

**EMEFCY LTD.**  
**FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2014**

**EMEFY LTD.**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2014**

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The amounts are stated in thousand U.S dollars

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**REPORT OF INDEPENDENT AUDITORS**  
**To the Shareholders of**  
**Emefcy Ltd.**

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

We conducted our audits in accordance with international standard of auditing. 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 company's board of directors and 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 as of December 31, 2014 and 2013, and the results of their operations, changes in equity and their cash flows for each of the two years ended December 31, 2014 in conformity with International Financial Reporting Standards (IFRS).

Tel-Aviv, Israel  
September 20, 2015

Ziv haft  
Certified Public Accountants (Isr.)  
BDO Member Firm

**EMEFY LTD.**

**BALANCE SHEETS**

		<u>December 31, 2014</u>	<u>December 31, 2013</u>
	<u>Note</u>	<u>In thousands</u>	<u>In thousands</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 1,617	\$ 2,030
Restricted cash		34	16
Marketable securities		-	2,145
Other accounts receivable	4	194	190
<b>Total current assets</b>		<u>1,845</u>	<u>4,381</u>
<b>LONG TERM ASSETS:</b>			
Long-term lease deposit		7	3
Property and equipment, net	5	898	817
Intangible assets	6	575	-
<b>Total long term assets</b>		<u>1,480</u>	<u>820</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 3,325</u></u>	<u><u>\$ 5,201</u></u>

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


**EMEFKY LTD.**

**BALANCE SHEETS**

		<u>December 31, 2014</u>	<u>December 31, 2013</u>
	<u>Note</u>	<u>In thousands</u>	<u>In thousands</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable		\$ 104	\$ 120
Other accounts payable	7	223	263
<b>Total current liabilities</b>		<u>327</u>	<u>383</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
	8		
<b>LONG TERM LIABILITIES:</b>			
Governmental liabilities on grants received	8	595	406
<b>Total long term liabilities</b>		<u>595</u>	<u>406</u>
<b>EQUITY:</b>			
	9		
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		12,648	12,637
Accumulated deficit		(10,257)	(8,237)
<b>Total equity</b>		<u>2,403</u>	<u>4,412</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 3,325</u>	<u>\$ 5,201</u>

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

September 27, 2015  
Date of approval of the  
financial statements

  
Eytan Levy  
CEO and director

  
Lior Zitershpiler  
Finance Manager

**EMEFCY LTD.**

**STATEMENTS OF COMPREHENSIVE INCOME**

	<u>Note</u>	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
		<u>In thousands</u>	<u>In thousands</u>
<b>Operating expenses:</b>			
Research and development, net		\$ 1,213	\$ 1,941
Marketing		72	422
General and administrative expenses	10	563	673
<b>Operating loss</b>		<u>1,848</u>	<u>3,036</u>
Finance income		60	779
Finance expense		(232)	(110)
<b>Net loss</b>		<u>2,020</u>	<u>2,367</u>
Other comprehensive loss		-	-
<b>Total comprehensive loss for the year</b>		<u><u>\$ 2,020</u></u>	<u><u>\$ 2,367</u></u>

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

**EMFCY LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

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

	Ordinary shares		Preferred shares		Additional paid-in capital	Accumulated deficit	Total equity
	Number	Amount	Number	Amount			
<b>Balance at January 1, 2013</b>	1,010,101	\$ 2	3,314,037	\$ 10	\$ 12,623	\$ (5,870)	\$ 6,765
<b>Changes during 2013:</b>							
Share-based compensation expenses	-	-	-	-	14	-	14
Total comprehensive loss	-	-	-	-	-	(2,367)	(2,367)
<b>Balance as of December 31, 2013</b>	<u>1,010,101</u>	<u>\$ 2</u>	<u>3,314,037</u>	<u>\$ 10</u>	<u>\$ 12,637</u>	<u>\$ (8,237)</u>	<u>\$ 4,412</u>
<b>Changes during 2014:</b>							
Share-based compensation expenses	-	-	-	-	11	-	11
Total comprehensive loss	-	-	-	-	-	(2,020)	(2,020)
<b>Balance as of December 31, 2014</b>	<u>1,010,101</u>	<u>\$ 2</u>	<u>3,314,037</u>	<u>\$ 10</u>	<u>\$ 12,648</u>	<u>\$ (10,257)</u>	<u>\$ 2,403</u>

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

EMEFKY LTD.

STATEMENTS OF CASH FLOWS

	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>
	<u>In thousands</u>	<u>In thousands</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the year	\$ (2,020)	\$ (2,367)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	122	97
Loss on disposal of property and equipment	9	6
Share-based compensation expenses	11	14
Increase in other accounts receivable	(160)	(303)
Decrease in accounts payable	(16)	(48)
Increase in other accounts payable and governmental liabilities on grants received	149	191
Finance expenses (income), net	172	(669)
Interest received	52	57
<b>Net cash used in operating activities</b>	<u>(1,681)</u>	<u>(3,022)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(212)	(336)
Proceeds from (purchase of) marketable securities, net	2,113	(590)
Capitalization of development expenses	(667)	-
Decrease (increase) in restricted cash	(18)	26
Decrease (increase) in long term lease deposits	(4)	14
<b>Net cash provided by (used in) investing activities</b>	<u>1,212</u>	<u>(886)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Grants from governmental institutions	248	267
<b>Net cash provided by financing activities</b>	<u>248</u>	<u>267</u>
<b>Exchange difference on cash and cash equivalents</b>	(192)	15
<b>Decrease in cash and cash equivalents</b>	(221)	(3,641)
<b>Cash and cash equivalents at beginning of the year</b>	2,030	5,656
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 1,617</u>	<u>\$ 2,030</u>

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



## **EMEFCY LTD.**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 1 – GENERAL:**

Emefcy Ltd. (the "Company") was incorporated and commenced its operations on November 12, 2007. The Company develops a low-cost, energy-efficient wastewater treatment and water reuse solutions. SABRE technology saves significant energy by eliminating the need to blow compressed air through the wastewater for aeration. EBR technology treats industrial wastewater while simultaneously generating electricity from the process.

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 accumulated losses in the amount of \$ 10,257 thousand.

The Company is still in the development stage and financed its past losses by capital raisings. The Company's ability to continue its operations in long term 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:**

The significant accounting policies followed in the preparation of the financial information, on a consistent basis, are:

##### **Basis of preparation**

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention.

The Company has elected to present the statement of comprehensive income using the function of expense method.

##### **Estimates and assumptions**

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

## EMEFY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### **Foreign currency**

The financial information of the Company is prepared in US Dollars (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company since the Company finances its operation using capital raisings and loans conducted in US Dollar. In addition, forecasted budget, internal reports and future revenues also conducted (or will be conducted) in US Dollar. Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 ("The Effects of Changes in Foreign Exchange Rates"). Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet date;
- Income and expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange used to convert the related balance sheet items i.e. at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognized in the statement of operation.

##### **Cash and cash equivalents**

Cash equivalents are considered by the Company to be highly-liquid investments, including, inter alia, short-term deposits with banks and the maturity of which do not exceed three months at the time of deposit and which are not restricted.

##### **Impairment of non-financial assets**

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and impairment charge is recognized accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest Company of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets).

An impairment loss allocated to asset, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and the assets recoverable amount. The reversal of impairment loss of an asset is recognized in profit or loss. Impairment charges are included in general and administrative expenses line item in the statement of comprehensive income. During the years 2013 and 2014 no impairment charges of non-financial assets were recognized.

## EMEFCY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### **Impairment of financial assets**

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows.

Financial assets carried at amortized cost:

There is objective evidence of impairment of loans and receivables if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, which is limited to the amount of any previous impairment, is recorded in profit or loss.

##### **Fair value measurement**

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

## EMEFCY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### **Classification of financial instruments by fair value hierarchy**

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

##### **Financial assets**

The Company classifies its financial assets depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Cash and marketable securities: These assets are carried out based on quoted prices.

Receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortized cost less any provision for impairment.

The Company has no financial assets classified at Fair value through profit or loss.

##### **Financial Liabilities**

The Company financial liabilities are mostly trade payables and other short-term monetary liabilities, which are initially recognized at Fair value and subsequently measured at amortized cost using the effective interest rate method. Governmental liabilities on grants received are based on inputs that aren't based on observable market data.

##### **De-recognition of financial instruments**

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

**Financial liabilities:** A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the creditor

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

## EMEFCY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### **De-recognition of financial instruments (cont.):**

##### **Financial liabilities (cont.):**

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the existing liability and new liability is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

##### **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.

##### **Deferred tax**

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies.

Deferred taxes are computed in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributed for tax purposes. Deferred taxes are recognized directly in other comprehensive income or in equity if the tax relates to those items.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred taxes in profit or loss represent the changes in carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized outside profit or loss.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income.

All deferred tax assets and liabilities are presented in the statement of financial position as non-current items, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

## EMEFY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### Property, plant and equipment

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

	%
Computer and peripheral equipment	7-33
Office furniture and equipment	7-33
Production line	10-25
Leasehold improvements	Over the shorter of the term of the lease or useful life of the asset

##### Employee benefits

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.

##### Intangible assets

Intangible assets include internally generated capitalized development expenses.

The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the assets is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Research costs are expensed net of grants received in the period on which they are incurred. Development costs are capitalized only where the expenditure will lead to new or substantially improved products, the products are technically and commercially feasible and the Company has sufficient resources to complete the development and reach the stage for which the product is ready for use and will be able to sell the assets. In addition, the company's intention is to complete the development stage and the costs can be reliably measured.

## EMEFCY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

##### **Intangible assets (cont.):**

Capitalized development costs are amortized on a straight line basis over their estimated useful once the development is completed and the assets are in use. As of December 31, 2014 the asset is still not ready for use and therefore the asset is not amortized.

Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

##### **New IFRSs in the period prior to their adoption**

###### IFRS 9 Financial Instruments:

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to de-recognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

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

The Company is evaluating the possible impact of IFRS 9 but does not anticipate having a material impact on the financial statements.

## EMEFCY LTD.

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

##### **New IFRSs in the period prior to their adoption (Cont.):**

##### IFRS 15 – "Revenue from Contracts with Customers" (hereafter – IFRS 15):

Upon first time application, IFRS 15 shall replace other IFRS provisions relating to revenue recognition. The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step model framework:

- 1) Identify the contract(s) with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligations in the contract
- 5) Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract. IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue. The standard shall be applied retrospectively for annual reporting periods starting on January 1, 2017 or thereafter, taking into account the reliefs specified in the transitional provisions of IFRS 15. Under these provisions, early adoption of the standard is allowed. The Company is still assessing if the implementation of IFRS 15 will have material impact on the financial statements.



**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:**

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Company's earnings and financial position are the recognition and amortization of capitalized development costs and other intangible assets and the useful life of property and equipment, share based payments, income tax and Governmental liabilities on grants received.

**Amortization of capitalized development costs and other intangible assets and the useful life of property and equipment**

Intangible assets and property and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the amounts charged to the statement of comprehensive income in specific periods.

**Share based payments**

The Company has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black&Scholes option pricing model, on the date of grant based on certain assumptions. Those assumptions are described in note 9 and include, among others, the dividend growth rate, expected share price volatility, expected life of the options and number of options expected to vest. The fair value of the equity settled options granted is charged to statement of comprehensive income on a straight-line basis over the vesting period of each tranche and the credit is taken to equity, based on the Company's estimate of shares that will eventually vest. The share options plan does not have any performance conditions other than continued service.

**Governmental liabilities on grants received**

The Company measured the fair value of its governmental liabilities on grants received, each period, based on discounted cash flows derived from Company's future anticipated revenues.

**NOTE 4 - OTHER ACCOUNTS RECEIVABLE:**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
	<b>In thousands</b>	<b>In thousands</b>
Government grants to be received	\$ 159	\$ 120
Government institutions	20	31
Prepaid expenses		25
Other	10	14
	<u>\$ 194</u>	<u>\$ 190</u>

**EMEFY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 5 - PROPERTY AND EQUIPMENT, NET:**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
	<b>In thousands</b>	<b>In thousands</b>
<b>Cost</b>		
Computers and peripheral equipment	\$ 202	\$ 177
Office furniture and equipment	73	80
Leasehold improvements	6	6
Production line	971	786
	1,252	1,049
 <b>Accumulated depreciation</b>		
Computers and peripheral equipment	155	120
Office furniture and equipment	44	38
Leasehold improvements	2	2
Production line	153	72
	354	232
 <b>Net Book Value</b>	<b>\$ 898</b>	<b>\$ 817</b>

Depreciation expenses for the years ended December 31, 2014 and 2013 were \$ 122 and \$ 97, respectively.

**NOTE 6 - INTANGIBLE ASSETS:**

	<b>Internally generated capitalized development costs</b>
	<b>In thousands</b>
<b>Cost At 1 January 2014</b>	\$ -
Additions	575
<b>At December 31, 2014</b>	575
 <b>Accumulated depreciation:</b>	
<b>At 1 January 2014</b>	\$ -
Amortization	-
<b>At December 31, 2014</b>	-
Net Book Value	
<b>At December 31, 2014</b>	<b>\$ 575</b>

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7 - OTHER ACCOUNTS PAYABLE:**

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
	<u>In thousands</u>	<u>In thousands</u>
Employees and related institutions	\$ 168	\$ 244
Accrued expenses	50	7
Other	5	12
	<u>\$ 223</u>	<u>\$ 263</u>

**NOTE 8 - 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. During 2014 the Company extended the lease period for its production facility for a period ending October 15, 2015. The aggregate minimum rental commitments under the non-cancelable rent agreements as of December 31, 2014 are \$ 45 thousand. Total rent expenses for the years ended December 31, 2014 and 2013 were \$ 123 thousand and \$ 132 thousand, respectively.
- B. The Company leases its motor vehicles under lease agreements. As of December 31, 2014, the minimum payment under these operating leases is \$ 22 thousand.
- C. As of December 31, 2014 and 2013, the Company provided a bank guarantee for the fulfillment of its lease commitments in the amount of approximately \$ 34 thousand and \$ 16 thousand, 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, 2014, the Company has received grants amounted to \$ 1,256 thousand. As of December 31, 2014 and 2013, the Company recognized a liability to the OCS in the amount of \$ 533 thousand and \$ 356 thousand, respectively. The exceptions of the Company to pay the grants are based on its estimation at the end of the each year. The discounted rate used by the Company for the liability is 22.5%. As of December 31, 2014 no royalties have been paid.

**EMEFY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.):**

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, 2014 the Company received grants in the total amount of \$ 101 thousand and no royalties were paid. As of December 31, 2014 and 2013, the Company recognized a liability to the MNI in the amount of \$ 62 thousand and \$ 50 thousand, respectively. The exceptions of the Company to pay the grants are based on its estimation at the end of the each year. The discounted rate used by the Company for the liability is 22.5%.

**NOTE 9 - SHAREHOLDERS EQUITY:**

**A. Composition of share capital:**

	<b>December 31, 2014 and 2013</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
	<b>Number of shares</b>	
Shares of NIS 0.01 par value:		
Ordinary shares	6,115,735	1,010,101
A Preferred shares (1)	348,312	348,312
A-1 Preferred 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
<b>Total</b>	10,000,000	4,324,138

(1) Preferred A shares:

In 2007, the Company raised equity in an amount of \$ 800 thousand. In return, the Company issued to the investors 348,312 Preferred A shares.

(2) Preferred A-1 shares:

On November 24, 2009, the Company raised equity in an amount of \$ 1,200 thousand of which \$ 38 thousand is related to the conversion of a convertible loan. In return, the Company issued to the investors 444,677 Preferred A-1 shares.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 - SHAREHOLDERS EQUITY (CONT.):**

**A. Composition of share capital (Cont.):**

(3) Preferred B-1 shares:

On April 20, 2010, the Company raised equity in an amount of \$ 1,300 thousand. In return, the Company issued to the investors 402,618 Preferred B-1 shares.

(4) Preferred B-2 shares:

On November 9, 2010, the Company raised equity in an amount of \$ 2,400 thousand. In return, the Company issued to the investors 607,425 Preferred B-2 shares.

(5) Preferred B-3 shares:

On June 21, 2011, the Company raised equity in an amount of \$ 1,500 thousand. In return, the Company issued to the investors 177,672 Preferred B-3 shares.

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.

At issuance date, the warrants were considered to be a derivative liability and were marked at fair value for all periods presented. Fair value at issuance date was \$ 209 thousand.

(6) Preferred C shares:

On October 25 and December 19, 2012, the Company raised equity in an aggregate amount of \$ 6,000 thousand. In return, the Company issued to the investors 1,333,333 Preferred C shares.

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

At issuance date, the warrants were considered to be a derivative liability and were marked at fair value for all periods presented. Fair value at issuance date was \$ 337 thousand and as of December 31, 2012 was \$ 329 thousand.

**B. Following 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.

**EMEFY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 - SHAREHOLDERS EQUITY (CONT.):**

**B. Following are the significant terms of the shares (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.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 - SHAREHOLDERS EQUITY (CONT.):**

**B. Following are the significant terms of the shares (Cont.):**

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.

The anti-dilution adjustments confer the right to a protection upon future shares issuance with a lower price issuance than in the previous specific rounds. This instrument considered to be a derivative liability with a non material value for all periods presented according to a third party valuation.

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 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, 2014, an aggregate of 158,160 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 of each tranche over the requisite service period of the award.

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.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 - SHAREHOLDERS EQUITY (CONT.):**

**C. Employee Stock Option Plan ("ESOP") (cont.):**

The following table summarizes information about share options outstanding and exercisable as of December 31, 2014:

<u>Exercise Price</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
	<u>Number Outstanding on December 31, 2014</u>	<u>Remaining Contractual life</u>	<u>Number Exercisable on December 31, 2014</u>	<u>Remaining Contractual life</u>
<u>\$</u>		<u>Years</u>		<u>Years</u>
1.56	74,000	8.15	27,875	7.26
2.30	15,900	6.07	15,900	6.07

Data related to the share option plan as of December 31, 2014 and changes during the year ended on that date are as follows:

	<u>Options Share Option Plan: 2014</u>		<u>Options Share Option Plan: 2013</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
		<u>\$</u>		<u>\$</u>
Options outstanding as beginning of year	109,900	1.67	85,400	1.70
<b>Changes during the year:</b>				
Granted	24,000	1.56	32,000	1.56
Exercised	-	-	-	-
Forfeited	44,000	1.56	7,500	1.56
Options outstanding at end of year	<u>89,900</u>	<u>1.69</u>	<u>109,900</u>	<u>1.67</u>
Options exercisable at year-end	<u>43,775</u>	<u>1.83</u>	<u>47,150</u>	<u>1.81</u>
Weighted-average fair value of options Granted during the year		<u>\$ 0.21</u>		<u>\$ 0.26</u>

The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; expected volatility: 2014 and 2013 – 64%, risk-free interest rate: 2014 – 1.86%, 2013 – 1.56%; and expected life: 2014 – 6.02 years, 2013 – 8.54 years.



**EMEF CY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 - GENERAL AND ADMINISTRATIVE EXPENSES:**

	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
	<u>In thousands</u>	<u>In thousands</u>
Salaries and benefits	\$ 391	\$ 465
Rental and office expenses	72	87
Depreciation	26	28
Professional fees	24	31
Other	<u>50</u>	<u>62</u>
Total	<u>\$ 563</u>	<u>\$ 673</u>

**NOTE 11 - TAXATION:**

**A. Israeli tax rates:**

On July 30, 2013, the Israeli Parliament approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5% effective from January 1, 2014.

**B. Net operating losses carryforward:**

As of December 31, 2014, the Company has estimated carry forward tax losses of approximately \$ 8,551 thousand which may be carried forward and offset against taxable income for an indefinite period in the future.

**C. 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 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**

The Company is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's financial performance and position. The Company's financial instruments are its cash, marketable securities, receivables, trade payables and other payable. The main purpose of these financial instruments is to raise finance for the Company's operation. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly credit risk, currency risk and liquidity risk. The Company has no interest rate risk as the balances exposure to interest is minimal. The risk management policies employed by the Company to manage these risks are discussed below.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**

**A. Credit risk**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances. The Company's main financial assets are cash and cash equivalents as well as other receivables and represent the Company's maximum exposure to credit risk in connection with its financial assets. Other receivables are carried on the balance sheet net of bad debt provisions estimated by the management based on prior year experience and an evaluation of prevailing economic circumstances. Wherever possible and commercially practical the Company holds cash with major financial institutions In Israel.

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
	<b><u>In thousands</u></b>	<b><u>In thousands</u></b>
Cash at bank and restricted cash	\$ 1,651	\$ 2,046
Marketable securities	-	2,145
Other accounts receivable	196	168
Total	<b><u>\$ 1,847</u></b>	<b><u>\$ 4,359</u></b>

**B. Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar (the functional currency), the New Israeli Shekel and the Euro. The Company's policy is not to enter into any currency hedging transactions.

**EMEFY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**

**B. Currency risk (Cont.):**

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>In thousands</b>		<b>In thousands</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
New Israeli shekels	\$ 1,423	\$ 325	\$ 2,849	\$ 382
Euro	267	-	298	-
	<b>\$ 1,690</b>	<b>\$ 325</b>	<b>\$ 3,147</b>	<b>\$ 382</b>

**C. Sensitivity analysis:**

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>
	<b>In thousands</b>	<b>In thousands</b>
New Israeli Shekels	\$ 110	\$ 247
Euro	27	30
	<b>\$ 137</b>	<b>\$ 277</b>

**D. Capital risk:**

The Company seeks to maintain a capital structure which enables it to continue as a going concern and which supports its business strategy. The Company's capital is provided by equity raising. The Company manages its capital structure through raising funds from shareholders of preferred shares. The Company has net cash and cash equivalents at the balance sheet date of \$1,617 thousand (2013 - \$2,030 thousand), which includes a positive working capital. Accordingly, management does not believe that there are significant capital risks in the near future.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**

**E. Liquidity risks :**

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The Company has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. The Company has no materiel obligation beyond one year (the liabilities for governmental institutes depends on achieving future revenues) and has a positive working capital and cash in bank to finance its working capital in the near future.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
	<u>In thousands</u>	<u>In thousands</u>
Accounts payable	\$ 104	\$ 120
Other accounts payable and governmental liabilities on grants received	<u>818</u>	<u>669</u>
	<u>\$ 922</u>	<u>\$ 789</u>

**F. Operational risk:**

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

**G. Compliance risk:**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

**H. Fair value of financial assets and liabilities:**

The fair value of the Company's financial assets and liabilities approximates their carrying amounts as their maturity date is less than 1 year and they do not bear a fixed interest rate. As for the governmental liabilities on grants received see note 8.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 13 - RELATED PARTY AND SHAREHOLDERS:**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party.

The following transactions arose with related parties:

**Related party transactions:**

	<u>Year ended December 31, 2014</u> In thousands	<u>Year ended December 31, 2013</u> In thousands
Salaries paid to shareholders	400	426
Salary to key officers (including ESOP)	156	109

**NOTE 14 - SUBSEQUENT EVENTS:**

**A. Savcor Transaction**

On July 20<sup>th</sup>, 2015 the Company entered into a binding term sheet ("the Terms Sheet") with Savcor Group Limited [ASX: SAV] ("Savcor"), an Australian public company.

Under the Terms Sheet, Savcor will acquire all of the issued share capital of the Company from the Company's shareholders for consideration comprised of:

1. 65,000,000 ordinary Savcor shares issued on completion at a deemed issue price of a AUD 0.20 (20 cents) per share together with a right to receive up to 45,000,000 deferred consideration shares subject to the satisfaction of the milestones described in the Terms Sheet;
2. A cash payment of \$ 1,000 thousand on completion;
3. The issue by Savcor of a redeemable non-convertible interest-free note with a face value of \$ 2,000 thousand which redeemable subject to the satisfaction of the milestones described in the Term Sheet.

**B. Employees Options**

On July, 15<sup>th</sup>, 2015 the Company's board of directors approved the granting of 50,000 options at an exercise price of \$1.56 to employees in respect to their services to the Company. The default vesting schedule is for 25% to vest one year from commencement date, and an additional 6.25% thereof to vest at the end of each successive 3 months period thereafter, subject to continued employment of service.

**EMEFCY LTD.**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 14 - SUBSEQUENT EVENTS (CONT.):**

**C. Bridge Loan**

On July 17th, 2015 the Company entered into a Convertible Bridge Loan Agreement ("the Agreement") with some of its shareholders ("the Investors").

Under the Agreement, the Investors will transfer to the Company \$ 800 thousand in four equal installments in accordance with certain milestones set out in the Agreement. The Convertible Bridge Loan bears no interest rate.

The Agreement also provides a pledge of all tangible and intangible assets of the Company to the Investors.

If and when the Savcor transaction will occur, the Convertible Bridge Loan will be converted into 355,554 Preferred C shares, and all pledges will be reversed immediately.