Kamada Ltd.

Consolidated Financial Statements as of December 31, 2014

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Kamada Ltd.

We have audited the accompanying consolidated balance sheets of Kamada Ltd. ("the Company") as of December 31, 2014 and 2013 and the related consolidated statements of comprehensive Income, changes in equity and cash flows for each of the three years ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014 and 2013 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Tel-Aviv, Israel
April 28, 2015

/S/Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global

Consolidated Balance Sheets

	Note	As of December 31, 2014	2013
		In thousands	
Current Assets			
Cash and cash equivalents	5	$ 14,546	$ 59,110
Short-term investments	6	37,350	15,067
Trade receivables, net	7	17,514	17,882
Other accounts receivables	8	2,359	3,694
Inventories	9	25,423	21,933
		97,192	117,686
Property, plant and equipment, net	10	21,769	21,443
Other long term assets	11	179	250
		21,948	21,693
		119,140	139,379
Current Liabilities			
Current maturities of convertible debentures	12,15	7,492	8,718
Trade payables	13	16,530	14,093
Other accounts payables	14	4,045	4,313
Deferred revenues	18a,b	2,919	5,454
		30,986	32,578
Non-Current Liabilities			
Convertible debentures	15	-	7,498
Employee benefit liabilities, net	17	722	827
Deferred revenues	18a,b	7,015	8,506
		7,737	16,831
Shareholder's Equity	20		
Ordinary shares of NIS 1 par value: Authorized - 60,000,000 ordinary shares; Issued and outstanding – 35,988,563 and 35,959,939 shares at December 31, 2014 and 2013, respectively		9,208	9,201
Additional paid in capital		158,417	157,100
Conversion option in convertible debentures		1,147	2,218
Capital reserve due to translation to presentation currency		(3,490)	(3,490)
Capital reserve from hedges		(116)	156
Capital reserve from available for sale financial assets		10	(27)
Capital reserve from share-based payments		8,783	5,189
Capital reserve from employee benefits		(81)	(129)
Accumulated deficit		(93,461)	(80,248)
		80,417	89,970
		$ 119,140	$ 139,379

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Comprehensive income (Loss)

	Note	For the Year Ended December 31, 2014	2013	2012
		In thousands, except for share and per share data		
Revenues from proprietary products		$ 44,389	$ 50,658	$ 46,445
Revenues from distribution		26,676	19,965	26,230
Total revenues	23a	71,065	70,623	72,675
Cost of revenues from proprietary products		32,617	27,104	26,911
Cost of revenues from distribution		23,406	17,112	23,071
Total cost of revenues	23b	56,023	44,216	49,982
Gross profit		15,042	26,407	22,693
Research and development expenses	23c	16,030	12,745	11,821
Selling and marketing expenses	23d	2,898	2,100	1,853
General and administrative expenses	23e	7,593	7,862	4,781
Operating income (loss)		(11,479)	3,700	4,238
Financial income	23f	1,611	289	578
expense in respect of currency exchange and translation differences and derivatives instruments, net		-	(369)	(100)
expense in respect of revaluation of warrants to fair value		-	-	(576)
Financial expense	23f	(3,293)	(3,153)	(3,357)
Income (loss) before taxes on income		(13,161)	467	783
Taxes on income		52	24	523
Net Income (loss)		(13,213)	443	260
Other Comprehensive Income (loss):				
Items that may be reclassified to profit or loss in subsequent periods:				
Gain (loss) on available for sale financial assets		37	(27)	-
Gain (loss) on cash flow hedges		(162)	303	366
Net amounts transferred to the statement of profit or loss for cash flow hedges		(110)	(376)	(137)
Items that will not be reclassified to profit or loss in subsequent periods:				
Actuarial gain from defined benefit plans		48	12	46
Total comprehensive income (loss)		$ (13,400)	$ 355	$ 535
Income (loss) per share attributable to equity holders of the Company:	24			
Basic income (loss) per share		$(0.37))	$0.01	$0.01
Diluted income (loss) per share		$(0.37)	$0.01	$0.01

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Warrants	Conversion option in convertible debentures	Available for sale reserve	Capital reserve due to translation to presentation currency	Capital reserve from hedges	Capital reserve from share-based payments	Capital reserve from employee benefits	Accumulated deficit	Total equity
	In thousands										
Balance as of December 31, 2011	$ 6,928	$ 91,225	$ 325	$ 3,794	$ -	$ (3,490)	$ -	$ 4,754	$ (187)	$ (80,951)	$ 22,398
Net income	-	-	-	-	-	-	-	-	-	260	260
Other comprehensive income	-	-	-	-	-	-	229	-	46	-	275
Total comprehensive income	-	-	-	-	-	-	229	-	46	260	535
Exercise of warrants and options into shares	276	5,649	(325)	-	-	-	-	(1,407)	-	-	4,193
Cost of share-based payment	-	-	-	-	-	-	-	1,267	-	-	1,267
Balance as of December 31, 2012	$ 7,204	$ 96,874	$ -	$ 3,794	$ -	$ (3,490)	$ 229	$ 4,614	$ (141)	$ (80,691)	$ 28,393
Net income	-	-	-	-	-	-	-	-	-	443	443
Other comprehensive income (loss)	-	-	-	-	(27)	-	(73)	-	12	-	(88)
Total comprehensive income (loss)	-	-	-	-	(27)	-	(73)	-	12	443	355
Exercise of warrants and options into shares	62	1,275	-	-	-	-	-	(752)	-	-	585
Issuance of ordinary shares, net of issuance costs	1,749	51,053	-	-	-	-	-	-	-	-	52,802
Conversion of convertible debentures into shares	186	7,898	-	(1,576)	-	-	-	-	-	-	6,508
Cost of share-based payment	-	-	-	-	-	-	-	1,327	-	-	1,327
Balance as of December 31, 2013	$ 9,201	$ 157,100	$ -	$ 2,218	$ (27)	$ (3,490)	156	$ 5,189	$ (129)	$ (80,248)	$ 89,970
Net loss	-	-	-	-	-	-	-	-	-	(13,213)	(13,213)
Other comprehensive income (loss)	-	-	-	-	37	-	(272)	-	48	-	(187)
Total comprehensive income (loss)	-	-	-	-	37	-	(272)	-	48	(13,213)	(13,400)
Exercise of options into shares	7	238	-	-	-	-	-	(157)	-	-	88
Conversion of convertible debentures into shares	(*	9	-	(1)	-	-	-	-	-	-	8
Expiration of conversion option on convertible debentures	-	1,070	-	(1,070)	-	-	-	-	-	-	-
Cost of share-based payment	-	-	--	-	-	-	-	3,751	-	-	3,751
Balance as of December 31, 2014	$ 9,208	$ 158,417	$ -	$ 1,147	$ 10	$ (3,490)	$ (116)	$ 8,783	$ (81)	$ (93,461)	$ 80,417

The accompanying notes are an integral part of the Consolidated Financial Statements

(* Represent an amount lower than $1.

Consolidated Statements of Cash Flows

	Note	2014	2013	2012
		For the Year Ended December 31,		
		In thousands		
Cash Flows from Operating Activities				
Net Income (loss)		$ (13,213)	$ 443	$ 260
Adjustments to reconcile net loss to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	10, 11	2,788	3,001	3,044
Financial expenses, net		1,682	3,233	3,455
Cost of share-based payment	21	3,751	1,327	1,267
Income tax expense		52	24	523
Loss (gain) from sale of property and equipment		(2)	73	-
Change in employee benefit liabilities, net		(57)	121	38
		8,214	7,779	8,327
Changes in asset and liability items:				
Increase in trade receivables, net		(869)	(3,445)	(6,662)
Decrease (increase) in other accounts receivables		(50)	(444)	451
Increase in inventories		(3,490)	(1,182)	(4,861)
Decrease (increase) in deferred expenses		1,209	(1,231)	89
Increase (decrease) in trade payables		3,261	1,579	(157)
Decrease (increase) in other accounts payables		(344)	264	322
Decrease in deferred revenues		(4,026)	(6,270)	(3,438)
Cash paid during the year for:		(4,309)	(10,729)	(14,256)
Interest paid		(1,210)	(1,968)	(2,200)
Interest received		758	663	249
Withholding taxes paid		(158)	(42)	(642)
		(610)	(1,347)	(2,593)
Net cash used in operating activities		$ (9,918)	$ (3,854)	$ (8,262)

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Note	For the Year Ended December 31, 2014	2013	2012
		In thousands		
Cash Flows from Investing Activities				
Proceeds from sale of (investment in) short term investments, net		$ (23,746)	$ 1,732	$ 665
Purchase of property and equipment and intangible assets	10	(3,076)		(4,609)
Restricted cash, net		-	-	1,512
Proceeds from sale of property and equipment		3	8	-
Net cash used in investing activities		(26,819)	(3,903)	(2,432)
Cash Flows from Financing Activities				
Proceeds from exercise of warrants and options		88	562	2,978
Proceeds from issuance of ordinary shares, net		-	52,953	-
Short term credit from bank and others, net		-	(12)	(12)
Repayment of convertible debentures	15	(7,728)	(4,295)	-
Net cash provided by (used in) financing activities		(7,640)	49,208	2,966
Exchange differences on balances of cash and cash equivalent		(187)	793	220
Increase (decrease) in cash and cash equivalents		(44,564)	42,244	(7,508)
Cash and cash equivalents at the beginning of the year		59,110	16,866	24,374
Cash and cash equivalents at the end of the year		$ 14,546	$ 59,110	$ 16,866
Significant non-cash transactions				
Issuance expenses accrued in other accounts payable		$ -	$ 151	$ -
Exercise of warrants presented as liability		$ -	$ 23	$ 1,215
Exercise of convertible debentures into shares		$ 7	$ 6,508	$ -

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTE 1: - GENERAL

a. General description of the Company and its activity

Kamada Ltd. ("the Company") is an orphan drug focused, plasma derived protein therapeutics Company with an existing marketed product portfolio. The Company develops and produces specialty plasma-derived protein therapeutics and currently markets these products through strategic partners in the United States and Europe and directly, through local distributors, in several emerging markets. The Company flagship product is "Glassia".

The Company's activity is divided into two operating segments:

Proprietary Products	Development, manufacture and sale of plasma-derived therapeutics products.
Distribution	Distribution of drugs in Israel manufacture by other companies for clinical uses, most of which are produced from plasma or its derivatives products.

The Company's securities are listed for trading on the Tel Aviv stock exchange and on the NASDAQ.

b. The Company has three fully-owned subsidiaries – Kamada Inc, Kamada Biopharma Limited and Bio-Kam Ltd which are not active. In addition the Company owns 74% of Kamada Assets Ltd. ("Kamada Assets").

c. Definitions

In these Financial Statements –

The Company	-	Kamada Ltd.
The Group	-	The Company and its subsidiaries.
Subsidiary	-	A company which the Company has a control over (as defined in IFRS 10) and whose financial statements are consolidated with the Company's Financial Statements.
Related parties	-	As defined in IAS 24.
USD/$	-	U.S. dollar.
NIS	-	New Israeli Shekel

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of financial statements

1. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2. Measurement basis:

The Company's Financial Statements are prepared on a cost basis, except for financial instruments (including derivatives) at fair value through profit or loss such as available for sales financial assets, employee benefit assets and employee benefit liabilities.
The Company has elected to present profit or loss items using the "function of expense" method.

b. The Company's operating cycle is one year.

c. The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the consolidated financial statements.

d. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the group's functional and presentation currency.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

3. Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

e. Cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of purchase.

f. Short-term investments:

Short-term bank deposits with a maturity of more than three months from the deposit date but less than one year, available for sale financial investments (debentures) and financial assets held for trading at fair value through profit or loss (debentures and investment in equity).

g. Allowance for doubtful accounts

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible. As of December 31, 2014 and 2013, the balance of allowance for doubtful accounts was $433 thousands and $486 respectively.

h. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

Cost of inventories is determined as follows:

Raw materials	- At cost of purchase using the first-in, first-out method.
Work in process	- At the average costs for the month of manufacturing including materials, labor and other direct and indirect manufacturing costs on the basis of each batch.
Finished products	- At the average costs for month of manufacturing including materials, labor and other direct and indirect manufacturing costs on the basis of each batch.
Purchased products and goods	- On a "first in – first out" basis.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The Company periodically evaluates the condition and age of inventories and makes provisions for inventories with a lower market value or which are slow moving.

i. Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In cases where the Company operates as a principal supplier and it exposed to the risks and rewards associated with the transaction, revenues are presented on a gross basis. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

The specific criteria for revenue recognition for the following types of revenues are:

- Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

- Agreements with multiple elements provide for varying consideration terms, such as upfront payments and milestone payments. Revenues from such agreements that do not contain a general right of return and that are composed of multiple elements such as distribution exclusivity, license and services are allocated to the different elements and are recognized in respect of each element separately. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Revenue from the different element is recognized when the criteria for revenue recognition have been met and only to the extent of the consideration that is not contingent upon completion or performance of future services in the contract.

- Revenue from milestone events stipulated in the agreements is recognized upon the occurrence of a substantive element specified in the agreement or as a measure of substantive progress towards completion. Amounts received for participation in research and development, are recognized as revenues on a straight line basis over the estimated development period.

In events that the Company receives at no charge raw material, that is required for manufacturing one of the Company's products, the Company recorded the fair value of the raw material used and sold as revenue and charged the same fair value to cost of revenue.

Deferred revenues

Deferred revenues include unearned amounts received from customers not yet recognized as revenues.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

j. Taxes on income

Taxes on income in profit or loss comprise current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at the end of each reporting period and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

k. Leases

The Group as lessee:

1. Finance lease

Finance leases transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

The leased asset is depreciated over the shorter of the lease term and the expected life of the leased asset.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

2. Operating lease

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

l. Property, plant and equipment

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the plant and equipment

The cost of self-constructed assets includes the cost of materials, direct labor costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Buildings	4-2.5	4
Machinery and equipment	10-20	15
Vehicles	15	
Computers, equipment and office furniture	6-33	33
Leasehold improvements	Throughout the lease period	18

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

m. Intangible assets

Separately acquired intangible assets with finite useful life, are measured on initial recognition at cost. Intangible assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Research and development costs

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development. Since the Company development projects are often subject to regulatory approval procedures and other uncertainties, the conditions for the capitalization of costs incurred before receipt of approvals are not normally satisfied and therefore, development expenditures are recognized in profit or loss when incurred.

Software

The Company's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

The useful life of the aforementioned computer systems is five years.

n. Impairment of non-financial assets

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount.

The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

o. Financial instruments

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss.
After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a. Financial assets at fair value through profit or loss

Financial assets held for trading and derivative instruments that do not qualify for hedge accounting. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

b. Loans and receivables

The Company has receivables that are financial assets with fixed or determinable payments that are not quoted in an active market. Loans are presented based on their terms, normally at face value less direct transaction costs through the systematic amortization process and less incurred amortization.

c. Available for sale ("AFS") financial investments

AFS financial investments include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Company has classified all marketable securities as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because it may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income ("OCI") until the investment is derecognized or the investment is determined to be impaired. Interest earned whilst holding AFS financial investments is reported as financial income.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

For AFS financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired. For debt instruments classified as AFS financial assets, objective evidence of impairment may arise as a result of one or more events that have a negative impact on the estimated future cash flows of the asset since the recognition of the asset. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the fair value - is reclassified from other comprehensive income and recognized as an impairment loss in profit or loss. In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

2. Financial liabilities

Financial liabilities within the scope of IAS 39 are initially measured at fair value.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

a. Financial liabilities measured at amortized cost

Loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs.

b. Financial liabilities measured at fair value through profit or loss

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

The group examines the existence of embedded derivative and the need to separate it on the date, the Company becoming side of the commitment. Revaluation of the need to separate the embedded derivative is done only when there is a change in the commitment, which impact significantly on the cash flow from the commitment.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

3. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

4. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

5. Compound financial instruments

Convertible debentures which contain both an equity component and a liability component are separated into two components. This separation is performed by first determining the carrying amount of the liability component based on the fair value of an equivalent non-convertible liability. The carrying amount of the equity component is the residual amount. Direct transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components, as above. Conversion feature that is change in predetermined dates is accounted for as an equity component.

6. De-recognition of financial instruments

a. Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b. Financial liabilities

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company) discharges the liability by paying in cash, other financial assets, goods or services or is legally released from the liability.

p. Derivative financial instruments designated as hedges

The Company enters into contracts for derivative financial instruments such as forward currency contracts and cylinder strategy in respect of foreign currency to hedge risks associated with foreign exchange rates fluctuations. Such derivative financial instruments are recognized at fair value.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The hedge effectiveness is assessed at the end of each reporting period.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognized or when a forecast payment occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are reclassified to profit or loss. If the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

q. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present (legal or constructive) obligation as a result of a past event, it is expected to require the use of economic resources to clear the obligation and a reliable estimate can be made of it.

r. Employee benefit liabilities

The Company has several employee benefit plans:

1. Short-term employee benefits

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.
The Company has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

In addition the Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds..

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company.

s. <u>Share-based payment transactions</u>

The Company's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

<u>Equity-settled transactions</u>

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

t. Income (loss) per Share

Income (loss) per share is calculated by dividing the income (loss) attributable to Company shareholders by the weighted number of outstanding ordinary shares during the period. Potential ordinary shares are only included in the calculation of diluted income (loss) per share when their impact dilutes the income (loss) per share. Furthermore, potential ordinary shares converted during the period are included under diluted income (loss) per share only until the conversion date, and from that date on are included under basic income (loss) per share.

NOTE 3: - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Judgments

Revenue

The Company assesses the criteria for recognition of revenue related to up-front payments and multiple components as outlined by IAS 18, Revenue. Judgment is necessary to determine over which period the Company will satisfy its obligations related to up-front payments and when components can be recognized separately and the allocation of the related consideration to each component.

Estimates and assumptions

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Legal claims

  In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

- Pensions and other post-employment benefits

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

NOTE 3: - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS(CONT.)

- Determining the fair value of share-based payment transactions

  The fair value of share-based payment transactions is determined using an acceptable option pricing model.
  The assumptions used in the model include the share price, exercise price, expected volatility, exercise multiple, expected life, expected dividend and risk-free interest rate.

- Provisions for clinical trial and related expenses

  Accrued expenses costs for clinical trial activities performed by third parties, are based on estimates on the progress of completion of the clinical trials or services, as of the end of each reporting period, pursuant to the contract with the third parties, and the agreed upon fee to be paid for such services.

- Inventory

  Inventory that is produced following a change in manufacturing process prior to final approval of regulatory authorities is subject to Company estimates as to the probability of receipt of such approval and its ability to sell such inventory with its remaining shelf life. The Company is periodically reassessing the probability of such approval and remaining shelf life of such inventory to determine whether the net realizable value is lower than cost.

NOTE 4: - DISCLUSURE OF NEW IFRS IN THE PERIOD.

a. IFRS 15 – Revenues from contracts with customers

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

NOTE 4: - DISCLUSURE OF NEW IFRS IN THE PERIOD (CONT.)

b. IFRS 9 - Financial Instruments

In July 2014, the IASB completed the final element of its comprehensive response to the financial crisis by issuing IFRS 9 Financial Instruments. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018 with early application permitted.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

NOTE 5: - CASH AND CASH EQUIVALENTS

	December 31,	
	2014	2013
	In thousands	
Cash and deposits for immediate withdrawal	$ 8,382	$ 40,145
Cash equivalents in USD deposits (1)	164	18,000
Cash equivalents in NIS deposits (1)	6,000	965
	$ 14,546	$ 59,110

(1) The deposits as of December 31, 2014 and 2013 bear interest set by period 0.02%-0.12% per year, and 0.15%-0.84%, respectively.

NOTE 6: - SHORT-TERM INVESTMENTS

	December 31,	
	2014	2013
	In thousands	
Marketable securities (equity and debt) at fair value through profit or loss	$ 8,820	$ 5,692
Available for sale debt securities	28,530	9,375
	$ 37,350	$ 15,067

NOTE 7: - TRADE RECEIVABLES, NET

	December 31, 2014	December 31, 2013
	In thousands	
Open accounts (1):		
In NIS	$ 7,988	$ 8,630
In USD	9,744	9,692
	17,732	18,322
Checks receivable	215	46
	17,947	18,368
Less allowance for doubtful accounts (2)	(433)	(486)
Trade receivables, net	$ 17,514	$ 17,882

(1) Customer debts do not bear interest. The average number of customer credit days is 76 days.

(2) Allowance for doubtful accounts:

December 31, 2013	$ (486)
Additions charged to costs	(83)
Deductions	136
December 31, 2014	$ (433)

An analysis of past due but not impaired trade receivables with reference to reporting date:

	Neither past due nor impaired	Past due trade receivables with aging of: Up to 30 Days	30-60 Days	60-90 Days	90-120 Days	Over 120 days	Total
	In thousands						
December 31, 2014	$ 15,133	$ 1,187	$ 662	$ 146	$ 23	$ 148	$ 17,299
December 31, 2013	$ 16,540	$ 330	$ 28	$ 94	$ 75	$ 769	$ 17,836

NOTE 8: - OTHER ACCOUNTS RECEIVABLES

	December 31, 2014	December 31, 2013
	In thousands	
Materials for clinical trials	$ 231	$ 1,355
Prepaid expenses	1,149	1,168
Government authorities	674	407
Financial derivatives, net	-	208
Receivables for unpaid interest	249	80
Receivables for exercise of options	-	470
Other	56	6
	$ 2,359	$ 3,694

NOTE 9: – INVENTORIES

	December 31, 2014	December 31, 2013
	In thousands	
Finished products (1) (2)	$ 9,999	$ 10,982
Purchased products	5,743	2,848
Work in progress	6,109	4,159
Raw materials	3,572	3,944
	$ 25,423	$ 21,933

(1) As of December 31, 2013 the Company included finished products in the amount of $ 238 thousands, under long-term inventory.

(2) The Company has undertaken certain activities to increase the production capacity of its manufacturing facility in Beit Kama. A request for approval of these adjustments from the FDA was filed. The Company received the approval by the FDA on July 23, 2014 .During the second quarter of 2014 an inventory in the amount of $3.0 million, produced using the improved manufacturing process, was written off due to a short shelf life of the inventory and reevaluation by the Company of the fair value of such inventory.

NOTE 10: – PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

2014

	Land and Buildings(1)	Machinery and Equipment (1)	Vehicles	Computers, Equipment and Office Furniture	Leasehold Improvements	Total
	In thousands					
Cost						
Balance at January 1, 2014	$ 25,057	$ 20,859	$ 86	$ 3,791	$ 1,010	$ 50,803
Additions	1,204	1,417	8	372	46	3,047
Sale of property and equipment	-	(3)	-	(4)	-	(7)
Balance as of December 31, 2014	26,261	22,273	94	4,159	1,056	53,843
Accumulated Depreciation						
Balance as of January 1, 2014	8,511	16,912	73	2,864	1,000	29,360
Additions	1,317	1,020	5	374	4	2,720
Sale of property and equipment	-	(3)	-	(3)	-	(6)
Balance as of December 31, 2014	9,828	17,929	78	3,235	1,004	32,074
Depreciated cost as of December 31, 2014	$ 16,433	$ 4,344	$ 16	$ 924	$ 52	$ 21,769

NOTE 10: – PROPERTY, PLANT AND EQUIPMENT (CONT.)

2013

	Land and Buildings(1)	Machinery and Equipment (1)	Vehicles	Computers, Equipment and Office Furniture	Leasehold Improvements	Total
	In thousands					
Cost						
Balance at January 1, 2013	$ 20,627	$ 20,205	$ 86	$ 3,319	$ 1,010	$ 45,247
Additions	4,430	741	-	472	-	5,643
Sale of property and equipment	-	(87)	-	-	-	(87)
Balance as of December 31, 2013	25,057	20,859	86	3,791	1,010	50,803
Accumulated Depreciation						
Balance as of January 1, 2013	7,340	15,519	67	2,496	998	26,420
Additions	1,171	1,399	6	368	2	2,946
Sale of property and equipment	-	(6)	-	-	-	(6)
Balance as of December 31, 2013	8,511	16,912	73	2,864	1,000	29,360
Depreciated cost as of December 31, 2013	$ 16,546	$ 3,947	$ 13	$ 927	$ 10	$ 21,443

(1) Including labor costs charged in 2014 and 2013 to the cost of facilities, machinery and equipment to the amount of $ 609 thousands and $ 326 thousands, respectively.

b. As for liens, see Note 19.

c. Capitalized leasing rights of land from the Israel land administration.

	December 31, 2014	December 31, 2013
	In thousands	
Under finance lease	$ 1,051	$ 1,063

The Group has capitalized leasing rights from the Israel Land Administration for an area of 16,880 m² in Beit Kama containing the Group's structures. The sum attributed to capitalized rights is presented under property, plant and equipment and is depreciated over the leasing period, which includes the option period.

During 2010, the Company signed an agreement with the Israel Land Administration to consolidate its leasing rights and extend the lease period to 2058, including an extension option for additional 49 years.

NOTE 11: - LONG TERM ASSETS

	December 31, 2014	December 31, 2013
	In thousands	
Long term leasing deposits	$ 76	$ 23
Intangibles assets, net	103	142
Materials for clinical trials	-	85
	$ 179	$ 250

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Amortization expenses of intangible assets in the amount of $68 thousands and $62 thousands for 2014 and 2013, respectively, are classified under general and administrative expenses.

NOTE 12: – CURRENT MATURITIES OF CONVERTIBLE DEBENTURE

	Linked to NIS	
	December 31, 2014	December 31, 2013
	In thousands	
Current maturities of convertible debenture	$ 7,492	$ 8,718

NOTE 13: - TRADE PAYABLES

	December 31, 2014	December 31, 2013
	In thousands	
Open debts mainly in USD	$ 13,075	$ 10,739
Open debts in NIS	3,277	3,105
	16,352	13,844
Notes payable	178	249
	$ 16,530	$ 14,093

Supplier debts do not bear interest. The average number of supplier credit days is 107 days.

NOTE 14: – OTHER ACCOUNTS PAYABLES

	December 31, 2014	December 31, 2013
	In thousands	
Employees and payroll accruals	$ 3,045	$ 3,183
Derivatives instruments	76	-
Accrued Expenses and Others	924	1,130
	$ 4,045	$ 4,313

NOTE 15: - CONVERTIBLE DEBENTURES

The debentures are unlinked and bear variable yearly interest plus a yearly margin of 6.1% over the yearly interest rate borne by "Israeli Government Bonds 817" throughout the interest period. The debentures are convertible on each business day, and each NIS 37.12 par value of debentures (Series C) shall be convertible to one ordinary share of NIS 1 par value.

During the fourth quarter of 2014 and 2013 an amount of $7 thousands and $ 6,508 thousands was converted into common shares. On December 1, 2014 and 2013, the Company paid an amount of $ 7,728 thousands and $ 4,295 thousands, respectively, of the principal amount.

As of December 31, 2014, the Company had convertible debentures with nominal value of NIS 30,246 thousands, payable on December 1, 2015.

NOTE 16: - FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities

The financial assets and financial liabilities in the balance sheet are classified by groups of financial instruments in pursuant to IAS 39:

	December 31, 2014	December 31, 2013
	In thousands	
Financial assets		
Financial assets at fair value:		
Marketable securities (equity and debt) – through profit or loss	$ 8,820	$ 5,692
Available for sale debt securities	28,530	9,375
Derivatives instruments	-	208
	$ 37,350	$ 15,275
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Derivatives instruments	$ 76	$ -
Financial liabilities measured at amortized cost:		
Convertible debentures	$ 7,492	$ 16,216

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

b. Financial risk factors

The Company's activities expose it to various financial risks, such as market risk (foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance. The Company utilized derivatives to hedge certain exposures to risk.

Risk management is the responsibility of the Company CEO and CFO, in accordance with the policy approved by the Board of Directors. The Board of Directors provides principles for the overall risk management.

1. Market risks

a) Foreign exchange risk

The Company operates in an international environment and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. Foreign exchange risks arise from recognized assets and liabilities denominated in a foreign currency other than the functional currency, such as customers, suppliers and credit.

As of December 31, 2014, the Company has a position in derivatives intended to hedge decreases in the exchange rate of the USD vs. the NIS, over excess receipts in the NIS expected for 2014 (see also f. below).

b) Interest rate risk

The Company is exposed to risks of changes in the market interest rates on convertible debentures with floating interest rates. The Company's interest rate risk mainly derives from convertible debentures and financial debenture assets.

c) Price risk

As of December 31, 2014, the Company has financial instruments, shares and debentures, classified as financial assets measured at fair value through profit or loss and Available for sale financial investments, for which the Company is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price.

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

2. Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, marketable securities, trade receivables and foreign currency derivative contracts.

a) Trade receivables:

Average credit days for trade receivables are 76 days. The Company regularly monitors the credit extended to its customers and their general financial condition, and, when necessary, requires collateral as security for these debts such as letters of creditor down payments. In addition, the Company partially insures its overseas sales with foreign trade risk insurance.

The Company keeps constant track of customer debt and the Financial Statements include an allowance for doubtful accounts that adequately reflects, in the Company's assessment, the loss embodied in the debts the collection of which is in doubt.

b) Cash and cash equivalent and short term investments:

The Company holds cash, cash equivalents and other financial instruments at major financial institutions in Israel and in the U.S. In accordance with Company policy, evaluations of the relative strength of credit of the various financial institutions are made on an ongoing basis.

Short-term investments include short-term deposits with low risk for a period less than three months. The Company’s marketable securities consist of investment-grade corporate bonds, U.S and Israeli Governments bonds and equity investments. The Company’s investment policy, limits the amount the Company may invest in any one type of investment or issuer and the average maturities of the bond portfolio, thereby reducing credit risk concentrations.

The Company has not experienced any significant losses on its short term investments.

c) Foreign currency derivative contracts:

The Company is exposed to foreign currency exchange movements, primarily in Israel. Consequently, it enters into various foreign currency exchange contracts with major financial institutions.

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

3. Liquidity risk

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

December 31, 2014

	Less than one year	1 to 2	2 to 3	3 to 4	Total
			In thousands		
Trade payables	$ 16,530	-	-	-	$ 16,530
Other accounts payables	4,045	-	-	-	4,045
Convertible debentures (including interest)	8,275	-	-	-	8,275
	$ 28,850	$ -	$ -	$ -	$ 28,850

December 31, 2013

	Less than one year	1 to 2	2 to 3	3 to 4	Total
			In thousands		
Trade payables	$ 14,093	-	-	-	$ 14,093
Other accounts payables	4,313	-	-	-	4,313
Convertible debentures (including interest)	9,930	9,324	-	-	19,254
	$ 28,336	$ 9,324	$ -	$ -	$ 37660

c. Fair value

The following table demonstrates the carrying amount and fair value of the financial instruments presented in the financial statements not at fair value:

	Carrying Amount		Fair Value	
	December 31,		December 31,	
	2014	2013	2014	2013
	In thousands			
Financial liabilities				
Convertible debentures	$ 7,492	$ 16,216	$ 8,065	$ 24,637

The fair value of the Convertible debenture was based on quoted prices in the Israeli Tel Aviv stock exchange (Level 1).

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value, due to the short term maturities of the instruments.

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

d. Classification of financial instruments by fair value hierarchy

Financial assets measured at fair value:

	Level 1	Level 2
	In thousands	
December 31, 2014		
Marketable securities at fair value through profit or loss:		
Equity shares	$ 587	$ -
Mutual funds	577	-
Exchange traded notes	46	-
Debt securities (corporate and government)	7,610	-
Available for sale debt securities (corporate and government)	-	28,530
	$ 8,820	$ 28,530
December 31, 2013		
Derivatives instruments qualified for hedging	$ -	$ 208
Marketable securities at fair value through profit or loss:		
Equity securities	1,014	-
Debt securities (corporate and government)	4,678	-
	5,692	208
Available for sale debt securities (corporate and government)	$ -	$ 9,375
	$ 5,692	$ 9,583

Financial liabilities measured at fair value:

	Level 1	Level 2
	In thousands	
December 31, 2014		
Derivatives instruments qualified for hedging	$ -	$ 76

During 2014 there was no transfer due to the fair value measurement of any financial instrument from Level 1 to Level 2, and furthermore, there were no transfers to or from Level 3 due to the fair value measurement of any financial instrument.

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

	December 31, 2014	December 31, 2013
	In thousands	
Sensitivity test to changes in market price of listed Securities		
Gain (loss) from change:		
5% increase in market price	$ 1,868	$ 753
5% decrease in market price	$ (1,868)	$ (753)
Sensitivity test to changes in interest rates		
Gain (loss) from change:		
1% interest rate increase	$ (105)	$ (199)
1% interest rate decrease	$ 105	$ 199
Sensitivity test to changes in foreign currency:		
Gain (loss) from change:		
5% increase in NIS	$ 239	$ (135)
5% decrease in NIS	$ (239)	$ 135
5% increase in Euro	$ (247)	$ (87)
5% decrease in Euro	$ 247	$ (87)

Sensitivity tests and principal work assumptions

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk

with reference to the functional currency and assuming that all the other variables are constant.

e. Linkage terms of financial liabilities by groups of financial instruments pursuant to IAS 39:

	December 31, 2014	December 31, 2013
	In thousands	
Convertible debenture measured at amortized cost- In NIS:	$ 7,492	$ 16,216

NOTE 16: - FINANCIAL INSTRUMENTS (CONT.)

f. Derivatives and hedging:

Derivatives instruments not designated as hedging

Company has foreign currency forward contracts designed to protect it from exposure to fluctuations in exchange rates in respect of its transactions. Foreign currency forward contracts are not designated as cash flow hedges, fair value or net investment in a foreign operation, and they are signed for identity for which the Company exposure to foreign currency for transactions. These derivatives are not considered in hedge accounting.

Cash flow hedges:

As of December 31, 2014, the Company held NIS/USD hedging contracts (cylinder contracts) designated as hedges of expected future salaries expenses and for expected future purchases from Israeli suppliers.
The main terms of these positions were set to match the terms of the hedged items.

Cash flow hedges of the expected salaries expenses in December 31, 2014 was estimated as highly effective and accordingly a net unrecognized loss was recorded in other comprehensive income (loss) in the amount of $ 116 thousands.

NOTE 17: - EMPLOYEE BENEFIT LIABILITIES, NET

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract or a collective employees agreement based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans, as detailed below:

1. Defined contribution deposit:

The Company’s agreements with part of its employees are in accordance with section 14 of the Israeli Severance Pay Law. Payments in accordance with Section 14 release the Company from any future severance liabilities in respect of those employees. The expenses for the defined benefit deposit in 2014 and 2013 were $ 453 thousands and $ 130 thousands respectively.

NOTE 17: - EMPLOYEE BENEFIT LIABILITIES, NET (CONT.)

2. Defined benefit plans:

The Company accounts for the payment of compensation, as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in central severance pay funds and in qualifying insurance policies.

3. Expenses recognized in comprehensive income (loss):

	Year Ended December 31,		
	2014	2013	2012
	In thousands		
Current service cost	$ 455	$ 636	$ 635
Interest expenses, net	23	24	22
Current service cost due to the transfer of real yield from the compensation component to the royalties component in executive insurance policies before 2004.	(9)	1	9
Total employee benefit expenses	$ 469	$ 661	$ 666
Actual return on plan assets	$ 295	$ 250	$ 176

The expenses are presented in the Statement of Comprehensive income (loss) as follows

	Year Ended December 31,		
	2014	2013	2012
	In thousands		
Cost of revenues	$ 244	$ 450	$ 421
Research and development	101	118	88
Selling and marketing	14	17	5
General and administrative	110	76	152
	$ 469	$ 661	$ 666

4. The plan assets (liabilities), net:

	December 31,	
	2014	2013
	In thousands	
Defined benefit obligation	$ (5,496)	$ (5,539)
Fair value of plan assets	4,774	4,712
Total liabilities, net	$ (722)	$ (827)

NOTE 17: - EMPLOYEE BENEFIT LIABILITIES, NET (CONT.)

5. Changes in the present value of defined benefit obligation

	2014	2013
	In thousands	
Balance at January 1,2014	$ 5,539	$ 4,634
Interest costs	178	169
Current service cost	455	636
Benefits paid	(120)	(365)
Demographic assumptions	(5)	18
Financial assumptions	9	79
Currency Exchange	(560)	368
Balance at December 31,2014	$ 5,496	$ 5,539

6. Plan assets

a) Plan assets

Plan assets comprise assets held by a long-term employee benefit funds and qualifying insurance policies.

b) Changes in the fair value of plan assets

	2014	2013
	In thousands	
Balance at January 1, 2014	$ 4,712	$ 3,916
Expected return	155	145
Contributions by employer	338	568
Benefits paid	(25)	(335)
Demographic assumptions	-	(27)
Financial assumptions	3	136
Current service cost due to the transfer of real yield from the compensation component to the royalties component in executive insurance policies before 2004.	9	(1)
Currency exchange	(418)	310
Balance at December 31, 2014	$ 4,774	$ 4,712

NOTE 17: - EMPLOYEE BENEFIT LIABILITIES, NET (CONT.)

7. The principal assumptions underlying the defined benefit plan

	2014	2013	2012
		%	
Discount rate of the plan liability	4	4.23	5.1
Future salary increases	4	4	4

The sensitivity analyses below have been determined based on reasonably possible changes of the principal assumptions underlying the defined benefit plan as mentioned above, occurring at the end of the reporting period.
If the discount rate would be one percent higher (lower), the defined benefit obligation would decrease (increase) by $179 thousands ($285 thousands) if all other assumptions were held constant.

If the expected salary growth would increase by 1% the defined benefit obligation would increase by $261 thousands.

In November 2014, the staff of the Israel Securities Authority issued Accounting Position Paper No. 21-1 regarding the existence in Israel of a deep market in high quality corporate bonds ("the Position Paper") for the purpose of determining, in accordance with IAS 19, the discount rate to be used for defined benefit obligations and other long-term benefits in the Israeli currency. According to the Position Paper, the transition from the use of yields based on Government bonds to market yields based on high quality corporate bonds linked to the Consumer Price Index should be accounted for prospectively as a change in accounting estimate. The effect of the change in the discount rate is immaterial.

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS

a. On August 23, 2010, the Company entered into a collaboration agreement with Baxter Healthcare Corporation ("Baxter"), an international biopharmaceutical company traded on the New York Stock Exchange, and specializing, among other things, in the development, manufacture, marketing and sale of pharmaceutical products, consisting of three main agreements (1) the appointment of Baxter as the sole distributer of the Company's AAT IV drug (" Glassia ®") in the United States, Canada, Australia and New Zealand ("the Territory" and "the Distribution Agreement", respectively); (2) granting licenses to Baxter for the use of the Company's knowhow and patents for the production, continued development and sale of Glassia ® and other IV products by Baxter ("the License Agreement") in the Territory and (3) an agreement to provide raw materials, produced by Baxter, and used for the production of Glassia ® ("the Raw Materials Supply Agreement"). Pursuant to the agreements, payments were set for the Company for meeting milestones at a total sum of $ 45 million, Glassia ® purchases at a minimum sum of $ 60 million over the first five years from the signing of the distribution agreement and royalties at a sum of no less than $ 5 million per year, starting from the beginning of the sale of Glassia ® produced by Baxter in accordance with the License Agreement. Net sums received in advance were recorded as deferred revenues and are recognized as revenues according to the actual rate of sales, according

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

to the sales forecast, in the Distribution Agreement period, which is currently expected to end by the end of 2017, with the start of production by Baxter. Non-refundable revenues due to the achievement of milestones are recognized upon reaching the milestone.

In the case of clinical trials required in the Territory in connection with Glassia ®, the cost of these experiments apply to Baxter and the Company will participate with such limited extent that may come, under certain conditions, up to $10 million over a period of several years.

According to the raw material supply agreement, which replaces a previous agreement between the parties, Baxter undertook to provide the Company raw material used to produce the Glassia ® and other products of the Company. Baxter will provide the Company, free of charge, all the quantities of raw materials required by the Company for manufacturing the Glassia ® sold to Baxter for distribution by Baxter accordance with the Distribution Agreement. In addition, Baxter will provide raw material to the Company, for the development, production, sale and distribution of products by the Company.

The agreements expires in 2040, subject to the possibility of earlier termination due to events mentioned in the agreement.

On May 14, 2013, the Company and Baxter amended the license agreement and the distribution agreement to extend the period of minimum purchases of Glassia to six years until 2016.

In September 2014, the Company and Baxter secondary amended the distribution agreement to extend the period of minimum purchases of Glassia to seven years, until 2017 (including all revenues from Baxter excluding the royalty payments), and to increase the minimum revenues under the distribution agreement to $191 million from $110 million over the first five years commencing with the signing of the distribution agreement and a minimum of $165 million contained in the May 2013 amendment. In addition, the Company supply of Glassia to Baxter has been extended through 2017 and that the transition to royalty payments for Glassia produced by Baxter is not expected to begin before 2018.

During the second quarter of 2013, the Company completed an additional milestone under the amended license agreement related to the transfer of technology to Baxter. The Company received payment of $4.5 million which was recognized as revenues during the second quarter of 2013.

As of December 31, 2014, the Company received a total of $61.6 million for the achievement of part of the milestones and an advance in respect of the distribution agreement.

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

b. On August 2, 2012, the Company entered into a strategic agreement with CHIESI FARMACEUTICI S. P. A, a fully integrated European Pharmaceutical company focused on respiratory disease and special care products ("Chiesi "). According to the agreement, Chiesi will be an exclusive distributor of the AAT inhaled product of the Company for treatment of alpha-1 antitrypsin deficiency ("Product") in Europe. Chiesi will be responsible for, among other things, product marketing, patients screening and obtaining reimbursement approvals for the product ("distribution agreement"). As part of the distribution agreement, the Company shall be entitled to receive payments of up to $ 60 million, contingent of meeting regulatory and sales milestones. In addition, Chiesi has committed to purchase products in minimum quantities during a period of

five years commencing after receiving reimbursement approvals required. The agreement is for a period of 12 years from signature.

In August, 2012, the Company received non-refundable upfront payment for the first milestones in the agreement. This amount was recorded under deferred revenue and revenue is recognized on a straight line basis over the expected period of achieving the milestones.

c. In accordance with the Law for the Encouragement of Industrial Research and Development, 1984, the Company received grants from the State of Israel for its research and development expenses, carried out pursuant to plans approved by the office of the Chief Scientist ("OCS"). In accordance with the letters of approval in question, the Company has undertaken to pay royalties to the OCS, calculated on the basis of the proceeds from the sale of products the Company took part in developing. The Company completed its obligation to pay royalties for active projects. The balance of the maximum sum of royalties for inactive projects, according to the Company's estimates, amounts to $ 500 thousands as of December 31, 2014. In April 2008, the Company filed a request to close inactive files, which was partially rejected by the OCS in September 2010, on grounds that the Company was making use of the knowhow accumulated in these files and it was required to pay royalties for certain products. As of December 31, 2014 the Company recorded a provision in the amount of $93 thousands due such OCS royalty payment.

d. The Company has engaged in operating lease agreements for office and storage spaces. These agreements will expire between 2015 and 2017.

Minimum future lease fees for the office and storage spaces as of December 31, 2014 are as follows:

	In thousands
2015	340
2016	340
2017	85
	765

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

e. The Company has engaged in operating lease agreements for the vehicles in its possession. These agreements will expire between 2015 and 2017.

Minimum future lease fees for the existing vehicles as of December 31, 2014 are as follows:

	In thousands
2015	328
2016	225
2017	72
	625

f. In November 2006, an agreement was signed between the Company and a third party on the matter of research and development collaboration. As part of the agreement, the Company was licensed to use developments made by the third party. Furthermore, the third party will provide the Company with devices for carrying out the clinical trials, free of charge. In the event that the development is successful, the Company will pay the third party royalties based on sales of the devices. This obligation on behalf of the Company to pay royalties shall expire either when the patents expire or 15 years from the first commercial sale, whichever comes last. On the date of the expiry of the royalty period, the license will become non-exclusive and the Company shall be entitled to use the rights granted to it pursuant to the agreement without paying royalties or any other compensation. In addition, the third party would pay royalties of the total net sales exceeding a certain sum, according to a mechanism set in the agreement, until the patent expires or until 15 years pass from the first date of sale, whichever is earlier.

In February 2008, the parties signed an amendment to the agreement according to which the exclusive global license granted to the Company was expanded to two additional indications. It was also decided that sales to the additional indications would be added to the sales of the first two outlines covered by the original agreement. Royalties' payments will be according to the royalty model set in the original agreement.

In addition, the parties signed a commercialization and supply agreement, which ensures long-term regular supply of the device at the basis of the collaboration and spare parts of this device.

g. In August 2007, the Company entered into a long-term agreement with a multinational European company for the purchase of a raw material used for the development and manufacture of medicines at graded amounts and prices. In addition to the price paid by the Company for the raw material, the Company will pay the supplier an additional sum upon the sale of the product manufactured from the raw material in the territories set in the agreement, after receiving regulatory approvals. As of December 31, 2014, the regulatory approval was not yet received.

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

h. On November 28, 2002, the Company entered into an employment agreement with David Tsur with respect to his employment as its chief executive officer, effective as of October 1, 1984, which has subsequently been amended from time to time. Under the employment agreement, as amended, David Tsur is entitled to the following:

- A monthly gross salary of NIS 85,000 (or $21,850) (and NIS 80,000 (or $20,565) for purposes of social benefits). In January, 2014 the gross salary was updated to NIS 93,000 (or $23,907) (and NIS 88,000 (or $22,622) for purposes of social benefits)
- A public offering bonus equal to 2% of the net proceeds from a public offering completed during the term of his employment or within three months following the termination of his employment, in any event not to exceed $1,000,000 for each public offering. An amount of $1,000,000 was paid in 2013 after the IPO on the NASDAQ, which was recorded in income statement under General and Administrative.

During 2014 and 2013 the Company recorded $27 thousands and $173 thousands, respectively, for bonus to the CEO. Bonus to the CEO is subject to approval by the shareholders general assembly.

i. In October 2009, the Company entered into an agreement with a company specializing in administering clinical trials, Contract Research Organization ("CRO"), which will serve as CRO for the clinical trial (Phase II/III) in Europe for the inhaled AAT drug used for the treatment of Alpha One . The study was extended in 2013 for an additional 12 months treatment for eligible patients. The total scope of payments to the CRO may reach $14.6 million, payable over the trial period, which was completed on December 14, 2014, and the additional results analysis over 2015.. This amount was recorded in R&D expenses in accordance with its actual scope and progress rate. The payments includes payments made through the CRO to the trial sites and to the various service providers regarding the trial at sums and payment conditions set following negotiations between the CRO and those sites and suppliers, and which were approved in advance by the Company. As of December 31, 2014, the Company accrued a provision of $ 2.5 million.

In October 2013, the Company entered into an agreement with another CRO for its phase II/III clinical trial for treatment of AAT for newly diagnosed type one diabetes patients. The total scope of payment to the CRO may reach $9.1 million, payable over the trial period which is expected to last over four years, including payments to trial sites and various service providers in the trial.

In June 2013, the Company entered into an agreement with another CRO for its phase II clinical trial for the inhaled AAT drug used for the treatment of hereditary emphysema. The total scope of payment to the CRO may reach $3.3 million, payable over the trial period which is expected to last over two years, including payments to trial sites and various service providers in the trial

j. On July 19, 2011, the Company signed a strategic collaboration agreement with an international pharmaceutical company in the area of clinical development, marketing and sales in the United States of a passive inoculation for the prevention of rabies in

NOTE 18: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

human beings, KamRAB, which was developed, manufactured and marketed by the Company. According to the agreement, the partner shall bear all of the costs required to carry out the third stage clinical trial. It was agreed that the costs involved in registering the drug at the U.S. Food and Drug Administration (FDA) will be divided equally between the parties. As of December 31,2014 the study was complete and results are expected in 2015.

NOTE 19: - GUARANTEES

In order to guarantee the rental payments for an office in Ness Ziona and other obligations, the Company provided bank guarantees as of December 31, 2014, in the amount of $ 176 thousands.

NOTE 20: - EQUITY

a. share capital

	December 31, 2014		December 31, 2013	
	Authorized	Outstanding	Authorized	Outstanding
ordinary shares of NIS 1 par value	60,000,000	35,988,563	60,000,000	35,959,939

On May 30, 2013 the Company completed its initial public offering on the NASDAQ ("the IPO") of 5,582,636 shares at $9.25 per share. On June 4, 2013 the underwriters exercised the right to purchase an additional 837,395 ordinary shares to cover over-allotments at the same price per share. The Company's total proceeds from the issuance of the above shares were $52,802 thousands, net of issuance expenses.

b. Rights attached to Shares

Voting rights at the shareholders general meeting, rights to dividend, rights in case of liquidation of the Company and rights to nominate directors.

c. Convertible debentures and warrants

During 2013, and 2012, 22,576 and 831,290 warrants, respectively, were exercised into 3,445 and 665,695 ordinary shares of NIS 1 par value each. The exercise in 2013 was on a non-cash net basis and the exercise in 2012 was for consideration of $1,889 thousands.

As of December 31 2014, the Company has 30,246,078 debentures (Series C) of NIS 1 par value convertible to 814,819 ordinary shares of NIS 1 par value each.

Regarding options granted to employees, see Note 21 below.

d. Capital management in the Company

The Company's goals in the management of its capital are to preserve capital ratios that will ensure stability and liquidity to support business activity and create maximum value for shareholders.

NOTE 21: - SHARE-BASED PAYMENT

a. Expense recognized in the financial statements

The share based payment expense that was recognized for services received from employees and directors is presented in the following table:

	For the Year Ended December 31		
	2014	2013	2012
	In thousands		
Cost of revenues	$1,136	$ 406	$ 705
Research and development	725	115	213
Selling and marketing	178	27	51
General and administrative	1,712	779	298
Total share-based payment	$ 3,751	$ 1,327	$ 1,267

On July 6, 2005, the Company's Board of Directors approved an unlisted options plan for employees and consultants ("2005 Option Plan ") and on July 24, 2011, the Company's Board of Directors approved a new unlisted Options Plan ("2011 Option Plan " and with 2005 option plan -" Option Plans"). Options are generally vest during a four-year period following the date of the grant in 13 installments: 25% of the options vest on the first anniversary of the grant date and 6.25% options vest at the end of each quarter thereafter.

On November 14, 2013 the Company Board of Directors approved an increase of the pool of shares allocated for grant under the 2011 option plan to a total of 1,185,000 shares.

b. Option granted to the Company's Chief Executive Officer ("CEO")

1. On December 11, 2012, the Company's board of directors approved a grant of 120,000 options to the Company CEO to purchase 120,000 ordinary Company shares of NIS 1 par value each. The options were subject to the approval of the general shareholders meeting.

   On April 9, 2013, the Company's board of directors modified certain terms of the options granted to the Company CEO on December 11, 2012, by increasing the number of options granted from 120,000 to 150,000 and by changing the exercise price to NIS 41.47. The options are vested as follows: (1) 25% - at the end of the first year from the IPO; (2) 75% - over a period of three years, on a quarterly basis, after the vesting of the first 25% options. On May 26, 2013 ("the Grant Date"), the Company's general shareholders meeting approved the grant of the options to the Company's CEO.

   The fair value of the options was estimated at $ 625 thousands according a calculation formula based on the Binominal Model.

NOTE 21: SHARE-BASED PAYMENT (CONT.)

2. On November 14, 2013 the Company's Board of Directors approved the grant, for no consideration, of 150,000 options to the CEO, exercisable into 150,000 ordinary shares at an exercise price of NIS 56.94. On January 28, 2014, the Company's general shareholders meeting approved the grant of the options to the Company's CEO. The fair value of the options was estimated at $896 thousands.

c. Employees options

1. During 2012, 2013 and 2014 the Company's Board of Directors approved the grant, for no consideration, of 216,313, 732,850 and 20,000, options, respectively to employees. The fair value of the options was estimated at $580 thousands, $3,415 thousands and $140 thousands respectively

2. On December 11, 2012, the board of directors approved a grant of 100,000 options to the Company Chief Financial Officer to purchase 100,000 ordinary Company shares of NIS 1 par value each. 20,000 options are exercisable in 13 installments, 25% of the options vest on the first anniversary of the grant date and 6.25% vest at the end of each quarter thereafter at an exercise price of NIS 31.90.
The remaining 80,000 options have an exercise price of 90% of the Company initial public offering price in the NASDAQ - NIS 34.06 and vest as follows: (1) 25% - at the end of the first year from the IPO; (2) 75% - over a period of three years, on a quarterly basis, after the vesting of the first 25% options.
According to a calculation formula based on the Binomial Model, the fair value of the options was estimated at $ 442 thousands.

d. Directors options

On November 14, 2013 the Company's Board of Directors approved the grant, for no consideration, of 180,000 options to the directors of the Company exercisable into 180,000 ordinary shares at an exercise price of NIS 56.94. On January 28, 2014, the Company's general shareholders meeting approved the grant of the options to the Company's directors. The fair value of the options was estimated at $1,075 thousands.

e. Consultants options

On November 14, 2013 the Company's Board of Directors approved the grant, for no consideration, of 10,000 options to two consultants of the Company exercisable into 10,000 ordinary shares at an exercise price of NIS 56.94. The fair value of the options was estimated at $54 thousands.

f. During 2014, 35,133 options were exercised by employees to 27,837 ordinary shares of NIS 1 par value, in consideration of $88 thousands.

NOTE 21: SHARE-BASED PAYMENT (CONT.)

Change during the Year

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee and service provider option plans during the year:

	2014		2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		In NIS		In NIS		In NIS
Outstanding at beginning of year	2,471,507	37.53	1,674,781	20.55	1,674,092	26.42
Granted	20,000	54.68	(*)1,102,850	56.00	436,313	27.03
Exercised	(35,133)	15.20	(262,773)	25.28	(361,717)	12.05
Forfeited	(59,483)	38.63	(43,351)	25.28	(73,907)	22.55
Outstanding at end of year	2,396,891	37.98	2,471,507	37.53	1,674,781	20.55
Exercisable at end of year	1,276,920	27.67	797,015	16.80	719,408	15.15
The weighted average remaining contractual life for the share options		3.84		4.88		4.26

*) Includes 330,000 options which were granted to the CEO (150,000 options) and the directors (180,000 options) on November 28,2013, and were approved on the Company's general shareholders meeting on January 28, 2014. (Also see b2 and d above).

The range of exercise prices for share options outstanding as of December 31, 2013 and 2014 were NIS 11- NIS 57.

Measurement of the fair value of equity-settled share options

The Company uses the binomial model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

	2014	2013	2012
Dividend yield (%)	-	-	-
Expected volatility of the share prices (%)	30-50	29-53	29-54
Risk-free interest rate (%)	0.92 – 3.24	0.88 – 3.18	1.86 – 4.13
Contractual term of up to (years)	6.5	6.5	6.5
Exercise multiple	2	1.75-2	1.75-2
Weighted average share prices (NIS)	55.08	49.7	18.75
Expected average forfeiture rate (%)	0-5	0-5	0-5

NOTE 22: - TAXES ON INCOME

a. Tax laws applicable to the Company

Income tax (inflationary adjustments) law, 1985

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007.

Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 1969 (the “Encouragement of Industry Law”), provides several tax benefits for “Industrial Companies.” Pursuant to the Encouragement of Industry Law, a company qualifies as an Industrial

Company if it is a resident of Israel and at least 90% of its income in any tax year (exclusive of income from certain defense loans) is generated from an “Industrial Enterprise” that it owns. An Industrial Enterprise is defined as an enterprise whose principal activity, in a given tax year, is industrial activity.

An Industrial Company is entitled to certain tax benefits, including: (i) a deduction of the cost of purchases of patents, know-how and certain other intangible property rights (other than goodwill) used for the development or promotion of the Industrial Enterprise in equal amounts over a period of eight years, beginning from the year in which such rights were first used, (ii) the right to elect to file consolidated tax returns, under certain conditions, with additional Israeli Industrial Companies controlled by it, and (iii) the right to deduct expenses related to public offerings in equal amounts over a period of three years beginning from the year of the offering.
Eligibility for benefits under the Encouragement of Industry Law is not contingent upon the approval of any governmental authority The Company believes that it currently qualifies as an industrial company within the definition of the Industry Encouragement Law. The Company cannot assure that the Israeli tax authorities will agree that the Company qualifies, or, if qualified, that it will continue to qualify as an industrial company or that the benefits described above will be available to the Company in the future.

Law for the Encouragement of Capital Investments, 1959

Tax benefits prior to Amendment 60

The Company's facilities in Israel have been granted Approved Enterprise status under the Law for the Encouragement of Capital Investments, 1959, commonly referred to as the “Investment Law”. The Investment Law provides that capital investments in a production facility (or other eligible assets) may be designated as an Approved Enterprise. Until 2005, the designation required advance approval from

NOTE 22: - TAXES ON INCOME(CONT.)

the Investment Center of the Israel Ministry of Industry, Trade and Labor. Each certificate of approval for an Approved Enterprise ("certificate of approval") relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.
Under the Approved Enterprise programs, a company is eligible for governmental grants (“Grants Track”). Under the Grants Track the Company is eligible for investments grants awarded at various rates according to the development area in which the plant is located: in Development Zone A the rate is 24% and in Development Zone B the rate is 10%. In addition to the above grants, the Company is eligible to tax exemption at the first two years of the benefit period (as define below) and is subject to reduced corporate tax of 10% to 25% during the remaining five to eight years (depending on the extent of foreign investment in the Company) of the benefit period. The benefits period is limited to 12 years from completion of the investment or commencement of production ("Year of Operation"), or 14 years from the year in which the certificate of approval was obtained, whichever is earlier. The benefit period for part of the Company plants has ended, or up to 2017.
Under the Investment Law a company may elect to receive an alternative package comprised of tax benefits (“Alternative Track”) instead of the above mentioned grants Track. Under the Alternative Track, a company’s undistributed income derived from an Approved Enterprise is exempt from corporate tax for an initial period of two to ten years (depending on the geographic location of the Approved

Enterprise within Israel which begins in the first year that the Company realizes taxable income from the Approved Enterprise following the year of operation (as define below). After expiration of the initial tax exemption period, the Company is eligible for a reduced corporate tax rate of 10% to 25% for the following five to eight years, depending on the extent of foreign investment in the Company (as shown

in the table below). The benefits period is limited to 12 years from the Year of Operation, or 14 years from the year in which the certificate of approval was obtained, whichever is earlier.

<u>Tax benefits under Amendment 60</u>

On April 1, 2005, an amendment to the Investment Law came into effect (“Amendment 60”). The amendment revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the amendment simplifies the approval process.

In order to receive the tax benefits, the Amendment states that the company must make an investment in the Privileged Enterprise exceeding a certain percentage or a minimum amount specified in the Investments Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Privileged Enterprise (the “Year of Election”).

NOTE 22: - TAXES ON INCOME(CONT.)

The Company received a Tax Ruling from the Israeli Tax Authority that its activity is an industrial activity and the Company will be eligible for the status of a Privileged Enterprise, provided that it meets the requirements under the ruling. The year of Election is 2009.The Company also obtained 2012 as a Year of election.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years (depending on the extent of foreign investment in the company) from the first year in which the company generated taxable income (at, or after, the Year of Election) , or 12 years from the first day of the Year of Election. The amendment does not apply to investment programs approved prior to December 31, 2004. The new tax regime applies to new investment programs only.

The tax benefits available under Approved Enterprise or Privileged Enterprise relate only to taxable income attributable to the specific Approved Enterprise or Privileged Enterprise, and the Company's effective tax rate will be the result of a weighted combination of the applicable rates.

Tax Exemption Period	Reduced Tax Period	Rate of Reduced Tax	Percent of Foreign Ownership
2 years	5 years	25%	0-25%
2 years	8 years	25%	25-49%
2 years	8 years	20%	49-74%
2 years	8 years	15%	74-90%
2 years	8 years	10%	90-100%

The benefits available to an Approved Enterprise and a Privileged Enterprise are conditioned upon terms stipulated in the Investment Law and the related regulations and the criteria set forth in the applicable certificate of approval (for an Approved Enterprise). If the Company does not fulfill these conditions, in whole or in part, the benefits can be cancelled and we may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest. The Company believes that its Approved Enterprise and Privileged Enterprise programs currently operate in compliance with all applicable conditions and criteria.

If a company distributes dividends from tax-exempt income, the company will be taxed on the otherwise exempt income at the same reduced corporate tax rate that would have applied to that income. Distribution of dividends derived from income that was taxed at reduced rates, but not tax-exempt, does not result in additional tax consequences to the company. Shareholders who receive dividends derived from Approved Enterprise or Privileged Enterprise income are generally taxed at a rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years

(the limitation does not apply to a Foreign Investors Company, which is a company that more than 25% of its shares owned by non-Israeli residents).

NOTE 22: - TAXES ON INCOME(CONT.)

Preferred Enterprise

Tax Benefits under the 2011 Amendment

As of January 1, 2011 new legislation amending to the Investment Law came into effect (the “2011 Amendment”). The 2011 Amendment introduced a new status of “Preferred Company” and “Preferred Enterprise”, replacing the existed status of “Beneficiary Company” and “Beneficiary Enterprise”. Similarly to “Beneficiary Company”, a Preferred Company is an industrial company owning a Preferred Enterprise which meets certain conditions (including a minimum threshold of 25% export). However, under this new legislation the requirement for a minimum investment in productive assets was cancelled.

Under the 2011 Amendment, a uniform corporate tax rate will apply to all qualifying income of the Preferred Company, as opposed to the former law, which was limited to income from the Approved Enterprises and Beneficiary Enterprise during the benefits period. The uniform corporate tax rate will be 7 % in areas in Israel designated as Development Zone A and 12.5% elsewhere in Israel during 2014, 9% and 16%, respectively, in 2014.

A dividend distributed from income which is attributed to a Preferred Enterprise/Special Preferred Enterprise will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 15% in 2013 and 20% as of 2014 (iii) non-Israeli resident - 15% in 2013 and 20% as of 2014 subject to a reduced tax rate under the provisions of an applicable double tax treaty.

The provisions of the 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment came into effect, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an alternative benefits program, before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.
To date, the Company has not elected to be classified as a Preferred Enterprise according to Amendment No. 68.

NOTE 22: - TAXES ON INCOME(CONT.)

b. Tax rates applicable to the Company

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2013 and 2012.

On July 30, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5%, cancelling the lowering of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas) and in certain cases increasing the tax rates on dividends within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014.

The abovementioned changes did not have a material effect on the Company's financial statements.

c. Tax assessments

1. Final tax assessments

The Company received final tax assessments through 2003.

2. Tax assessments in dispute

During 2010, the Company has received assessments made according to the best possible judgment for tax years 2004-2006 to the amount of approximately $ 5 million (including accumulated interest and linkage differentials), for which the Company has filed a reservation. In January 2012, the Company was issued a tax payment order for these years in accordance with section 152b of the Ordinance to the amount of approximately $ 4 million (including accumulated interest and linkage differentials). The Company has appealed the assessment in question in court. In the opinion of Company management, and according to its legal advisors, an additional provision was not needed beyond that included in the Financial Statements.

d. Carry forward losses for tax purposes and other temporary differences

As of December 31, 2014, the Company has carry forward losses and other temporary differences amounting to $ 83 million.

e. Deferred taxes:

The Company did not recognize deferred tax assets for carry forward losses and other temporary differences, because their utilization in the foreseeable future is not probable.

f. Current taxes on income

Taxes on income included in profit or loss of 2012 comprise of foreign withholding taxes in the amount of $600 thousands.

NOTE 22: - TAXES ON INCOME(CONT.)

g. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss, does not provide significant information and therefore was not presented.

NOTE 23: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31, 2014	2013	2012
	In thousands		
a. Additional information about revenues			
Revenues from major customers each of whom amount to 10% or more, of total revenues			
Customer A – Proprietary products	$ 26,606	$ 28,376	$ 30,599
Customer B – Proprietary products and Distribution Segment	12,352	8,747	15,296
	$ 38,958	$ 37,123	$ 45,895

Revenues based on the location of the customers, are as follows:

	Year Ended December 31, 2014	2013	2012
	In thousands		
Israel	$ 32,040	$ 26,280	$ 30,336
U.S.A.	26,001	28,805	30,974
Europe	5,265	6,737	3,370
Latin America	5,121	5,943	4,367
Asia	2,120	2,856	3,391
Others	518	2	237
	$ 71,065	$ 70,623	$ 72,675

NOTE 23: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS (CONT.)

		Year Ended December 31, 2014	2013	2012
		In thousands		
b.				
	Cost of materials	$ 42,265	$ 35,334	$ 43,751
	Salary and related expenses	12,026	10,425	10,438
	Depreciation and amortization	2,019	2,245	2,581
	Other manufacturing expenses	(306)	588	656
		56,004	48,592	57,426
	Decrease (increase) in inventories	19	(4,376)	(7,444)
		$ 56,023	$ 44,216	$ 49,982
c.	Research and development			
	Salary and related expenses	$ 3,852	$ 3,877	$ 3,360
	Subcontractors	6,593	6,072	5,981
	Materials	4,287	1,846	1,738
	Others	1,298	950	742
		$ 16,030	$ 12,745	$ 11,821
d.	Selling and marketing			
	Salary and related expenses	$ 1,033	$ 546	$ 404
	Commissions	106	110	142
	Packing, shipping and delivery	403	355	169
	Marketing and advertising	352	243	231
	Registration and marketing fees	785	745	608
	Others	219	101	299
		$ 2,898	$ 2,100	$ 1,853

NOTE 23: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS (CONT.)

	Year Ended December 31, 2014	2013	2012
	In thousands		
e. General and administrative			
Salary and related expenses (1)	$ 3,244	$ 3,824	$ 1,798
Professional fees	1,796	992	705
Depreciation and amortization	455	444	373
Bad debt expenses, net	(53)	483	-
Others	2,151	2,119	1,905
	$ 7,593	$ 7,862	$ 4,781

(1) The Company incurred in 2013, $ 1,400 thousands of one-time management compensation expense related to the IPO

f. Financial incomes and expenses

	2014	2013	2012
Financial incomes			
Interest income and gains from marketable securities	$ 1,611	$ 289	$ 578
Financial expenses			
Interest and amortization from debentures	$ 1,954	$ 3,089	$ 3,321
Amortization of AFS debt securities	1,207	11	-
Fees paid to financial institutions	109	32	34
Others	23	21	2
	$ 3,293	$ 3,153	$ 3,357

NOTE 24: - INCOME (LOSS) PER SHARE

a. Details of the number of shares and income (loss) used in the computation of income (loss) per share

	Year Ended December 31, 2014		2013		2012	
	Weighted Number of Shares	Loss Attributed to equity holders of the Company	Weighted Number of Shares	Income Attributed to equity holders of the Company	Weighted Number of Shares	Income Attributed to equity holders of the Company
		In thousands		In thousands		In thousands
For the computation of basic income (loss)	35,971,335	$ (13,213)	32,714,631	$ 443	28,078,996	$ 260
Effect of potential dilutive ordinary shares	-		671,020	-	607,640	-
For the computation of diluted income (loss)	35,971,335	$ (13,213)	33,385,651	$ 443	28,686,636	$ 260

NOTE 24: - INCOME (LOSS) PER SHARE (CONT.)

b. The computation of the diluted income per share in 2013, did not take into account the convertible debentures and part of the options due to their antidilutive effect.

NOTE 25: - OPERATING SEGMENTS

a. General

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the products and services of the business units and has two operating segments as follows:

Proprietary Products	Development, manufacture and sale of plasma-derived therapeutics products.
Distribution	Distribution of drugs in Israel manufacture by other companies for clinical uses, most of which are produced from plasma or its derivatives products.

Segment performance is evaluated based on revenues and gross profit in the financial statements.

The segment results reported to the CODM include items that are allocated directly to the segments and items that can be allocated on a reasonable basis. Items that were not allocated, mainly the Group's headquarter assets, general and administrative costs and financial costs (consisting of finance expenses and finance income and including fair value adjustments of financial instruments), are managed on a group basis.

The segment liabilities do not include loans and financial liabilities as these liabilities are managed on a group basis.

Capital expenditures consist of additions to Property, plant and equipment and intangible assets.

NOTE 25: - OPERATING SEGMENTS (CONT.)

d. Reporting on operating segments

	Proprietary Products	Distribution	Total
		In thousands	
Year Ended December 31, 2014			
Revenues	$ 44,389	$ 26,676	$ 71,065
Gross profit	$ 11,772	$ 3,270	$ 15,042
Unallocated corporate expenses			(26,521)
Finance expenses, net			(1,682)
Loss before taxes on income			$ (13,161)

	Proprietary Products	Distribution	Total
		In thousands	
Year Ended December 31, 2013			
Revenues	$ 50,658	$ 19,965	$ 70,623
Gross profit	$ 23,554	$ 2,853	$ 26,407
Unallocated corporate expenses			(22,707)
Finance expenses, net			(3,233)
Income before taxes on income			$ 467

	Proprietary Products	Distribution	Total
		In thousands	
Year Ended December 31, 2012			
Revenues	$ 46,445	$ 26,230	$ 72,675
Gross profit	$ 19,534	$ 3,159	$ 22,693
Unallocated corporate expenses			(18,455)
Finance expenses, net			(3,455)
Income before taxes on income			$ 783

NOTE 25: - OPERATING SEGMENTS (CONT.)

e. Revenues reported in the financial statements for a group of similar products in the Proprietary Product segment:

	Year ended December 31,		
	2014	2013	2012
	In thousands		
Plasma derived products	$ 43,206	$ 48,484	$ 44,070
Others	1,183	2,174	2,375
	$ 44,389	$ 50,658	$ 46,445

NOTE 26: - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties

	Related Parties
	In thousands
December 31, 2014	
Other accounts payables	$ 297
Employee benefit liabilities, net	$ 187
The highest balance of trade receivable	$ 648
December 31, 2013	
Other accounts payables	$ 441
Employee benefit liabilities, net	$ 174
The highest balance of trade receivable	$ 83

b. Benefits to related parties

	Year Ended December 31,	
	2014	2013
	In thousands	
Salary and related expenses to those employed by the Company or on its behalf	$ 1,316	$ 1,273
Salary of directors not employed by the Company or on its behalf	$ 49	$ 53
Number of People to whom the Salary and Benefits Refer		
Related and related parties employed by the Company or on its behalf	2	3
Directors not employed by the Company	8	8
	10	11

NOTE 26: - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONT.)

c. Benefits to key executive personnel

	Year Ended December 31,		
	2014	2013	2012
	In thousands		
Short-term benefits	$ 2,064	$ 2,884	$ 1,221
Share-based payment	1,165	617	179
Other long-term benefits	(8)	5	3
	$ 3,221	$ 3,506	$ 1,403

d. Transactions with related parties

Year Ended December 31, 2014

	Controlling Shareholder	Related Parties
	In thousands	
Sales	$ -	$ 1,158
Selling and marketing expenses	$ -	$ 120
General and administrative expenses	$ -	$ 1,441

Year Ended December 31, 2013

	Controlling Shareholder	Related Parties
	In thousands	
Sales	$ -	$ 453
Selling and marketing expenses	$ -	$ 110
General and administrative expenses	$ -	$ 2,015

Year Ended December 31, 2012

Sales	$ 272	$ -
Purchases	$ 3	$ -
Selling and marketing expenses	$ -	$ 107
General and administrative expenses	$ 45	$ 1,397
Financial expenses	$ 541	$ -

NOTE 26: - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONT.)

e. Revenues and Expenses from Related and Interested Parties

Terms of Transactions with Related Parties

Sales to related parties are conducted at market prices. Balances that have yet to be repaid by the end of the year are not guaranteed, bear no interest and their settlement will be in cash. No guarantees were received or given for sums receivable or payable. For the years ended December 31, 2014, 2013 and 2012, the Company recorded no allowance for doubtful accounts for sums receivable from related parties.

On May 26, 2011, the Company announced its engagement in a corrective agreement that revises and replaces the distribution agreement signed in 2001 between the Company and Tuteur SACIFIA, a company registered in Argentina, under the control of the estate of Mr. Ralph Hahn, and considered one of the Company's controlling shareholders.

Revision of the agreement is necessary in preparation for the expected completion of the product's registration in Argentina and the beginning of its marketing and constitutes an improvement to the terms of the 2001 agreement as far as the Company is concerned.

On August 19, 2014 we amended the agreement in order to add KamRho(D) as an additional product to be distributed by Tuteur and expanded the territory to include Bolivia.
Pursuant to the distribution agreement, Tuteur serves as the exclusive distributor of Glassia and KamRho(D), in Argentina, Paraguay, Uruguay and Bolivia

NOTE 27: - SUBSEQUENT EVENTS

1. On April 26, 2015 the Company's Compensation Committee approved an increase of the pool of shares allocated for grant under the 2011 option plan by 500,000 shares.

2. On April 27, 2015 the Company's Board of Directors approved the grant, for no consideration, of 519,400 options to employees, management and directors of the Company exercisable into ordinary shares at an exercise price of NIS 17.84 for employees and 18.73 for management and directors. The fair value of the options was estimated at $1.2 million.