MAZOR ROBOTICS LTD.

CONSOLIDATED
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

Consolidated Financial Statements as of December 31, 2010

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Auditors' Report to the Shareholders of Mazor Robotics Ltd.

We have audited the accompanying consolidated statements of financial position of Mazor Robotics Ltd. (hereinafter – "the Company") as of December 31, 2010 and 2009 and the related consolidated income statements, statements of changes in equity and statements of cash flows, for each of the three years, the last of which ended December 31, 2010. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2010 and 2009 and their results of operations, changes in equity and cash flows, for each of the three years, the last of which ended December 31, 2010, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2010, and our report dated March 23, 2011 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, March 23, 2011

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Is raeli member firm of KPMG International, a Swiss cooperative.

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Auditors' Report to the Shareholders of Mazor Robotics Ltd. Regarding the Audit of Internal Control Components over Financial Reporting in accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Mazor Robotics Ltd. and its subsidiary (hereinafter together – "the Company") as of December 31, 2010. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over the sales process; (3) controls over the procurement process (all these are named together "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2010 and 2009 and for each of the three years, the last of which ended December 31, 2010 and our report dated March 23, 2011 expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, March 23, 2011

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Is raeli member firm of KPMG International, a Swiss cooperative.

Consolidated Statements of Financial Position as at December 31

	Note	2010 NIS thousands	2009 NIS thousands
Assets			
Cash and cash equivalents	5	**17,042**	13,354
Short-term deposits	6	**-**	25,736
Short-term investments	6	**47,325**	43,796
Trade receivables	7	**2,983**	1,264
Other accounts receivable	7	**993**	505
Inventory	8	**4,143**	1,050
Current tax assets		**-**	76
Total current assets		**72,486**	85,781
Prepaid expenses on account of lease of motor vehicles	9	**168**	171
Fixed assets, net	10	**794**	852
Intangible assets, net	11	**3,822**	3,555
Total non-current assets		**4,784**	4,578
Total assets		**77,270**	90,359

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

Consolidated Statements of Financial Position as at December 31

	Note	2010 NIS thousands	2009 NIS thousands
Current liabilities			
Trade payables	12	**4,208**	1,858
Other accounts payable	13	**4,288**	1,965
Total current liabilities		**8,496**	3,823
Convertible debentures	14	**11,688**	10,300
Employee benefits	15	**554**	650
Liabilities to the Chief Scientist	16	**2,781**	2,540
Total non-current liabilities		**15,023**	13,490
Total liabilities		**23,519**	17,313
Equity	27		
Ordinary shares		**197**	197
Share premium		**181,183**	180,803
Receipts on account of options		**11,390**	11,390
Receipts on account of conversion option of convertible debentures		**3,084**	3,084
Capital reserve for share-based payment transactions		**8,747**	6,898
Accumulated loss		**(150,850)**	(129,326)
Total equity		**53,751**	73,046
Total liabilities and equity		**77,270**	90,359

Jonathan Adereth	Ori Hadomi	Sharon Levita
Chairman of the Board	CEO	CFO

Date of approval of the financial statements: March 23, 2011

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

Consolidated Income Statements for the Year Ended December 31

	Note	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Revenues	19	**14,846**	5,320	2,112
Cost of sales	21	**3,587**	1,855	1,569
Gross profit		**11,259**	3,465	543
Selling and marketing expenses	22	**16,489**	9,176	9,379
General and administrative expenses	23	**6,284**	5,403	5,221
Research and development expenses, net	24	**8,231**	5,147	6,942
Operating loss		**(19,745)**	(16,261)	(20,999)
Financing income	25	**2,204**	2,206	3,925
Financing expenses	25	**(3,955)**	(2,978)	(2,740)
Financing income (expenses), net		**(1,751)**	(772)	1,185
Loss before taxes on income		**(21,496)**	(17,033)	(19,814)
Taxes on income	17	**28**	19	3
Loss for the year		**(21,524)**	(17,052)	(19,817)
Loss per share				
Basic and diluted loss per share (in NIS)	29	**(1.09)**	(1.12)	(1.40)

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

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Receipts on account of options	Receipts on account of conversion option	Capital reserve for share-based payment transactions	Accumulated loss	Total
				NIS thousands			
For the year ended December 31, 2010							
Balance as at January 1, 2010	**197**	**180,803**	**11,390**	**3,084**	**6,898**	**(129,326)**	**73,046**
Options exercised into shares	[3] **-**	**380**	**-**	**-**	**(107)**	**-**	**273**
Share-based payments	**-**	**-**	**-**	**-**	**1,956**	**-**	**1,956**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(21,524)**	**(21,524)**
Balance as at December 31, 2010	**197**	**181,183**	**11,390**	**3,084**	**8,747**	**(150,850)**	**53,751**
For the year ended December 31, 2009							
Balance as at January 1, 2009	142	139,203	8,711	3,084	5,534	(112,274)	44,400
Public issuance of parcel[1]	53	37,956	5,033	-	753	-	43,795
Employee options exercised into shares	2	965	-	-	(960)	-	7
Expired options	-	2,354	(2,354)	-	-	-	-
Share-based payments	-	-	-	-	1,896	-	1,896
Expired employee options	-	325	-	-	(325)	-	-
Loss for the year	-	-	-	-	-	(17,052)	(17,052)
Balance as at December 31, 2009	197	180,803	11,390	3,084	6,898	(129,326)	73,046
For the year ended December 31, 2008							
Balance as at January 1, 2008	130	129,879	6,011	3,084	4,210	(92,457)	50,857
Issuance of shares and options[2]	12	9,324	2,700	-	-	-	12,036
Share-based payments	-	-	-	-	1,324	-	1,324
Loss for the year	-	-	-	-	-	(19,817)	(19,817)
Balance as at December 31, 2008	142	139,203	8,711	3,084	5,534	(112,274)	44,400

(1) Net of issuance expenses in the amount of NIS 4,105 thousand and net of the value of options that were allotted to underwriters in the amount of NIS 753 thousand and were included in a capital reserve for share-based payments, see also Note 27C(4).

(2) Net of issuance expenses in the amount of NIS 464 thousand, see also Note 27C(2).

(3) Less than NIS 1 thousand.

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Loss for the year	**(21,524)**	(17,052)	(19,817)
Adjustments:			
Depreciation and amortization	**1,417**	613	208
Financing expenses (income), net	**1,082**	(211)	(1,466)
Capital gain on sale of fixed assets	**(5)**	-	-
Share-based payment transactions	**1,956**	1,896	1,324
Taxes on income	**28**	19	3
	4,478	2,317	69
Change in inventory	**(3,093)**	329	400
Change in trade and other accounts receivable	**(2,207)**	(824)	831
Change in prepaid expenses on account of lease of motor vehicles	**3**	(35)	15
Change in trade and other accounts payable	**4,089**	85	(889)
Change in employee benefits	**(96)**	167	(90)
	(1,304)	(278)	267
Interest received	**2,464**	1,781	994
Interest paid	**(825)**	(826)	(813)
Income tax received	**76**	97	-
Income tax paid	**(28)**	(19)	(19)
	1,687	1,033	162
Net cash used in operating activities	**(16,663)**	(13,980)	(19,319)
Cash flows from investing activities			
Proceeds from sale of fixed assets	**5**	-	-
Proceeds from sale (acquisition) of short-term investments, net	**21,765**	(18,623)	8,883
Acquisition of fixed assets	**(575)**	(215)	(175)
Development costs capitalized to intangible assets	**(1,051)**	(2,194)	(1,361)
Net cash from (used in) investing activities	**20,144**	(21,032)	7,347
Cash flows from financing activities			
Proceeds from public issuance of parcel, net	**-**	43,795	12,036
Proceeds from exercise of options to employees and service providers	**273**	7	-
Receipt of loan from the Chief Scientist	**631**	339	-
Repayment of loan to the Chief Scientist	**(101)**	(149)	-
Net cash from financing activities	**803**	43,992	12,036
Net increase in cash and cash equivalents	**4,284**	8,980	64
Cash and cash equivalents at beginning of year	**13,354**	4,213	4,139
Effect of exchange rate fluctuations on cash and cash equivalents	**(596)**	161	10
Cash and cash equivalents at end of year	**17,042**	13,354	4,213

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

Note 1 - Reporting Entity

A. Mazor Robotics Ltd. (hereinafter – the "Company") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 7 HaEeshel St., Caesarea industrial park, Caesarea, Israel. The consolidated financial statements of the Company as at and for the year ended December 31, 2010 comprise the Company and its wholly owned subsidiary, Mazor Robotics Inc. (together referred to as the "Group"). The Company engages in the field of robotic-guided surgery (image guided surgery, also called computer assisted surgery), primarily through highly-accurate guiding and navigating of surgical instruments in order to reduce surgical invasiveness. The securities of the Company are registered for trade on the Tel Aviv Stock Exchange from August 2007.

B. Definitions

In these financial statements –

(1) International Financial Reporting Standards (hereinafter – IFRS) – Standards and interpretations that were adopted by the International Accounting Standards Board (IASB) and which include international financial reporting standards and international accounting standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) or interpretations of the Standing Interpretations Committee (SIC), respectively.

(2) The Company – Mazor Robotics Ltd.

(3) The Group – Mazor Robotics Ltd. and its subsidiary.

(4) Subsidiary – A company, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

(5) Related party – Within its meaning in IAS 24, "Related Party Disclosures".

(6) Interested parties – Within their meaning in Paragraph (1) of the definition of an "interested party" in Section 1 of the Securities Law - 1968.

(7) CPI – The Consumer Price Index as published by the Central Bureau of Statistics.

Note 2 - Basis of Preparation

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The Group adopted IFRSs for the first time in 2008, with the date of transition to IFRSs being January 1, 2007. The financial statements have been prepared also in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 23, 2011.

B. Functional and presentation currency

These consolidated financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

Note 2 - Basis of Preparation (cont'd)

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for short-term investments measured at fair value through profit or loss, inventory and employee benefits. For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

The value of non-monetary assets and equity items that were measured on the historical cost basis was adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy was considered hyperinflationary.

D. Operating cycle

The Company's normal operating cycle does not exceed one year.

E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included in the notes to the financial statements.

F. Use of estimates and judgments

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

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical estimates

Presented hereunder is information about critical estimates, made while implementing Group accounting policies and which have a most significant effect on the financial statements:

Inventory impairment – Inventory is measured at the lower of cost and net realizable value. The Company examines the net realizable value of inventory at every cutoff date on the basis of a forecast of revenues anticipated from sale of the inventory as expected at every cutoff date. Changes in the Company's estimates may lead to changes in the impairment provision for inventory.

Measurement of the liability to the Chief Scientist – The liability to the Chief Scientist is calculated according to the forecasted payments of royalties to the Chief Scientist on the basis of the Company's forecast of revenues on which it expects to pay royalties. The liability is presented at present value according to a discount rate that is based on the Company's risk rate at the date of receiving the grant. The Company examines on each statement of financial position date whether there have been any events or changes in circumstances which would indicate a change in the forecasted sales of products supported by the Chief Scientist that has an effect on the liability to the Chief Scientist. The sales forecast is based on past experience and the Company's best assessment of the economic conditions that will prevail in the future period of the sales forecast. Changes in the value of the liability are recognized in the statement of income.

Note 2 - Basis of Preparation (cont'd)

F. Use of estimates and judgments (cont'd)

Share-based payment – The Group grants share purchase options to employees and consultants. The value of the work services or consultation services that were received in consideration for these awards is measured at the grant date on the basis of the fair value of the awarded equity instruments. The value of the transactions, measured as described above, is recognized as an expense over the vesting period of the right. Concurrently with the periodic recognition of an expense, an increase is recognized in a capital reserve, within the Group's equity. The Group estimates the fair value of share-based payments on the basis of accepted economic models.

Capitalization of development costs – Development costs are capitalized according to the accounting policy described in Note 3E to the financial statements. The capitalization of the costs is based on management's judgment regarding technological and economic feasibility, which generally exists when a product development project reaches a defined milestone, or when the Company enters into a transaction to sell the know-how deriving from the development.

Measurement of deferred income – Deferred income is calculated on the basis of the fair value of those components the Company assesses it will supply to customers with which it has multiple-element transactions. The Company's assessment, in the absence of historical data, is based on forecasts and estimates. The discount rate used is based on the Company's risk rate at the date of each transaction (see also Note 3J(3)).

G. Capital management – objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company such as credit providers and employees of the Company, and sustain future development of the business. Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

A. Basis of consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(2) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments in marketable securities, deposits, trade and other receivables, and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(1) Non-derivative financial assets (cont'd)

Derecognition of financial assets (cont'd)

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Company undertook to sell the asset.

See (2) hereunder regarding the offset of financial assets and financial liabilities.

The Group classifies its financial assets according to the following categories:

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, providing that the designation is intended to prevent an accounting mismatch, or the asset is a combined instrument including an embedded derivative. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets designated at fair value through profit or loss comprise investments in marketable securities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade receivables, deposits and other accounts receivable.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

(2) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise convertible debentures, liability to the Chief Scientist, trade and other accounts payable.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(3) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, where the number of shares to be issued in respect thereto does not vary and which have a fixed conversion price.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

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

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is valued every period in accordance with the actual increase/decrease in the CPI.

(5) Share capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

(6) Issuance of parcel of securities

(a) The consideration received from the issuance of a parcel of securities is attributed at first to financial liabilities that are measured each period at fair value through profit or loss, and then to financial liabilities that are measured only upon initial recognition at fair value. The remaining amount is the value of the equity component.

(b) Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described in sub-paragraph (a) above.

D. Fixed assets

(1) Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

(1) Recognition and measurement (cont'd)

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

(2) Subsequent costs

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

Computers	3 years
Equipment	7 years
Demonstration equipment	4 years
Office furniture and equipment	10-17 years
Motor vehicles	5 years
Leasehold improvements	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

E. Intangible assets

(1) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

As regards part of the Company's products, technological feasibility may occur only when the Company's clinical trials succeed. Sometimes the costs incurred between the successful completion of the product's development and successful clinical trials, and the time the product is ready for sale are immaterial, so that in reality all the development costs will be recognized in profit or loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

(1) Research and development (cont'd)

The expenditure capitalized includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(2) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(3) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets of 4 years, from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

F. Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the moving average method, and includes expenditure incurred in acquiring the inventory and the costs incurred in bringing it to its existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Impairment

(1) Financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. All individually significant financial assets are assessed for specific impairment. All other financial assets are collectively assessed for impairment in groups with similar risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

(2) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In subsequent periods the Group estimates the recoverable amount, once a year and on the same date for each asset.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amounts of the assets in the cash-generating unit on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

H. Employee benefits

(1) Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

(a) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(b) Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on Government debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The Group recognizes immediately, directly in profit or loss, all actuarial gains and losses arising from defined benefit plans.

Note 3 - Significant Accounting Policies (cont'd)

H. Employee benefits (cont'd)

(2) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(3) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

I. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

(1) Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(2) Legal claims

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

J. Revenue

(1) Goods sold

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Revenue is recognized when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Note 3 - Significant Accounting Policies (cont'd)

J. Revenue (cont'd)

(2) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(3) Multiple element sale agreements

Revenues from sale agreements that include a number of elements such as: instruments, consumable elements and support agreements, are split into separate accounting units and are recognized separately with respect to each accounting unit. The consideration received is allocated to the various elements on the basis of their relative fair value. If the fair value of the supplied element cannot be reliably estimated, the revenue allocated to the supplied element is determined on the basis of the difference between the total amount of the consideration as provided in the agreement and the fair value of the undelivered element.

An element constitutes a separate accounting unit if, and only if, it has a separate value to the customer and there is reliable and objective evidence regarding the fair value of the undelivered elements. Elements that were not split into an accounting unit due to non-compliance with the conditions specified above are grouped together under one accounting unit. Revenues from the various accounting units are recognized when the conditions for recognizing the revenues from the elements included in that same accounting unit according to their type have been complied with.

K. Government grants

Grants from the Chief Scientist in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognized in profit or loss. The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction of development expenses.

L. Financing income and expenses

Financing income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognized as it accrues using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established.

Financing expenses comprise interest expense on debentures, changes in time value of provisions, employee benefits in respect of actuarial gains and losses and the liability to the Chief Scientist as well as changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs, which are not capitalized, are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Note 3 - Significant Accounting Policies (cont'd)

M. Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity. Current taxes and deferred taxes relating to a transaction or event recognized directly in equity, are recognized directly in equity. Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future and to the extent the Group controls the date of reversal. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

N. Loss per share

The Group presents basic and diluted loss per share data for its ordinary shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise convertible debentures, share options and share options granted to employees.

O. Segment reporting

An operating segment is a component of the Group that meets three conditions as follows:

1. It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
2. Its operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
3. Discrete financial information is available in its respect.

Note 3 - Significant Accounting Policies (cont'd)

P. New standards and interpretations not yet adopted

- IFRS 9 (2010), Financial Instruments (hereinafter – "the Standard") – This Standard is one of the stages in a comprehensive project to replace IAS 39 Financial Instruments: Recognition and Measurement (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

  In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

  The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

  The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods. The Company is examining the effects of adopting the Standard.

Note 4 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A. Investments in debt instruments

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

B. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to the market terms of similar liabilities that do not have a conversion option.

C. Share-based payment transactions

The fair value of share options granted to employees and service providers is measured using the binomial model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on the weighted average historic volatility adjusted for changes expected due to publicly available information), the employee turnover rate, an early exercise coefficient, expected dividends, and the risk-free interest rate (based on government debentures). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 5 - Cash and Cash Equivalents

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Current balances in banks	**9,521**	13,354
Deposits	**7,521**	-
	17,042	13,354

As at December 31, 2010, the deposits include a two-month deposit bearing annual interest of 1.91% and a three-month deposit bearing annual interest of 1.98%.
The Group's exposure to credit and currency risks, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 6 - Short-Term Investments

Breakdown according to type of investment

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Short-term deposits		
Deposits in NIS	-	25,736
	-	25,736
Investments in marketable securities		
CPI-linked government debentures	**16,056**	14,281
Government debentures	**22,341**	20,900
CPI-linked corporate debentures	**5,671**	5,453
Corporate debentures	**701**	508
US$-linked corporate debentures	**2,556**	2,654
	47,325	43,796

As at December 31, 2009 the deposits in NIS include a six-month deposit bearing annual interest of 0.8%.

The Group's exposure to credit, interest rate and currency risks, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 7 - Trade and Other Accounts Receivable

Current assets

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Trade receivables		
Open accounts	**2,991**	1,287
Less – provision for doubtful debts	**(8)**	(23)
	2,983	1,264
Other accounts receivable		
Institutions	**631**	189
Prepaid expenses	**191**	172
Advances to suppliers	**170**	141
Other receivables	**1**	3
	993	505

The Group's exposure to currency risk, and a sensitivity analysis for financial assets are disclosed in Note 31 on financial instruments.

Note 8 - Inventories

	December 31	
	2010	**2009**
	NIS thousands	**NIS thousands**
Raw materials and spare parts	**1,870**	640
Inventory of work in progress	**14**	10
Inventory of finished goods	**2,845**	679
	4,729	1,329
Less – inventory impairment provision	**(586)**	(279)
	4,143	1,050

Note 9 - Prepaid Expenses on Account of Lease of Motor Vehicles

CPI-linked, non-interest bearing NIS denominated deposits that were granted in favor of leasing companies as security for the fulfillment of motor vehicle lease contracts (see also Note 18B). The deposits constitute payment on account of the last three lease months of each of the leased motor vehicles.

Note 10 - Fixed Assets

	Vehicles	Equipment	Office furniture and equipment	Leasehold improvements	Computers	Total
	NIS thousands					
Cost:						
Balance at January 1, 2010	-	885	166	233	1,157	2,441
Additions	**125**	**-**	**71**	**91**	**288**	**575**
Disposals	**-**	**(617)**	**-**	**-**	**(9)**	**(626)**
Balance as at December 31, 2010	**125**	**268**	**237**	**324**	**1,436**	**2,390**
Balance at January 1, 2009	-	985	138	90	1,113	2,326
Additions/ (Disposables)	-	(100)	28	143	44	115
Balance as at December 31, 2009	-	885	166	233	1,157	2,441
Depreciation						
Balance at January 1, 2010	-	435	60	72	1,022	1,589
Depreciation for the year	**5**	**389**	**17**	**83**	**139**	**633**
Disposals	**-**	**(617)**	**-**	**-**	**(9)**	**(626)**
Balance as at December 31, 2010	**5**	**207**	**77**	**155**	**1,152**	**1,596**
Balance at January 1, 2009	-	63	49	51	880	1,043
Depreciation for the year	-	372	11	21	142	546
Balance as at December 31, 2009	-	435	60	72	1,022	1,589
Carrying amount						
Balance at January 1, 2009	-	922	89	39	233	1,283
Balance at December 31, 2009	-	450	106	161	135	852
Balance at December 31, 2010	**120**	**61**	**160**	**169**	**284**	**794**

Note 11 - Intangible Assets

As from July 1, 2008 and following receipt of approval from the American Food and Drug Administration (the FDA), beginning from the third quarter of 2008 and until completing development of the product in the third quarter of 2010, the Group capitalized development costs relating to one of its products in accordance with the requirements of IAS 38 as described in Note 3E.

Presented hereunder is the movement in the balance of intangible assets during the year:

	Development costs
Cost	
Balance as at January 1, 2009	1,361
Internally developed addition	2,194
Balance as at December 31, 2009	3,555
Internally developed additions	**1,051**
Balance as at December 31, 2010	**4,606**
Amortization	
Balance as at January 1, 2009	-
Amortization for the year	-
Balance as at December 31, 2009	-
Amortization for the year	**784**
Balance as at December 31, 2010	**784**
Carrying amount	
December 31, 2009	3,555
December 31, 2010	**3,822**

Note 12 – Trade Payables

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Open accounts	**3,695**	1,578
Checks and notes payable	**513**	280
	4,208	1,858

Note 13 - Other Accounts Payable

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Accrued expenses	**441**	301
Liabilities to the Chief Scientist (see Note 16)	**1,106**	522
Salary and related liabilities	**1,941**	718
Liabilities to non-employee interested and related parties	**41**	32
Warranty Provision	**27**	59
Deferred income	**732**	333
	4,288	1,965

See Note 26 on related and interested parties for information on payables due to related and interested parties. The Group's exposure to currency and liquidity risks related to certain payables is disclosed in Note 31 on financial instruments.

Note 14 - Convertible Debentures

A. General

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

The balance of the debentures is presented net of issuance expenses and is amortized using the effective interest method according to a discount rate of 19.66%, which was calculated by an independent external valuer. No debentures have been converted into shares as at December 31, 2010.

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

	NIS thousands
Proceeds from issuance of convertible debentures	12,150
Transaction costs	(938)
Net proceeds	11,212
Amount recognized as equity (see B hereunder)	3,084
Amount initially recognized as liability	8,128

B. Convertible component

The convertible component of the debentures comprises an equity component to which the balance of the issuance proceeds was allocated after allocation of the proceeds to the net liability component less transaction costs of NIS 258 thousand.

C. Movement

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Balance as at January 1*	**10,300**	9,147
Accrued financing expenses	**2,213**	1,979
Interest paid	**(825)**	(826)
Balance as at December 31*	**11,688**	10,300

* Does not include accrued interest in the amount of NIS 72 thousand (2009: NIS 72 thousand) which is presented under accrued expenses.

Note 15 - Employee Benefits

Employee benefits include post-employment benefits in respect of which the Group has defined benefit plans for which it deposits amounts in appropriate insurance policies. Furthermore, the Company has a defined contribution plan in respect of some of its employees who are in the scope of Section 14 of the Severance Pay Law – 1963.
As regards share-based payments see Note 28 on share-based payments.
As regards short-term benefits see Note 13 on other accounts payable.

Post-employment benefit plans – defined contribution plan

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Amount recognized as expense in respect of defined contribution plan	**224**	140	104

Note 16 - Liabilities to the Chief Scientist*

	December 31	
	2010	**2009**
	NIS thousands	**NIS thousands**
Balance as at January 1	**3,062**	2,401
Amounts received	**631**	482
Royalties paid during the year	**(101)**	(149)
Amounts recognized in the statement of income	**295**	328
	3,887	3,062
Presentation in the statement of financial position:		
Current liabilities	**1,106**	522
Long-term liabilities	**2,781**	2,540
	3,887	3,062

* The Group is obligated to pay royalties to the Government of Israel in respect of sales of products in which the Government participated in their development by means of grants. The royalties are primarily calculated at the rate of 3%-5% of the sales of such products, and amount to no more than the amount of the grant that was received plus interest at the Libor rate. The total amount of the grants received until December 31, 2010 with the addition of Libor interest as accepted is US$ 1.4 million. The Group evaluates that it is reasonably certain that it will return the grant it received and therefore it recognized a liability in respect thereto.

Note 17 - Taxes on Income

A. Details regarding the tax environment of the Group

(1) Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) On July 25, 2005 the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147) – 2005, which provides, inter alia, for a gradual reduction in the company tax rate to 25% as from the 2010 tax year.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009, which provided, inter alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: In the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and as from the 2016 tax year the company tax rate will be 18%.

Current and deferred tax balances for the periods reported in these financial statements are calculated in accordance with the tax rates indicated above as applicable.

(b) On September 17, 2009 Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) (Amendment) – 2009 were published following which there was an extensive change in Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) – 1986.

The Amendment applies to loans granted as from October 1, 2009, and also includes transitional provisions regarding loans granted before the effective date of the Amendment.

As from October 1, 2009 the annual interest rate for purposes of Section 3(j) of the Ordinance, with respect to in scope taxpayers granting a loan in NIS is 3.3% (unlinked). This interest rate is effective for the period from October 1, 2009 to December 31, 2009. As from January 1, 2010 the annual interest rate for purposes of Section 3(j) of the Ordinance is 3% (unlinked). This rate may change in the 2011 tax year based on the overall average cost of unlinked credit granted to the public by the banks, and issuance in the Official Gazette of an updated interest rate for purposes of Section 3(j) of the Ordinance by the Minister of Finance.

Conversely, when the loan is in foreign currency (as defined in the regulations) the interest rate with respect to Section 3(j) is according to the rate of change in the exchange rate of the relevant foreign currency plus 3%.

In addition, a special provision was included with respect to determination of the interest rate on a loan in NIS or in foreign currency that was granted in the 14 days before or after a loan with the same terms was received from a non-related party.

(c) On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the Official Gazette (hereinafter – "the Temporary Order"). In accordance with the Temporary Order, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) (hereinafter – "Standard 29") shall not apply when determining the taxable income for the 2007-2009 tax years even if it was applied when preparing the financial statements. As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) when determining the taxable income for 2010. The effect on the financial statements of the Temporary Order with respect to the taxable income for the years 2007-2009 is immaterial.

Note 17 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

(2) Taxation under inflation

The Income Tax Law (Adjustments for Inflation) – 1985 (hereinafter – the Law) is effective as from the 1985 tax year. The Law introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis.

On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter – the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law ceased at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

In accordance with the Amendment, as from the 2008 tax year, income for tax purposes is no longer adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses are no longer linked to the CPI, so that these amounts are adjusted until the end of the 2007 tax year after which they ceased to be linked to the CPI. The effect of the Amendment to the Adjustments Law is reflected in the calculation of current and deferred taxes as from 2008.

(3) Benefits under the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Law")

(a) In April 2004 the Company was granted "Approved Enterprise" status in accordance with the Law for the Encouragement of Capital Investments with respect to a plan to construct a plant in Caesarea for the manufacture of systems for assisting and guiding complex surgical procedures. In February 2007 the aforementioned approved enterprise status was revoked at the request of the Company, and in respect of an expansion of its plant in the Caesarea industrial park it was granted "Beneficiary Enterprise" status per the definition of this term in the Law. In accordance with this status, the Company will be entitled to the tax benefits provided by the Law with respect to income of the beneficiary enterprise from productive activity. Income of the beneficiary enterprise from productive activity will be exempt from tax for two years from the year in which the Company first has taxable income, and will be subject to tax of 25% in the following 5 years, providing that 12 years have not passed from the beginning of the year of election (2005). In the event of a dividend distribution from income that is exempt from company tax, as aforementioned, the Company will be required to pay tax of 25% on that income. In July 2009 the Company submitted a request that 2008 be the year of election.

The aforementioned benefits are contingent upon fulfilling the conditions specified in the Law for the Encouragement of Capital Investments, the regulations promulgated under it and the tax ruling. Furthermore, the benefit is contingent upon, inter alia, the following conditions: the status will be in effect for as long as the Company executes industrial activity as detailed in the tax ruling; the enterprise has no less than 12 employees engaged in manufacture, development and quality control; the development of the products, the quality control, supervision over the manufacturing activity performed by sub-contractors, management and supervision over logistics and marketing activities, the finance and administrative activities are all executed at the Company's facility in Caesarea; the Company does not expand its activities by means of subcontractors outside of Israel (other than precision machining that is presently executed in Switzerland) and the Company's subcontractors work for it according to precise instructions without them having a part in the entrepreneurial risk and/or business risk embodied in the Company's business.

Note 17 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

(3) Benefits under the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Law") (cont'd)

(a) (cont'd)

In addition, in the event of a change in the field of activity and/or business model and/or a significant reduction in production levels or in product variety, the tax ruling will become void. The Company will be controlled and managed in Israel throughout the benefit period.

(b) On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – "the Amendment to the Law"). The Amendment to the Law was published in the Official Gazette on January 6, 2011. The Amendment to the Law is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law. Companies can choose to not be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the "Ireland track" and the "Strategic" track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits, such as: for a preferred enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall continue to apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. Furthermore, the Amendment to the Law provides relief (hereinafter – "the relief") with respect to tax paid on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice.

Note 17 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

(4) Taxation of the subsidiary in the USA

The tax rates applicable to the subsidiary incorporated in the USA is company tax of up to 35% plus state tax of 4.5% to 9.5% (according to the tax rates in the states in which the subsidiary operates). Furthermore, certain states in which the subsidiary operates have a minimum tax rate.

Israel and the USA have a double tax prevention treaty. According to the treaty, dividends and interest are subject to withholding tax of 12.% and 17.5%, respectively.

B. Composition of income tax expense

	For the year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Current tax expense			
U.S. federal tax	**28**	19	3

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

	For the year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Loss before taxes on income	**(21,496)**	(17,391)	(19,814)
Primary tax rate of the Company	**25%**	26%	27%
Tax calculated according to the Company's primary tax rate	**(5,374)**	(4,522)	(5,350)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	**48**	27	(21)
Non-deductible expenses	**507**	493	383
Tax losses and benefits for which deferred taxes were not created including effect of change in tax rates	**4,805**	4,002	4,988
Other differences	**42**	19	3
Income tax expense	**28**	19	3

D. Deferred tax assets and liabilities

(1) Unrecognized deferred tax assets

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

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Deductible temporary differences, net	**1,528**	2,113
Tax losses	**13,414**	17,173
Losses of subsidiary	**4,568**	5,029
	19,510	24,315

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items since their utilization in the foreseeable future is uncertain.

(2) Carry-forward tax losses and deductions

As at the reporting date the Company has carry-forward tax losses in the amount of NIS 111 million (2009: NIS 97 million) for which deferred taxes were not created.

Note 17 - Taxes on Income (cont'd)

E. Tax assessments

The Company has received tax assessments that are considered final up to and including the year ended 2006.

Note 18 - Commitments

A. The Company and the subsidiary have lease agreements with respect to the buildings they use. The agreements will end in 2012 and 2011, respectively. The Company provided a promissory note in the amount of NIS 60 thousand as security for the lease.

The rent payments for buildings in Israel are linked to the CPI and for those in the USA are linked to the exchange rate of the US dollar. The minimum annual lease payments under the agreements are as follows:

	December 31, 2010
	NIS thousands
2011	**238**
2012	**77**
	315

The lease payments amounted to NIS 245 thousand in 2010 (2009: NIS 239 thousand).

B. The Company leases motor vehicles under operating lease agreements for a period 36 months. As regards these agreements, the Company has deposited amounts as security for the future rent payments. As at the reporting date the balance of prepaid expenses on account of the lease of motor vehicles is NIS 168 thousand (see Note 9). The deposits are linked to the CPI and do not bear interest. The minimum annual payments according to the agreements are as follows:

	December 31, 2010
	NIS thousands
2011	**465**
2012	**334**
2013	**150**
	949

The lease motor vehicles payments amounted to NIS 627 thousand in 2010 (2009: NIS 237 thousand).

C. In February 2007 the Company signed a software development agreement with a third party (hereinafter: "the developer"). According to the agreement, the developer will provide to the Company software research and development services that are essential to the development of one of the Company's products. In consideration of the development services, the Company will pay to the developer an amount of US$ 33 thousand per month according to an exchange rate of no less than NIS 4.25 per dollar (up to a maximum period of 18 months) and will also pay royalties at the rate of 6% of the sales of the future product, which will be gradually reduced to 1% in the tenth year of selling the product, less the cost of use licenses the Company will have to acquire in order to use the software that will be developed by the developer and less the monthly payments paid as from the seventh month of the agreement. The Company and the developer signed an extension to the development services agreement for an hourly rate.

Note 18 - Commitments (cont'd)

D. On April 28, 2008 the Company entered into a succession of strategic collaboration agreements (hereinafter – the agreements) with a medical center in the USA – Cleveland Clinic Foundation (hereinafter – CCF) for the purpose of jointly developing a group of products for stabilizing the spinal cord with the use of the Company's guidance technology. According to the agreements the Company received, inter alia, an exclusive worldwide license to two patents owned by CCF for the development of unique fixation implants for the spinal cord. Subject to the successful completion of the development, the Company intends to act to receive regulatory approvals for the products in both the USA and Europe.
In consideration for the rights that were granted to the Company under the agreements, the Company paid CCF an immaterial lump sum and additional immaterial amounts for completing milestones. In addition, the Company undertook to pay royalties at a gradually declining rate on net sales, as defined in the agreement, as well as a commission from the income from sublicenses of the products for a period of 15 years from the receipt of FDA approval.

E. On June 8, 2009 the Company received the Chief Scientist's approval to participation in the research and development of the Company's GO-LIF procedure. The Chief Scientist will participate in 40% of a maximum budget of NIS 3,445 thousand, subject to complying with the provisions of the R&D Law, the regulations promulgated under it and budgeting procedures.
In 2009 the Company received an amount of NIS 482 thousand in cash on account of the grant and in 2010 it received another NIS 896 thousand.

F. In January 2009 the Company entered into an unbinding agreement in principle with the distributor Med Net, which is subject to the signing of a final agreement, regarding the incorporation of a subsidiary of Med Net in Germany named Mazor Surgical Technologies UG ("the German subsidiary"). The Company will grant to the German subsidiary exclusive distribution rights in Germany, Austria and Switzerland ("the territory") with respect to various products of the Company, and will also finance the marketing costs in the territory and the German subsidiary's operating expenses. The Company will grant to the German subsidiary the right to use the name "Mazor", and this right will expire on the last date of a binding agreement or upon the exercise of the purchase option, as described hereunder. Mazor will provide to the German subsidiary a deposit in the amount of €50,000 as security for the current operations of the German subsidiary, and this deposit will be returned to the Company upon exercise of the purchase option. The intellectual property in the various products of the Company will at all times continue to be the property of the Company.

The Company has an option to purchase all the authorized share capital of the German subsidiary for the price of € 200,000 ("the purchase option") beginning from the second year after the German subsidiary's incorporation. The price for exercising the purchase option will increase by €100,000 each year as from the third year after the incorporation of the German subsidiary. The agreement in principle includes suspending conditions regarding exercise of the purchase option. Med Net will be entitled to consideration from the exercise of the purchase option if the Company terminates the distribution relations with the German subsidiary following a merger and acquisition transaction, per its definition in the agreement in principle.
The conditions for signing a final agreement have not yet been fulfilled as at the date of issuing the financial statements.

Note 19 - Revenues

	For the year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Sales of systems	**10,959**	3,028	864
Sales of consumables	**3,005**	1,949	1,187
Provision of services and other	**882**	343	61
	14,846	5,320	2,112

Note 20 - Segment Reporting

A. Information about reportable segments

The Group has four reportable segments as specified in the table below.

Segment information is presented regarding the Group's geographical segments on the basis of information that is reviewed by the chief operating decision maker.

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

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

	For the year ended December 31, 2010				
	Israel	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	**536**	**3,329**	**4,588**	**6,393**	**14,846**

	For the year ended December 31, 2009				
	Israel	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	354	1,832	2,820	314	5,320

	For the year ended December 31, 2008				
	Israel	Eastern Europe	Western Europe	USA	Total
	NIS thousands				
Total revenues	671	-	1,200	241	2,112

B. Entity level disclosures

The Group's revenues from major customers:

	2010		2009		2008	
Segment	Customer	NIS thousands	Customer	NIS thousands	Customer	NIS thousands
Western Europe	Customer A	3,527	Customer A	2,820	Customer A	1,200
Eastern Europe	Customer B	3,329	Customer B	1,832		
USA	Customer C	1,822				
USA	Customer D	2,093				
USA	Customer E	2,022				

Information on products and services

The Group's revenues from external parties in respect of each category of similar products and services is presented in Note 19.

Note 21 - Cost of Sales

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Materials and subcontractors	**3,268**	1,504	349
Salaries, wages and related expenses	**511**	423	738
Share-based payment	**33**	49	25
Depreciation and amortization*	**1,043**	32	32
Other manufacturing expenses	**170**	165	115
Decrease (increase) in inventory of work in progress	**(255)**	28	(26)
Decrease (increase) in inventory of finished goods	**(1,183)**	(346)	336
	3,587	1,855	1,569

* Including amortization of intangible assets.

Note 22 - Selling and Marketing Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Salaries, wages and related expenses	**7,380**	3,945	5,056
Commissions to marketing representatives overseas	**3,541**	1,968	*** 558
Share-based payment	**892**	629	465
Advertising, demonstrations and exhibitions	**942**	645	788
Foreign travel	**1,678**	825	1,462
Consultation	**1,025**	275	224
Depreciation**	**153**	429	11
Other selling and marketing expenses	**878**	460	*** ,* 815
	16,489	9,176	9,379

* Including an amount of NIS 193 thousand in respect of inventory of products at the beginning of the year that was recognized as marketing expenses.

** Including depreciation on demonstration devices.

*** Reclassified.

Note 23 - General and Administrative Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Salaries, wages and related expenses	**2,561**	2,054	1,727
Share-based payment	**573**	694	545
Professional services	**1,248**	923	1,144
Office rent and maintenance	**983**	762	718
Depreciation	**138**	78	88
Other general and administrative expenses	**781**	892	999
	6,284	5,403	5,221

Note 24 - Research and Development Expenses, Net

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Raw materials and subcontractors	**5,001**	3,615	3,919
Salaries, wages and related expenses	**3,462**	3,342	3,644
Share-based payment	**458**	566	289
Depreciation	**83**	74	77
Patent registration expenses	**381**	276	550
Other	**162**	142	195
Total research and development expenses	**9,547**	8,015	8,674
Less – capitalization of development costs*	**(1,051)**	(2,194)	(1,361)
Less – participation of the European Union in expenses	**-**	(531)	(371)
Less – participation of the Chief Scientist in expenses	**(265)**	(143)	-
	8,231	5,147	6,942

* As mentioned in Note 11, as from July 2008 the Group began capitalizing development costs relating to one of its products in accordance with IAS 38. Composition of the capitalized development costs:

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Materials and subcontractors	**586**	1,426	908
Salaries (including share-based payment)	**414**	651	335
Other	**51**	117	118
	1,051	2,194	1,361

Note 25 - Financing Income and Expenses

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS thousands	**NIS thousands**	**NIS thousands**
Interest income on bank deposits	**269**	353	863
Interest income and net change in fair value of financial assets held-for-trading	**1,935**	1,729	2,882
Net income from change in exchange rates	**-**	124	-
Other	**-**	-	180
Financing income recognized in profit or loss	**2,204**	2,206	3,925
Net expenses from change in exchange rates	**(944)**	-	(569)
Financing expenses on liabilities to the Chief Scientist	**(295)**	(471)	(31)
Interest and amortization of discount on convertible debentures	**(2,213)**	(1,979)	(1,790)
Other financing expenses including commissions	**(503)**	(528)	(350)
Financing expenses recognized in profit or loss	**(3,955)**	(2,978)	(2,740)
Net financing income (expenses) recognized in profit or loss	**(1,751)**	(772)	1,185

Note 26 - Related and Interested Parties

A. Key management personnel compensation (including directors)

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers (such as a car, medical insurance, etc.), and contributes to post-employment defined contribution plans and defined benefit plans on their behalf. Executive officers also participate in the Company's share option program (see Note 28 regarding share-based payments).

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

	For the year ended December 31					
	2010		2009		2008	
	Number of people	NIS thousands	Number of people	NIS thousands	Number of people	NIS thousands
Short-term employee benefits	**5**	**4,641**	5	3,273	5	3,295
Share-based payments	**5**	**1,050**	5	781	5	764
		5,691		4,054		4,059

Compensation to directors:

	For the year ended December 31					
	2010		2009		2008	
	Number of people	NIS thousands	Number of people	NIS thousands	Number of people	NIS thousands
Total compensation to directors employed by the Company*	**2**	**848**	1	419	1	443
Compensation to directors not employed by the Company**	**3**	**252**	2	291	2	283

* Including share-based payments in the amount of NIS 47 thousand (2009 – NIS 91 thousand).

** Including share-based payments in the amount of NIS 94 thousand (2009 – NIS 181 thousand).

B. Engagements between the Company and interested parties

(1) The Company's CEO is entitled to a monthly salary in the amount of NIS 51 thousand for a full time position including social benefits, which include payments for post-employment benefits and the payment of an additional four months' salary when the employment ends, deposits with an advanced study fund and car expenses.

On August 15, 2010 the Company's general meeting approved that as from January 1, 2010 the CEO would be entitled to a monthly salary of NIS 55 thousand for a full time position. In addition, the CEO is entitled to a category 4 or 5 car (the tax on which will be grossed-up by the Company) and to the reimbursement of expenses he incurs in the course of performing his duties as CEO and director according to the Company's policy as decided from time to time by the Board of Directors.

On August 15, 2010 the Company's general meeting approved that as from August 2010 the CEO would relocate to the USA in the framework of his position as the CEO of Mazor USA. The engagement with the CEO in the capacity of CEO of Mazor USA will be in effect until August 2013 and can be extended at the parties' mutual consent. Notwithstanding the aforementioned, engagement of the CEO as the CEO of Mazor USA can be terminated at any time and for any reason (other than in the event of breach of trust) by the CEO or Mazor USA at an advance notice of 60 days.

Note 26 - Related and Interested Parties (cont'd)

B. Engagements between the Company and interested parties (cont'd)

The annual salary of the CEO in his capacity as the CEO of Mazor USA will be US$ 150,000 and he will be entitled to reimbursement of expenses in the amount of US$ 8,334 per month. The CEO will also be entitled to an annual bonus in the amount of US$ 80 thousand based on the achievement of targets that will be defined by the parties and be approved each year by the Company's Board of Directors ("the targets plan"). After the receipt of an annual bonus, and subject to compliance with the targets plan, for as long as the CEO is entitled to an annual bonus according to the targets plan, any amount in excess of US$ 80 thousand will be granted to the CEO by means of options in the Company of up to US$ 40 thousand, so that the CEO will be entitled to a maximum annual bonus of US$ 80 thousand in cash and US$ 40 thousand in options. In the event of the CEO ceasing to work as the CEO of Mazor USA (other than in the event of breach of trust), the CEO will be entitled to the compensation described above for an additional period of 4 months from the date he is no longer employed as the CEO of Mazor USA unless he had commenced working in another subsidiary or subsidiaries.

Further details regarding the agreement between the Company and the CEO with respect to his employment in the USA:

- The Company will pay the CEO's car expenses in the USA up to an annual amount of US$ 12,000.
- The CEO will be entitled to 24 days of paid vacation a year and to benefits such as insurance, medical insurance for the CEO's family and additional insurance as customary in the Company.
- The Company will pay the costs of flying the CEO and his family to the USA, the costs of moving the possessions of the CEO and his family to the USA up to an amount of US$ 15,000.
- In respect of each year that the CEO resides in the USA, he and his family will be entitled to one annual vacation of two weeks in Israel and to reimbursement of travel expenses, hotel expenses in Israel and car rental expenses in Israel of up to US$ 15,000.
- When he finishes his term as the CEO of Mazor USA, the Company will pay the expenses of his and his family's return to Israel including flight expenses, reimbursement of expenses of up to US$ 15,000 for moving the possessions of the CEO and his family back to Israel, and to a non-recurring bonus of US$ 5,000 for expenses relating to his return to Israel.
- It is clarified that for as long as the CEO is employed as the CEO of Mazor USA and is entitled to the compensation described above, the Company will not pay to the CEO any other compensation including deposits for social benefits, in respect of his employment as the CEO of the Company.

In 2010 the Company granted to the CEO a non-recurring bonus in the amount of US$ 17,500 (gross) in respect of expenses relating to his relocation to the USA.

(2) On December 20, 2010 the CEO was granted 200,000 non-marketable options that are exercisable into 200,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, and have a vesting period of 48 months, with 50% of the options vesting on December 20, 2012, 25% vesting on December 20, 2013 and another 25% vesting on December 20, 2014. This grant is subject to the approval of the general meeting (see also Note 28D).

On June 28, 2009 the Company's general meeting decided to approve a private offer pursuant to which the Company will allot to the CEO 79,861 non-marketable options that are exercisable into 79,861 ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 6.26 for each underlying share, and their vesting period is 48 months with one quarter of the options vesting on February 17, 2011, and the rest of the options vesting over a period of two years, 9.375% of the options each quarter. On July 9, 2009 the Tel Aviv Stock Exchange approved listing the shares deriving from the aforementioned allotment. The fair value of the options that were granted to the CEO is measured according to the binomial model and is NIS 448 thousand.

Note 26 - Related and Interested Parties (cont'd)

B. Engagements between the Company and interested parties (cont'd)

The CEO had also received in the past options to purchase 227,645 ordinary shares at an exercise price of NIS 0.01 per share, which were exercised in June 2009 (see Note 27C(3)), and options to purchase 227,645 ordinary shares at an exercise price of US$ 2.18 per share that have not yet been exercised.

(3) A director of the Company that serves as chief scientist is entitled to a monthly salary of NIS 21 thousand for a part time position. In addition, he was allotted options to purchase 330,000 shares of the Company at the price of US$ 2.73 per share (after adjustment to the distribution of bonus shares in 2007).
In addition, on December 20, 2010 the Company's Board of Directors decided to grant to the Company's chief scientist 100,000 options (non-marketable) that are exercisable into 100,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, and have a vesting period of 48 months, with 50% of the options vesting on December 20, 2012, 25% vesting on December 20, 2013 and another 25% vesting on December 20, 2014. This grant is subject to the approval of the general meeting.

(4) As from October 2007 the Company's Chairman of the Board (hereinafter – the Chairman) provides management services by means of a company owned by him for a monthly payment of NIS 30 thousand. He is also entitled to social benefits comprised of paid vacation, recreation allowance and severance pay as provided by law. In addition, the Chairman was granted options to purchase shares of the Company at an exercise price of NIS 12.40 per each underlying share.
On November 21, 2010 the general meeting approved adjusting the monthly salary of the Chairman to NIS 35 thousand.

(5) On November 22, 2007 the Company approved letters of appointment for two external directors who were appointed by the Company's general meeting of shareholders on November 27, 2007 and were approved by the Company's Audit Committee, Board of Directors and general meeting in December 2007 and January 2008, respectively, pursuant to which they would be paid fixed annual compensation as provided in the Companies Regulations (Rules regarding Compensation and Expense Reimbursement of External Director) – 2000 ("the compensation regulations").
In addition, each one of them was granted options to purchase 40,000 ordinary shares of the Company at an exercise price of NIS 12.40 per each underlying share.
On November 21, 2010 the Company's general meeting of shareholders approved and ratified an annual participation compensation of NIS 32 thousand and a per meeting participation compensation of NIS 1,600 for a director of the Company, effective as of January 1, 2010.

(6) On August 15, 2010 the Company's general meeting of shareholders approved and ratified an annual participation compensation of NIS 32 thousand and a per meeting participation compensation of NIS 1,600 for a director of the Company, effective as of January 1, 2010.

Note 27 - Capital and Reserves

A. Share capital

	December 31	
	Ordinary shares	
	2010	2009
	Thousands of shares of NIS 0.01 par value	
Issued and paid-in share capital as at January 1	**19,703**	14,192
Issued for cash during the period	**-**	5,264
Exercise of share options during the period	**30**	247
Issued and paid-in share capital as at December 31	**19,733**	19,703
Authorized share capital	**50,000**	50,000

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

B. Options

	December 31	
	Number of options	
	2010	2009
	Thousands of options of NIS 0.01 par value	
Number of outstanding options as at January 1	**7,565**	5,920
Issued during the period*	**-**	4,158
Exercised during the period	**(30)**	-
Expired during the period	**-**	(2,513)
Number of outstanding options as at December 31	**7,535**	7,565

* See C(4) hereunder.

C. Issuances of share capital

(1) Public issuance in 2007

On August 14, 2007 the Company issued a prospectus for the issuance of 3,350,000 ordinary shares of the Company of NIS 0.01 par value each, and 2,512,500 options (Series 1) that are exercisable from the date they are listed for trading until August 30, 2009 into 2,512,500 ordinary shares of NIS 0.01 par value each, such that each option (Series 1) can be exercised into one ordinary share of the Company of NIS 0.01 par value (subject to adjustments – as specified in the prospectus), at an exercise price of NIS 12 payable in cash. Options not exercised by August 30, 2009 will expire and the option holder will not have any right in respect of the Company.

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

The Company received net proceeds of NIS 36 million (net of issuance expenses of NIS 4 million) from the issuance of the shares, options (Series 1) and options (Series 2).

Note 27 - Capital and Reserves (cont'd)

(2) Private placement in 2008

A private placement, within its meaning in Regulation 1 of the Private Placement Regulations, was executed on January 24, 2008 as follows:
An amount of 1,190,476 registered ordinary shares of NIS 0.01 par value each and 595,238 options that will not be listed for trading and are exercisable into 595,238 ordinary shares of NIS 0.01 par value on any business day from the date of their issuance for a period of 48 months at an exercise price of NIS 13 per option. The shares were allotted at the price of NIS 10.50 per share and the options were allotted at no cost, such that in respect of each two offered shares each offeree received also one option.

The Company received proceeds of NIS 12 million (net of issuance expenses of NIS 0.5 million) from the aforesaid issuance.

(3) Exercise of options by the CEO

On June 24, 2009 the Company's CEO exercised 227,645 non-marketable options of the Company into 227,645 ordinary shares of the Company of NIS 0.01 par value each, for the payment of an exercise price of NIS 0.01 per option. In addition, in November a senior employee exercised 16,500 options at the price of NIS 6 thousand for all the exercised options.

(4) Shelf registration prospectus

- According to the shelf registration prospectus the Company issued on August 26, 2009, on October 22, 2009 the Company issued a shelf registration offer for ordinary shares and marketable options. On the basis of the issuance results at that date, the Company issued to the public 5,263,800 registered ordinary shares of NIS 0.01 par value each as well as 3,947,850 options that are exercisable until August 25, 2011 into 3,947,850 ordinary shares of NIS 0.01 par value each. The gross issuance proceeds amounted to NIS 47,900 thousand. Issuance expenses amounted to NIS 4,105 thousand, not including options to two of the distributors as described in the next paragraph.
- On November 1, 2009 the Tel Aviv Stock Exchange approved allotting to two distributors as aforementioned 210,552 non-marketable options that are exercisable into 210,552 ordinary shares of NIS 0.01 par value each at an exercise price of NIS 9.1 for each underlying share (105,276 options to each one of the distributors). The options will be exercisable, fully or partly, on any business day for a period of 3 years from the day of their allotment. The Company assessed the fair value of the aforesaid options at NIS 753 thousand on the basis of the Black & Scholes model. The award was accounted for in accordance with IFRS 2.

Note 28 - Share-Based Payments

A. Allotment of options to employees and directors of the Company

The Company regularly compensates its employees, directors and members of the advisory committee by means of options to purchase shares of the Company. As at December 31, 2010 the Company has allotted options to purchase 2,803,526 ordinary shares of the Company of NIS 0.01 par value each. As at that date, options to purchase 1,140,786 ordinary shares are exercisable.

B. The fair value of the options granted by the Company is based on an option pricing model.

The table below summarizes the grant terms and the parameters that were used to determine the fair value of the benefit:

Grant date	Number of instruments	Vesting period (Years)	Contractual life of the options (Years)	Interest rate	Expected volatility	Average exercise price*	Share price that served as a basis for pricing the option	Overall fair value of the benefit on the grant date
				%	%	US $	US $	NIS thousands
March 15-December 31,								
2005	590,491	2-3	10	4	64-77	1.4-2.7	1.6-2.1	2,745
2006	162,261	2-4	10	4	64-75	1.8-2.7	2.2-2.9	1,074
2007	135,630	2-4	10	4	64-75	2.2-2.8	2.9-3.2	1,091
2008	371,500	2-4	10	4	64-75	2.8-3.5	2.8-3.2	1,857
2009 (see E hereunder)	479,740	2-4	10	6	62-63	1.65	2.4-2.6	2,588
2010 (see D hereunder)	546,200	2-4	10	6	44-63	2.08-2.92	2.3-3.13	2,890

* The exercise price is stated in US dollars other than in allotments made as from 2008 that are stated in NIS.

** The conversion ratio is one share for each one of the instruments.

Expected volatility is estimated by considering historic share price volatility of the Company and companies engaged in activities like those of the Company. The contractual life of the option is determined on the basis of management's estimate of the period the employees will hold the option taking into consideration their position with the Company and the Company's past experience. The risk-free interest rate was determined on the basis of non-interest bearing shekel-denominated Government debentures with a remaining life equal to the expected life of the options.

Note 28 - Share-Based Payments (cont'd)

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2010	**2010**	**2009**	**2009**	**2008**	**2008**
	US dollars		**US dollars**		**US dollars**	
Balance at January 1	**2.63**	**1,658,026**	2.42	1,512,397	1.81	1,200,496
Forfeited during the year	**1.9**	**(51,000)**	2.52	(89,966)	0.14	(59,599)
Exercised during the year	**-**	**-**	0.09	(244,145)	-	-
Granted during the year	**2.78**	**546,200**	1.65	479,740	3.08	371,500
Outstanding at December 31	**2.03**	**2,153,226**	2.63	1,658,026	2.42	1,512,397
Exercisable at December 31	**2.62**	**1,140,786**	0.93	777,331	1.16	1,053,228

With respect to options granted to related parties, see Note 26 on related and interested parties.

D. Grant of options in 2010

- On February 15, 2010 the Company's Board of Directors approved a private placement granting 120,000 options to three managers of the Company according to an offering memorandum that was issued on July 12, 2009. The exercise price of the options is NIS 8.29 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 573 thousand.
- On March 22, 2010 the Company's Board of Directors approved a private placement granting 39,000 options to an employee of the Company according to an offering memorandum that was issued on July 12, 2009. The exercise price of the options is NIS 10.14 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 183 thousand.
- On May 17, 2010 the Company's Board of Directors approved a private placement granting 26,200 options to two consultants of the Company. The exercise price of the options is NIS 10.85 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 194 thousand.

Note 28 - Share-Based Payments (cont'd)

D. Grant of options in 2010 (cont'd)

- On November 25, 2010 the Company's Board of Directors approved a private placement granting 361,000 options to four managers and three consultants of the Company according to an offering memorandum of the Company from 2003. The exercise price of the options is NIS 10.36 for each underlying share.
  The vesting period of the options is 4 years from the grant date, with half of the options vesting two years from the grant date and another 25% of the options vesting each subsequent year.
  The fair value of the options that were granted is measured according to the binomial model and is NIS 1,940 thousand.
- On December 20, 2010 the Company's Board of Directors decided to grant to the Company's CEO 200,000 options (non-marketable) that are exercisable into 200,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, to the Company's chief scientist 100,000 options (non-marketable) that are exercisable into 100,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, and to four other senior employees 200,000 options (non-marketable) that are exercisable into 200,000 ordinary shares of the Company at an exercise price of NIS 9.642 per share, which have a vesting period of 28 months, with 50% of the options vesting on December 20, 2012, 25% vesting on December 20, 2013 and another 25% vesting on December 20, 2014. The aforesaid options have not yet been granted. The options will be granted after the Company prepares a new option plan and it is approved by the relevant bodies. The options designated for the CEO and chief scientist are subject to the approval of the Company's general meeting.

E. Grant of options in 2009

- On May 20, 2009 the Company issued an options offering memorandum (hereinafter – the offering memorandum) that was amended on June 18, 2009 and July 12, 2009. Until the date of the offering memorandum the Company had granted 1,798,298 ordinary shares according to an option plan from 2003 that authorized the grant of 2,300,000 options. As at the date of the offering memorandum, 571,702 options have not yet been granted. According to the offering memorandum, up to 50 employees and officers who are not interested parties in the Company and the subsidiary will be allotted, at no cost, up to 571,702 non-marketable options of the Company that are exercisable into 571,702 registered ordinary shares of the Company of NIS 0.01 par value each (hereinafter – the options). Assuming exercise of all the options, the shares deriving from the exercise of the options will constitute 1.6% of the issued and paid-in capital of the Company (after the allotment) on a fully diluted basis. The options that are granted to the offerees will be listed for trading on the stock exchange only upon their exercise.

  The exercise price of 401,679 of the aforesaid options will be NIS 6.26 and of 170,023 options will be the average share price in the thirty days preceding the date of the decision to allot the options (hereinafter – the exercise price). The exercise price is subject to adjustments as specified in the offering memorandum resulting from the distribution of bonus shares, participation in an issuance of rights and a dividend distribution. The options that are granted to an offeree on a certain date will vest and become exercisable according to the time schedule in the aforementioned plan.
  On July 14, 2009 the Stock Exchange approved listing for trading the 571,702 ordinary shares of NIS 0.01 par value each that will derive from the exercise of the options included in the offering memorandum.

Note 28 - Share-Based Payments (cont'd)

E. Grant of options in 2009 (cont'd)

- On July 19, 2009, twenty nine of the Company's employees were granted 399,679 options according to the offering memorandum. Of the options granted, 25% are exercisable as from February 17, 2011 with the rest being exercisable in 8 equal portions, one every quarter, from February 17, 2011 until February 17, 2013. The fair value of the options is measured according to the binomial model and is NIS 2,140 thousand. The Company commenced recognizing salary expenses in respect of the aforesaid options as from the first date of the benefit period, April 13, 2009, the date on which the Company provided notice to all the offerees regarding the grant of the options, subject to any approvals required by law.
- See Note 26B(2) regarding the grant of options to the Company's CEO in 2009.

Note 29 - Loss Per Share

A. Basic loss per share

The calculation of basic loss per share as at December 31, 2010 was based on the loss attributable to ordinary shareholders of NIS 21,524 thousand (2009: NIS 17,052 thousand, 2008: NIS 19,817 thousand) divided by a weighted average number of ordinary shares outstanding of 19,717 thousand (2009: NIS 15.2 thousand shares, 2008: 14.1 thousand shares), calculated as follows:

B. Loss attributable to ordinary shareholders

	For the year ended December 31		
	2010	**2009**	**2008**
	Continuing operations	**Continuing operations**	**Continuing operations**
	NIS thousands	**NIS thousands**	**NIS thousands**
Loss for the year	**21,524**	17,052	19,817
Loss attributable to ordinary shareholders	**21,524**	17,052	19,817

C. Weighted average number of ordinary shares

	For the year ended December 31		
	2010	**2009**	**2008**
	Continuing operations	**Continuing operations**	**Continuing operations**
	NIS thousands	**NIS thousands**	**NIS thousands**
Balance as at January 1	**19,702**	14,193	13,002
Effect of shares issued during the year	**15**	1,087	1,151
Weighted average number of ordinary shares used to calculate basic loss per share	**19,717**	15,280	14,153

D. Diluted loss per share

The Company did not present information on the diluted loss per share because of the anti-dilutive effect of convertible securities.

Note 30 - Financial Risk Management

A. Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency, interest and other market price risks)

B. Risk management framework

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, as well as from short-term investments.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate have only a small effect on the credit risk. Approximately 46% of the Group's revenue is attributable to sales transactions with two wholesale customers that operate in Eastern and Western Europe. However, there is no concentration of credit risk.

More than 67% of the Group's revenues is from customers that have been active with the Group for more than one year, and losses from them have been infrequent.

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

Investments

The Group limits its exposure to credit risk by investing only in bank deposits and debentures and only with counterparties that have a credit rating of at least AA from Standard & Poor's Maalot and A+ from Midroog. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Note 30 - Financial Risk Management (cont'd)

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations when due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The biotechnology industry in which the Company operates is characterized by high competition and high business risks as a result of frequent technological changes. Penetration of the market requires investing substantial financial resources and continuous development. The Company's future success depends on a number of matters including the quality of the product, its price, receipt of regulatory approvals and the creation of a relative advantage over competitors, as well as obtaining the financial resources required for marketing the products and launching them in the market.

As at the date of the financial statements, the Company has financial resources that enable it to continue developing its products according to the business plan. Nonetheless, the Company has continuing negative cash flows from operating activities. In the opinion of management of the Company, which is based on a cash flow forecast, the Company has the ability to continue operating in its present structure and to meet its liabilities in the forthcoming year.

E. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and liabilities to the Chief Scientist that are denominated in a currency other than the respective functional currencies of Group entities, primarily the NIS, but also the US dollar and the European euro. The currencies in which these transactions primarily are denominated are NIS, euro and the US dollar.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest rate risk

The Group is exposed to changes in interest rates, primarily possible changes in the risk-free market interest rate which may have an effect on the fair value of the Group's financial assets.

Note 31 - Financial Instruments

A. Credit risk

(1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31	
	2010	2009
	Carrying amount	Carrying amount
	NIS thousands	
CPI-linked government debentures	**16,056**	14,281
Government debentures	**22,341**	20,900
CPI-linked corporate debentures	**5,671**	5,453
US$-linked corporate debentures	**2,556**	2,654
Unlinked corporate debentures	**701**	508
NIS denominated deposits	**-**	25,736
Trade receivables	**2,983**	1,264
Cash and cash equivalents	**17,042**	13,354
	67,350	84,150

The maximum exposure to credit risk for trade receivables, other receivables, and other investments at the reporting date by type of counterparty was:

	December 31	
	2010	2009
	Carrying amount	Carrying amount
	NIS thousands	
Wholesale customers	**2,736**	980
End-user customers	**247**	284
Debentures issued by the Government of Israel	**38,397**	35,181
Debentures issued by other entities:	**8,928**	8,615
Banking entities	**17,042**	39,090
	67,350	84,150

(2) Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2010		2009	
	Gross	Impairment	Gross	Impairment
	NIS thousands		NIS thousands	
Not past due	**2,446**	**-**	829	-
Past due 0-30 days	**520**	**-**	376	-
Past due more than 121 days	**25**	**(8)**	82	(23)
	2,991	**(8)**	1,287	(23)

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

	December 31		
	2010	2009	2008
	NIS thousands		
Balance as at January 1	**(23)**	(23)	(23)
Impairment loss recognized	**15**	-	-
Balance as at December 31	**(8)**	(23)	(23)

Note 31 - Financial Instruments (cont'd)

B. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2010					
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
	NIS thousands					
Non-derivative financial liabilities						
Trade payables	**4,208**	**4,208**	**4,208**	**-**	**-**	**-**
Other accounts payable	**2,351**	**2,351**	**2,351**	**-**	**-**	**-**
Convertible debentures*	**11,760**	**16,650**	**-**	**825**	**15,825**	**-**
Liability to Chief Scientist	**3,887**	**5,560**	**662**	**662**	**3,004**	**1,232**
Total	**22,206**	**28,769**	**7,221**	**1,487**	**18,829**	**1,232**

	December 31, 2009					
	Carrying amount	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
	NIS thousands					
Non-derivative financial liabilities						
Trade payables	1,858	1,858	1,858	-	-	
Other accounts payable	979	979	979	-	-	
Convertible debentures*	10,372	17,475	-	825	825	15,825
Liability to Chief Scientist	3,062	4,653	-	623	1,645	2,385
Total	16,271	24,965	2,837	1,448	2,470	18,210

* Including accrued interest

C. Linkage and foreign currency risks

(1) The exposure to linkage and foreign currency risk

The Group's exposure to linkage and foreign currency risk was as follows based on notional amounts:

	December 31, 2010				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Euro	Total
	NIS thousands				
Current assets					
Cash and cash equivalents	**9,518**	**-**	**4,187**	**3,337**	**17,042**
Short-term investments and deposits	**23,042**	**21,727**	**2,556**	**-**	**47,325**
Trade receivables	**81**	**-**	**164**	**2,738**	**2,983**
Current liabilities					
Trade payables	**(3,425)**	**-**	**(701)**	**(82)**	**(4,208)**
Other accounts payable	**(1,469)**	**-**	**(2,060)**	**-**	**(3,529)**
Non-current liabilities					
Convertible debentures	**(11,688)**	**-**	**-**	**-**	**(11,688)**
Liabilities to the Chief Scientist	**-**	**-**	**(2,781)**	**-**	**(2,781)**
	16,059	**21,727**	**1,365**	**5,993**	**45,144**

Note 31 - Financial Instruments (cont'd)

C. Linkage and foreign currency risks (cont'd)

(1) The exposure to linkage and foreign currency risk (cont'd)

	December 31, 2009				
	Israeli currency		Foreign currency		
	Unlinked	Linked	US dollar	Euro	Total
	NIS thousands				
Current assets					
Cash and cash equivalents	3,919	-	6,978	2,457	13,354
Short-term investments and deposits	47,144	19,734	2,654	-	69,532
Trade receivables	106	-	18	1,140	1,264
Current liabilities					
Trade payables	(1,214)	-	(309)	(335)	(1,858)
Other accounts payable	(995)	-	(578)	-	(1,573)
Non-current liabilities					
Convertible debentures	(10,300)	-	-	-	(10,300)
Liabilities to the Chief Scientist	-	-	(2,540)	-	(2,540)
	38,660	19,734	6,223	3,262	67,879

Information regarding the CPI and significant exchange rates:

	For the year ended			For the year ended		
	2010	2009	2008	2010	2009	2008
	% of change			Spot price at the reporting date		
I US dollar	**(6)**	(0.7)	(1.14)	**3.549**	3.775	3.802
1 euro	**(13)**	2.7	(6.4)	**4.738**	5.442	5.297
CPI in points	**2.7**	3.9	3.8	**108**	105.2	101.2

* According to an average basis of 2008=100.

(2) Sensitivity analysis

A strengthening of the NIS against the following currencies as at December 31, 2010 and an increase in the CPI would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. This analysis does not include off-balance sheet liabilities relating to the Group's commitments.

	December 31, 2010	
	Equity	Profit (loss)
	NIS thousands	NIS thousands
Increase of 5% in CPI	**1,095**	**1,095**
Increase of 5% in the exchange rate of:		
US dollar	**68**	**68**
Euro	**300**	**300**

	December 31, 2009	
	Equity	Profit (loss)
	NIS thousands	NIS thousands
Increase of 5% in CPI	931	931
Increase of 5% in the exchange rate of:		
US dollar	312	312
Euro	145	145

A weakening of the NIS against the above currencies at the same rates and a decrease in the CPI at the same rate as at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Note 31 - Financial Instruments (cont'd)

D. Interest rate risk

(1) Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	December 31	
	2010	2009
	Carrying amount	Carrying amount
	NIS thousands	NIS thousands
Fixed rate instruments		
CPI-linked government debentures	**16,056**	14,281
Government debentures	**22,341**	20,900
CPI-linked corporate debentures	**5,671**	5,453
US$-linked corporate debentures	**2,556**	2,654
Unlinked corporate debentures	**701**	508
Convertible debentures	**(11,688)**	(10,300)
	35,637	33,496
Variable rate instruments		
NIS deposits	**-**	25,736
Liability to the Chief Scientist	**(3,887)**	(3,062)
	(3,887)	22,674

E. Fair value

Fair value hierarchy

Investments held for trading are presented at fair value through profit or loss. The fair value is determined on the basis of quoted prices (unadjusted) in active markets for identical instruments (level 1).

Note 32 - Group Entities

Subsidiaries

	Country of incorporation	The Company's ownership interest	Loans the Company granted to the subsidiary	Total investment in the subsidiary
2010				
Mazor Robotics Inc.	USA	**100%**	**10,785**	**(7,791)**
2009				
Mazor Robotics Inc.	USA	100%	5,464	(4,862)

Note 33 - Subsequent Events

A. Investment agreement

According to a decision of the Company's Board of Directors on February 21, 2011, and investment agreements that were signed on February 23, 2011, the Company decided to allot to the investors (as defined hereunder), a total of 2,421,053 ordinary shares of the Company of NIS 0.01 par value each and 968,421 non-marketable options that will not be listed for trading and are exercisable into 968,421 ordinary shares of the Company ("the allotted shares" and "the options", respectively, and together: "the offered shares"), for a total consideration of NIS 23,000 thousand, as detailed hereunder:

(1) The Company will allot to The Phoenix Insurance Company Ltd., for it and for other companies of The Phoenix 1 Group (together: "The Phoenix") (according to an internal distribution as agreed between the parties), 2,000,000 ordinary shares of the Company of NIS 0.01 par value each.
800,000 non-marketable options that will not be listed for trading and are exercisable into 800,000 ordinary shares of the Company of NIS 0.01 par value each over a period of 5 years from their date of allotment at an exercise price of NIS 14 per option.

(2) The Company will allot to Leader Issuances (1993) Ltd. ("Leader") 421,053 ordinary shares of the Company of NIS 0.01 par value each.
168,421 non-marketable options to purchase 168,421 ordinary shares of the Company of NIS 0.01 par value each that will not be listed for trading and are exercisable over a period of 5 years from the close date at an exercise price of NIS 14 per option.
The fair value of each one of the options offered to the offerees is NIS 1.9 and the fair value of all the options allotted to the offerees in NIS 1,840,000.

B. Sales and orders from customers

(1) On March 2, 2011 the Company received a first order for acquisition of the SpineAssist system from AB Medica, an Italian distribution company, with which the Company had signed a distribution agreement.

(2) On March 7, 2011 a SpineAssist robotic system was sold to University of California Irvine medical center (UCI).

(3) On March 14, 2011 the Company entered into an agreement with a local distributor for the distribution of its products in South Korea. In the distribution agreement the distributor undertook to purchase a first SpineAssist system in the second quarter of 2011.

(4) On March 21, 2011 the sale of another SpineAssist robotic system to a customer in the Dutch market was completed.