EMEFCY LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

IN U.S. DOLLARS

INDEX

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AUDITORS' REPORT

To the Stockholders and Board of Directors of

EMEFCY LTD.

We have audited the accompanying balance sheets of Emefcy Ltd. (A Development Stage Company) ("the Company") as of December 31, 2013 and 2012, and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2013 and 2012, and for the period from November 12, 2007 (inception date) to December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 as of December 31, 2013 and 2012, and the results of its operations, changes in stockholders' equity and its cash flows for the years ended December 31, 2013 and 2012, and for the period from November 12, 2007 (inception date) to December 31, 2013, in conformity with U.S. generally accepted accounting principles.

Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
September 9, 2014

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,176	$ 5,656
Restricted cash	16	42
Marketable securities	-	1,288
Other current assets and prepaid expenses	190	154
Total current assets	4,382	7,140
Long-term lease deposit	3	17
PROPERTY AND EQUIPMENT, NET (Note 3)	817	584
Total assets	$ 5,202	$ 7,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 120	$ 168
Other accounts payable and accrued expenses (Note 4)	263	199
Total current liabilities	383	367
COMMITMENTS AND CONTINGENT LIABILITIES (Note 5)		
SHAREHOLDERS' EQUITY (Note 7):		
Ordinary shares of NIS 0.01 par value	2	2
Preferred A, A-1, B-1, B-2,B-3 and C shares of NIS 0.01 par value	10	10
Additional paid-in capital	13,184	13,170
Accumulated deficit	(8,377)	(5,808)
Total shareholders' equity	4,819	7,374
Total liabilities and shareholders' equity	$ 5,202	$ 7,741

The accompanying notes are an integral part of the financial statements.

September 9, 2014		
Date of approval of the financial statements	Eytan Levy CEO and director	Lior Zitershpiler Finance Manager

ATEMENTS OF OPERATIONS

U.S. dollars in thousands

	Year ended December 31,	
	2013	2012
Operating expenses:		
Research and development, net	$ 1,892	$ 1,281
Marketing	422	373
General and administrative	704	539
Total operating expenses	3,018	2,193
Operating loss	3,018	2,193
Financial income, net	449	170
Net loss	$ 2,569	$ 2,023

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share and per share data)

	Ordinary shares		Preferred shares		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Number	Amount	Number	Amount			
Balance as of January 1, 2012	1,010,101	$ 2	1,980,703	$ 6	$ 7,221	$ (3,785)	$ 3,444
Issuance of Preferred C shares, net of issuance expenses in an amount of $ 8	-	-	1,333,333	4	5,941	-	5,945
Share-based compensation expense	-	-	-	-	8	-	8
Net loss	-	-	-	-	-	(2,023)	(2,023)
Balance as of December 31, 2012	1,010,101	$ 2	3,314,036	$ 10	$ 13,170	$ (5,808)	$ 7,374
Share-based compensation expense	-	-	-	-	14	-	14
Net loss	-	-	-	-	-	(2,569)	(2,569)
Balance as of December 31, 2013	1,010,101	$ 2	3,314,036	$ 10	$ 13,184	$ (8,377)	$ 4,819

STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities:		
Net loss	$ (2,569)	$ (2,023)
Adjustments to reconcile net loss to net cash used in operating activities:		
Decrease (increase) in restricted cash	26	(1)
Depreciation	97	70
Share-based compensation expense	14	8
Decrease (increase) in other current assets and prepaid expenses	(36)	33
Increase (decrease) in trade payables	(48)	70
Increase in other accounts payable and accrued expenses	64	40
Others	-	(27)
Net cash used in operating activities	(2,452)	(1,830)
Cash flows from investing activities:		
Purchase of property and equipment	(330)	(268)
Investment in marketable securities	-	(1,004)
Proceeds from sale of marketable securities	1,288	1,021
Proceeds from maturities (investment) of long-term lease deposit	14	(8)
Proceeds from maturities of short-term bank deposits	-	1,171
Net cash provided by (used in) investing activities	972	912
Cash flows from financing activities:		
Proceeds from issuance of shares and warrants, net	-	5,945
Net cash provided by financing activities	-	5,945
Increase (decrease) in cash and cash equivalents	(1,480)	5,027
Cash and cash equivalents at the beginning of the period	5,656	629
Cash and cash equivalents at the end of the period	$ 4,176	$ 5,656

The accompanying notes are an integral part of the financial statements.

NOTE 1:- GENERAL

a. Emefcy Ltd. (the "Company") was incorporated and commenced its operations on November 12, 2007. The Company develops advanced applications to waste water treatment plants. The applications generate electricity by harnessing the energy inherent in the organic compounds in wastewater and use it as fuel to treat wastewater. Accordingly, the Company is considered to be in the development stage as defined in ASC 915, "Development Stage Entities".

b. The Company is devoting substantially all of its efforts toward research and development of its products. In the course of such activities, since inception, the Company incurred operating losses in the amount of $ 8,927 and had negative cash flows from operating activities in the amount of $ 7,938.

The Company is still in the development stage. The Company's ability to continue its operations is dependent upon additional financial support, until profitability is achieved. The Company is addressing its liquidity issues by seeking for additional fund raising.

There can be no assurance that the Company will be able to raise additional funds in the future or that its liquidity and capital resources will be sufficient to reach profitability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP").

b. Use of estimates:

The preparation of the financial statements and related disclosures in conformity with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the Financial Statements and the accompanying notes. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between the Company's estimates and the actual results, the Company's future results of operation may be affected.

c. Financial statements in U.S. dollars:

The accompanying financial statements have been prepared in U.S. dollars.

The Company conducts the majority of its operations in Israel. However, the Company's capital raising and foreseeable budget is in U.S. dollar and its management believes that the dollar is the currency of the primary economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is U.S. dollar.
Accordingly, amounts in currencies other than U.S dollars have been remeasured in accordance with ASC topic 830, "Foreign Currency Matters" ("ASC 830") as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions and balances denominated in U.S. dollars are presented at their original amounts.

Monetary balances - at the exchange rate in effect on the balance sheet date.

Statement of operations items - at the exchange rates in effect at the date of recognition of the transaction.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of operations in financial income, net.

d. Cash equivalents:

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash with original maturities of three months or less.

e. Restricted cash:

Restricted cash is invested in highly liquid deposits, which are used mainly as security for guarantees provided to lessors of office and production premises, banks as guarantee for hedging instruments made by the Company and customers, as performance guarantees.

f. Marketable securities:

The Company accounts for investments in debt securities and trust fund in accordance with ASC topic 320, "Debt and Equity Securities", ("ASC 320").

Management determines the appropriate classification of its investments in debt securities and trust fund at the time of purchase and reevaluates such determination at each balance sheet date.

Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in shareholders' equity. The Company's financial statements don't include "accumulated other comprehensive income" from marketable securities due to lack of materiality. Realized gains and losses on sale of investments are included in "financial income, net" and are derived using the specific identification method for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest and dividends on securities are included in "financial income, net".

The Company periodically reviews its marketable securities for impairment. If the Company concludes that any of these investments are impaired, the Company determines whether such impairment is "other-than-temporary" as defined under ASC 320-10-35.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On April 1, 2009, the Company adopted a new guidance, ASC 320-10-65-1, "Recognition and Presentation of Other-Than-Temporary Impairments", that changed the impairment and presentation model for debt securities. Under the amended impairment model, an other-than-temporary impairment loss is recognized in earnings if the entity has the intent to sell the debt security, or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it still needs to evaluate expected cash flows to be received and determines if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized currently in earnings. During 2012 and 2013, no other-than-temporary impairments were identified.

During 2013, the Company sold all of its marketable securities. The proceeds from the sale were $ 1,288.

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	7-25
Production facility	10-20
Leasehold improvements	Over the shorter of the lease term or useful economic life

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC topic 360, "Property Plant and Equipment", ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2012 and 2013, no impairment losses have been identified.

i. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, marketable securities and trade payables.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The majority of the Company's cash and cash equivalents are invested in deposits. Generally, these cash and cash equivalents may be converted upon demand and, therefore, bear minimal risk of exchange losses and gain due to change in the exchange rate of the dollar. Management believes that the financial institutions that hold the Company's deposits are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these deposits.

j. Research and development costs:

Research and development costs, including direct and allocated expenses are charged to the statement of operations, as incurred.

Royalty bearing grants from the Chief Scientist of Israel's Ministry of Industry, Trade and Labor ("the OCS") for funding approved research and development projects are presented as a reduction from the research and development expenses. The Company received grants in an amount of $ 305 and $ 336, in the years 2013 and 2012, respectively.

Royalty bearing grants from Israel's Ministry of Energy and Water Resources ("the MNI") for funding approved research and development projects are presented as a reduction from the research and development expenses. The Company received grants in an amount of $ 59 and $ 43 in the years 2013 and 2012 respectively.

k. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

l. Income taxes:

The Company accounts for income taxes in accordance with ASC topic 740, "Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carryforward losses deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized. As of December 31, 2013, some portion of valuation allowance was provided by the Company. For more information see note 6d.

m. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies.

Since inception date, all the employees are included under section 14 of the Severance Compensation Law. Under this section, they are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made on their behalf with insurance companies.

Payments in accordance with section 14 release the Company from any future severance payments in respect of those employees. Deposits under section 14 are not recorded as an asset in the Company's balance sheet.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance pay expenses for the years ended December 31, 2013 and 2012 amounted to $ 188 and $ 78, respectively.

n. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC topic 718, "Compensation - Stock Compensation", ("ASC 718"), which required companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations.

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock-options awards and values restricted stock based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term.

The computation of expected volatility is based on realized historical stock price volatility of related Sector index. The interest rate for period within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has historically not paid dividends and has no foreseeable plans to pay dividends. The Company used the "simplified" method to establish the expected term of "plain vanilla" stock options.

The Company applies ASC No. 718 and ASC No. 505-50, "Equity-Based Payments to Non-Employees", with respect to options and warrants issued to non-employees. ASC No. 718 and ASC No. 505-50 require the use of option valuation models to measure the fair value of the options and warrants at the measurement date.

See Note 7c for the terms of the global incentive option plan ("the 2008 Plan"), which was adopted by the Board of Directors of the Company and the compensation cost that was recorded.

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 3:- PROPERTY AND EQUIPMENT, NET

	December 31, 2013	December 31, 2012
Cost:		
Computers and peripheral equipment	$ 246	$ 183
Office furniture and equipment	80	68
Leasehold improvements	6	6
Production line	717	462
	1,049	719
Accumulated depreciation:		
Computers and peripheral equipment	140	81
Office furniture and equipment	38	31
Leasehold improvements	2	1
Production line	52	22
	232	135
Depreciated cost	$ 817	$ 584

Depreciation expenses for the years ended December 31, 2013 and 2012 were $ 97 and $ 70, respectively.

NOTE 4:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2013	December 31, 2012
Employees and payroll accruals	$ 193	$ 148
Accrued expenses	19	16
Tax payable	51	35
	$ 263	$ 199

NOTE 5:- COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company leases premises for a period ending December 31, 2014. In addition, during 2011, the Company leased premises for production facility for a period ended October 15, 2013. According to the lease agreement the Company could extend the lease period in three additional years at its discretion. During 2013 the Company extended the lease period for its production facility for a period ending October 15, 2014. The aggregate minimum rental commitments under the non-cancelable rent agreements as of December 31, 2013 are $ 94. Total rent expenses for the years ended December 31, 2013 and 2012 were $ 136 and $ 93, respectively.

b. The Company leases its motor vehicles under lease agreements. As of December 31, 2013, the minimum payment under these operating leases is $ 23.

c. As of December 31, 2013 and 2012, the Company provided a bank guarantee for the fulfillment of its lease commitments in the amount of approximately $ 16 and $ 29, respectively.

d. The Company participates in programs sponsored by the OCS, for the support of research and development projects. In exchange for the Chief Scientist's participation in the programs, the Company is required to pay royalties to the Chief Scientist at a rate between 3% and 3.5% of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognized. As long as the Company continues to meet the criteria for receiving these grants, then the Company is not required to repay the grants. If the Company ceases to meet these and other criteria, then the grant amounts for the year in which the Company ceased to meet the criteria become immediately due and payable to OCS. As of December 31, 2013, the Company has an outstanding contingent obligation to pay royalties in the amount of approximately $ 1,261. As of December 31, 2013 no royalties were paid.

e. The Company participated in programs sponsored by the MNI, for the support of research and development projects. In exchange for the MNI's participation in the programs, the Company is required to pay royalties to the MNI at a rate of 5% of the sales to end customers of products developed with funds provided by the MNI, if and when such sales are recognized. As of December 31, 2013 the Company received grants in the total amount of $ 102 and no royalties were paid.

NOTE 6:- TAXES ON INCOME

a. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments Law), 1985.

Under the Income Tax (Inflationary Adjustments) Law, 1985 ("the Inflationary Adjustments law"), results for tax purposes in Israel are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index ("Israeli CPI"). Accordingly, until 2007, results for tax purposes were measured in terms of earnings in NIS after certain adjustments for increases in the Israeli CPI. Beginning January 1, 2008, the Inflationary Adjustments Law was repealed.

b. Corporate tax rates:

Taxable income of Israeli company is subject to tax at the rate of 25% in 2013.

U.S. dollars in thousands (except share and per share data)

NOTE 6:- TAXES ON INCOME (Cont.)

c. Net operating losses carryforward:

As of December 31, 2013, the Company has estimated carry forward tax losses of approximately $ 7,723 which may be carried forward and offset against taxable income for an indefinite period in the future.

d. Deferred income taxes:

The Company has provided a valuation allowance in respect of deferred tax assets resulting from the tax loss carry forward and other temporary differences. Management currently believes that it is more likely than not that the deferred tax regarding these tax loss carryforward and other temporary differences will not be realized.

NOTE 7:- SHAREHOLDERS' EQUITY

a. Composition of share capital:

	December 31, 2013 and 2012	
	Authorized	Issued and outstanding
	Number of shares	
Shares of NIS 0.01 par value:		
Ordinary shares	6,115,735	1,010,101
A Preferred shares (1)	348,312	348,312
A-1Preferred shares (2)	444,677	444,677
B-1 Preferred shares (3)	402,618	402,618
B-2 Preferred shares (4)	607,425	607,425
B-3 Preferred shares (5)	414,567	177,672
C Preferred shares (6)	1,666,666	1,333,333
Total	10,000,000	4,324,138

(1) Preferred A shares:

In 2007, the Company raised equity in an amount of $ 800. In return, the Company issued to the investors 348,312 Preferred A shares. The aggregate liquidation preference is $ 1,091 and $ 1,043 as of December 31, 2013 and 2012, respectively.

(2) Preferred A-1 shares:

On November 24, 2009, the Company raised equity in an amount of $ 1,200 of which $ 38 is related to the conversion of a convertible loan. In return, the Company issued to the investors 444,676 Preferred A-1 shares. The aggregate liquidation preference is $ 1,495 and $ 1,423 as of December 31, 2013 and 2012, respectively.

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

(3) Preferred B-1 shares:

On April 20, 2010, the Company raised equity in an amount of $ 1,300. In return, the Company issued to the investors 402,618 Preferred B-1 shares. The aggregate liquidation preference is $ 1,590 and $ 1,512 as of December 31, 2013 and 2012, respectively.

(4) Preferred B-2 shares:

On November 9, 2010, the Company raised equity in an amount of $ 2,400. In return, the Company issued to the investors 607,425 Preferred B-2 shares. The aggregate liquidation preference is $ 2,853 and $ 2,709 as of December 31, 2013 and 2012, respectively.

(5) Preferred B-3 shares:

On June 21, 2011, the Company raised equity in an amount of $ 1,500. In return, the Company issued to the investors 177,672 Preferred B-3 shares. The aggregate liquidation preference is $ 1,728 and $ 1,638 as of December 31, 2013 and 2012, respectively.

In addition, the Company issued to the investors warrants to purchase additional Preferred B-3 shares of the Company. The warrants expired at December 31, 2011.

(6) Preferred C shares:

On October 25 and December 19, 2012, the Company raised equity in an aggregate amount of $ 6,000. In return, the Company issued to the investors 1,333,333 Preferred C shares. The rights and preferences of Preferred C shares resemble to Preferred A and B shares. The aggregate liquidation preference is $ 6,399 and $6,039 as of December 31, 2013 and 2012 respectively.

In addition, investors had the right to purchase additional 333,333 Preferred C shares of the Company for the consideration of approximately $ 1,500. The right expired on December 31, 2013.

b. According to the Company's articles of association, these are the significant terms of the shares:

(1) Ordinary shares:

The Ordinary shares confer upon the holders their right to attend general meetings where each Ordinary share shall have one vote for all purposes to share, on a pro rata basis, in bonus shares, bonuses, profits or distributions as may be declared by the Board and approved by the shareholders; Upon liquidation or dissolution - to participate in the distribution of the assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company.

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

(2) The rights and preferences of Preferred A shares and Preferred A-1 shares (the "Preferred A shares") Preferred B-1 shares, Preferred B-2 shares, Preferred B-3 shares (the "Preferred B shares") and Preferred C shares are as follows:

Dividends:

An amount equal to 6% of the as applicable original issue price per annum, as defined in the agreements, out of any funds or assets legally available, when as and if declared by the Board, in priority to any Preferred C shares. After distribution of the full Preferred C Dividend, as defined in the agreement, the Preferred B shareholders shall be entitled to receive, prior to and in preference to any remaining distribution to the holders of other equity securities, an amount equal to 6% of the applicable original issue per annum , as defined in the agreement .The remaining amount declared to be paid as a dividend (if declared) shall be paid to Preferred A shares in an amount equal to 6% of the as applicable original purchase price per annum. The remaining amount declared to be paid as a dividend (if declared) shall be paid to all holders of Ordinary shares of the Company and the holders of Preferred shares on a pro-rata basis according to their respective shareholdings in the Company (on an as converted basis).

Liquidation preference:

Upon the occurrence of a Liquidation Event, as defined in the agreement, the following liquidation preference shall prevail with the written seniority:

The Preferred C shares shall be entitled to receive an amount per share equal to applicable original issue price, as defined in the agreement, plus cumulative dividends in at the rate of 6% per share per annum on the applicable original purchase price, less any amount of distributable proceeds previously paid in preference of such shares. The remaining proceeds shall be distributable to Preferred B shares in the same manner. Thereafter the remaining proceeds shall be distributable to Preferred A shares in the same manner. Finally, the remaining distributable proceeds, if any, shall be distributed pro-rata among all the Ordinary shareholders and Preferred shareholders.

Conversion:

Voluntary conversion into one Ordinary share at any time at the holder's option, subject to anti-dilution adjustments, as defined in the agreement.

Automatic conversion into Ordinary shares upon the election of the holders of a majority of all the outstanding preferred shares, or the consummation of an qualified IPO.

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

Voting rights:

All the Preferred shares shall vote together with the other shares of the Company, and not as separate class, in all general meetings, with each Preferred share having votes in such number as if then converted into Ordinary shares.

c. Employee Stock Option Plan ("ESOP") :

Under the Company's ESOP, as amended, up to 148,060 Ordinary shares have been reserved for option grants. The ESOP was adopted in accordance with the amended Sections 102 and 3(i) of the Income Tax Ordinance ("the Plan"). In December 2012, the Board of Directors approved an additional 100,000 Ordinary Shares for option grants under the Plan. Consequently, the number of Ordinary shares reserved for option grants has increased to 248,060. As of December 31, 2013, an aggregate of 136,660 options of the Company are still available for future grant.

Under the Plan, options to purchase Ordinary shares of the Company may be granted, from time-to-time, to employees, advisors, directors, consultants and service providers of the Company, each option granted can be exercised to one Ordinary share of the Company. The default vesting schedule is for 25% to vest one year from the commencement date, and an additional 6.25% thereof to vest at the end of each successive 3 month period thereafter, subject to continued employment or service.

The Company recognizes share based compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is the option vesting term of four years. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Each option granted under the Plan to non-employees or employees expires no later than ten years from the date of the grant. Any options which are canceled or forfeited before expiration become available for future grants.

During 2012 and 2013, the Company's Board of Directors approved the granting of 37,500 and 35,000 options to employees in respect of their services to the Company respectively. During 2012 and 2013, 17,500 and 12,500 options were cancelled and returned to the pool of options available for future grants due to employees that left, respectively.

The Company recognized compensation costs in an amount of $ 14 for share-based compensation arrangements, through 2013.

During the year ended December 31, 2013, no options were exercised.

NOTE 8:- SUBSEQUENT EVENTS

On March 4, 2014, the Company's Board of Directors approved the granting of 24,000 options at an exercise price of $1.56 to employees in respect of their services to the Company. The default vesting schedule is for 25% to vest one year from the commencement date, and an additional 6.25% thereof to vest at the end of each successive 3 month period thereafter, subject to continued employment or service.

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