

MEDIVISION MEDICAL IMAGING LTD.

Consolidated Financial Statements

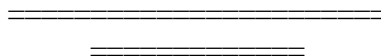
as of December 31, 2007

MEDIVISION MEDICAL IMAGING LTD.

**Consolidated Financial Statements
as of December 31, 2007**

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**REPORT OF INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
MEDIVISION MEDICAL IMAGING LTD.**

We have audited the accompanying financial statements of **Medivision Medical Imaging Ltd and its subsidiaries (“the Group”)**, which comprise the consolidated balance sheet as of December 31, 2007 and the consolidated statements of operations, statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the Company as of December 31, 2006 and for the year then ended were audited by other independent auditors whose report dated March 20, 2007 expressed an unqualified opinion.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 68% of total consolidated assets as of December 31, 2007 and whose revenues constitute approximately 97% of total consolidated revenues for the year ended December 31, 2007. The financial statements of those companies (before reconciliation in 2007 to International Financial Reporting Standards) were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts (including the Group’s reconciliation in 2007 of the financial statements of the aforementioned subsidiaries to International Financial Reporting Standards.) and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained, and the reports of the other independent auditors, are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other independent auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 25, 2008

Fahn Kanne & Co.
Certified Public Accountants (Isr.)

MEDIVISION MEDICAL IMAGING LTD.
CONSOLIDATED BALANCE SHEETS

(in thousands)	Note	US dollars	
		December 31,	
		2007	2006
A S S E T S			
Current assets			
Cash and cash equivalents		7,992	6,719
Restricted cash		168	160
Accounts receivable:			
Trade, net	3A	3,472	3,486
Other accounts receivable	3B	702	279
Inventories	4	<u>1,198</u>	<u>1,085</u>
Total current assets		<u>13,532</u>	<u>11,729</u>
Property and equipment, net	5	<u>575</u>	<u>506</u>
Deferred tax assets	13E	<u>1,342</u>	<u>1,172</u>
Goodwill and other assets	6	<u>6,012</u>	<u>4,721</u>
Total assets		<u><u>21,461</u></u>	<u><u>18,128</u></u>

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

MEDIVISION MEDICAL IMAGING LTD.
CONSOLIDATED BALANCE SHEETS

(in thousands)	Note	US dollars	
		December 31,	
		2007	2006
SHAREHOLDERS' LIABILITY AND EQUITY			
Current liabilities			
Short-term bank credit and other current liabilities	7	2,862	1,316
Trade payables		1,728	1,611
Other accounts payable	8	<u>4,314</u>	<u>4,395</u>
Total current liabilities		<u>8,904</u>	<u>7,322</u>
Long-term liabilities			
Long-term loans, net of current maturities	9	2,663	1,206
Long-term employee benefits		<u>171</u>	<u>201</u>
Total long-term liabilities		<u>2,834</u>	<u>1,407</u>
Total liabilities		<u>11,738</u>	<u>8,729</u>
Shareholders' equity	11		
Equity attributable to equity holders of the parent:			
Ordinary shares of NIS 0.1 par value each:			
Authorized: 10,000,000 shares as of December 31, 2007 and 2006			
Issued and outstanding: 6,807,299 shares as of December 31, 2007 and 2006			
		165	165
Additional paid-in capital		8,775	8,563
Capital reserve		(311)	(311)
Foreign currency translation differences		132	-
Accumulated deficit		<u>(3,725)</u>	<u>(2,723)</u>
		5,036	5,694
Minority interest		<u>4,687</u>	<u>3,705</u>
Total equity		<u>9,723</u>	<u>9,399</u>
Total liabilities and shareholders' equity		<u>21,461</u>	<u>18,128</u>

Gabriel Bouganim
 Director of Finance

Noam Allon
 Director and
 Chief Executive Officer

Date of approval: March 25, 2008

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

MEDIVISION MEDICAL IMAGING LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)	Note	US dollars	
		Year ended December 31,	
		2007	2006
Sales	12A	16,322	17,439
Cost of sales	12B	<u>7,051</u>	<u>7,257</u>
Gross profit		<u>9,271</u>	<u>10,182</u>
Operating expenses:			
Research and development expenses	12C	2,030	2,088
Selling and marketing expenses	12D	4,235	4,436
General and administrative expenses	12E	<u>2,492</u>	<u>2,435</u>
Total operating expenses		<u>8,757</u>	<u>8,959</u>
Operating income		514	1,223
Financial expenses, net	12F	<u>234</u>	<u>149</u>
Profit before other income		280	1,074
Other income (loss), net	12G	<u>(72)</u>	<u>1,508</u>
Profit before taxes on income		208	2,582
Income tax expense	13, 12H	<u>8</u>	<u>16</u>
Net Profit for the year		<u>200</u>	<u>2,566</u>
Attributed to:			
Equity holders of the parent		(475)	1,623
Minority interest		<u>675</u>	<u>943</u>
		<u>200</u>	<u>2,566</u>
Basic earnings per share (in Dollars)	12I	<u>(0.068)</u>	<u>0.24</u>
Diluted earnings per share (in Dollars)	12I	<u>(0.064)</u>	<u>0.21</u>

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

MEDIVISION MEDICAL IMAGING LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars

	Attributable to equity holders of the parent					Total	Minority interests	Total equity
	Share Capital	Additional paid-in capital	Capital reserve	Foreign currency translation differences	Accumulated deficit			
(in thousands)								
Balance at January 1, 2006	165	8,506	(311)	-	(4,346)	4,014	1,681	5,695
Conversion of a note and exercise of options into common stock of a subsidiary	-	-	-	-	-	-	1,060	1,060
Cost of share-based payment	-	57	-	-	-	57	21	78
Net profit	-	-	-	-	1,623	1,623	943	2,566
Balance at December 31, 2006	<u>165</u>	<u>8,563</u>	<u>(311)</u>	<u>-</u>	<u>(2,723)</u>	<u>5,694</u>	<u>3,705</u>	<u>9,399</u>
Warrants, equity component of convertible loans issued by subsidiary and exercise of options into common stock of a subsidiary	-	106	-	-	-	106	271	377
Change in capital structure expenses (**)	-	-	-	-	(527)	(527)	-	(527)
Foreign currency translation differences	-	-	-	132	-	132	21	153
Cost of share-based payment	-	106	-	-	-	106	15	121
Net profit	-	-	-	-	(475)	(475)	675	200
Balance at December 31, 2007	<u>165</u>	<u>8,775</u>	<u>(311)</u>	<u>132</u>	<u>(3,725)</u>	<u>5,036</u>	<u>4,687</u>	<u>9,723</u>

(*) Less than \$1.

(**) See note 19(2)

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

MEDIVISION MEDICAL IMAGING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Note	US dollars Year ended December 31,	
		2007	2006
Cash Flows From Operating Activities:			
Net profit for the year		200	2,566
Adjustments for:			
Depreciation and amortization		227	198
Gain on the sale and issuance of shares of a subsidiary		-	(1,526)
Gain on issuance of shares of a subsidiary		53	-
Deferred taxes, net		(170)	(48)
Cost of share-based payment		121	78
Accretion of convertible loan		64	-
Other		(6)	41
		489	1,309
Changes In Operating Assets And Liabilities:			
Decrease (increase) in trade receivables		42	(285)
Decrease (increase) in other accounts receivable and prepaid expenses		(423)	148
Increase in inventories		(106)	(443)
Increase in trade payables		110	873
Decrease in other accounts payable and accrued expenses		(92)	(88)
Net cash provided by operating activities		20	1,514
Cash Flows From Investing Activities:			
Purchase of property and equipment		(216)	(396)
Proceeds from the sale of shares of subsidiary		-	1,772
Proceeds from the sale of property and equipment		-	5
Additions to intangible assets		(1,261)	(1,494)
Net cash used in investing activities		(1,477)	(113)
Cash Flows From Financing Activities:			
Receipt of convertible loan from shareholder		550	-
Receipt of long-term loans		500	750
Repayment of long-term loans		(688)	(1,219)
Proceeds from exercise of options and conversion of warrants by the minority shareholders of a subsidiary		186	570
Change in capital structure expenses		(527)	-
Receipt of convertible loan		2,750	-
Net cash provided by financing activities		2,771	101
Increase in cash and cash equivalents		1,314	1,502
Net foreign exchange differences		25	-
Cash and cash equivalents at beginning of the year	15	6,466	4,964
Cash and cash equivalents at the end of the year	15	7,805	6,466

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

MEDIVISION MEDICAL IMAGING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)

(in thousands)	US dollars	
	Year ended	
	December 31,	
	2007	2006
Supplementary Information:		
Cash paid during the year for interest	<u>187</u>	<u>173</u>
Income taxes	<u>237</u>	<u>76</u>
Supplemental schedule of non-cash activities:		
Repayment of notes payable and interest through conversion into common stock of a subsidiary	<u>-</u>	<u>690</u>
Long-term loans for purchase of property and equipment	<u>52</u>	<u>20</u>

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

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 1 - GENERAL

- A. Medivision Medical Imaging Ltd. ("the Company"), an Israeli corporation located in Yokneam, was incorporated and commenced business operations in June 1993. The Group is primarily engaged in the business of designing, developing, manufacturing and marketing digital imaging systems, image enhancements and analysis software and related products and services for use by practitioners in the ocular healthcare field. The principal markets of the Company are located in the United States (see Note 12a).

The Company's shares are traded on the EURO.NM market in Belgium.

B. Definitions:

- "The Company" - Medivision Medical Imaging Ltd.
- "Subsidiaries" - Companies whose financial statements are fully consolidated with those of the Company.
- "The Group" - The Company and its subsidiaries.
- "OIS" - Ophthalmic Imaging Systems.
OIS is a company incorporated in Sacramento, California, USA, whose shares are traded over the counter on the NASDAQ (OISI.OB). As of December 31, 2007, the Company owns 56% of OIS's outstanding common stock. (See also Note 16).
- "CCS" - CCS Pawlowski GmbH. (CCS), a company incorporated in Jena, Germany. CCS designs, develops, manufactures and markets ophthalmic digital imaging and image enhancement systems. The Company currently owns 63% of CCS's outstanding common stock. (See Note 6C).
- "CPI" - The Consumer Price Index as published by the Central Bureau of statistics in Israel.
- "NIS" - New Israeli Shekels.
- "Dollar" or "\$" - U.S. Dollar.
- "Euro" or "€" - European currency.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared on the historical cost basis except for certain items that are measured at fair value.

A. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended IFRS in 2007:

1. In accordance with the amendment of IAS 1 *Presentation of Financial Statements*, Granthor now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that became necessary due to this change in IAS 1 can be found in note 18.
2. IFRS 7 *Financial Instruments: Disclosures* is mandatory for reporting periods beginning on January 1, 2007 or later. The new Standard replaces and amends disclosure requirements previously set out in IAS 32 *Financial Instruments: Presentation and Disclosures* and has been adopted early by the Group in its 2007 consolidated financial statements. Disclosures relating to financial statements, including comparative information, have been updated to reflect the new requirements.

The first time application of IFRS 7 has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items (see note 17).

B. Use of Estimates

The preparation of financial statements in accordance with IFRS requires estimates and assumptions by Company Management. Management is not presently aware of any significant uncertainty in applying these estimates that might result in material changes in the carrying amounts of assets and liabilities within the next financial year.

C. Financial statements in U.S. Dollars:

1. The majority of the Group's sales are denominated in Dollars and the majority of the Group's costs are incurred in Dollars or linked thereto. Accordingly, the Company has determined the Dollar as the currency of its primary economic environment, and thus as its functional and presentation currency in accordance with IAS 21.

The financial currency of a certain subsidiary is the Euro, which is the currency of the economic environment in which that subsidiary operates. Gains and losses from the translation of the subsidiary's financial statements to dollars are reflected in shareholders' equity under "foreign currency translation differences".

2. Transactions and balances originally denominated in Dollars are presented at their original amounts. Balances in non-Dollar currencies are translated into Dollars using historical and current exchange rates for non-monetary and monetary balances respectively. For non-Dollar transactions reflected in the statement of operations, the exchange rates prevailing at the date of the transaction are used. Depreciation and changes in inventories deriving from non-monetary items are based on historical exchange rates.

All transaction gains and losses from the above translation are reflected in the statement of operations in financial expenses, net.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. Financial statements in U.S. Dollars (cont.):

3. Data regarding the representative exchange rates of the NIS in relation to the Dollar on the balance sheet date and the changes therein during the reported periods are as follows:

	<u>Exchange rate of the NIS</u>
December 31, 2007	3.846
December 31, 2006	4.225
Change during the year ended:	<u>%</u>
December 31, 2007	(8.97)
December 31, 2006	(8.21)

D. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company transactions and balances, including profits from inter-company sales not yet realized outside the Group, have been eliminated upon consolidation.

Acquisitions of subsidiaries are included in the financial statements using the purchase method of accounting. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the group. The financial statements of subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. Adjustments are made to conform to any dissimilar accounting policies that may exist.

E. Cash and cash equivalents

The Company considers all highly liquid investments readily convertible into cash, originally purchased with maturities of three months or less, to be cash equivalents.

For the purposes of the consolidated cash flows statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

F. Restricted cash

Restricted cash is primarily invested in certificates of deposits, which mature within one year and is used as security for a line of credit of OIS.

G. Trade receivables

Trade receivables include amounts billed to customers from transactions arising in the ordinary course of business. Management periodically evaluates the collectibility of these receivables. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful account balances is estimated based on historical experience and any specific customer/installation issues that have been identified. Bad debts are written off when identified.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

H. Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined as follows:

- Raw materials - on a first-in, first-out basis.
- Work-in-progress and finished products - cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating activities.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

I. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is computed by the straight-line method, on the basis of the estimated useful lives of the assets.

Annual depreciation rates are:

	<u>%</u>
Machinery and equipment	15 – 25
Office furniture and equipment	6 – 15
Computers and peripheral equipment	20 – 33
Vehicles	16.67
Leasehold improvements	Over the term of the lease

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the net selling price and the value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of operations.

J. Business Combinations and goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill arising from the purchase of OIS (for which the agreement date was prior to March 31, 2004) was amortized on a straight-line basis over its useful economic life of 20 years. Goodwill is stated at cost less accumulated amortization at December 31, 2004, and any impairment in value.

In accordance with the transition provisions of IFRS 3, the Group has ceased amortizing goodwill commencing on January 1, 2005. IFRS 3 requires the Group to test goodwill for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). The Company has not recorded any important losses with respect to its annual goodwill test, in the reported periods.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

K. Leases

Financing leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

L. Warranty provision

The Group's warranty provision contains two components. A general product provision on a per product basis in and a specific provision created as the Group becomes aware of system performance issues. The product provision is calculated based on a fixed Dollar amount per shipped each quarter. Specific provisions usually arise from the introduction of new products and as issues are resolved, the Group reduces the specific provision. These types of issues can cause the warranty provision to fluctuate outside of sales fluctuations.

Historically, the Group estimated the cost of the various warranty services by taking into account the estimated cost of servicing routine warranty claims in the first year, including parts, labor and travel costs for service technicians. The Group analyzes the expenses in utilization of its service department to estimate the cost per system for the first year manufacturer's warranty.

M. Borrowing costs

Borrowing costs are recognized as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

N. Convertible debt:

1. Convertible debt with fixed conversion terms

The component parts (liability and equity elements) of such convertible debt are measured and reported separately in the balance sheet. Upon the issuance of convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debt. This amount is shown as a long-term liability on the amortized cost basis until conversion or repayment. The remainder, if any, of the proceeds received upon the issuance of the convertible debt is allocated to the equity component (option) and included in shareholders' equity. The value of the option is not changed in subsequent periods.

Such convertible debt is considered as a hybrid financial instruments that contain both a liability and an equity component.

Issuance costs are allocated between the liability and equity components of the convertible debt based on the allocation of the proceeds to those components when they are first recognized.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

N. Convertible debt (cont.):

2. Convertible debt with variable conversion turns

Such convertible debt is considered as a hybrid financial liability that contains an embedded derivative.

Upon initial recognition of such instrument, the Company recognizes the embedded derivative (the conversion option) separately from the host contract based on its fair value at the initial recognition. The remainder is allocated to the liability component. The derivative is then measured at fair value at each balance sheet date and the changes in the fair value are reported through profit and loss. The liability component is measured after initial recognition at amortized cost using the effective interest method.

Issuance costs are allocated between the embedded derivative and the host based on the allocation of the proceeds shown above. The costs allocated to the embedded derivative are charged to income on initial recognition and the proceeds allocated to the host component are charged to the host component.

O. Long term employee benefit

The Company's liability for employee rights upon retirement with respect to its Israeli employees is calculated, pursuant to Israeli severance pay law, based on the most recent salary of each employee 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 makes monthly deposits to insurance policies and severance pay funds. The liability of the Company is fully provided for.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial profits.

The liability for employee rights upon retirement in respect of the employees of the non-Israeli subsidiaries of the Company, is calculated on the basis of the labor laws of the country in which the subsidiary is located and is covered by an appropriate accrual.

P. Income taxes

Deferred income tax is provided for, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets, and unused tax losses can be utilized.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

P. Income taxes (cont.)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Q. Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

The multiple components of the Group's revenue are considered separate units of accounting in that revenue recognition occurs at different points of time for product shipment, installation and training services, and service contracts based on performance or contract period.

Revenues from sales of products are recognized upon shipment to customers, provided that no significant vendor obligations remain, acceptance has occurred and the collection of the related receivable is probable.

Installation revenue is recognized when the installation is complete. Separate amounts are charged and assigned in the customer quote, sales order and invoice, for installation and training services. These amounts are determined based on fair value, which is calculated in accordance with industry and competitor pricing of similar services and adjustments according to what the market will bear.

The Group generally provides a one year warranty covering materials and workmanship. Cost of sales includes the anticipated expenses associated with the warranty.

Customers may purchase extended warranty coverage for additional one or two year periods. Revenues from the sale of these extended warranties are deferred and recognized as revenue on a straight-line basis over the term of the extended warranty contract.

R. Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the assets are not yet in use it is tested for impairment annually.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

S. Royalty-bearing grants

Royalty-bearing grants from the Chief Scientist and BIRD-F for funding certain approved research projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are presented as a reduction of research and development expenses.

T. Earnings per share

The Group calculates basic and diluted earnings per share in accordance with IAS 33, Earnings per Share. Basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

U. Fair value of financial instruments

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, short-term bank credit, trade and other payables, and long-term loans reported in the balance sheet approximate their fair values.

V. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables.

Cash and cash equivalents are deposited with high credit quality banks and financial institutions in Israel, Germany and the U.S.A. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. The Group performs ongoing credit evaluations of its customers' financial condition and has limited the risk by implementing a policy that requires deposits from customers, and that takes into account the number of customers and their geographic dispersion. The Group includes provisions in the financial statements which, in the opinion of management, are adequate to cover doubtful accounts.

W. Share-based payment

IFRS 2, 'Share-Based Payment' requires an expense to be recognized when goods or services are acquired in exchange for shares or rights to shares ('equity-settled transactions'), or in exchange for other assets equivalent in value to a given number of shares or rights to shares ('cash-settled transactions'). The main impact of IFRS 2 on the Group is the recognition of an expense for options granted to employees and directors. The expense is measured by reference to the fair value of the options on the grant date by using an option-pricing model.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

X. IFRSs and IFRIC Interpretations not yet effective:

The Company has not early adopted the following IFRSs and IFRIC Interpretations that have been issued but are not effective as of December 31, 2007.

Standard or Interpretation	Description	Effective in reporting periods starting on or after
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 12	Service Concession Arrangements	January 1, 2008
IAS 23	Borrowing Costs (revised 2007)	January 1, 2009
IAS 1	Presentation of Financial Statements (revised 2007)	January 1, 2009

Based on the Company's current business model and accounting policies, management does not expect material impact on the Company financial statements when the Interpretations become effective.

The company does not intend to adopt early implementation of any of these pronouncements.

Y. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill

The group tests goodwill annually for impairment, in accordance with the accounting policy stated in note 2J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 3 - ACCOUNTS RECEIVABLE

	US dollars	
	December 31,	
	2007	2006
A. Trade		
Open accounts	3,691	3,758
Less: allowance for doubtful accounts	<u>(219)</u>	<u>(272)</u>
	<u>3,472</u>	<u>3,486</u>
B. Other accounts receivable		
Prepaid expenses	672	209
Other	<u>30</u>	<u>70</u>
	<u>702</u>	<u>279</u>

NOTE 4 - INVENTORIES

Composition:

	US dollars	
	December 31,	
	2007	2006
Raw materials	484	445
Work in progress	234	75
Finished products	<u>480</u>	<u>565</u>
	<u>1,198</u>	<u>1,085</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 5 - PROPERTY AND EQUIPMENT, NET

A. Composition:

	US dollars					
	Machinery & equipment	Office furniture & equipment	Computers & peripheral equipment	Vehicles (*)	Leasehold improvements	Total
Cost:						
Balance as of January 1, 2007	361	664	176	46	29	1,276
Changes during the year:						
Foreign translation	4	2	-	10	-	16
Additions	<u>15</u>	<u>217</u>	<u>7</u>	<u>45</u>	<u>1</u>	<u>285</u>
Balance as of December 31, 2007	<u>380</u>	<u>883</u>	<u>183</u>	<u>101</u>	<u>30</u>	<u>1,577</u>
Accumulated depreciation:						
Balance as of January 1, 2007	287	296	148	10	29	770
Foreign translation	2	1	-	2	-	5
Provision	<u>34</u>	<u>170</u>	<u>14</u>	<u>9</u>	<u>-</u>	<u>227</u>
Balance as of December 31, 2007	<u>323</u>	<u>467</u>	<u>162</u>	<u>21</u>	<u>29</u>	<u>1,002</u>
Depreciated cost:						
Balance as of December 31, 2007	<u>57</u>	<u>416</u>	<u>21</u>	<u>80</u>	<u>1</u>	<u>575</u>
Balance as of December 31, 2006	<u>74</u>	<u>368</u>	<u>28</u>	<u>36</u>	<u>-</u>	<u>506</u>

(*) Includes assets under capital lease agreements, whose cost is \$ 80 as of December 31, 2007.

B. Liens – see Note 10C.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 6 - GOODWILL AND OTHER ASSETS

A. Intangible assets

	US dollars	
	December 31,	
	2007	2006
Original amounts:		
Goodwill (see B. and C.)	4,275	4,245
Intangible assets (see D)	<u>2,762</u>	<u>1,501</u>
	7,037	5,746
Accumulated amortization:		
Goodwill (*)	<u>1,025</u>	<u>1,025</u>
	<u>6,012</u>	<u>4,721</u>

(*) Commencing January 1, 2005, goodwill is no longer amortized, see also note 2J above.

B. On August 18, 2000, the Company acquired 73% of the voting shares of OIS. The consideration for the acquisition, paid in cash, was \$2,575. Goodwill arising on the acquisition amounted to \$4,819. In June 2003, the Company's investment in OIS increased to 85% due to the conversion of a convertible promissory note. Since then, the Company's investment in OIS decreased to 56% due to sales of shares, and options exercised by the minority interest (see Note 16A). A proportionate share of goodwill amounting to \$1,362 was also realized.

C. Effective July 1, 2004, the Company acquired 54% of the voting shares of CCS, a Company incorporated in Jena, Germany. CCS designs, develops, manufactures and markets ophthalmic digital imaging and image enhancement systems. The consideration for the acquisition was \$845 of which \$813 was paid in cash and the balance of \$32 by transfer of shares of Medivision's US subsidiary, OIS.

In July 2005, the Company increased its holdings in CCS by an additional 9% in consideration of Euro 1 thousand and reached a 63% holding in CCS. The Company had an option to reach up to an 80% holding in CCS until January 2007. The Company did not exercise this option.

D. During the years 2007 and 2006, the Company recognized development costs in the amount of \$1,142 and \$1,424, respectively, as an intangible asset in accordance with the criteria for recognition as set forth in IAS 38 "Intangible Assets". See also note 2R above.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 7 - SHORT-TERM CREDIT AND CURRENT MATURITIES OF LONG-TERM LOANS

Composition:

	Interest rate in 2007 %	US dollars	
		December 31, 2007	2006
Short-term bank credit in NIS	6	37	90
Short-term bank credit in Euro		-	13
Line of credit (1)		150	150
Convertible shareholder loans (2)		455	-
Liability with respect to conversion component (2)		137	-
Current maturities of long-term loans (see Note 9)	Libor+3.75	<u>2,083</u>	<u>1,063</u>
		<u>2,862</u>	<u>1,316</u>

Collateral – see Note 10d.

- (1) Line of credit- In May 2003, OIS entered into a line of credit agreement with a bank of up to \$150. The line is secured by a pledged deposit with the bank at the amount of \$168. Advances on the line bear interest at prime (7.25% at December 31, 2007) and are due monthly. The line of credit expires on September 10, 2008.
- (2) In September 2007, the Company signed a Term Sheet which summarizes the various understandings reached between the Company and certain of its majority shareholders (the "Shareholders"), in connection with a convertible loan to be provided by the Shareholders to the Company. As of December 31, 2007, the Company received a loan in an amount of \$550.

The loan shall bear interest at an annual rate of 9% and shall be repaid within 12 months from the date of closing (September 2007).

The loan will be convertible at the election of the shareholders at a price per share reflecting a discount rate of 20% of the average share price during the 30 days before conversion.

The proceeds were allocated to a shareholders loan component and to a liability with respect to the conversion component. See also note 2N(2).

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 8 - OTHER ACCOUNTS PAYABLE

Composition:

	US dollars	
	December 31,	
	2007	2006
Employees	1,439	1,304
Accrued expenses to shareholders	251	139
Deferred extended warranty revenue (*)	1,604	1,251
Advances from customers	55	311
Warranty provision (**)	131	403
Accrued expenses and other credit balances	834	987
	<u>4,314</u>	<u>4,395</u>

(*) In addition to OIS's one-year warranty, OIS offers an extended warranty for an additional charge to the customer. OIS records the sale of the extended warranty as deferred revenue and amortizes the revenue over the term of the agreement, generally one to four years. At December 31, 2007 and 2006, deferred extended warranty revenue was \$1,604 and \$1,250, respectively. This increase is due to a larger customer base as well as an increased awareness of customers concerning the benefits of purchasing an extended warranty contract.

(**) Product warranty provision movements consist of the following:

	US dollars	
	December 31,	
	2007	2006
Balance at beginning of the year	403	619
Net provisions	(4)	135
Warranty costs incurred	(268)	(351)
Balance at end of the year	<u>131</u>	<u>403</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 9 - LONG-TERM LOANS

A. Composition:

	Interest rate in 2007 %	US dollars	
		December 31, 2007	2006
Bank loans in Dollars (1,3,4)	Libor + 3.75	2,086	2,217
Capitalized lease		81	52
Convertible shareholders loans (5)	9	<u>2,579</u>	<u>-</u>
		4,746	2,269
Less: current maturities of long-term loans		<u>2,083</u>	<u>1,063</u>
		<u>2,663</u>	<u>1,206</u>

- (1) For the loan agreement with United Mizrahi Bank see Note 11A.
- (2) The LIBOR rate was 4.996% at December 31, 2007.
- (3) In November 2006, the Company obtained a long-term bank loan in the amount of \$750. The loan with interest at an annual rate of LIBOR+ 3.75% is to be paid in eighteen monthly installments, commencing on August 2008.
- (4) In February 2007, the Company obtained a long-term bank loan in the amount of \$500. The loan with interest at an annual rate of LIBOR+ 3.75% is to be paid in eighteen monthly installments, commencing on August 2008.
- (5) On October 29, 2007, OIS entered into a Purchase Agreement (the "Purchase Agreement") with certain purchasers, pursuant to which OIS issued to the Purchasers (i) an aggregate of \$2,750 in principal amount of its 6.5% interest bearing Convertible Notes Due April 30, 2010 (the "Notes"), which Notes are convertible into 1,676,829 shares of OIS common stock, no par value, and (ii) warrants ("Warrants") to purchase an aggregate of 616,671 shares of OIS common stock at an exercise price of \$1.87 per share. The remaining principal balance due on the note is \$2,750 or \$2,579 net of the discount related to the note.

The Company allocates the proceeds to the liability component and to the equity component in accordance with the principles detailed in note 2N1 (including consideration with minority interest).

B. Aggregate maturities of long-term loans are as follows:

	US dollars	
	December 31, 2007	2006
First year – current maturities	<u>2,083</u>	<u>1,063</u>
Second year	2,015	1,009
Third year	561	197
Fourth year	<u>87</u>	<u>-</u>
	<u>2,663</u>	<u>1,206</u>
	<u>4,746</u>	<u>2,269</u>

C. Liens – see Note 10C.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Chief Scientist

The Company is committed, under agreements with the Chief Scientist in respect of certain research and development projects, to pay royalties to the Chief Scientist at the rate of 3.5% of the sales of products resulting from the research and development which resulted with the Angiovision product line, at an amount not to exceed the amount of the grants received by the Company, as participation in the research and development program. The sales of the AngioVision product line have decreased significantly. As of December 31, 2007 the Company had an outstanding contingent obligation to pay royalties in the amount of \$1,804. The obligation to pay these royalties is contingent on actual sales of the AngioVision product and in the absence of such sales no payment is required. Company Management is of the opinion that payment of these royalties is remote.

B. BIRD-F

The Group received grants from BIRD-F. Royalty payments to BIRD-F are due at the rate of 2.5% for the first year and 5% beginning with the second year and thereafter, on revenues derived from research and development projects in which the BIRD-F participated in their financing, up to 150% of the amount received by the Group.

As of December 31, 2007, grants received from BIRD-F amounted to \$769, and the Group has an outstanding contingent obligation to pay royalties to BIRD-F aggregating up to \$1,154. The obligation to pay these royalties is contingent on actual sales of the product and in the absence of such sales, no payment is required. Company Management is of the opinion that payment of these royalties is remote.

C. Liens

1. The Company's liabilities to banks are secured by a fixed lien on the Company's share capital, goodwill, patents and insurance rights and a floating lien on all of its assets.
2. To secure its liabilities to United Mizrahi Bank, the Company pledged 750,000 shares of its holdings in the common stock of OIS in favor of Delta Lloyd Bank.
3. To secure its liabilities to its shareholders in respect of convertible loans received during 2007 (see also Note 9A), the company pledged 721,052 shares of its holdings in the common stock of OIS in favor of its shareholder.
4. To secure its liability to OIS in respect with a loan of up to \$1,100 under several loan agreements, promissory notes and security agreements, the Company will pledge up to 1,078,432 shares of its holdings in the common stock of OIS in favor of OIS. As of December 31, 2007, the Company pledged as collateral 993,588 shares of OIS common stock. Subsequent to the balance sheet date, OIS agreed to increase the loan by additional \$250.
5. OIS granted a security interest in substantially all assets of OIS to United Mizrahi Bank Ltd., as security for amounts borrowed by the Company from the Bank (see Note 11a). To secure this debenture, the Company pledged 2,345,500 shares of OIS common stock in favor of OIS.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

C. Liens (cont.)

4. (Cont.)

The secured liabilities and guarantees are as follows:

<u>(in thousands)</u>	<u>US dollars</u>	
	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Short-term bank loan including current maturities of long-term loans	<u>2,083</u>	<u>1,063</u>
Long-term bank loans	<u>2,663</u>	<u>1,206</u>

D. Lease Agreements

1. OIS leases its facilities under a non-cancelable operating lease that expires in June 2009 with minimum lease payments of approximately \$147 for the year ended December 31, 2008 and \$76 for the year ended December 31, 2009. OIS wholly-owned subsidiary, Abraxas, leases a facility for their office under a non-cancelable operating lease that expires in April 2009. The lease agreement provides for minimum lease payments of \$84 for the year ended December 31, 2008, and \$28 for the year ended December 31, 2009.
2. The Company rents its facilities under a non-cancelable operating lease that expires in September 2010. The lease agreements require minimum lease payments of approximately \$40 per year until 2010.
3. CCS leases its facilities under a six-month cancellation notice operating lease that is unlimited in time with minimum lease payments of approximately \$22 per year.

E. Claims

1. On March 12, 2007, one of the Company's subcontractors has filed the following legal actions: (i) in the Tel Aviv District court- seeking judgment whereby any intellectual property rights arising from the parties' cooperation shall be partitioned between the Parties in equal parts; and (ii) in the Tel Aviv Magistrates Court- seeking monetary judgment against MediVision with respect to alleged debts.
Subsequent to the balance sheet date, the company reached a settlement agreement with the subcontractor which was approved by the court. According to this agreement, the Company paid after the balance sheet date the amount of \$200 and shall pay additional amounts for royalties at the amount of \$1 for each product unit sold by Medivision until 31.12.2010 up to the accumulated amount of USD 275,000 (the "Maximum Selling Payments") or if the Selling Payments do not exceed the sum of USD 225,000 by 31.12.2010, then Medivision shall pay to the subcontractor a one-time payment in the sum of the difference between the amount of the Selling Payments and the sum of USD 225,000 (the "Minimum Selling Payments").

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

E. Claims (cont.)

2. On May 11, 2007, OIS filed a civil action in the Superior Court of California for the County of Sacramento against OIS's former president Steven Verdooner. The complaint alleges against Verdooner claims of breach of fiduciary duty, intentional interference with contract, and intentional interference with prospective economic advantage. The complaint requests total damages against Verdooner in excess of \$7,000,000. Discovery has begun and no trial date has been set yet.

On March 12, 2008, OIS moved to amend its complaint to add the Frost Group, LLC and Opko Health, Inc., as parties to the lawsuit. The motion is scheduled to be heard on April 14, 2008.

NOTE 11 - SHARE CAPITAL

A. Warrants

In July 2005, the Company obtained a long-term bank loan in the amount of \$2,000. The loan bears interest at an annual rate of LIBOR+ 3.75%, and is to be paid in twenty four monthly installments, commencing on August 1, 2006. Under covenants set in the loan agreement, as long as any part of the loan is outstanding, the Company must maintain controlling ownership in OIS shares and a minimum amount of consolidated free cash as set in the agreement. The Company was in compliance with all restrictive loan covenants as of December 31, 2007 and during the reported period.

In consideration for the loan, the Company modified the terms of the warrants issued to the bank during 2002. The warrants to purchase shares of the Company for a total consideration of up to Euro 348,603 may be exercised at any time, for a period ending at the earlier of 8.5 years after December 9, 2002 or 12 months after the consummation of an exit transaction as described in the agreement with the bank. The exercise price will be the lower of Euro 1.3 or the price per share set at the exit transaction less 40%. The Company calculated the incremental fair value (increase in fair value of the warrants before and after the modification) using an option pricing model. The incremental fair value in the amount of \$84 was recognized as transaction costs and presented as a deduction from the loan with a corresponding credit to equity (additional paid-in capital). These costs will be amortized over the term of the loan using the effective interest rate method.

B. Stock Option Plans

On October 17, 1999, the Board of Directors of the Company adopted a Stock Option Plan (the "1999 Plan") pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. An aggregate of 500,000 Ordinary shares of the Company are reserved for issuance under the 1999 Plan. Any options which are canceled or forfeited within the option period will become available for future grants. The 1999 Plan will terminate in 2009, unless previously terminated by the Board of Directors. The plan is under section 102 of the Israeli Tax Ordinance in connection with exemption from tax on the date of issuance of shares (subject to limitations). As of December 31, 2007, there are 145,912 Ordinary Shares available for issuance under the 1999 Plan.

On November 16, 2004, the Board of Directors of the Company adopted an Israeli Stock Option Plan (the "2004 ISOP") pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. An aggregate of 500,000 Ordinary shares of the Company are reserved for issuance under the 2004 ISOP. Any options which are canceled or forfeited within the option period will become available for future grants. The vesting period will be 50% after two years, 25% after three years and 25% after four years from the grant date. The 2004 ISOP will terminate in 2014, unless previously terminated by the Board of Directors. As of December 31, 2007, there are 90,599 Ordinary Shares available for issuance under the 2004 ISOP.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 11 - SHARE CAPITAL (cont.)

B. Stock Option Plans (cont.)

As of December 31, 2007 there are 763,489 options outstanding, of which 613,990 are exercisable into Ordinary shares as follows:

December 31, 2007			
Exercise price per share	Outstanding		Exercisable
EURO	Number of options	Life^(**)	Number of options
0.50-1.50	347,128	2.5	347,128
0.03	6,960	2.5	6,960
0.80	329,201	7.0	246,902
1.12-2.53	80,200	9.0	13,000
	<u>763,489^(*)</u>		<u>613,990</u>

(*) Including 305,744 options not issued under section 102 of the Israeli Tax Ordinance.

(**) Weighted average contractual life remaining in years.

As of December 31, 2006 there are 772,489 options outstanding, of which 500,188 are exercisable into Ordinary shares as follows:

December 31, 2006			
Exercise price per share	Outstanding		Exercisable
EURO	Number of options	Life^(**)	Number of options
0.50-1.50	347,128	3.5	347,128
0.03	6,960	3.5	6,960
0.80	358,201	8.0	166,100
2.02-2.53	60,200	10.0	-
	<u>772,489^(*)</u>		<u>500,188</u>

(*) Including 312,745 options not issued under section 102 of the Israeli Tax Ordinance.

(**) Weighted average contractual life remaining in years.

	December 31, 2007		December 31, 2006	
	Amount	Weighted average exercise price	Amount	Weighted average exercise price
		EURO		EURO
Outstanding at the beginning of the year	772,489	0.99	733,889	0.89
Granted	-	-	60,200	2.17
Exercised	-	-	-	
Forfeited	(9,000)	1.61	(21,600)	0.80
Outstanding at the end of the year	<u>763,489</u>	<u>0.97</u>	<u>772,489</u>	<u>0.99</u>
Exercisable options	<u>613,990</u>	<u>0.88</u>	<u>500,188</u>	<u>0.92</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 11 - SHARE CAPITAL (cont.)

B. Stock Option Plans (cont.)

The fair value of options grants is estimated at the date of grant using the Black-Scholes option pricing model. The following are the data and assumptions used:

	US dollars
	Year ended
	December 31,
	2006
Dividend yield (%)	0
Historical Volatility (%)	74
Expected Volatility (%)	74
Risk free interest rate (%)	3.5
Expected life of options (years)	4
Exercise price (US dollars)	2.58-3.23
Share price (US dollars)	3.14
Fair value (US dollars)	1.77-1.93

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The Company recorded employee compensation expense of \$88 for the year ended December 31, 2007, with a corresponding increase in equity (additional paid-in capital).

In addition, compensation expense of \$33 was recorded for the year ended December 31, 2007, in connection with grants of options by OIS.

There were no grants during fiscal 2007.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA

A. Sales

	US dollars	
	Year ended December 31,	
	2007	2006
North America	13,674	15,026
Europe	1,109	2,250
Other	<u>1,539</u>	<u>163</u>
	<u>16,322</u>	<u>17,439</u>

B. Cost of sales

	US dollars	
	Year ended December 31,	
	2007	2006
Materials consumed	3,588	4,315
Salaries	1,682	1,835
Other	<u>1,792</u>	<u>1,327</u>
	7,062	7,477
Changes in work in progress and finished products	<u>(11)</u>	<u>(220)</u>
	<u>7,051</u>	<u>7,257</u>

C. Research and development expenses

	US dollars	
	Year ended December 31,	
	2007	2006
Salaries and related expenses	1,309	992
Subcontractors and consultants	277	772
Materials and supplies	46	50
Depreciation	53	38
Miscellaneous	<u>345</u>	<u>236</u>
	<u>2,030</u>	<u>2,088</u>

D. Selling and marketing expenses

	US dollars	
	Year ended December 31,	
	2007	2006
Salaries and related expenses	2,709	2,868
Advertising and exhibitions	378	514
Foreign travel	581	589
Communications	60	81
Miscellaneous	<u>507</u>	<u>384</u>
	<u>4,235</u>	<u>4,436</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA (cont.)

E. General and administrative expenses

	US dollars	
	Year ended December 31,	
	2007	2006
Salaries and related expenses	1,297	1,146
Professional services	442	633
Rent	336	212
Communications	33	74
Vehicles maintenance	17	22
Doubtful and bad debts	51	389
Depreciation	3	83
Income from settlement of claims(*)	-	(200)
Miscellaneous	313	76
	<u>2,492</u>	<u>2,435</u>

(*) During 2004, OIS filed a civil action in the United States District Court for the Eastern District of California against several of its former employees, and two ophthalmic equipment businesses owned by one of them. The complaint alleges claims of misappropriation of trade secrets, violations of the federal computer fraud and abuse act, copyright infringement, breach of contract, interference with contract, and false advertising. In January 2006, OIS amended its complaint to include a claim for conversion based upon the alleged taking by some of the defendants of its imaging system equipment from its premises. The complaint seeks monetary damages as well as injunctive relief against the defendants.

During 2004, the United States District Court for the Eastern District of California granted in part the OIS application for a preliminary injunction against certain of the defendants. In December 2004, the Court dismissed one individual and one company from the case. In October 2005, OIS reached a settlement of the case with the other company, under the terms of which the other company turned over to OIS the rights to its imaging systems and technology and agreed to stop selling the systems and was dismissed from the case. During 2006, the remaining defendants reached an agreement to resolve all remaining claims pursuant to a settlement agreement, to be reduced to writing, under which OIS will receive payment of \$200,000 and the claims against the defendants will be dismissed.

F. Financial expenses, net

	US dollars	
	Year ended December 31,	
	2007	2006
Bank expenses and interest, net	457	75
Amortization of debt transaction costs	-	36
Interest to related party	(36)	28
Other	(187)	10
	<u>234</u>	<u>149</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 12 - SELECTED STATEMENT OF OPERATIONS DATA (cont.)

G. Other income (loss), net

	US dollars	
	Year ended	
	December 31,	
	2007	2006
Gain on issuance of shares by OIS to third parties	(62)	377
Gain on sale of OIS shares to third parties	-	1,149
Other	<u>(10)</u>	<u>(18)</u>
	<u>(72)</u>	<u>1,508</u>

H. Income tax expense

Income tax expense is comprised as follows:

	US dollars	
	Year ended	
	December 31,	
	2007	2006
Current taxes	178	64
Deferred taxes	<u>(170)</u>	<u>(48)</u>
	<u>8</u>	<u>16</u>

I. Earnings per share

	US dollars	
	Year ended	
	December 31,	
	2007	2006
Net profit (loss) for the year attributed to equity holders of the parent	<u>(475)</u>	<u>1,623</u>
Weighted average number of shares used in calculation of basic earnings per share	6,807,299	6,807,299
Dilutive effect of share options	<u>519,829</u>	<u>406,144</u>
Adjusted weighted average number of shares used in calculation of diluted earnings per share	<u>7,327,128</u>	<u>7,213,443</u>
Basic earnings per share (in Dollars)	<u>(0.068)</u>	<u>0.24</u>
Diluted earnings per share (in Dollars)	<u>(0.064)</u>	<u>0.21</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 13 - TAXES ON INCOME

A. Tax benefits under the Encouragement of Capital Investments Law

The Company was granted "approved enterprise" status. The main benefits to which the Company will be entitled, if it implements all the terms of the approved program, are exemption from tax on income from the approved enterprise, and reduced tax rates on dividends originating from this income. The income from the approved enterprise will be exempt from tax for a ten year period, commencing on the date that taxable income is first generated by the approved enterprise (limited to the earlier of a maximum period of 12 years from commencing operations or 14 years from the date the approval letter is received). In August 1999, the Company was granted an additional period of extension, thus extending the period of tax exemption until 2009.

Dividend distributions originating in the income of the approved enterprise will be subject to tax at the rate of 15%, provided that the dividend is distributed during the period stipulated in the law. In the event of a dividend distribution (including withdrawals and charges that are deemed to be dividends) out of the income originating from the approved enterprise, and on which the Company received a tax exemption, income from which the dividend is distributed will be subject to corporate tax at the rate of 25%.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published hereunder and the instruments of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2007, management believes that the Company is in compliance with all of the aforementioned conditions.

B. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law 1985:

Results for tax purposes are measured in accordance with the change in the CPI.

C. Carry forward tax losses

The Company has accumulated losses for tax purposes as of December 31, 2007, in the amount of approximately \$ 7,000, which may be carried forward and offset against taxable income in the future for an indefinite period.

At December 31, 2007, OIS has a net operating loss carry forward of approximately \$4,877 for U.S. Federal income tax purposes which expires between 2007 and 2020, and no net operating loss carry forward for California state income tax purposes. In 2006, OIS used the Federal Tax credit carry forward of approximately \$ 175. Due to changes in ownership which occurred in prior years, Section 382 of the Internal Revenue Code provides for significant limitations on the utilization of net operating loss carry forwards and tax credits. As a result of these limitations, a portion of these loss and credit carry forwards may expire without being utilized.

D. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 13 - TAXES ON INCOME (cont.)

- E.** A reconciliation of the theoretical tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax benefit, is as follows:

(in thousands)	US dollars	
	Year ended	
	December 31,	
	2007	2006
Profit before taxes as reported in the consolidated statements of operations	208	2,582
Statutory tax rate in Israel	29%	31%
Theoretical tax expense	60	800
Increase (decrease) in taxes resulting from:		
Capital gain exempt from tax	-	(117)
Utilization of tax losses	(117)	(845)
Change in valuation allowance	167	106
Other	(102)	72
Actual tax expense	8	16

F. Deferred tax assets

OIS recorded a tax asset due to carry forward losses and other deductible temporary differences in the amount of \$1,342 as of December 31, 2007 (December 31, 2006 - \$1,172). Due to OIS's limited history of profitable operations and as these carry forward losses may not be used to offset taxable profits elsewhere in the Group, an additional tax asset of \$1,359 was not recorded.

The Company has not recorded deferred tax assets in respect of carry forward losses in the amount of \$1,599 due to their uncertainty of realization.

G. Final tax assessments

The Company has tax assessments that are deemed final through 2002.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 14 - RELATED PARTY TRANSACTIONS AND BALANCES

A. Balances

(in thousands)	US dollars	
	December 31, 2007	2006
Accrued expenses to shareholders	<u>251</u>	<u>139</u>
Other liabilities to shareholders	<u>148</u>	<u>413</u>
Convertible loans of shareholders	<u>592</u>	<u>-</u>
Other liabilities to directors	<u>5</u>	<u>27</u>

No advances or loans were granted to Directors of the Company.

B. Transactions

(in thousands)	US dollars	
	Year ended December 31, 2007	2006
Interest to related parties	<u>18</u>	<u>28</u>
Salaries to key management personnel of the Company (Shareholders)	<u>229</u>	<u>246</u>
Salaries to key management personnel of a Subsidiary (Shareholders)	<u>647</u>	<u>481</u>
Fees to directors of the Company	<u>79</u>	<u>76</u>
Salaries to directors of a Subsidiary	<u>69</u>	<u>105</u>

**NOTE 15 - CASH AND CASH EQUIVALENTS
(For the purpose of the Cash Flow Statements)**

Cash and cash equivalents are comprised of the following:

(in thousands)	US dollars	
	December 31, 2007	2006
Cash and cash equivalents	7,992	6,719
Short-term bank credit (see Note 7)	<u>(187)</u>	<u>(253)</u>
	<u>7,805</u>	<u>6,466</u>

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 16 - MODIFICATION OF SHARE CAPITAL OF OIS

- A. Pursuant to a Common Stock Purchase Agreement dated as of February 14, 2006 between the Company and Wasatch Advisors, the Company sold 1,000,000 shares of OIS's common stock to Wasatch Advisors at a price of \$1.80 per share. During the year ended December 31, 2006, the consideration received from the sales of these shares amounted to \$1,772 (net of expenses of \$18), and the Company recorded a gain of \$1,149. The Company also recorded a gain of \$377 resulting from the issuance of shares by OIS upon conversion of the loans, warrants and the exercise of options by the minority (see b and c below), which gain was included in other income. During the year ended December 31, 2007, the Company recorded a capital loss of a \$53 resulting from a convertible note issued by OIS offset by capital losses from the issuance of shares by OIS upon conversions of options by the minority. As a result of the foregoing transactions, as of balance sheet date the Company owns approximately 56% of OIS's outstanding common stock (see Note 12g).
- B. During the year ended December 31, 2006, principal and interest of the Laurus loans were converted to 568,082 shares of OIS respectively. In addition, during 2006, Laurus converted 375,000 of common stock warrants for \$538.
- C. On April 27, 2004, OIS entered into a securities purchase agreement with Laurus Master Fund Ltd. #2 ("Laurus 2"). In respect of this agreement, OIS issued a warrant to Laurus 2 to purchase up to 313,000 shares of its common stock at exercise prices ranging between \$1.40 and \$1.83 per share. The warrant is exercisable through April 27, 2009.
- D. See note 9.

NOTE 17 - FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Company Management designs principles for overall risk management, as well as develops policies covering specific areas, such as foreign exchange risk, pricing risk, interest rate risk, credit risk and liquidity risk.

The Company's principal financial instruments are comprised of accounts receivable, cash and cash equivalents, which arise directly from its operations. During the year the Company did not undertake trading in financial instruments.

Credit Risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 17 - FINANCIAL RISK MANAGEMENT (cont.)

Foreign Exchange Risk

The Company performs purchases of goods and services and sells its products, receives loans and credit lines, which are denominated mainly in USD and partly in Euro and in NIS. As a result, the Company is exposed to foreign exchange risk.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

Price Risk

The Company does not hold equity securities or any other publicly traded investments and therefore is not exposed to price risk.

Cash Flow and Fair Value Interest Rate Risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to LIBOR interest rate risk as its borrowings are linked significantly to the LIBOR. The Company has no interest-bearing assets.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in a short-term perspective. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Company maintains cash and cash equivalents to meet its liquidity requirements for up to 30-day periods.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

U.S. Dollars in thousands

NOTE 18 - CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may return the capital to the owner, issue new capital or sell assets to reduce debt.

NOTE 19 - SUBSEQUENT EVENTS

1. Following the balance sheet date, in January 2008, OIS purchased substantially all of the assets of Acermed, Inc., a leading software developer for Electronic Medical Records (EMR) and Practice Management software. The acquisition was done through OIS's newly established subsidiary; Abraxas Medical Solutions, Inc., and was approved by the California Central Bankruptcy Court. OIS capitalized \$91 of costs associated with this purchase consisting primarily of direct legal expenses.
2. Following the balance sheet date, the Company signed a Merger agreement with OIS, under which the Company will become a subsidiary of OIS in a stock transaction. According to the Merger agreement and subject to the conditions of the agreements, MV ACQUISITIONS Ltd ("MVA"), an Israeli company under incorporation and a wholly-owned subsidiary of OIS, and the Company intend to effect the merger of MVA with and into MediVision (the "Merger"), following which, MVA will cease to exist, MediVision's outstanding shares will be converted into shares of OIS common stock, and the Company will become a wholly-owned subsidiary of OIS.

At the effective date of the merger, each MediVision ordinary share will be converted into 1.66 shares of OIS common stock for a total of approximately 11 million shares of OIS common stock: ("OIS Shares"). OIS Shares will be listed for trade on the NASDAQ OTC Bulletin Board.

This ratio reflects the approximately 9.4 million OIS Shares held by MediVision and an additional aggregate amount of approximately 1.9 million shares of OIS common stock (taking into account MediVision's current outstanding share capital), reflecting the following assets and liabilities:

- MediVision's product pipeline;
- MediVision's research and development capabilities;
- MediVision's sales and distribution capabilities;
- MediVision's German-based subsidiary; and
- MediVision's debt to banks of approximately \$2.85 million

In addition, outstanding options and warrants to purchase MediVision shares shall also be converted into options or warrants in the same exchange ratio, as the case may be, to purchase shares of OIS Common Stock. The Merger agreement also includes additional provisions regarding certain rights of major shareholders of MediVision, voting arrangements, registration rights and provisions applicable to share transfers.

The Merger which was unanimously approved by both companies' Boards of Directors, OIS' special independent committee and MediVision's audit committee, is expected to close by the end of the third quarter of 2008 and will be subject to approval by OIS and MediVision's shareholders in special shareholders meetings, as well as securing all other approvals and consents which are legally required.