend yet again, for another three years ending October 31, 2018, the agreement for the sale of the WatchPAT product, the zzzPAT™ software and ancillary devices and for provision of ancillary services for these products. The unified version of WatchPAT has been added to the range of products, and certain commercial terms of the original agreement of September 2007 have been modified.

In 2014, sales to that customer amounted to approximately $2.6 million (approximately 16 % of total sales).

h. As for support for its future product line, the Company has received the approvals of certain authorities (the Canadian Ministry of Health, from the CE for sales and marketing in the European Community and the EFTA countries (Island, Lichtenstein, Switzerland and Norway) and from the Japanese Health Authority for the marketing of a new, improved version of its WatchPAT Unified Probe which incorporates an oxymetry sensor within the probe sensor, thereby simplifying the test process and further increasing its efficacy. These approvals are additional to the previously obtained approvals of the FDA and the Israeli Ministry of Health. The Company has also received a CE certificate whereby the original approval has been extended so as to allow the use of the WatchPAT Unified Probe commencing with age 12, as compared to 17 in the original approval. This extends the market for the use of that product.

These actions are also reflected in the Company's current results. In the first nine months of 2015, the Company's revenues increased by approximately 6% over the corresponding period last year, while revenues from the WatchPAT product, on which the Company's strategy as above is focused, increased by approximately 28%, while maintaining a high gross margin of approximately 73%.

Information provided with regard to continued growth of the Company constitutes forward-looking information, as 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 Statement of Financial Position)

In this report, Series A notes mean the Company's notes (Series A), which were convertible into the Company's ordinary shares and listed for trading on the Tel Aviv Stock Exchange Ltd. ("**TASE**") and were fully repaid in February 2014.

In this report, Series L notes mean the Company's notes (Series L), issued in March 2013, listed for trading on the TASE and convertible into the Company's ordinary shares.

Item	September 30, 2015	December 31, 2014	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
Cash and cash equivalents and investments in marketable securities	10,548	18,336	(42%)	Most of the decrease during the first nine months of 2015 results from the use of approximately $7.3 million to finance the operating activities of the Company, which include interest payment in respect of Series L notes and shareholders' loans. As to additional information regarding the increase in cash and cash equivalents and investments in marketable securities subsequent to the reporting period as a result of the investment transaction of Viola, see a above.
Current assets	16,207	23,169	(30%)	The decrease is primarily due to a decrease in cash and cash equivalents and in the value of available-for-sale securities.
Non-current assets	2,009	1,396	44%	The increase is primarily due to an increase in trade receivables (which resulted partially from granting credit for, 24 to 48 months to Total Sleep Solution customers).
Current liabilities	5,832	4,712	24%	The increase is primarily due to reclassification of the loans from four shareholders from long-term to short-term following the Viola Transaction. It was partially offset by the decrease in accounts payable and accruals due to payment of interest on series L notes and on shareholders' loans in February 2015.
Non-current liabilities	18,897	24,623	(23%)	The decrease resulted mainly from an approximately $5.2 million decrease in the fair value of the warrants embedded in Series L notes, primarily due to the approximately 27% decline in the price of the Company's shares (between December 31, 2014 and September 30, 2015) and the nine-month decrease in the life of the notes resulting from the time elapsed, as well as from the said reclassification of the loans from the major shareholders from long-term to short-term. This decrease was partially offset by the approximately $1.3 million increase in the book value of the Series L notes as a result of amortization of the discount of the principal of the notes.
Working capital	10,375	18,457	(44%)	The decrease in working capital is primarily due to the decrease in cash and cash

Item	September 30, 2015	December 31, 2014	Change Increase (decrease) %	Company explanations
	Dollars in thousands			
Current ratio	2.8	4.9		equivalents as described above and in available-for-sale securities. The resulting proceeds were used to finance the operating activities of the Company.
Capital deficiency	(6,513)	(4,770)	37%	The increase in capital deficiency is mainly due to the loss recorded in the first nine months of 2015 (for more information see analysis of operating results in Section 4 below).

4. <u>Group operating results (development in statements of operations items)</u>

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

Summary of operating results as presented in the financial statements:

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31
	2015	2014	2015	2014	2014
Revenues	12,648	11,911	3,865	4,206	16,387
Cost of revenues	3,407	3,619	901	1,208	4,798
Gross profit	9,241	8,292	2,964	2,998	11,589
Selling and marketing expenses	8,012	5,920	2,687	1,951	8,436
Research and development expenses	2,121	1,521	715	552	2,017
General and administrative expenses	3,275	3,539	1,168	1,163	4,745
Operating loss	(4,167)	(2,688)	(1,606)	(688)	(3,609)
Financial expenses relating to cash and investments	(326)	(333)	(136)	(448)	(468)
Financial expenses relating to notes	(3,065)	(2,264)	(444)	(76)	(2,817)
Gain from financial derivatives	5,197	4,734	2,696	7,365	3,743
Financial income, net	1,806	2,137	2,116	6,841	458
Income (loss) before taxes on income	(2,361)	(551)	510	6,173	(3,151)

Taxes on income	(93)	(217)	(22)	(201)	(124)
Net income (loss) for the period	**(2,454)**	**(768)**	**488**	**5,972**	**(3,275)**

Summary of Non -IFRS operating results **:

	Nine Months ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	**2014**	**2015**	**2014**	**2014**
Revenues	12,648	11,911	3,865	4,206	16,387
Cost of revenues	3,298	3,487	870	1,164	4,622
Gross profit	9,350	8,424	2,995	3,042	11,765
Selling and marketing expenses	7,818	5,633	2,653	1,823	8,018
Research and development expenses	2,011	1,384	720	486	1,827
General and administrative expenses	2,696	2,723	860	945	3,684
Operating loss	(3,175)	(1,316)	(1,238)	(212)	(1,764)
Financial expenses relating to cash and investments	(326)	(333)	(136)	(448)	(468)
Financial expenses relating to notes and loans	(3,065)	(2,264)	(444)	(76)	(2,817)
Loss from financial derivatives	-	(27)	-	(71)	(114)
Financial expenses, net	(3,391)	(2,624)	(580)	(595)	(3,399)
Loss before taxes on income	(6,566)	(3,940)	(1,818)	(807)	(5,163)
Taxes on income	(93)	(217)	(22)	(201)	(124)
Adjusted net income (loss) for the period*	**(6,659)**	**(4,157)**	**(1,840)**	**(1,088)**	**(5,287)**

Adjustments to loss for the period:

	Nine Months ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	**2014**	**2015**	**2014**	**2014**
Net income (loss)	**(2,454)**	**(768)**	**488**	**5,972**	**(3,275)**

for the period under IFRS					
Adjustments:					
Depreciation and amortization	273	246	104	75	324
Change in provision for doubtful accounts	74	10	42	1	46
Share-based compensation	277	1,116	(146)	380	1,475
Write-off of expenses related to a public offering which did not materialize	368	-	368	-	-
Loss from financial derivatives	(5,197)	(4,761)	(2,696)	(7,436)	(3,857)
	(4, 205)	(3,389)	(2,328)	(6,980)	(2,012)
Adjusted loss for the period*	**(6,659)**	**(4,157)**	**(1,840)**	**(1,008)**	**(5,287)**

* 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 financial data are presented in addition to, and not as a substitute for, the results presented in accordance with IFRS. The Company presents such non-IFRS data because management believes that such non-IFRS information 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 better perform comparison of operating results in a manner similar to how the Company analyzes its operating results.

<u>Information about product revenues (dollars in thousands):</u>

	Nine Months ended September 30,		**Three Months Ended September 30,**		**Year Ended December 31**
	2015	**2014**	**2015**	**2014**	**2014**
WatchPAT	9,000	7,016	2,509	2,665	9,173
EndoPAT	3,648	4,895	1,356	1,541	7,214
	12,648	**11,911**	**3,865**	**4,206**	**16,387**

Analysis of statement of operations items for the first nine months of 2015

Item	For the Nine-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
Revenues	12,648	11,911	6%	The increase in revenue in the first nine months of 2015, compared to the corresponding period last year, is due to the approximately 28% increase in revenues from the WatchPAT product, mainly as a result of increased sales in the U.S. and Japan. The trend of decrease in revenues from the sale of the EndoPAT product is continuing, and the related revenues decreased by approximately 25%, compared to the corresponding period last year as a result for the reasons described in Section 2c above. The Company continues investing in Japan and China in order to accelerate the pace of the penetration of the EndoPAT product.
Gross profit	9,241	8,292	11%	Gross margin in the first nine months of 2015 was approximately 73% of the Group's revenues, compared to approximately 70% in the corresponding period last year. The improvement in gross margin is primarily attributable to: (i) streamlining of production processes and cost reduction; (ii) sales of the improved (unified) version of the WatchPAT product, the cost of manufacture of which are lower than those of the previous version; (iii) the average exchange rate during the period being about 11% higher than in the corresponding period last year; and (iv) allocation of fixed costs to a larger production volume
Selling and marketing expenses	8,012	5,920	35%	The increase in selling and marketing expenses in the first nine months of 2015, compared to the corresponding period last year, is primarily due to the recruitment of sales staff in the U.S. and in Japan (increase in payroll, sales commissions and payroll-related benefits), in line with the Company's strategic plans, which are fully

Item	For the Nine-month Period Ended September 30, 2015	2014	Change Increase (Decrease) %	Company Explanations
	Dollars in thousands			
				described in the Annual Report.
Research and development expenses	2,121	1,521	39%	The increase in research and development expenses in the first nine months of 2015, compared to the corresponding period last year, was primarily due to the recruitment of research and development staff to assist in clinical trials of the Company's products, development of applications and changes in current products, as well as to develop a new generation of products (increase in payroll and related expenses (including the option component)). Moreover, there was an increase in expenses for clinical research required for regulation with respect of new products and for the development of new markets.
General and administrative expenses	3,275	3,539	(7%)	The decrease in general and administrative expenses in the first nine months of 2015, compared to the corresponding period last year resulted mainly from the decrease in expenses pertaining to granting of options to the CEO, office holders, employees and directors. This decrease was offset by a write-off of expenses relating to a contemplated public offering which did not materialize.
Operating loss	(4,167)	(2,688)	55%	The increase in operating loss in the first nine months of 2015, compared to the corresponding period last year, despite the increase in revenues and the improved gross margin, is mainly attributable to the increase in selling and marketing expenses and in research and development expenses, as described above.
Financial expenses relating to cash and investments	(326)	(333)	(2%)	The change in financial expenses relating to cash and investments in the first nine months of 2015, compared to the corresponding period in 2014, was immaterial, but the expense mix has changed. In the first nine months of 2015, there was an increase due to the

Item	For the Nine-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
				realization of losses from Israeli currency money market funds (primarily resulting from the sharp appreciation in the dollar/NIS exchange rate in the period from acquisition (in mid-2013) to sale. In the corresponding period last year, financial expenses resulted mainly from the approximately 6.5% appreciation in the dollar/NIS exchange rate.
Financial expenses relating to notes and loans	(3,065)	(2,264)	35%	The increase in financial expenses relating to notes and loans in the first nine months of 2015, compared to the corresponding period last year, is primarily due to the effect of changes in dollar/NIS exchange rate on the book value of the liability in respect of the Series L notes. In the current period, the dollar/NIS exchange rate did not change significantly, while in the corresponding period last year there was an approximately 6.5% appreciation in the dollar/NIS exchange rate, which caused a partial offset in the financial expenses as a result of a decrease in the dollar value of the notes and the loans.
Gain from financial derivatives	5,197	4,734	10%	The increase in gain from financial derivatives in the first nine months of 2015 is due to non-cash flow change in the fair value of warrants embedded in the Series L notes. The gain in the current period derives mainly from: (i) the approximately 27% decline in the Company's share price compared to December 31, 2015; and (ii) the decline in value of the embedded warrants due to the shortening of the period of the notes by nine months. In the corresponding period last year, the Company recorded a gain due to change in the fair value of warrants embedded in the Series L notes, primarily caused by: (i) an approximately 16% decline in the Company's share price (as of September 30, 2014, compared to December 31, 2013); (ii) .the

Item	For the Nine-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
				approximately 6.5% appreciation in the dollar/NIS exchange rate; and (iii) the decrease in the embedded value of the warrant as a results of the shortening in the maturity of the note by nine month.
Loss	(2,454)	(768)	220%	The increase in loss in the first nine months of 2015 despite the improved gross margin is primarily attributable to the increase in selling and marketing expenses and research and development expenses in order to support further growth of the Company and to the decrease in net financial income; this was partially offset by the decrease in general and administrative expenses.
Adjustments to loss	(4, 205)	(3,389)	24%	Most of the change in adjustments to loss in the first nine months of 2015, compared to the corresponding period last year, is due to a larger gain of approximately $5.2 million recognized by the Company in the first nine months of 2015 with respect to revaluation of warrants embedded in the Company's Series L notes, compared to approximately $2.5 in the corresponding period last year. Moreover, expenses for share-based compensation in the current period declined to approximately $0.3 million, compared to approximately $1.1 million in the corresponding period last year. In the reported period the Company recorded a non-recurring write-off of expenses relating to a contemplated public offering which did not materialize.
Adjusted loss	(6,659)	(4,157)	60%	The increase in adjusted loss in the first nine months of 2015, compared to the corresponding period last year, despite the increase in revenues and in gross margin, is mainly due to the increase in selling and marketing expenses and in research and development expenses in order to support the continued growth of the Company, and from the decrease in net financial income as above.

<u>Analysis of statement of operations items for the third quarter of 2015</u>

Item	For the Three-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
Revenues	3,865	4,206	(8%)	The decrease in revenue in the third quarter of 2015, compared to the corresponding quarter last year, is primarily due to the decrease of approximately 12% in revenues from the EndoPAT product, as a result of the continuing trend of decrease in revenues from the sale of the EndoPAT product for the reasons described in Section 2c above. In the corresponding quarter last year, the Company recognized revenue from a sale to Galmed Research and Development Ltd. (for further information, see Item 29.6 of Chapter A of the Annual Report). In addition revenues from the WatchPAT product decreased by 6%, compared to the corresponding quarter last year. The decrease in revenues from the sale of the WatchPAT product resulted from implementing the Total Sleep Solution model as explained in Section 2b above.
Gross profit	2,964	2,998	(1%)	Gross margin in the third quarter of 2015 was approximately 77% of the Group's revenues, compared to 71% in the corresponding quarter last year. The improvement in gross margin in this quarter, compared to the corresponding period in the preceding year is principally attributable to: (i) sales of the improved (unified) version of the WatchPAT product, the cost of manufacture of which are lower than those of the previous version; (ii) the average exchange rate during the period being about 9% higher than in the corresponding period last year; and (iii) non recurring events which improved the gross margin.
Selling and marketing expenses	2,687	1,951	38%	The increase in selling and marketing expenses in the third quarter of 2015, compared to the corresponding quarter

Item	For the Three-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
				last year, is due to the reasons described in the comparison of results for the first nine months of 2015 to those for the first nine months of 2014.
Research and development expenses	715	552	30%	The increase in research and development expenses in the third quarter of 2015, compared to the corresponding quarter last year, is mainly due to: (i) the increase in clinical tests for the development of applications and modification of current products; and (ii) increase in regulatory expenses pertaining to the Company's products in various countries
General and administrative expenses	1,168	1,163	0%	There was no material change in general and administrative expenses in the third quarter of 2015, compared to the corresponding quarter last year, but there was a change in their mix. While expenses pertaining to granting of options to the CEO, office holders and employees increased, the Company recorded a write-off of expenses related to a contemplated public offering which did not materialize.
Operating loss	(1,606)	(668)	140%	The increase in operating loss in the third quarter of 2015, compared to the corresponding quarter last year, is mainly attributable to the increase in selling and marketing expenses and in research and development expenses, as described above.
Financial expenses relating to cash and investments	(136)	(448)	(70%)	The decrease in financial expenses relating to cash and investments in the third quarter of 2015, compared to the corresponding quarter last year, was primarily due to the more moderate increase in the dollar/shekel exchange rate (4.1% in the period from June 30, 2015 to September 30, 2015, compared to 7.5% in the corresponding period last year). The appreciation of the dollar relative to the Israeli currency reduces the dollar value of cash and investments, thus creating financial expenses.

Item	For the Three-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
Financial expenses relating to notes and loans	(444)	(76)	484%	The increase in financial expenses relating to notes and loans in the third quarter of 2015, compared to the corresponding quarter last year, is primarily due to the effect of changes in dollar/NIS exchange rate (more moderate increase in the dollar/shekel exchange rate (4.1% in the period from June 30, 2015 to September 30, 2015, compared to 7.5% in the corresponding period last year).on the book value of the liability in respect of the Series L notes and of shareholders' loans (it reduces non-current liabilities in the statement of financial position), thus creating financial expense.
Gain from financial derivatives	2,696	7,365	(63%)	The decrease in gain from financial derivatives in the third quarter of 2015, compared to the corresponding period last year is due to non-cash flow change in the fair value of warrants embedded in the Series L notes. The gain of approximately $2.7 million in the current period derives mainly from the approximately 17% decline in the Company's share price, compared to the corresponding period last year and from the appreciation of the dollar relative to Israeli currency. It was partially offset by the decline in the dollar/shekel exchange rate. In the corresponding quarter last year most of the gain of approximately $7.4 million was also derived from the change in the fair value of warrants embedded in the Series L notes, (primarily due to the approximately 29% decrease in the Company's share price in the third quarter of 2014 and to the appreciation of the dollar relative to Israeli currency).
Net income	488	5,972	(92%)	The decrease net income in the third quarter of 2015, compared to the third quarter of 2014 is mainly attributable to the decline in net financial income in the current period, for the reasons described above.

Item	For the Three-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
Adjustments to net income	(2,328)	(6,980)	(67%)	Most of the change in adjustments to net income in the third quarter of 2015, compared to the corresponding quarter last year, is due to the reasons described above. In the reported quarter, the Company recorded a non-recurring write-off of expenses related to a contemplated public offering which did not materialize.
Adjusted loss	(1,840)	(1,008)	83%	The increase in adjusted loss in the third quarter of 2015, compared to the corresponding quarter last year, is mainly due to the increase in selling and marketing expenses and in research and development expenses in order to support the continued growth of the Company.

5. Liquidity

As described in Section 2a above, in November 2015 (subsequent to the reporting period) the Company consummated the first closing of a private placement of shares and options to Viola Fund in the amount od $24.1 million and the Company's liquid funds increased accordingly. Upon the second and third closing of the transaction with Viola, the Company's liquid funds will increase by additional $4.3 million (net proceeds from rights offering and raising of additional funds from Viola).

In the reported period, the Company continued to invest in current operations, so as to: (i) increase sales and marketing effort in markets on which Company operations are focused, mainly U.S., Japan and China. These efforts continue to yield results which are reflected in higher sales in the first nine months of 2015, compared to the corresponding period last year; and (ii) accelerated research and development activities and early launch of improvements and new indications for the Company's products.

Analysis of cash flows for the first nine months of 2015

Activity Type	For the Nine-Month Period ended September 30, 2015	2014	Change Increase (decrease) %	Company Explanations
	Dollars in thousands			
Operating activities	(7,348)	(5,526)	33%	The increase in cash flows used in operating activities in the first nine months of 2015 ,compared to the corresponding period last year ,is primarily due to: (i) increase in loss for the period (net of gain from financial derivatives and share-based compensation); (ii) a larger increase in inventories; (iii) an increase in other receivable; and (iv) larger decrease in trade payables .This increase was partially offset by lower interest payments in the current period due to higher exchange rate of the dollar and because in the corresponding period last year the Company paid interest also in respect of the Series A notes, which were fully repaid in February 2014. It was further offset by a smaller increase in trade receivable, compared to the corresponding period last year.
Investing activities	5,720	(2,046)		Cash flows provided by investing activities in the first nine months of 2015 are primarily due to realization of NIS-denominated money market funds. In the corresponding period last year, cash flows used in investing activities were primarily due to application of funds to purchase of available-for-sale securities through portfolio managers
Financing activities	27	6,930		Cash flows provided by financing activities in the first nine months of 2015 resulted from proceeds from exercise of options granted to employees, office holders and directors. In the corresponding period last year, cash flows provided by financing activities resulted from a private placement with institutional investors. These cash flows were partially offset by redemption of the Series A notes.

Analysis of cash flows for the third quarter of 2015

Activity Type	For the Three-month Period Ended September 30,		Change Increase (Decrease) %	Company Explanations
	2015	2014		
	Dollars in thousands			
Operating activities	(2,220)	(1,839)	21%	The increase in cash flows used in operating activities in the third quarter of 2015, compared to the corresponding quarter last year, is primarily due to: (i) increase in loss for the quarter (net of gain from financial derivative and share-based compensation); (ii) increase in other receivable, as above; and (iii) larger decrease in trade payables. This increase was partially offset by a decrease in inventories and in trade receivable, compared to an increase in the corresponding quarter last year.
Investing activities	(13)	(70)		The decrease in cash used in investing activities in the third quarter of 2015, compared to the third quarter of 2014 is attributable to decrease in purchase of fixed assets.
Financing activities	5	135		The decrease in cash flows provided by financing activities in the third quarter of 2015, compared to the corresponding quarter last year resulted from smaller proceeds from exercise of options granted to employees.

6. Financing sources

6.1 Investment agreement with Viola

As described in Section 2a above, in November 2015 (subsequent to the reported period), the Company completed the first closing of a private placement of shares and warrants to Viola Fund in the total amount of approximately 24.1 million and the Company liquid funds increase accordingly. Upon the second and third closing with Viola, the Company's liquid funds will increase by additional approximately $4.3 million (net proceeds from rights offering and raising of additional funds from Viola).

6.2 Exercise of convertible securities in the reported period

In the reported period, employees exercised approximately 195 thousand options for a total consideration paid to the Company of approximately $27 thousand.

6.3 Irrevocable undertaking for the placement of shareholders' credit facility

In January 2015, the Company received an irrevocable undertaking to place a credit facility of up to NIS 9,058,131 (approximately $2.3 million) from three of its shareholders. The credit facility may be utilized in a single withdrawing from January 2017 to February 28, 2017. For more information, see Section 24.5 in Part A of the Company's Annual Report.

6.4 Irrevocable undertaking for the placement of bank's credit facility

On May 26, 2015, the Company received an irrevocable undertaking to place a credit facility from a bank of up to approximately $6 million. The credit facility will be comprised of two components:

a. A term loan in the amount of $3 million, which the Company will be able to draw by December 1, 2015 and will be repaid in twelve monthly installments commencing on March 1, 2017.

b. A line of credit which will finance accounts receivable of up to approximately $3 million. The rate of financing will be up to 80% of the eligible accounts receivable and the Company will be able to draw it by February 1, 2018.

The credit facility will become effective once the Company decides to utilize the credit facility, which is subject to fulfillment of certain preconditions, which include, amongst others, registration of a floating charge on the Company's assets, including its shares in its U.S. and Japanese subsidiaries, a charge on the assets of its U.S. subsidiary, a fixed charge on the accounts receivables and intellectual property of the Company and its U.S. subsidiary, and a negative pledge on the assets of its Japanese subsidiary.

On November 8, 2015, following the Viola Investment Agreement, the Company notified the bank that it would not utilize the said credit facility.

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

As of September 30, 2015, the Company has capital deficiency of approximately $6,513 thousand.

As of September 30, 2015, The Group's cash and cash equivalents and available for sale securities amount to $10,548 thousand.

As described in Section 2a above, in November 2015 (subsequent to the reporting date), the Company consummated the first closing of a private placement of shares and warrants to Viola Fund in the total amount of approximately $24.1 million and the equity of the Company and its liquid funds increased accordingly, so that the as of November 22, 2015, the liquid funds amounted to approximately $33.5 million. Upon the second and third closing of the transaction with Viola, the increase in the Company's equity will increase by approximately $30 million (net proceeds from rights offering and raising of additional funds from Viola) and the Company's liquid sources will increase by approximately $28.4 million.

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 new 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 Series L notes)..

6.6 Long-term loans (including current maturities)

The average balance of long-term loans in the first nine months of 2015 amounted to $15,702 thousand, compared to $16,734 thousand in the corresponding period last year.

7. Summary of exposure to market risk and management thereof

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

Assets and liabilities	Gain (loss) from change		Fair value	Gain (loss) from change	
	10% increase in exchange rate	5% increase in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
NIS	(1,657)	(828)	(16,567)	828	1,657
Euro	57	29	568	(29)	(57)

Sensitivity to changes in market value of the Company's shares

	Gain (loss) from change			Fair value	Gain (loss) from change		
	23% increase in fair value	10% increase in fair value	5% increase in fair value		5% decrease in fair value	10% decrease in fair value	23% decrease in fair value
Convertible notes (Series L)	(2,120)	(814)	(458)	(22,004)	470	779	1,799

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. Compensation of interested parties and senior officers

As of the report date, there has been no significant change in the relation between compensation awarded according to Regulation 21 of the Regulations and the compensated parties' contribution to the Company, so that the compensation is in accordance with the Company's compensation policy.

On November 30, 2015, the Compensation Committee and the Board of Directors approved a special grant (hereafter – "the grant") in Israeli currency equivalent to $67,500,000 to the

Company's President and CEO, Mr. Gilad Glick, in respect of: (i) the development of the Company's new business strategy and initiating significant preliminary measures for the implementation thereof; and (ii) extraordinary efforts and contribution to the successful completion of the Viola investment agreement, under which the Company is expected to raise a total amount of approximately $ 30 million. This resolution is subject to the approval of the shareholders meeting. The CEO shall not be entitled to social benefits in respect of the grant. For further details re. the Viola transaction – see item 1.3 in Part A of this quarterly report.
In addition, on the same date, the Compensation Committee and the Board of Directors, in line with the Company's compensation policy, approved a special grant of NIS 63,000 to the Company's CFO, Mr. Shaul Sharoni, for his extraordinary efforts and contribution to the successful completion of the Viola investment agreement. The CEO shall not be entitled to social benefits in respect of the grant.

9. 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.

10. Exposure to market risk and management thereof

Company policy with regard to market risk management

In the reported period there was no significant change in exposure to market risk and management thereof, compared to the description provided in the Company's 2014 Annual Report, issued on March 23, 2015.

Linkage basis

Below are linkage terms of monetary balances:

	As of September 30, 2015					
	Dollar	NIS, unlinked	Euro	Other currencies	Non-monetary items	Total
	Dollars in thousands					
Assets						
Cash and cash equivalents	4,326	3,207	141	176	-	7,850
Available-for sale securities	-	2,698	-	-	-	2,698
Trade receivables (including long term trade receivables)	3,549	104	451	-	-	4,104
Other receivables (including prepaid expenses)	127	57	5	5	494	688
Inventories	-	-	-	-	1,706	1,706
Long-term restricted deposit	-	177	-	-	-	177
Fixed assets	-	-	-	-	687	687
Intangible assets	-	-	-	-	306	306
Total assets	8,002	6,243	597	181	3,193	18,216
Liabilities						
Trade payables	679	308	5	-	-	992
Employee benefits	-	-	-	-	295	295
Provisions	-	-	-	-	356	356
Other accounts payable and accrued expenses	1,714	602	24	62	224	2,626
Shareholders' loans	-	1,652	-	-	-	1,652
Convertible notes	-	14,267	-	-	-	14,267
Derivative instruments	-	3,965	-	-	-	3,965
Long-term accounts payable	576	-	-	-	-	576
Total liabilities	2,969	20,794	29	62	875	24,729
Carrying amount, net	5,033	(14,551)	568	119	2,318	(6,513)

	As of December 31, 2014					
	Dollar	NIS, unlinked	Euro	Other currencies	Non-monetary items	Total
	Dollars in thousands					
Assets						
Cash and cash equivalents	4,988	3,429	661	339	-	9,417
Available-for sale securities	-	8,919	-	-	-	8,919
Trade receivables	2,496	49	650	-	-	3,195
Other receivables (including prepaid expenses)	217	16	5	-	477	715
Inventories	-	-	-	-	1,432	1,432
Long-term restricted deposit	-	131	-	-	-	131
Fixed assets	-	-	-	-	550	550
Intangible assets	-	-	-	-	206	206
Total assets	7,701	12,544	1,316	339	2,665	24,565
Liabilities						
Trade payables	562	521	-	-	-	1,083
Employee benefits	-	-	-	-	225	225
Provisions	-	-	-	-	350	350
Other accounts payable and accrued expenses	1,661	1,092	67	59	251	3,130
Loans from shareholders	-	1,634	-	-	-	1,634
Convertible notes	-	12,929	-	-	-	12,929
Derivative instruments	-	9,162	-	-	-	9,162
Long-term accounts payable	822	-	-	-	-	822
Total liabilities	3,045	25,338	67	59	826	29,335
Carrying amount, net	4,656	(12,794)	1,249	280	1,839	(4,770)

12. <u>Sensitivity analysis</u>

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

12.1 Sensitivity to change in exchange rates

- Excess liabilities over assets in the NIS-linked statement of financial position items (linked and unlinked) amounts to $14,551 thousand.

- Excess of Euro-linked assets over Euro-linked liabilities in the linkage terms statement amounts to $568 thousand.

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

This sensitivity analysis is based on the exchange rate as of September 30, 2015 - $0.2549 = 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	321	160	3,207	(160)	(321)
Available-for sale securities	270	135	2,698	(135)	(270)
Trade receivables	10	5	104	(5)	(10)
Other receivables	6	3	57	(3)	(8)
Long-term restricted deposits	18	9	177	(9)	(18)
Trade payables	(31)	(15)	(308)	15	31
Other accounts payable	(43)	(22)	(434)	22	43
Derivatives	(397)	(198)	(3,965)	198	397
Loans from shareholders	(154)	(77)	(1,537)	77	154
Convertible notes (Series L)	(1,657)	(828)	(16,565)	828	1,657
Total	**(1,657)**	**(828)**	**(16,567)**	**828**	**1,657**

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

This sensitivity analysis is based on the exchange rate as of September 30, 2015 - $1.1226 = 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	14	7	141	(7)	(14)
Trade receivables	45	23	451	(23)	(45)
Other receivables	1	-	5	-	(1)
Other accounts payable	(2)	(1)	(24)	1	2
Total	**57**	**29**	**568**	**(29)**	**(57)**

12.2 Sensitivity to change in market value

12.2.1. Sensitivity to change in market value of convertible notes (dollars in thousands):

	Gain (loss) from change			Fair value	Gain (loss) from change		
	23% increase in fair value	10% increase in fair value	5% increase in fair value		5% decrease in fair value	10% decrease in fair value	23% decrease in fair value
Convertible notes (Series L)	(2,120)	(814)	(458)	(22,004)	470	779	1,799

On September 22, 2008, the fair value of Company convertible notes (Series A) decreased by 23%.

Chapter C - Corporate Governance Aspects

13. 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.

14. Directors with accounting and financial expertise

As of the report date, the Board of Directors made no change with regard to the minimum required number of directors with accounting and financial expertise, as compared to the Company's 2014 Annual Report.

15. Independent Directors

The Company's Bylaws stipulate that external and independent directors should constitute a majority of the Board members in office. As a result of the first closing of the investment transaction with Viola, and as described in Section 2a above, the relevant section in the Company's bylaws was cancelled and the bylaws do not includes any provision regarding the proportion of the independent directors out of the total number of directors in the Company's Board of Directors.

Currently, two independent directors (Dr. Samuel Morry Blumenfeld and Mr. Ilan Biran) and two external directors serve on the Company's Board of Directors.

16. Internal Auditor of the Company

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 2014 Annual Report.

On May 21, 2015, the Audit Committee discussed the Internal Auditor's report with regard to implementation of the latter's recommendations concerning marketing and sales.

On August 20, 2015, the Audit Committee discussed the Internal Auditor's report with regard to implementation of the latter's recommendations concerning the US subsidiary.

On November 23, 2015, the Audit Committee discussed the Internal Auditor's report with regard to internal enforcement plan.

17. Approval of financial statements

Management compiles and prepares the financial statements and the Independent Auditor audits or reviews them, as the case may be. The body responsible for the overall control (as defined in Opinion 76 of the Institute of Certified Public Accountants in Israel) over the approval of the financial statements is the Board of Directors, which as of the report date consists of nine members: Dr. Giora Yaron (Co-Chairman of the Board of Directors); Mr. Martin Gerstel (Co-Chairman of the Board of Directors); Mr. Jonathan Kolber (director); Mr. Sami Totah (Director); Mr. Gary Ellis (director); Mr. Ilan Biran (independent director); Dr. Samuel Morry Blumenfeld (independent director); Ms. Miri Katz (external director); and Ms. Regina Ungar (external director).

The Company has resolved that the Audit Committee would also serve as the Company's Financial Reporting Committee (the "**Committee**"), in conformity with provisions of Corporate Regulations (Provisions and Conditions re Financial Statement Approval Process), 2010.

The Company's Audit Committee consists of three members: Ms. Regina Ungar (external director, Committee Chairperson); Ms. Miri Katz (external director); and Mr. Ilan Biran (independent director). The three Committee members all have accounting and financial expertise and are capable of reading and understanding financial statements, and have declared so prior to their appointment. For details regarding their skills, education, experience and knowledge, based on which the Company regards them as having accounting and financial expertise and as being qualified to read and understand financial statements, see Section 15 in Part D of the Company's 2014 Annual Report.

Prior to meetings of the Committee and of the Board of Directors, all members thereof receive a copy of the Company's financial statements. At meetings of the Committee and of the Board of Directors, the directors have the opportunity to raise questions regarding the financial statements and to the audit or review process conducted by the Company's Independent Auditor. The Company's Independent Auditor, CEO and/or CFO respond to questions by directors, as the case may be. After discussion and responding to all questions raised by directors, a vote is held to approve the financial statements. After approval of the financial statements by the Board of Directors, the Chairman of the Board of Directors, the CEO and the CFO are authorized to sign the financial statements.

The financial statements for the third quarter of 2015 were approved at two meetings, as follows:

On November 23, 2015, the Committee held a meeting to form its recommendations to the Board of Directors with regard to approval of the financial statements. The Company's Internal Auditor and Independent Auditor were invited to attend this Committee meeting. The Committee meeting was attended by the following Committee members: Ms. Regina Ungar (external director, Committee Chairperson); Ms. Miri Katz (external director); and Mr. Ilan Biran (independent director). The meeting was also attended by Mr. Gilad Glick, President and CEO; Mr. Shaul Sharoni, CFO; Mr. Joseph Tenne, VP Finance, and the Company's Independent Auditor. Among others, the following matters were discussed: assessments and estimates made with regard to the financial statements for the third quarter of 2015; completeness and appropriateness of disclosure on the financial statements for the third quarter of 2015; accounting policy and accounting treatment applied to issues material for the Company; valuations, including underlying assumptions and estimates, relied upon in the financial statements for the third quarter of 2015. The deliberations included a presentation of the aforementioned matters by the Company's CFO and comments by the Independent Auditor on the matters presented.

After the presentation of the financial statements and discussion thereof, the Committee resolved to recommend that the Board of Directors approve the financial statements. The recommendations made by the Committee were provided in writing to Board members on November 25, 2015.

On November 30, 2015, the Board of Directors held a meeting to discuss and approve the financial statements. At that meeting, the Board of Directors discussed the Committee's recommendations and approved the Company's financial statements as of September 30, 2015. The Board of Directors is of the opinion that the Committee's recommendations were presented to the directors in reasonable time prior to the meeting, in view of the scope and complexity of these recommendations. The aforementioned Board meeting was attended by the following directors: Dr. Giora Yaron, Mr. Martin Gerstel, Mr. Jonathan Kolber, Mr. Sami Totah, Mr. Gary Ellis, Mr. Ilan Biran, Ms. Miri Katz and Ms. Regina Ungar.

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

18. Subsequent events mentioned in the financial statements

For subsequent events in the financial statements, see Note 7 to the Company's financial statements as of September 30, 2015.

19. Critical accounting estimates

As of the report date, there was no change to critical accounting estimates compared to the description provided in section 19 in Part B (Board of Directors' Report) of the 2014 Annual Report, except for the following:

Valuation of embedded warrants in convertible notes (Series L)

In March 2013, the Company issued, in conjunction with a public offering and private placement (see Note 19b in Part C of the Company's 2013 Annual Report), NIS 76 million par value convertible notes. The notes bear interest at 8.65% per annum, with principal and interest non-linked. Interest for notes is payable semi-annually, from 2013 through 2018. The notes are convertible, such that each NIS 1.92 par value notes may be converted into one Company ordinary share of NIS 0.01 par value.

In conformity with IFRS, convertible notes are to be bifurcated into two components: a liability component with no conversion rights, which is measured at amortized cost using the effective interest method, and a conversion option linked to the Israeli Consumer Price Index, measured at fair value at each reporting date. Changes to the fair value of this component are recognized in the statement of operations in each period.

The valuation was prepared by PricewaterhouseCoopers Consulting Ltd. (the "**appraiser**"), which specializes, among others, in corporate valuation, valuation of employee stock options, financial instruments and financial derivatives. The appraiser has no personal interest in shares of the Company, shareholders thereof or affiliated parties thereof. The appraiser has no dependence on or affinity to these entities, as defined in the Companies Law, 1999. For more information about valuation of embedded warrants in notes (Series L), see the valuation report enclosed with this quarterly report.

In valuing the convertible warrants, the appraiser applied the binomial model, which allows for specification of complex exercise and conversion terms. The model also allows feeding of information which varies over time.

Valued item	Appraiser	Valuation date	Valuation(1)	Effect on operating results (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 September 30, 2015	3,965	(5,197)	140.3	60.2%	19.35%

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

20. Warning signs

The Company Board of Directors, at its meeting held on August 26, 2015, discussed the provisions of Regulation 10(b)(14) of the Regulations regarding warning signs. When such warning signs occur within a corporation, the corporation should provide a disclosure of the forecasted cash flows 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) Two of the aforementioned warning signs in the Company are: capital deficiency and continuous negative operating cash flow.

At the Board of Directors' meeting, the following matters were discussed, inter alia: (a) the Company's business plan, which includes updated targets and possibilities to align the Company with the markets in which it does business and at which it targets its products; (b) data regarding the estimated sales volume for the forecasted cash flow period (including the Company's estimates with regard to continued proceedings for the adoption of insurance coverage for Company products by private insurers in the U.S.; (c) total expenses for the period, adjusted for its economic and business environment; and (d) the existing and anticipated liabilities over the forecasted cash flow period, including with respect to Company notes (Series L).

Financing sources available to the Company, as detailed in item 6 above, were also discussed.

As of September 30, 2015, the balance of the Company's cash and cash equivalents and investments in marketable securities is approximately $10.5 million. In addition, as described in Section 2a above, in November 2015 (subsequent to the reporting date), the Company consummated the first closing of a private placement of shares and warrants to Viola Fund in the total amount of approximately $ 24 million and the Company's cash and cash equivalents and investments in marketable securities balances increased accordingly.

In view of the foregoing, even though as of September 30, 2015, the Company had capital deficiency and continuous negative operating cash flows, the Company's Board of Directors resolved that as of the date of this report, the existence of the aforementioned warning signs does not indicate a liquidity problem in the forecasted cash flow period, and that there is no reasonable concern that, during the forecasted cash flow statement period, the Company may not fulfill its existing and anticipated obligations when these become due. The Company's Board of Directors continues to review, from time to time, the need for taking additional measures, including raising funds and/or additional streamlining measures.

Below is the forecasted cash flow statement for the 24-month period commencing October 1, 2015 (dollars in millions):

	Oct 1, 15 - Dec 15 ,31	Jan 1, 16 - Dec 31, 16	Jan 1, 17 - Sep 30, 17	Notes
Cash Open Balance - not including pledged deposit	10.5	36.2	25.1	**1**
IM Ltd sources:				
Net cash used in operating activities	(1.9)	(12.0)	(9.1)	
Cash from Financing Activity				
Raising capital through private placement and rights offering	30.0	-	-	**4**
Subisdaries sources:	(0.6)	2.6	5.6	
	27.5	(9.3)	(3.5)	
Total resources	38.0	26.8	21.6	
Liabilities and Cash uses:				
Cash for Financing Activity				
Convertible Note loan repayment	-	-	10.0	**2, 5**
Sharholders loan repayment	1.8	-	-	**2, 4**
Bank loan repayment	-	-	-	
Convertible Note Interest payment	-	1.7	1.3	**2**
Credit Facility Interest payment	0.1	-	-	**2**
Total uses	1.9	1.7	11.3	-
			-	
Ending Cash Balance	36.2	25.1	10.3	

1. The balance of liquid assets (including cash and cash equivalents and investments in securities) refers to the Company and its wholly-owned subsidiaries. The Company does not foresee any restrictions on transfer of liquid assets between the Company and its subsidiaries in the U.S. and Japan.

2. Notes (series L) balance is calculated based on outstanding par value and dollar/NIS exchange rate of 3.80. Shareholders loans are denominated in Israeli currency and translated into dollars based on the dollar/NIS exchange rate of 3.80.

3. Sensitivity to exchange rate fluctuations:

   In March 2013, the Company raised $19.5 million (net) (in Israeli currency) by issuance of notes (Series L) (convertible notes bearing NIS-denominated interest of 8.65% p.a.), to support sales and marketing growth as well as development of new applications and products (for more information about the notes, see section 24.3 of Part A of the Company’s 2014 Annual Report).

4. As described in Section 2a above, on August 26, 2015, the Company entered into an agreement with Viola whereby Viola would invest in share capital of the Company together with a rights offering, so that the total proceeds from Viola and from the rights offering will amount to $30 million. Subsequent to the first closing of the transaction (which occurred on November 5, 2015), the Company fully repaid the principal of the shareholders’ loans of approximately NIS

6.9 million, in early repayment. Three of the major shareholders have notified the Company that they will reinvest the amounts they received as repayment of the loans (in the amount of NIS6.2 million; approximately $1.6 million) in the Company as part of their participation in the rights offering. If the participation in the rights offer is less than NIS 24 million, Viola has undertaken to invest the difference, so that the total investment (including the shareholders' investment) will be $30 million. For a detailed description of the transaction, see Part A of this quarterly report.

5. On February 28, 2017, assuming that the Series L notes are not converted into shares before their maturity date, the first principal repayment on the Series L notes and semi-annual interest on such debt, in a total amount of NIS 41.4 million ($10.9 million, at the exchange rate of $1 = NIS 3.80) are due.

The Company's forecasted cash flow and aforementioned information constitute forward-looking information, as defined in the Securities Act. 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. 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 failure of Company estimates to materialize with regard to Company revenues and expenses over the forecasted cash flow statement period, exchange rate fluctuations, increasing competition in markets in which the Company does business and any other risk factors for the Company, technology innovations, lack of sufficient reimbursement for use of Company products.

Chapter E – Specific Disclosure for Noteholders

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

As of the report date, there was no change to information about notes issued by the Company, compared to the description provided in Section 21 in Part B of the Company's 2014 Annual Report, except for the following:

	Convertible notes (Series L)
Par value as of September 30, 2015	NIS 76,255,261
Par value (according to linkage terms) as of September 30, 2015	NIS 76,255,261
Accrued interest	$152,000
Fair value in the financial statements as of September 30, 2015	$18,384 thousand (including $3,965 thousand in respect of the conversion component, including accrued interest).
Value on the TASE as of November 26, 2015	NIS 85,330 thousand (for NIS 76,255 thousand par value).

It should be noted that under the deed of trust relating to the notes, upon the completion of a rights offering, the conversion rate of the notes will be adjusted, so that the number of shares resulting from the conversion will be adjusted for the rights offering at the ratio of the closing price of the Company's shares on the TASE trading day preceding the "ex-date" of the rights offering and the opening price of the Company's shares on the TASE trading day that is the "ex-date".

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

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

Date: November 30, 2015

ITAMAR MEDICAL LTD.

PART C

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2015

ITAMAR MEDICAL LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2015

(UNAUDITED)

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONSILIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2015

(UNAUDITED)

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ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	September 30		December 31
	2015	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	**7,850**	10,791	9,417
Investments in marketable securities available-for-sale	**2,698**	8,456	8,919
Trade receivables	**3,400**	*3,145	*2,795
Other receivables	**553**	630	606
Inventories	**1,706**	1,169	1,432
Total current assets	**16,207**	24,191	23,169
Non-current assets			
Restricted deposits	**177**	138	131
Prepaid expenses	**135**	109	109
Long term trade receivables	**704**	*304	*400
Fixed assets	**687**	513	550
Intangible assets	**306**	237	206
Total non-current assets	**2,009**	1,301	1,396
Total assets	**18,216**	25,492	24,565

* Reclassified, see Note 2c.

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	September 30		December 31
	2015	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Liabilities	**U.S. dollars in thousands**		
Current liabilities			
Trade payables	**992**	754	1,083
Short-term employee benefits	**206**	209	149
Financial derivatives	**-**	86	-
Provisions	**356**	335	350
Short-term loans from shareholders	**1,652**	-	-
Accrued expenses	**1,253**	1,139	1,177
Other accounts payable	**1,373**	1,244	1,953
Total current liabilities	**5,832**	3,767	4,712
Non-current liabilities			
Convertible notes, net of current maturities	**14,267**	13,155	12,929
Long-term loans from shareholders	**-**	1,709	1,634
Derivative instruments	**3,965**	8,257	9,162
Long-term employee benefits	**89**	83	76
Liability to the Chief Scientist	**576**	821	822
Total non-current liabilities	**18,897**	24,025	24,623
Total liabilities	**24,729**	27,792	29,335
Capital deficiency			
Ordinary share capital	**467**	467	467
Additional paid-in capital	**80,269**	80,242	80,242
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	**(47)**	(111)	(454)
Accumulated deficit	**(88,344)**	(84,040)	(86,167)
Total capital deficiency	**(6,513)**	(2,300)	(4,770)
Total liabilities, net of capital deficiency	**18,216**	25,492	24,565

Dr. Giora Yaron, Chairman of the Board of Directors

Gilad Glick, President and Chief Executive Officer

Shaul Sharoni, Chief Financial Officer

Date of approval date of the financial statements: November 30, 2015

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

ITAMAR MEDICAL LTD ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands (except per share data)				
Revenues	**12,648**	11,911	3,865	4,206	16,387
Cost of revenues	**(3,407)**	(3,619)	(901)	(1,208)	(4,798)
Gross profit	**9,241**	8,292	2,964	2,998	11,589
Selling and marketing expenses	**8,012**	5,920	2,687	1,951	8,436
Research and development expenses	**2,121**	1,521	715	552	2,017
General and administrative expenses	**3,275**	3,539	1,168	1,163	4,745
Operating loss	**(4,167)**	(2,688)	(1,606)	(668)	(3,609)
Financial expenses relating to cash and investments	**(326)**	(333)	(136)	*(448)	(468)
Financial expenses relating to notes and loans	**(3,065)**	(2,264)	(444)	*(76)	(2,817)
Gain (loss) from change in fair value of derivatives instruments, net	**5,197**	4,734	2,696	7,365	3,743
Financial income (expenses), net	**1,806**	2,137	2,116	6,841	458
Loss before income tax	**(2,361)**	(551)	510	6,173	(3,151)
Income taxes	**(93)**	(217)	(22)	(201)	(124)
(Loss) income for the period	**(2,454)**	(768)	488	5,972	(3,275)
Basic Loss per share (In Dollars)	**(0.01)**	0.00	0.01	0.03	(0.02)
Diluted Loss per share (In Dollars)	**(0.02)**	(0.02)	0.00	(0.01)	(0.02)

* Reclassified, see Note 2c.

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	(Unaudied)		(Unaudied)		(Audited)
	U.S. dollars in thousands				
Loss for the period	**(2,454)**	(768)	488	5,972	(3,275)
income (loss) items that are or may be reclassified to the statement of operations:					
Remeasurement of defined benefit plan, net of tax	**-**	**-**	-	-	21
Currency translation differences	**-**	46	-	6	46
Net change in fair value of marketable securities available-for-sale, net of tax	**(116)**	(353)	(53)	(436)	(696)
Net change in fair value of marketable securities available-for-sale, net of tax that was reclassified to the statement of operations	**523**	-	-	-	-
Total Other comprehensive income (loss) for the period, net of tax	**407**	(307)	(53)	(430)	(629)
Total comprehensive income (loss) for the period	**(2,047)**	(1,075)	435	5,542	(3,904)

The accompanying notes are an integral part of these condensed 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. dollars in thousands						
For the nine months ended September 30, 2015							
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	-	-	-	-	-	(2,454)	(2,454)
Other comprehensive income for the period, net of tax	-	-	-	-	407	-	407
Total comprehensive loss for the period	-	-	-	-	407	(2,454)	(2,047)
Transactions with owner recognized directly in							
Exercise of options	-	27	-	-	-	-	27
Share-based payment	-	-	-	-	-	277	277
Balance as of September 30, 2015 (Unaudited)	467	80,269	1,151	(9)	(47)	(88,344)	(6,513)
For the nine months ended September 30, 2014							
Balance as of January 1, 2014 (Audited)	385	68,238	935	(55)	242	(84,388)	(14,643)
Total comprehensive loss for the period:							
Loss for the period	-	-	-	-	-	(768)	(768)
Other comprehensive income for the period, net of tax	-	-	-	46	(353)	-	(307)
Total comprehensive loss for the period	-	-	-	46	(353)	(768)	(1,075)
Transactions with owner recognized directly in							
Exercise of options	5	300	-	-	-	-	305
Private issuance of ordinary shares	77	11,704	-	-	-	-	11,781
Share-based payment	-	-	-	-	-	1,116	1,116
Capital reserve from transactions with shareholders	-	-	216	-	-	-	216
Balance as of September 30, 2014 (Unaudited)	467	80,242	1,151	(9)	(111)	(84,040)	(2,300)

The accompanying notes are an integral part of these condensed 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. dollars in thousands						
For the three months ended September 30, 2015							
Balance as of July 1, 2015 (Unaudited)	467	80,264	1,151	(9)	6	(88,686)	(6,807)
Total comprehensive profit for the period:							
Profit for the period	-	-	-	-	-	488	488
Other comprehensive income for the period, net of tax	-	-	-	-	(53)	-	(53)
Total comprehensive profit for the period	-	-	-	-	(53)	488	435
Transactions with owner recognized directly in							
Exercise of options	-	5	-	-	-	-	5
Share-based payment	-	-	-	-	-	(146)	(146)
Balance as of September 30, 2015 (Unaudited)	467	80,269	1,151	(9)	(47)	(88,344)	(6,513)
For the three months ended September 30, 2014							
Balance as of July 1, 2014 (Unaudited)	466	80,108	1,140	(15)	325	(90,392)	(8,368)
Total comprehensive profit for the period:							
Loss for the period	-	-	-	-	-	5,972	5,972
Other comprehensive income for the period, net of tax	-	-	-	6	(436)	-	(430)
Total comprehensive profit for the period	-	-	-	6	(436)	5,972	5,542
Transactions with owner recognized directly in							
Exercise of options	1	134	-	-	-	-	135
Share-based payment	-	-	-	-	-	380	380
Capital reserve from transactions with shareholders	-	-	11	-	-	-	11
Balance as of September 30, 2014 (Unaudited)	467	80,242	1,151	(9)	(111)	(84,040)	(2,300)

The accompanying notes are an integral part of these condensed 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. dollars in thousands						
For the year ended December 31, 2014							
Balance as of January 1, 2014 (Audited)	385	68,238	935	(55)	242	(84,388)	(14,643)
Total comprehensive loss for the year:							
Loss for the year	-	-	-	-	-	(3,275)	(3,275)
Other comprehensive loss for the year, net of tax	-	-	-	46	(696)	21	(629)
Total comprehensive loss for the year	-	-	-	46	(696)	(3,254)	(3,904)
Transactions with owner recognized directly in equity:							
Exercise of options	5	300	-	-	-	-	305
Private issuance of ordinary shares	77	11,704	-	-	-	-	11,781
Share-based payment	-	-	-	-	-	1,475	1,475
Capital reserve from transactions with shareholders	-	-	216	-	-	-	216
Balance as of December 31, 2014 (Audited)	467	80,242	1,151	(9)	(454)	(86,167)	(4,770)

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

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
profit (Loss) for the period	(2,454)	(768)	488	5,972	(3,275)
Adjustments for:					
Depreciation and amortization	273	246	104	75	324
Change in provision for doubtful and bad debt	74	10	42	1	46
Net financial cost	3,302	2,362	572	535	2,958
(Profit) loss from revaluation of derivatives	(5,197)	(4,734)	(2,696)	(7,365)	(3,743)
Changes in capital reserve in respect of transactions with shareholders	-	33	-	11	33
Share-based payment	277	1,116	(146)	380	1,475
Increase in trade receivables	(983)	(1,411)	332	(591)	(1,175)
(Increase) Decrease in other accounts receivable	(84)	1	141	240	25
(Increase) Decrease in inventories	(371)	(131)	82	(229)	(445)
(Decrease) Increase trade payables	(79)	67	(9)	103	432
(Decrease) Increase in other long-term accounts payable	(9)	(329)	3	(337)	(328)
Increase (Decrease) in employee benefits	70	30	(30)	(23)	(16)
(Decrease) Increase in provisions	6	64	-	22	79
(Decrease) Increase in other accounts payable and accrued expenses	(412)	(90)	(195)	193	250
Income tax expenses (revenues)	123	275	27	214	204
Taxes paid during the period	(30)	(58)	(5)	(13)	(80)
Interest received during the period	7	38	3	9	40
Interest paid during the period	(1,861)	(2,247)	(933)	(1,036)	(2,247)
Net cash used in operating activities	(7,348)	(5,526)	(2,220)	(1,839)	(5,443)
Cash flow from investing activities					
Purchase of securities available-for-sale	-	(2,006)	-	-	(2,897)
Proceeds from (Payment on) writing currency options	-	38	-	-	(134)
Sale of securities available-for-sale	6,079	-	-	-	-
Realization of deposits and pledged deposits	-	57	-	-	57
Purchase of fixed assets and intangible assets	(245)	(135)	(13)	(71)	(202)
Capitalization of development expenses	(70)	-	-	-	-
Investment in pledged deposits	(44)	-	-	-	-
Net cash from (used in) investing activities	5,720	(2,046)	(13)	(71)	(3,176)
Cash flow from financing activities					
Proceeds from issuance of share capital	-	12,031	-	-	12,031
Repayment of notes	-	(5,156)	-	-	(5,156)
Proceeds from exercise of share options	27	305	5	135	305
Private share capital issuance expenses	-	(250)	-	-	(250)
Net cash provided by financing activities	27	6,930	5	135	6,930
(Decrease) Increase in cash and cash equivalents	(1,601)	(642)	(2,228)	(1,774)	(1,689)
Cash and cash equivalents at beginning of period	9,417	11,950	10,243	13,129	11,950
Effect of exchange rate fluctuations on balances of cash and cash equivalents	34	(517)	(165)	(564)	(844)
Cash and cash equivalent balance at end of period	7,850	10,791	7,850	10,791	9,417

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH

OF SEPTEMBER 30, 2015

(UNAUDITED)

NOTE 1 – GENERAL

a. The reporting entity

Itamar Medical Ltd. (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. Since its inception, the Company is engaged in research and development of non-invasive diagnostic medical devices and associated support services for early diagnosis and monitoring of medical conditions - focusing on cardio-vascular conditions and on sleep breathing disorders. The unique technology developed by the Company can monitor the Peripheral Arterial Tone ("**PAT®**") technology.

The PAT® technology allows for accurate measuring of changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. The peripheral arterial volume is measured, using the PAT® Technology, by way of a thimble-shaped probe which fits over the patient's finger and transmits information to a computer-based processing system, which monitors the PAT® signal and diagnoses the patient's medical condition.

The Company has two wholly-owned subsidiaries: The U.S. subsidiary, Itamar Medical Inc., provides distribution, marketing and sales promotion services for the Company's products in North America; the Japanese subsidiary, Itamar Medical Japan Co. Ltd., provides distribution, marketing and sales promotion services for Company's products in Japan.

The consolidated financial statements of the Company as of September 30, 2015 include the Company and its subsidiaries (collectively, the "**Group**").

b. Investment agreement with an entity in the Viola Funf Group

(1) On October 12. 2015, the Company's shareholders' meeting approved the agreement of August 26, 2015, with an entity in the Viola Fund Group, Viola P.E II A.V. LP, a limited partnership established by Viola Private Equity II (A) L.P. and Viola Private Equity II (B) L.P. (jointly "**Viola**"), whereby Viola would invest in share capital of the Company (the "**Investment Agreement**" or the "**Transaction**") an Israeli currency amount equivalent to $24.1 million, which may increase to $28.4 million (the "**Maximum Investment Amount**"), out of total funds raised amounting to $30 million, in consideration for the Company's shares and warrants.

<u>The first closing of the transaction – allotment of shares and warrants to Viola in consideration for $24.1 million</u>

On November 5, 2015, the Company completed the first closing of the Transaction and allotted 63,900,759 Company shares to Viola at a price of NIS 1.449 per share (the "**Final Price per Share**"), in consideration of $24.1 million. Upon the completion of the first closing of the transaction, Viola holds approximately 26.1% (fully diluted - approximately 27.97%) of the Company's issued and outstanding share capital, and is considered a controlling shareholder. The shares are listed on the Tel Aviv Stock Exchange Ltd.

In addition, 31,950,380 non-negotiable warrants (the "**Warrants**") were allotted to Viola on the said date, at the rate of two Warrants per share, without consideration. The Warrants are exercisable for purchase of one share each, at an exercise price to be computed as follows: for the first 21 months, the exercise price will be NIS 1.642, and during the next 21 months – NIS 1.745, subject to adjustments in the event of merger, allotment of securities, dividend distribution or restructuring of the Company's equity, Viola is entitled to exercise the Warrants by the cashless method.

NOTE 1 – GENERAL (CONTINUED)

The net consideration from the allotment will be bifurcated for accounting purposes to the shares and Warrants. The Warrants will be treated as derivatives which will be classified as liabilities that will be measured at fair value through profit and loss (using the binominal model) each reporting period.

Upon the completion of the first closing of the Transaction, two directors proposed by Viola were appointed. The shareholders meeting which approved the entire Transaction approved the appointment of those directors.

Under the terms of the Transaction, a portion of the consideration received from Viola was applied to the repayment of loans amounting to NIS 6.9 million received from Medtronic International Technology, Inc., Dr. Giora Yaron, Mr. Martin Gerstel and Caremi Partners Ltd. However, Medtronic International Technology, Inc., Dr. Giora Yaron and Mr. Martin Gerstel have notified the Company that they would apply the amounts so repaid thereto to the exercise of the rights allotted to them within the framework of the rights offering described below, for a total consideration of approximately NIS 6.2 million.

<u>The second closing of the Transaction – rights offering in the volume of NIS 24 million</u>

Concurrently with the publication of these financial statements, as stipulated by the Investment Agreement, the Company is initiating the offering of shares and warrants to its shareholders, by way of rights offering (i.e. – allotment of shares at the price of NIS 1.449 per share and of at the rate of two warrants per share, without consideration) (the "**Rights Offering**"), for a total gross consideration of up to NIS 24 million (excluding amounts attributed to Viola). The Rights Offering will be carried out by a shelf offering report, by virtue of a shelf prospectus.The total gross consideration from the issuance of rights will be determined taking into account adjustments for employee options. The anticipated proceeds from such issuance, unadjusted for employee options (the options incorporate a mechanism for an adjustment for the Rights Offering), are approximately NIS 22.5 million.

<u>The third closing of the Transaction – additional private allotment of shares and Warrants to Viola</u>

Should the rights to be offered in the Rights Offering not be fully taken-up (not including the rights to be offered to Viola), Viola has undertaken to acquire additional shares in the quantity resulting from the division of: (i) the difference between the actual gross proceeds from the Rights Offering and the maximum potential gross proceeds therefrom by (ii) the Final Price per Share of f NIS 1.449.

With respect to the share allotment at this closing, Viola will be granted Warrants, for no additional consideration, at the ratio of one Warrant for every two shares allotted thereto.

(2) Upon the completion of the first closing and the allotment of the shares to Viola, the shareholding of Yelin Lapidot Holdings Ltd. was diluted and they ceased to be an interested party in the Company.

NOTE 2 – BASIS OF PREPARATION

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 for annual financial statements. These interim statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2014 and for the year then ended (the "**Annual Financial Statements**"). In addition, these financial statements have been prepared in accordance with Section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The financial statements were approved by the Board of Directors on November 30, 2015.

b. Use of estimates, assumptions and judgments

The preparation of interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

c. Reclassification

The Company changed the classification of trade receivables to long term trade receivables. Accordingly, \$304 thousand and \$400 thousand were reclassified for consistency as of September 30, 2014 and December 31, 2014. This classification did not have any effect on the total assets as of September 30, 2014 and December 31, 2014.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual consolidated financial statements:

New standards and interpretations not yet adopted:

IFRS 9 (2014), *Financial Instruments*

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15, *Revenue from Contracts with Customers*

Further the disclosure on new standards and interpretations not yet adopted in Note 3 regarding significant accounting policies in the 2014 annual financial statements, the Group is in the process of examining the effects of applying the standard on the financial statements and has no plans for early application. On July 22, 2015, the International Accounting Standards Board resolved to postpone the mandatory implementation of IFRS 15. On September 11, 2015, the effective date of IFRS 15 was finally amended, so that the standard is effective for the annual periods commencing January 1, 2018. Early application is permitted.

NOTE 4 – LOANS AND CREDIT

Irrevocable undertaking to place a credit facility to the Company

In January 2015, the Company received an irrevocable undertaking to place a credit facility of up to NIS 9,058,131 (approximately $2.4 million) (the "**credit amount**"), subject to certain conditions, from certain Company's shareholders: (i) Medtronic International Technology, Inc.; (ii) Itamar Technologies and Investments (1994) Ltd., a company controlled by Dr. Giora Yaron; and (iii) Mr. Martin Grestel, (jointly: the "**three shareholders**"). The credit facility may be utilized in a single withdrawing from January 2017 to February 28, 2017. Should the credit amount or a portion thereof remain unutilized after February 28, 2017, the facility will expire and the Company will no longer be entitled thereto. The credit, if utilized, will bear interest at the annual rate of 10.4% (unlinked). The principal of any amount drawn will mature in one payment on February 28, 2018. The Company is not obligated to utilize the credit amount and that the resolution to utilize the credit must be adopted subject to any binding legal provisions.

Irrevocable undertaking for the placement of bank's credit facility

On May 26, 2015, the Company received an irrevocable undertaking to place a credit facility from a bank of up to approximately $6 million. The credit facility will be comprised of two components:

a. A term loan in the amount of $3 million, which the Company will be able to draw by December 31, 2015 and will be repaid in twelve monthly installments commencing on March 1, 2017.

b. A line of credit which will finance accounts receivable of up to approximately $3 million. The rate of financing will be up to 80% of the eligible accounts receivable and the Company will be able to draw it by February 1, 2018.

The credit facility will become effective once the Company decides to utilize the credit facility, which is subject to fulfilment of certain preconditions, which include, amongst others, registration of a floating charge on the Company's assets, including its shares in its U.S. and Japanese subsidiaries, a charge on the assets of its U.S. subsidiary, a fixed charge on the accounts receivables and intellectual property of the Company and its U.S. subsidiary, and a negative pledge on the assets of its Japanese subsidiary.

NOTE 5 – FINANCIAL INSTRUMENTS

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

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, pledged deposits, tradable securities, interest rate swap, loans and short-term credit, trade payables and other payables are the same or proximate to their fair value.

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

	September 30, 2015		September 30, 2014	
	Book Value	Fair Value	Book Value	Fair Value
	U.S. dollars in thousands			
	(Unaudited)			
Current Liabilities				
Loans from shareholders (Including accrued interest)	**1,668**	**1,537**	-	-
Non-current Liabilities				
Loans from shareholders (Including accrued interest)	-	-	1,726	1,706
Convertible notes (Including accrued interest)	**18,384**	**22,004**	21,573	24,806

	December 31, 2014	
	Book Value	Fair Value
	U.S. dollars in thousands	
	(Unaudited)	
Non-current Liabilities		
Loans from shareholders (Including accrued interest)	**1,696**	**1,594**
Convertible notes (Including accrued interest)	**22,667**	**23,726**

b. Fair value hierarchy

The table below presents an analysis of financial instruments measured at fair value using the valuation method.

The different levels were defined as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical instruments.

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

Level 3: Data not based on expected market data.

NOTE 5 – FINANCIAL INSTRUMENTS (CONTINUED)

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets - available-for-sale securities	**2,689**	**-**	**-**	**2,689**
Financial liabilities - embedded warrants	**-**	**3,965**	**-**	**3,965**

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Unaudited)			
Financial assets - available-for- sale securities	8,456	-	-	8,456
Financial liabilities:				
Written options on foreign currency exchange rate	-	86	-	86
Embedded warrants	-	8,257	-	8,257
Total Financial liabilities	**-**	8,343	-	8,343

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
	(Audited)			
Financial assets - available-for- sale securities	8,919	-	-	8,919
Financial liabilities - embedded warrants	-	9,162	-	9,162

NOTE 5 – FINANCIAL INSTRUMENTS (CONTINUED)

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

The fair value of marketable warrants is based on a quoted price on an active market.

The fair value of embedded warrants is measured based on directly or indirectly observed market data, using the binomial model.

NOTE 6 – SHARE BASED PAYMENT

a. Grant of stock options to employees

1) On January 22, 2015, the Company's Board of Directors approved the grant of 284,500 stock options to six employees and one consultant, as follows:

a) 2 employees of the Company.
b) 3 employee of the U.S subsidiary.
c) 1 employee of the Japanese subsidiary.
d) 1 consultant to the U.S subsidiary.

The stock options are exercisable into 284,500 ordinary shares of NIS 0.01 par value each.

The vesting of the stock options is partly (28.5%) contingent on continued employment of the grantee (vesting over four years) and partly (71.5%) contingent on the grantee achieving company-wide levels.

The following table provides a summary of the exercise price with respect to the option granted:

Grantees	Stock options A (Vesting over time)	Stock options B (Vesting based on achieving targets)
Plan for Israel-resident employees	NIS 1.98	NIS 1.80
Plan for U.S.-resident and Japan-resident employees	NIS 1.98	NIS 1.80

The fair value of the stock options as of the grant date, using the Black-Scholes valuation model, is $21 thousand for stock options A and $55 thousand for option B (assuming 100% target achievement), based on the following assumptions: risk-free interest rate of between 1.00% and 1.53%, expected volatility of between 44.61% and 63.94% and share price of $0.46. The expected duration ranges between 5.4 and 7.5 years. The stock options will expire on the 10th anniversary of the grant date.

NOTE 6 – SHARE BASED PAYMENT (CONTINUED)

2) On May 26, 2015, the Company's Board of Directors approved the grant of 667,750 stock options to five employees, as follows:

e) 4 employees of the Company.
f) 1 employee of the Japanese subsidiary.

.

The stock options are exercisable into 667,750 ordinary shares of NIS 0.01 par value each.

The vesting of the stock options is partly (28.5%) contingent on continued employment of the grantee (vesting over four years) and partly (71.5%) contingent on the grantee achieving company-wide levels.

The following table provides a summary of the exercise price with respect to the option granted:

Grantees	Stock options A (Vesting over time)	Stock options B (Vesting based on achieving targets)
Plan for Israel-resident employees	NIS 1.95	NIS 1.77
Plan for U.S.-resident and Japan-resident employees	NIS 1.95	NIS 1.88

The fair value of the stock options as of the grant date, using the Black-Scholes valuation model, is $48 thousand for stock options A and $132 thousand for option B (assuming 100% target achievement), based on the following assumptions: risk-free interest rate of between 1.61% and 2.27%, expected volatility of between 43.16% and 63.65% and share price of $0.49. The expected duration ranges between 5.3 and 7.3 years. The stock options will expire on the 10th anniversary of the grant date.

b. Stock Options based on achieving targets

Stock options which vest based on achievement of two cumulative threshold conditions which include target sales and minimum operating income or loss, as specified by the Company's Compensation Committee and Board of Directors - in line with the work plan approved by the Company's Board of Directors. With regard to measurement of said operating income or loss to be used by the Board of Directors for review of the threshold conditions, the operating income or loss to be used would exclude depreciation and amortization, changes in provision for doubtful accounts and bad debt, expenses with respect to share-based payment and the effect of non-recurring events ("**Adjusted operating income (loss)**"). The adjusted operating loss was calculated as follows:

NOTE 6 – SHARE BASED PAYMENT (CONTINUED.)

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	U.S. dollars in thousands				
	(Unaudited)				(Audited)
Operating loss according to statement of operations	**(4,167)**	(2,688)	**(1,606)**	(668)	(3,609)
Adjustments:					
Depreciation and amortization	**273**	246	**104**	75	324
Change in provision for doubtful debts	**74**	10	**42**	1	46
Share based payment expenses	**277**	1,116	**(146)**	380	1,475
Expenses related to public offering which did not materialized	**368**		**368**		
Adjusted operating loss	**(3,175)**	(1,316)	**(1,238)**	(212)	(1,764)

NOTE 7 – SUBSEQUENT EVENT

As to the development in the Viola Transaction subsequent to the reporting date, based on the outline of the Investment agreement entered into on August 26, 2015, see Note 1b.

ITAMAR MEDICAL LTD.

CONDENSED INTERIM FINANCIAL DATA

FROM CONSOLIDATED FINANCIAL STATEMENTS ATTRIBUTED TO THE COMPANY SOLO

AS OF SEPTEMBER 30, 2015

(UNAUDITED)

ITAMAR MEDICAL LTD. AND ITS SUBSIDIARIES

ADDITIONAL SOLO FINANCIAL DATA

AS OF SEPTEMBER 30, 2015

(UNAUDITED)

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ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF FINANCIAL POSITION DATA

	September 30		December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Assets			
Current assets			
Cash and cash equivalents	**6,654**	9,436	8,532
Investments in marketable securities available-for-sale	**2,698**	8,456	8,919
Trade receivables	**1,557**	1,928	1,123
Other receivables	**3,586**	2,713	2,793
Financial derivatives	**428**	434	455
Inventories	**1,194**	843	1,050
Total current assets	**16,117**	23,810	22,872
Non-current assets			
Restricted deposits	**177**	138	131
Prepaid expenses	**49**	41	43
Investment in Subsidairies	**178**	200	148
Fixed assets	**355**	301	308
Intangible assets	**279**	226	196
Total non-current assets	**1,038**	906	826
Total assets	**17,155**	24,716	23,698

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

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF FINANCIAL POSITION DATA

	September 30		December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Liabilities			
Current liabilities			
Trade payables	**857**	666	972
Short-term employee benefits	**146**	171	128
Financial derivatives	**-**	86	-
Provisions	**104**	100	106
Accrued expenses	**1,162**	1,089	1,076
Other accounts payable	**732**	730	1,455
Total current liabilities	**3,001**	2,842	3,737
Non-current liabilities			
Convertible notes, net of current maturities	**14,267**	13,155	12,929
Loans from shareholders	**-**	1,709	1,634
Derivative instruments	**3,965**	8,257	9,162
Long-term employee benefits	**89**	83	76
Other long-term accounts payable	**118**	-	108
Liability to the Chief Scientist	**576**	821	822
Total non-current liabilities	**19,015**	24,025	24,731
Total liabilities	**22,016**	26,867	28,468
Capital deficiency			
Ordinary share capital	**467**	467	467
Additional paid-in capital	**80,269**	80,242	80,242
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	**(47)**	(111)	(454)
Accumulated deficit	**(88,344)**	(84,040)	(86,167)
Total capital deficiency	**(6,513)**	(2,300)	(4,770)
Total liabilities, net of capital deficiency	**15,503**	24,567	23,698

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

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF OPERATION DATA

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	**2014**	**2015**	**2014**	**2014**
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Revenues from external parties	**4,428**	4,613	**1,460**	2,043	6,348
Revenues from inter-company sales	**3,883**	3,413	**1,017**	1,189	4,798
Total revenues	**8,311**	8,026	**2,477**	3,232	11,146
Cost of revenues	**(3,225)**	(3,311)	**(803)**	(1,196)	(4,393)
Gross profit	**5,086**	4,715	**1,674**	2,036	6,753
Selling and marketing expenses	**2,001**	2,085	**672**	713	2,904
Transfer pricing adjustments	**2,713**	1,178	**1,187**	462	1,888
Research and development expenses	**2,121**	1,521	**715**	552	2,017
General and administrative expenses	**2,361**	2,727	**829**	869	3,592
Operating loss	**(4,110)**	(2,796)	**(1,729)**	(560)	(3,648)
Financial expenses from cash and investments	**(477)**	*73	**(196)**	*149	(560)
Financing expenses from bonds and loans	**(2,989)**	*(2,133)	**(432)**	*(1,251)	(2,618)
Gain (loss) from change in fair value of derivatives instruments, net	**5,197**	4,734	**2,696**	7,365	3,743
Financial income (expenses), net	**1,731**	2,200	**2,068**	6,891	565
Loss before income taxes	**(2,379)**	(596)	**339**	6,331	(3,083)
Income taxes	**2**	(128)	**-**	(158)	(87)
Loss from investees	**(77)**	(44)	**149**	(201)	(105)
Net loss attributable to equity holders of the Company	**(2,454)**	(768)	**488**	5,972	(3,275)

* Reclassified.

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

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS DATA

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Loss for the period	**(2,454)**	(768)	**(1,105)**	5,972	(3,275)
income (loss) items that are or may be reclassified to the statement of operations					
Remeasurement of defined benefit plan, net of tax	**-**	-	**-**	-	21
Total	**-**	-			21
Other comprehensive income (loss) items that are or may be reclassified to the statement of operations					
Currency translation differences	**-**	46	**-**	6	46
Net change in fair value of marketable securities available-for-sale, net of tax	**(116)**	(353)	**(53)**	(436)	(696)
Net change in fair value of marketable securities available-for-sale, net of tax that was reclassified to the statement of operations	**523**	-	**-**	-	-
Total					
Total Other comprehensive income (loss) for the period, net of tax	**407**	(307)	**(53)**	(430)	(629)
Total comprehensive income (loss) for the period	**(2,047)**	(1,075)	**(1,158)**	5,542	(3,904)

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

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash flows from operating activities					
Loss for the period	**(2,454)**	(768)	**488**	5,972	(3,275)
Adjustments for:					
Depreciation and amortization	**164**	177	**53**	50	230
Change in provision for doubtful and bad debt	**30**	3	**(6)**	(30)	(12)
Net financial cost	**3,290**	2,362	**560**	444	2,957
(Profit) loss from revaluation of derivatives	**(5,197)**	(4,734)	**(2,696)**	(7,365)	(3,743)
Changes in capital reserve in respect of transactions with shareholders	**-**	33	**-**	11	33
Gain with respect to investee	**77**	44	**(149)**	201	105
Share-based payment	**179**	1,018	**(143)**	335	1,325
(Increase) Decrease in trade receivables	**(464)**	(1,104)	**26**	(1,106)	(284)
Increase in other accounts receivable	**21**	20	**153**	210	(3)
Increase in current balances with investee	**(1,293)**	(2,378)	**19**	(814)	(2,458)
(Increase) Decrease in inventories	**(171)**	(128)	**92**	(142)	(340)
(Decrease) Increase trade payables	**(103)**	51	**(65)**	81	393
(Decrease) Increase in other long-term accounts payable	**2**	(329)	**14**	(337)	(328)
Increase (Decrease) in employee benefits	**31**	10	**(53)**	(30)	(19)
(Decrease) Increase in provisions	**(2)**	20	**(4)**	12	26
(Decrease) Increase in other accounts payable and accrued expenses	**(450)**	113	**(77)**	327	365
Income tax (revenues) expenses	**(2)**	128	**-**	158	87
Interest received during the period	**7**	38	**3**	21	40
Interest paid during the period	**(1,861)**	(2,247)	**(933)**	(1,036)	(2,247)
Net cash provided by current operations with respect to transactions with investee	**500**	2,072	**-**	1,266	2,072
Net cash used in operating activities	**(7,696)**	(5,599)	**(2,717)**	(1,772)	(5,076)
Cash flow from investing activities					
Purchase of securities available-for-sale	**-**	(2,006)	**-**	-	(2,897)
Proceeds from (Payment on) writing currency options	**-**	38	**-**	-	(134)
Sale of securities available-for-sale	**6,079**	-	-	-	-
Realization of deposits and pledged deposits	**-**	57	**-**	-	57
Purchase of fixed assets and intangible assets	**(208)**	(102)	**(6)**	(46)	(160)
Capitalization of development expenses	**(70)**	-	**-**	-	-
Investment in pledged deposits	**(44)**	-	**(1)**	-	-
Net cash from (used in) investing activities	**5,757**	(2,013)	**(6)**	(46)	(3,134)
Cash flow from financing activities					
Proceeds from issuance of share capital	**-**	12,031	**-**	-	12,031
Repayment of notes	**-**	(5,156)	**-**	-	(5,156)
Proceeds from exercise of share options	**27**	305	**5**	135	305
Private share capital issuance expenses	**-**	(250)	**-**	-	(250)
Net cash provided by financing activities	**27**	6,930	**5**	135	6,930
Decrease) Increase in cash and cash equivalents	**(1,912)**	(682)	**(2,719)**	(1,683)	(1,280)
Cash and cash equivalents at beginning of period	**8,532**	10,677	**6,165**	11,704	10,677
Effect of exchange rate fluctuations on balances of	**34**	(559)	**(165)**	(585)	(865)
Cash and cash equivalent balance at end of period	**6,654**	9,436	**3,281**	9,436	8,532

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

ITAMAR MEDICAL LTD.

ADDITIONAL SOLO FINANCIAL DATA

AS OF JUNE 30, 2015

NOTE 1 – GENERAL

Basis for preparing financial data from the Company's consolidated financial statements as at June 30, 2015.

The separate interim financial information is presented in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and does not include all the information required in accordance with Regulation 9C and the tenth addendum to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 with respect to separate financial information of an entity. The separate interim financial information should be read together with the consolidated condensed financial statements as of December 31, 2014 (the "**consolidated financial statements**").

Definitions

(1)	The Company	-	Itamar Medical Limited
(2)	Subsidiary	-	Company, 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, 2014.

ITAMAR MEDICAL LTD.

PART D

<u>CHIEF EXECUTIVE OFFICER'S</u>
<u>CERTIFICATION ACCORDING TO REGULATION 38C(D)(1)</u>

I, Gilad Glick, certify that:

(1) I have reviewed the quarterly report of Itamar Medical Ltd., (the "**Company**") for the third quarter of 2015 (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.

November 30, 2015

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Gilad Glick,
Chief Executive Officer

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

I, Shaul Sharoni, 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 third quarter of 2015 (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.

November 30, 2015

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Shaul Sharoni,
Chief Financial Officer