ELBIT VISION SYSTEMS LTD.

(An Israeli Corporation)
2012 CONSOLIDATED FINANCIAL STATEMENTS

ELBIT VISION SYSTEMS LTD.

2012 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Deloitte.
Brightman Almagor Zohar

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Elbit Vision Systems Ltd.

We have audited the accompanying consolidated balance sheets of Elbit Vision Systems Ltd. ("the Company") and its subsidiary as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements, present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United states of America.

Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu Limited

Tel-Aviv, Israel
April 29, 2013

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ELBIT VISION SYSTEMS LTD.
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	Note	December 31 2012	December 31 2011
Assets			
CURRENT ASSETS:			
Cash and cash equivalents		**1,392**	730
Restricted deposit (short term)	12a	**30**	90
Trade account receivables (net of allowance for doubtful account 2012- $50 thousands, 2011- $63 thousands)	13a	**1,099**	793
Other receiveables		**159**	121
Inventories	3	**773**	476
Total current assets		**3,453**	2,210
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Severance pay fund	6	**283**	221
Other long-term receivables and investment	4	**186**	225
		469	446
PROPERTY AND EQUIPMENT (net of accumulated depreciation and amortization)	5	**43**	50
OTHER ASSETS			
Goodwill		**242**	242
Total assets		**4,207**	2,948

The accompanying notes are an integral part of the financial statements

ELBIT VISION SYSTEMS LTD.
CONSOLIDATED BALANCE SHEETS (Cont.)
U.S. dollars in thousands

	Note	December 31 2012	December 31 2011
Liabilities and shareholders' deficiency			
CURRENT LIABILITIES:			
Credit from banks	13c	**183**	190
Current Maturities of Long Term Loan from Shareholders and Other		**568**	361
Trade account payable		**917**	437
Deferred income	2i	**64**	498
Other payable	13b	**470**	411
Total current liabilities		**2,202**	1,897
LONG-TERM LIABILITIES:			
Long term loans (net of current maturities)	7	**1,189**	1,633
Other Long Terms Liabilities	8	**790**	862
Accrued severance pay	6	**300**	241
Total long-term liabilities		**2,279**	2,736
Total liabilities		**4,481**	4,633
SHAREHOLDERS' DEFICIENCY:	9		
Share capital - ordinary shares of NIS 1 par value ("Ordinary Shares"); Authorized - 120,000,000 Ordinary Shares as of December 31, 2012 and 2011			
Issued and outstanding:			
December 31, 2012– 74,915,937 Ordinary shares December 31, 2011 – 69,652,779 Ordinary shares		**16,939**	15,556
Additional paid-in capital		**24,695**	25,491
Accumulated deficit		**(41,908)**	(42,732)
Total shareholders' deficiency		**(274)**	(1,685)
Total liabilities and shareholders' deficiency		**4,207**	2,948

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

ELBIT VISION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands (except per share data)

	Note	Year ended December 31, 2012	2011	2010
Revenues:				
Sale of products		**5,882**	4,802	3,273
Services rendered		**826**	843	639
		6,708	5,645	3,912
Cost of revenues:	13d			
Cost of products sold		**2,507**	1,564	1,540
Cost of services rendered		**454**	456	420
		2,961	2,020	1,960
Gross profit		**3,747**	3,625	1,952
Research and development costs – net		**682**	643	494
Marketing and selling		**1,371**	1,244	921
General and administrative		**734**	656	802
Operating Profit (loss)		**960**	1,082	(265)
Financial income (expenses) - net	13e	**(134)**	31	(291)
Profit (loss) before other expenses		**826**	1,113	(556)
Other expenses		**(2)**	(24)	(307)
Profit (loss) before taxes on income		**824**	1,089	(863)
Taxes on income	10d	**-**	-	-
Net Profit (loss) for the year before discontinued operation		**824**	1,089	(863)
Loss from discontinued operation		**-**	-	(1,946)
Net profit from disposal of discontinued operation		**-**	-	5,436
Total profit from disposal of discontinued operation		**-**	-	3,490
Net Profit for the year		**824**	1,089	2,627
Profit (loss) per share:				
Basic earnings (loss) per share from continuing operations		**0.012**	0.016	(0.012)
Diluted earnings (loss) per share from continuing operations		**0.012**	0.015	(0.012)
Basic earnings per share from discontinued operations		**-**	-	0.05
Diluted earnings per share from discontinued operations		**-**	-	0.05
Weighted average number of shares used in Computation of loss per share –				
Basic (in thousands)		**70,042**	69,653	69,653
Diluted (in thousands)		**71,639**	71,309	69,741

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

ELBIT VISION SYSTEMS LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Share capital		Additional		Total
	Number of shares	Amount	paid-in Capital*	Accumulated deficit	shareholders' Deficiency
	In thousands		U.S. dollars in thousands		
BALANCE – January 1, 2010	69,653	15,556	25,463	(46,448)	(5,429)
CHANGES DURING 2010:					
Profit for the year	-	-	-	2,627	2,627
Share based compensation expenses	-	-	(7)	-	(7)
BALANCE – DECEMBER 31, 2010	69,653	15,556	25,463	(46,448)	(5,429)
CHANGES DURING 2011:					
Profit for the year	-	-	-	1,089	1,089
Share based compensation expenses	-	-	35	-	35
BALANCE – DECEMBER 31, 2011	69,653	15,556	25,491	(42,732)	(1,685)
CHANGES DURING 2012:					
Profit for the year	-	-	-	824	824
Issuance of share capital and warrants (note 10a)	5,263	1,383	(872)	-	511
Issuance of debt beneficiary conversion feature	-	-	51	-	51
Share based compensation expenses	-	-	25		25
BALANCE – DECEMBER 31, 2012	74,916	16,939	24,695	(41,908)	(274)

(*) Net of share issuance costs in the amount of $40.

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

ELBIT VISION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31		
	2012	2011	2010
Cash flows from operating activities:			
Net profit (loss)	824	1,089	2,627
Capital gain from disposal of discontinued operations	-	-	(5,436)
Net profit (loss) from discontinued operations	-	-	1,946
Net profit (loss) from continuing operations	824	1,089	(863)
Adjustments to reconcile net profit (loss) for the period			
Net cash provided by (used in) operating activities:			
Depreciation and amortization	7	13	384
Loss from disposal of property	-	-	75
Liability for employee rights upon retirement	59	42	(655)
Stock based compensation	25	35	-
Changes in operating assets and liabilities:			
Decrease (increase) in trade accounts receivable	(306)	(556)	1,041
Decrease (increase) in other accounts receivable	(38)	(51)	245
Increase (decrease) in trade accounts payable	480	(127)	(103)
Changes in Deferred income	(434)	297	654
Increase (decrease) in other accounts payable	59	28	(2,829)
Decrease (increase) in inventories	(297)	(1)	(3)
Net cash provided by (used in) operating activities –continuing operations	379	769	(2,054)
Net cash used in operating activities –discontinued operations	-	-	(1,945)
Net cash provided by (used in) operating activities	379	769	(3,999)
Cash flows from investing activities:			
Purchase of property and equipment	(2)	(13)	(25)
Long-term receivables	39	46	(70)
Redemption of (investment in) restricted deposit	60	(58)	435
Proceeds from disposal of discontinued operations	2	-	547
Funds severance pay	(62)	(77)	228
Net cash provided by (used in) investing activities–continuing operations	37	(102)	1,115
Net cash provided by investing activities–discontinued operations	-	-	897
Net cash provided by (used in) investing activities	37	(102)	2,012

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

ELBIT VISION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Issuance of share capital and warrants - net of issuance costs	760	-	-
Short-term credit from bank – net	(7)	20	(744)
Proceeds from loan from shareholder	-	-	270
Repayments of loan from Shareholder	(260)	(120)	-
Proceeds from Long- terms loan	-	-	920
Repayments of Long- terms loan	(175)	(203)	-
Other Long terms liabilities	(72)	(181)	1,043
Loans from related parties and other		-	820
Net cash provided by (used in) financing activities–continuing operations	246	(484)	2,309
Net cash used in financing activities–discontinued operations	-	-	(4)
Net cash provided by (used in) financing activities	246	(484)	2,305
Net increase in cash and cash equivalents	662	183	318
Balance of cash and cash equivalents at Beginning of year	730	547	229
Balance of cash and cash equivalents at end of year	1,392	730	547
Supplemental disclosure of cash flow Information - cash paid during the year for:			
Interest paid - net	46	58	50
Income taxes paid - net	-	-	-

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

NOTE 1 - GENERAL

Elbit Vision Systems Ltd. (the "Company") is an Israeli corporation, which, together with its subsidiaries (the "Group"), is principally engaged in the design, development, manufacturing and marketing automatic vision inspection and quality monitoring systems, and rendering services related to those systems.

Elbit Vision Systems Inc. ("EVS Inc.") incorporated in Delaware U.S.A. is wholly-owned subsidiary, engaged in the selling and marketing of the Company's products worldwide.

In September 2004, the Company completed the acquisition of the entire shareholding of ScanMaster Systems (IRT) Ltd. ("ScanMaster Ltd."), an Israeli company and IRT ScanMaster System Inc. ("ScanMaster Inc."), a new Hampshire corporation (collectively - "ScanMaster"). ScanMaster is engaged in the development, manufacturing and marketing of equipment for the ultrasonic inspection of industrial parts and components for the automotive and transportation industries, the metal industry as well as applications for aircraft and jet engine inspection. During May 2010 the company sold all its shares in Scanmaster.

In 2009 the Company experienced significant difficulties in sales and incurred heavy losses that led the Company to sell its investment in ScanMaster Ltd. and the Assets and Liablities of ScanMaster Inc. The purchasers repay loan of $550 thousands in cash and undertook to repay the Company the sum of $675 thousands in satisfaction of all remaining debt owed by ScanMaster Ltd. to the Company, over a period of 10 years in equal quarterly installments starting January 1, 2011.

In connection with the sale the Company restructured its debt with the Banks. Pursuant to the agreements the banks forgave part of the debt such that the Company's remaining debt is $1.6 million dollars of which $1 million dollar is repayable over a period of 5 years starting January 1, 2011 and $0.6 million dollar is repayable over a period of 5 years starting July, 31, 2015.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America.

A. Use of estimates in the preparation of financial statements:

The preparation of financial statements in conformity with GAAP 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

Estimates and assumptions which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include: (i) impairment assessments of goodwill and long-lived assets; (ii) realization of deferred income tax assets; and (iii) provisions for obsolete and slow moving inventory. These estimates are discussed further throughout the accompanying notes.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Functional Currency and Financial Statements in U.S. Dollars:

The currency of the primary economic environment in which operations of the company and its subsidiaries are conducted is the U.S. dollar (the "dollar").

Virtually all sales by the Company and its subsidiaries are made outside Israel in non-Israeli currencies, mainly the dollar. Most purchases of materials and components are made in dollars or in Israeli currency under contracts linked to the dollar. In addition, most marketing and service costs are incurred outside Israel, primarily in dollars, through the Company's wholly-owned non-Israeli subsidiaries. Thus, the functional currency of the Company and its subsidiaries is the dollar.

Transactions in currencies other than each company's functional currency are translated based on the average currency exchange rates in accordance with the principles set forth in ASC 830-10, "Foreign Currency Translation". All gains and losses from translation of monetary balance sheet items and transactions denominated in currencies other than the functional currency are recorded in the statements of income as financial income, net as they arise.

C. Principles of consolidation:

The consolidated financial statements include the financial statements of the company and its wholly-owned subsidiaries.

All material inter-company transactions and balances have been eliminated.

D. Cash Equivalents:

Cash equivalent consist of short-term highly liquid investments, that are readily convertible into cash with original maturities when purchased of three month or less.

E. Allowance for doubtful accounts:

The allowance for doubtful accounts has been made on the specific identification basis.

F. Inventories:

Inventories are stated at the lower of cost or market. Cost is determined as follows:
Raw materials and spare parts - on moving average basis.
Products in process and finished products – on basis of production costs.

Inventories are written-down for estimated obsolescence, based on assumptions about future demand and market conditions.

G. Property and equipment:

(1) Property and equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful lives of assets, as follows:

	%
Machinery and equipment	10-33 (mainly 33%)
Office furniture and equipment	6-20
Vehicles	15-20

U.S dollars in Thousand

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Property and equipment: (Cont.)

Leasehold improvements are amortized by the straight-line method over the term of the lease, or the estimated useful life of the improvements, whichever is shorter.

(2) Impairment of long-lived assets - Impairment examinations and recognition are performed and determined based on the provisions of ASC 360-10, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("ASC 360-10"). ASC 360-10 requires that long-lived assets and certain identifiable assets held for use be reviewed for impairment on a periodic basis, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is determined by a comparison of the carrying amount of the asset and the amount of undiscounted future net cash flows to be generated by the asset or assets group. In the event that an asset is considered to be impaired, an impairment charge is recorded in the amount by which the carrying amount of the asset exceeds its estimated fair value.

H. Other assets- Goodwill and Intangible Assets:

- **Goodwill**

Under ASC 350-20, "Goodwill and Other Intangible Assets" ("ASC 350-10"), goodwill is not amortized to earnings, but rather is subject to periodic testing for impairment, at the reporting unit level, at least annually or more frequently if certain events or indicators of impairment occur. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Measurement of an impairment loss is an estimate, performed based on the following: If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Group uses the discounted cash flow method to determine the fair value of the reporting unit.

The Company has designated December 31 of each year as the date on which it will perform its annual goodwill and impairment test. An impairment of $ 1,981 thousands resulted from the annual review performed in the year 2008 and an impairment of $ 1,553 thousands resulted from the annual review performed in the year 2009, allocated to the non-destructive automated inspection segment. In 2009 the Group and specifically the non-destructive segment experienced significant difficulties in sales and incurred heavy losses which led the Company to evaluate the goodwill and other intangible associated with the non destructive segment. The result of the evaluation was the write off of the remaining balance of goodwill and intangible assets. The Company sold its holding in Scanmaster Ltd. (the subsidiary operating in the non-destructive segment) to a group of investors led by the Company's former CEO.

The intangible assets (other than Goodwill) are amortized by the straight-line method over their estim ated useful lives. Annual rates of amortization are as follows:

	%
Technology	10-20
Customer relations	10-20
Distribution network	10
Brand name	8.33

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Revenue recognition:

(1) Sale of products:

(a) General

Revenues from sales of products and supplies are recognized when an arrangement exists, delivery has occurred and title passed to the customer, Group's price to the customer is fixed or determinable and collectibility is reasonably assured.

In some cases, the Company grants its customers a trial period, usually several months, in order to evaluate prototype of the system's performance. In case that the systems performance meets the customer's requirements, it purchases the system at the end of the trial period. The Company does not recognize sales revenue from products shipped to customers for trial until such products are actually purchased. Until purchased, these products are recorded as consignment inventory at the lower of cost or market as of December 31, 2012 the Company has $109 thousands in consignment.

(b) Right of return

The Group does not provide, in the normal course of business, a right of return to its customers.

(c) Multiple Deliverables

The Company's multiple deliverable arrangements consist primarily of tangible products and professional services. The Company is unable to establish VSOE for all deliverables in an arrangement with multiple elements. Further, the Company is unable to reliably determine what similar competitor products' and services' selling prices are on a standalone basis and therefore is not able to determine TPE. As the Company is unable to establish VSOE or TPE, it uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a standalone basis. The Company determines BESP for a product or a service based on its past and current pricing practices. The determination of BESP is made through consultation with and formal approval by the Company's management. We have establish processes to update BSP for each element ,when appropriate, to ensure that it reflects recent pricing experience.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Revenue recognition: (Cont.)

(2) Services rendered

Service revenue in respect of the Group's products is recognized ratably over the contractual period, or as services are performed.

(3) Deferred income

The deferred income balance as of December 31, 2012 and 2011 include amounts of revenues that were invoiced and cash was received, but deferred due to elements of the arrangements not yet delivered as of year end.

J. Research and development:

Research and development expenses net of third party grants, are expensed as incurred.

The Company has no obligation to repay the grants if sales are not generated.

K. Advertising expenses:

Advertising expenses are expensed as in incurred. Advertising expenses for the years ended December 31, 2012, 2011 and 2010 were $ 30 thousands, $ 92 thousands and $16 thousands, respectively.

L. Deferred income taxes:

The company accounts for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes" ("ASC 740-10"). Deferred income taxes are determined by the asset and liability method based on the estimated future tax effects attributable to temporary differences between income tax bases of assets and liabilities and their reported amounts in the financial statements, and to carryforwards for tax losses and deductions. Deferred tax balances are computed using the enacted tax rates to be in effect at the time when these differences are expected to reverse, as they are known at the balance sheet date.

Deferred tax assets and liabilities are classified as current or non-current according to the classification of the respective asset or liability, or the expected reversal date of the specific temporary difference, if not related to a specific asset or liability.

Valuation allowances in respect of deferred tax assets are established when it is more likely than not that all or a portion of the deferred income tax assets will not be realized.

M. Income (loss) per share ("EPS"):

Basic EPS is computed based on the weighted average number of shares outstanding during each year. Total common stock equivalents, related to options and warrants 10,134,915, 13,293,367 and 23,158,644 shares for the years 2012, 2011 and 2010, respectively, were excluded from EPS calculation, because the effect of such options and warrants is antidilutive.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Stock-based compensation:

The Company recognizes $ 25 thousands of compensation expenses in 2012 as a result of the application of ASC 718-10. According to "share base compensation" accounting, the Company recorded compensation for stock options granted to employees and directors over the vesting period of the options based on the difference, if any, between the exercise price of the options and the market price of the underlying shares at that date.

As to information about the stock option plans and assumptions see Note 10b.

O. Reclassification:

Certain comparative figures have been reclassified to conform to the current year presentation.

P. Consentration of credit risk:

As of December 31, 2012 and 2011, the Group held cash and cash equivalents and short-term bank deposits, most of which were deposited with major Israeli, European, and U.S. banks. The Company is of the opinion that the credit risk in respect of these balances is insignificant.

The Group performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts. In respect of sales to customers in emerging economies, the Group requires letters of credit from banks.

Q. Issuance of shares, warrants and a convertible note to an investor:

The December 2012 Agreement (see note 9A (5)), included a shares, convertible debt instrument with stock warrants, and a beneficial conversion features. Under ASC 470-20-25, the Company separated the shares, debt instruments and the warrants based on their relative fair value for the liability components and for the equity components. The company accounted for the first warrants as an equity component and the second warrants as a liability component under the provision of ASC 815-10. In addition, the Company concluded that the liability component includes beneficial conversion features. Under ASC 470-20-25, issuers of certain debt instruments with beneficial conversion features need to allocate to an equity component. The Company separated it accordingly.

NOTE 3 - INVENTORIES

	December 31 2012	December 31 2011
	$ in thousands	
Raw materials	562	275
Work in process	77	107
Finished products	134	94
	773	476

The balances are net of write-down of $643 thousands and $681 thousands as of December 31, 2012 and 2011, respectively.

NOTE 4 - OTHER LONG-TERM RECEIVABLES AND INVESTMENT

	December 31 2012	December 31 2011
	$ in thousands	
Deposits on leased vehicle and other(see also Note 9b2)	22	12
Loan to former subsidiary (Scanmaster) (see Note 1)	103	152
Investment (1)	61	61
	186	225

(1) On July 22, 2004, the Company converted a convertible loan that had been granted to Micro Components Ltd. ("MCL") into 197,217 ordinary shares of MCL. As of December 31, 2012 the Company holds 2.5% of MCL's ordinary shares.

NOTE 5 - PROPERTY AND EQUIPMENT

A. Comprised as follows:

	December 31 2012	December 31 2011
	$ in thousands	
Machinery and equipment	1,705	1,721
Leasehold improvements	24	22
Office furniture and equipment	44	44
	1,773	1,787
Less - accumulated depreciation and amortization	1,730	1,737
	43	50

B. Depreciation and amortization expenses totaled $7 thousands, $ 13 thousands, and $33 thousands, in the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 6 - ACCRUED SEVERANCE PAY, NET

A. The Company's liability for severance pay is calculated in accordance with Israeli law based on the latest salary paid to employees and the length of employment in the Company.

Part of the liability is funded through individual insurance policies.

The policies are assets of the company and, under labor agreement subject to certain limitation, they may be transferred to ownership of the beneficiary employees.

B. A U.S. subsidiary provides defined contribution plan for the benefit of its employees. Under this plan, contributions are based on specific percentages of pay.

NOTE 7 - LONG-TERM LIABILITIES – LOANS AND OTHER

A. Composed as follows:

	December 31	
	2012	2011
	$ in thousands	
Loans from banks (1)	849	1,024
Loans from Shareholders (2)	-	100
Loans from Other (3)	340	509
	1,189	1,633

In November 2009 the Company signed new agreements with its bank to restructure its credit arrangments. According to the agreement the Banks agreed to maintain the Company's credit and financing facilities, as well as to delay repayment of the principal on outstanding loans to a four year period commencing on January 1, 2012 by quarterly payment including yearly interest rate of Libor +2%.

In May 2010, the Company signed new agreements with Bank Le'umi Le'Israel Ltd and Bank Hapoalim Ltd (the "Banks"), for the restructuring of its bank debt. Pursuant to the agreements with the Banks, the Banks forgave approximately $2.4M of debt from the Company and its subsidiary ScanMaster Systems (IRT) Ltd. ("ScanMaster Ltd."), and have agreed to the repayment by the Company of $1 million over 5 years and a further $600K over 10 years.

On May 2010 the Company signed agreements with its major shareholders to loan US $100 thousands. The loan is repayable upon fulfillment of certain conditions (as further elaborated in the agreement) aimed to ensure the Company achieved financial stability prior to repayment.

Further, the Company's major shareholders agreed to delay payment of the first US $100 thousands of their salary until July 2011, at which time the company shall repay them in three equal monthly installments.

In May 2010 the Company signed loan agreement with Mivtach (former Shareholder) of approximately $850 thousands to which the Company will repay the loan over five years in equal quarterly installments, plus interest at the US Dollar annual LIBOR rate.

NOTE 7 - LONG-TERM LIABILITIES – LOANS AND OTHER (Cont.)

B. The liabilities (net of current maturities) mature in the following years after the balance sheet dates:

	December 31	
	2012	2011
	$ in thousands	
2013	364	464
2014	364	364
2015	194	363
2016 and thereafter	267	442
	1,189	1,633

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Royalties

(1) The Company is committed to pay royalties to the Government of Israel based on proceeds from sales of products in the research and development of which the Government participates by way of grants. At the time the grants were received, successful development of the related projects was not assured.

In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties.

Under the terms of the Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Company (dollar linked); as from January 1, 2001 - with the addition of an annual interest rate based on Libor.

Royalty expenses to the Government of Israel totaled $ 17 thousands and $ 120 thousands in the years ended December 31, 2011 and 2010 respectively and are included in the statements of operations among cost of revenues.

(2) The Company is committed to pay royalties to the Government of Israel in respect of marketing expenses in which the Government participated by way of grants. At the time the grants were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties. The royalties are payable at the rate of 4% of the increase in export sales, up to the amount of the dollar-linked grant received. No royalties were paid in the reported years to the Government of Israel.

On November 7, 2007, the Company received a letter from the Ministry of Trade, Industry and Labor – Fund for the Encouragement of Marketing Abroad (the "Fund"), claiming that it had failed to pay royalties to the Fund since 1999 in the aggregate amount of $480 thousands. On November 21, 2007, the Company sent a letter to the Fund in which it stated that the Fund had not requested any of these royalties for many years despite the Company's written request to clarify the issue. In its letter the Company stated that a material amount of the royalties could no longer be claimed due to the operation of the statute of limitations and that in any event the Fund may be estopped from making at least part of the claims as a result of its non-response to the Company's inquiry. On December 18, 2007, the Company met with representatives of the Fund to discuss the issue. The Company have yet to receive a response to the meeting. The Company recorded an allowance of $ 90 thousands on acount of this claim.

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

A. Royalties (Cont.)

The maximum royalty amount payable the Company expects to pay to the Government of Israel under 1 and 2 above ,at December 31, 2012 is approximately $849 thousands.

In January 2011 the Company signed an agreement with the office of the Chief scientist of to repay the Copmany debt during the next ten year with monthly installment of 36 thousands NIS per month.

B. Lease commitments

(1) The premises occupied by the Company and certain subsidiaries are rented under various operating lease agreements. The lease agreements for the premises expire in 2014 with extended options for another 4 years.

To secure the amounts due to the lessor, the Company has deposited a total of U.S. $ 27 thousands.

Minimum lease commitments of the Company and the subsidiaries under the above leases, at rates in effect as of December 31, 2012, are as follows:

	$ in thousands
Year ending December 31:	
2013	81
2014	46
	127

The rental payments for the premises in Israel, which constitute most of the above amounts, are payable in Israeli currency linked to the US Dollar.

Rental expenses totaled $ 92 thousands, $ 92 thousands, and $ 329 thousands in the years ended December 31, 2012, 2011 and 2010, respectively.

(2) The Company leases motor vehicles under long-term operating lease agreements. The lease agreements expire on various dates ending in 2012 – 2014 (with prior notice of cancellation clauses).

Minimum lease commitments of the Company under the above leases, at rates in effect on December 31, 2012, are as follows:

	$ in thousands
2013	76
2014	23
2015	8
	710

To secure the amounts due to the lessor, the Company has deposited a total of U.S. $ 12 thousand. The deposits are unlinked and presented among other long-term receivables.

Lease expenses in 2012, 2011 and 2010, amounted to $ 87 thousands, $ 83 thousands and $ 115 thousands respectively.

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

C. Guarantees

As of December 31, 2012, the Company didn't provide guarantees to its customers.

NOTE 9 - SHAREHOLDER' DEFICIENCY

A. Authorized, issued and outstanding shares

(1) The Company's Ordinary Shares are traded in the United States on the OTC Bulletin Board market under the symbol EVSNF.OB.

(2) In June 2007 the Company completed a transaction with a group of Israeli institutional investors, for the purchase of its 9,465,544 ordinary shares for $0.315 per share, of an aggregate price of $2,981 thousands. Pursuant to the transaction, the investors were also issued warrants to purchase 4,732,774 of the Company's ordinary shares at an exercise price per share of $0.45, exercisable for a period of 4 years. These warrants terminated in June 2011.

(3) On June 21, 2007, following the approval of the Company's board of directors and the Company's audit committee, the Company executed an agreement with Elbit Ltd., or the Elbit Agreement. This agreement was approved by the Company's shareholders in a meeting held on July 31, 2007. Pursuant to this agreement Elbit Ltd.(i) converted an existing loan to the Company in the amount of $470 thousands (including accrued interest up until March 31, 2007) into 1,492,063 ordinary shares, at a price of $0.315 per share; and (ii) invested $250 thousands in consideration for 793,651 of the Company's ordinary shares at a price of $0.315 per share and received a 4-year warrant to purchase 396,825 of the Company's ordinary shares at an exercise price of $0.45 per share. At consummation the Company paid all interest accrued on the loan between April 1, 2007 and the closing date. These warrants terminated in June 2011

On February 21, 2006, the Company consummated the Mivtach Agreement. Pursuant to the agreement, Mivtach Shamir Holdings Ltd. ("Mivtach") provided the Company with a two-year $3 million loan, which Mivtach Shamir was entitled at its sole discretion, for a period of 24 months following the provision of the loan, to convert into 6,000,000 of the Company's ordinary shares, at a price per share of $0.5 (half the loan was being held in escrow subject to the completion of a certain milestone, or conversion of the loan). Mivtach was also granted a two-year warrant to purchase 4,000,000 of the Company's ordinary shares at an exercise price of $0.5 per share, exercisable only if the loan was converted. On June 21, 2007 the Company executed an amendment agreement with M.S.N.D., pursuant to the Amendment Agreement, the terms of the Mivtach Agreement and the loan therein, were amended, such that in consideration for M.S.N.D.'s undertaking to convert the full loan amount by no later than August 1, 2007 (a).

Mivtach was issued with 9,523,810 of ordinary shares; and (b) Mivtach received a 4-year warrant to purchase 2,380,952 of the Company's ordinary shares at an exercise price of $0.45 per share. Mivtach also agreed to waive its rights to exercise at least 3,000,000 ordinary shares issuable under the Mivtach Agreement, agreeing to exercise no more than 1,000,000 ordinary shares issuable under the Amendment Agreement, which warrants expired on February 21, 2008.

.NOTE 9 - SHAREHOLDER' EQUITY (Cont.)

A. Authorized, issued and outstanding shares (Cont.)

(3) (Cont.)

M.S.N.D. also completed the purchase of 2,939,192 of the Company's ordinary shares from three of the founders of ScanMaster, in accordance with the provisions of a share purchase agreement.

During September 2008, M.S.N.D. transferred the right to exercise 1,380,000 ordinary shares to David Gal, the Company's former CEO.

In May 2010, The current new shareholders of the Company purchased all those shares and Warrants.

(4) In December 2009 the Company issued Mivtach Shamir Holdings Ltd. 18,664,078 ordinary shares for $0.097 per share for a total amount of $1,810,416.This amount include convertion of Loan received from Mivtach during 2009 in an amount of $627,000.Pursuant to the transaction, Mivtach was also issued warrants to purchase 9,332,039 of the Company's ordinary shares at an exercise price per share of $0.139, exercisable for a period of 4 years.

In May 2010, The current new shareholders of the Company purchased all those shares and Warrants. These warrants were fortified in June 2011.

(5) In December 2012, The Company issued Mr. Gross some financial instruments in consideration of $760 thousands (net of $40 thousands issuance expenses) which includes shares, warrants and a convertible note. The Company issued 5,263,158 ordinary shares for $0.095 per share. The Company also issued warrants ("The first warrants") to purchase 2,105,263 of the Company's ordinary shares at an exercise price per share of $0.095 amounting $200 thousands, vested in fully upon issuance, exercisable through February 2015. The Convertible Note Agreement is on the principal amount of $300 thousands. The maturity date of the Note is, May 2013, after the maturity date the conversion option expires, and the loan is supposed to be returned in 12 monthly installments. The Note bears interest at a per annum rate of Libor rate. The Note and accrued interest are convertible to common stock of the Company at a conversion rate of $0.095 per share. In case that Mr. Gross would convert more than 50% of the aggregated amount of the principal amount of the convertible note and the first warrants, the Company would issue Mr. gross warrants ("the second warrants"). The principal amount of the second warrants would be in proportion to percentage converted/exercised from the principal amount of the convertible note and the first warrants. The second warrants could amount up to $1 miilion of the Company's ordinary shares at an exercise price per share of $0.17 or $0.20 depends on The company's revenue on the year ended 2014. The second warrants would be vested in fully upon issuance, exercisable through February 2015.

.NOTE 9 - SHAREHOLDER' EQUITY (Cont.)

B. Share option plans:

(1) The plans:

(a) In April 2000, the board of directors of the Company adopted the Employee Share Option Plan (2000) (hereafter – The 2000 Plan).

Under the 2000 plan, options to purchase an aggregate of 4,500,000 ordinary shares are available to be awarded to employees, directors or consultants of the Company or any of its subsidiaries.

Under the 2000 plan, options usually vest over a period of three or four years from the date of grant, in equal parts each year.

The 2000 Plan is valid for ten years and expired on April 3, 2010, except for options outstanding on that date.

(b) In November 2003, the Board of Directors of the Company adopted the Employee Share Option Plan (2003) (hereafter – The 2003 Plan).

Under the 2003 plan, options to purchase an aggregate of 3,500,000 ordinary shares are available to be awarded to employees, directors or consultants of the Company or any of its subsidiaries.

Under the 2003 plan, options usually vest over a period of four years from the date of grant, in equal parts each year.

The 2003 Plan is valid for ten years and will expire on November 30, 2013, except for options outstanding on that date.

NOTE 9 - SHAREHOLDER' EQUITY (Cont.)

B. Share option plans: (Cont.)

(1) The plans: (Cont.)

(c) In March 2006, the Board of Directors of the Company adopted the Employee Share Option Plan (2006) (hereafter – The 2006 Plan).

Under the 2006 plan, options to purchase an aggregate of 2,000,000 ordinary shares are available to be awarded to employees, directors or consultants of the Company or any of its subsidiaries.

Under the 2006 plan, options usually exercisable over a period up to ten years following the date of grant, if not exercised earlier, or 6 months after termination of the employment, will generally vest as to 25-33% commencing the beginning of the second year after the grant and as to an additional 25-33% in each of the remaining years thereafter, assuming continuous employment with the Company through such periods.

The 2006 Plan is valid for ten years and will expire in March, 2016, except for options outstanding on that date.

The exercise price of options granted under the 2000 and 2003 plans is to be not less than 85% of the fair market value of the ordinary share on the date of grant. All of the outstanding options from the 2000 , 2003 and 2006 plan are to expire no later than 10 years following the date of grant.

During 2010 , 2011 and 2012 no options were exercised.

The 2000, 2003 and 2006 plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

The amount allowed as an expense for tax purposes, at the time the employee utilizes such benefit, is limited to the amount of the benefit that is liable to tax as labor income, in the hands of the employee; all being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

The aforementioned expense will be recognized in the tax year that the benefit is credited to the employee.

U.S dollars in Thousand

NOTE 9 - SHAREHOLDER' EQUITY (Cont.)

B. Share option plans: (Cont.)

(2) Options granted to employees:

(a) A summary of the status of the above plans in respect of options granted to employees and directors of the Company and its subsidiaries as of December 31, 2012, 2011 and 2010, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	2012		2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding at beginning of year	6,139,463	0.45	6,755,463	0.45	5,159,102	0.71
Changes during the year:						
Granted (1)	85,000	0.08	150,000	0.09	2,900,000	0.05
Exercised	-	-	-	-	-	-
Forfeited	(714,900)	0.42	(766,000)	0.39	(1,303,639)	0.61
Options outstanding at end of year	5,509,563	0.45	6,139,463	0.45	6,755,463	0.45
Options exercisable at year end	4,627,071	0.55	4,371,053	0.45	3,907,131	0.71
Weighted average fair value of options granted during the year (2)	$0.08		$0.09		$0.04	

(1) Options granted in 2012, 2011 and 2010 were granted with exercise price that was at market value or above.

U.S dollars in Thousand

NOTE 9 - SHAREHOLDER' EQUITY (Cont.)

B. Share option plans: (Cont.)

(2) Options granted to employees:

(a) (Cont.)

(2) The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model in 2011 and 2012, with the following weighted average assumptions:

	Year ended December 31		
	2012	2011	2010
Dividend yield	0%	0%	0%
Expected volatility	92%	99%	92%
Risk-free interest rate	1.5%	2.02%	3.3%
Expected life - in years	4	4	4

Dividend yield - Management used an expected dividend yield based primarily on past experience applicable as of the grant date.

Expected volatility - Management estimated volatility based on the historical volatility of the Company's ordinary shares, being the only traded financial instrument of the Company, using in most cases daily observations of the Company's price share to determine the standard deviation.

Risk free interest rate - The risk-free interest rate is based on the implied yield in effect at the time of each option grant, based on U.S. Treasury zero-coupon bond issued with equivalent remaining terms.

Management estimates forfeiture rates at the date of grant, which are adjusted in subsequent periods if the actual forfeiture rates differ from those initially estimated. Management uses historical data to estimate pre-vesting option forfeiture rates and records share-based compensation expense only for those awards that are expected to vest.

(b) The following table summarizes certain information about options granted to employees and directors of the Company which were outstanding and exercisable under the above plans as of December 31, 2012:

Options outstanding			Options exercisable	
Exercise prices	Number outstanding at December 31, 2012	Weighted average remaining contractual life	Number exercisable at December 31, 2012	Weighted average remaining contractual life
$		Years		Years
0.05-0.32	3,123,036	0.63-8.39	2,240,544	0.63-8.39
0.4-0.46	127,500	4.28-5.12	127,500	4.28-5.12
0.49-0.70	403,193	0.08-5.01	403,193	0.08-5.01
0.75-0.85	1,084,334	0.89-4.29	1,084,334	0.89-4.29
1.2-1.25	771,500	1.2-1.95	771,500	1.2-1.95
	5,509,563		4,627,071	

U.S dollars in Thousand

NOTE 10 - TAXES ON INCOME

A. Tax Rates Applicable To The Income Of The Company:

The Company's Israeli subsidiary taxable income is subject to income tax at the regular corporate rate of 25%.

On December 6, 2011, the Law for Change in the Tax Burden (Legislative Amendments) was published in Israel.

The main changes of the new law regarding corporate income taxes are as follows:

1. Cancellation of the previous planned gradual reduction of income taxes and corporate income taxes commencing in 2012 (the previous amendment stated that the corporate tax rate will be further reduced in subsequent tax years as follows: in 2012 - 23%, in 2013 - 22%, 2014 - 21% , 2015 – 20% and thereafter 18%).
2. Increase of the corporate income tax rate to 25% in 2012.
3. Increase of the capital gains tax rate and betterment tax rate to 25%.

B. Deferred Income Taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	YEAR ENDED DECEMBER 31,	
	2012	2011
Net loss carry-forward	9,785	10,055
Other additions for tax Purposes	114	107
Net deferred tax asset before valuation allowance	9,899	10,162
Valuation allowance	(9,899)	(10,162)
Net deferred tax asset	–	–

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The most significant component of the Company's deferred tax assets is the accumulated net operating losses carry-forward among the two subsidiaries due to the uncertainty of the realization of such tax benefits.

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

Net profit (loss) was incurred as following:

	YEAR ENDED DECEMBER 31,	
	2012	2011
United States	(40)	49
Israel	864	1,040
	824	1,089

U.S dollars in Thousand

NOTE 10 - TAXES ON INCOME (Cont.)

C. Tax Loss Carry-Forwards::

Net operating loss carry-forwards as of December 31, 2012 are as follows:

Israel	38,500
United States *	500
	39,000

Net operating losses in Israel may be carried forward indefinitely.

Net operating losses in the U.S. are available through 2027.

* Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

NOTE 11 - LIABILITIES SECURED BY PLEDGES AND RESTRICTION PLACED IN RESPECT OF LIABILITIES

A. The Company has registered fixed charge on bank deposits in favor of certain banks. The bank deposits are used to secure a credit line granted to the Company by the banks, and as collateral for guarantees provided to its customers.

As of December 31, 2012, the bank deposits amount to $ 31 thousands linked to NIS;

B. The Company have registered floating liens on all of their assets in favor of.

NOTE 12 - SUPPLEMENTARY INFORMATION:

A. Accounts receivable

(1) Trade - allowance for doubtful accounts:

	December 31 2012	December 31 2011
	$ in thousands	
Balance at beginning of year	63	9
Charged to statement of operations	(13)	54
Balance at end of year	50	63

(2) Other:

	December 31 2012	December 31 2011
	$ in thousands	
Prepaid expenses	73	52
Israeli Government departments and agencies	86	69
	159	121

B. Accounts payable and accruals – other:

	December 31 2012	December 31 2011
	$ in thousands	
Employees and employee institutions	63	52
Israeli Government departments and agencies	115	154
Provision for vacation and recreation pay	82	63
Provision for product warranty	95	57
Liability for commissions to agents	47	39
Accrued expenses and sundry	68	46
	470	411

C. Credit from banks:

	% interest rate as of December 31, 2012	December 31 2012	December 31 2011
		$ in thousands	
Short-term loans from banks:			
Linked to the Dollar	2.5	183	190
Linked to the Euro		-	-
		183	190

During May 2010, the Company signed new agreements with Bank Le'umi Le'Israel Ltd and Bank Hapoalim Ltd (the "Banks"), for the restructuring of its bank debt. Pursuant to the agreements with the Banks, the Banks will forgive approximately $2.4 million of debt from the Company and its subsidiary ScanMaster Systems (IRT) Ltd. ("ScanMaster Ltd."), and have agreed to the repayment of by the Company $1 million over 5 years and a further $600 thousnads over 10 years.

NOTE 13 - SUPPLEMENTARY INFORMATION: (Cont.)

D. Cost of revenues:

	Year ended December 31		
	2012	2011	2010
	$ in thousands		
Industrial operations:			
Materials consumed	1,746	1,063	945
Payroll and related expenses	373	362	318
Subcontracted work	244	160	158
Depreciation and amortization	3	2	208
Other production expenses	595	416	211
Royalties (see Note 10a)	-	17	120
	2,961	2,020	1,960

E. Financial expenses, net:

	Year ended December 31		
	2012	2011	2010
	$ in thousands		
Income:			
Exchange differences	-	3	-
Other	2	120	-
	2	123	-
Expenses:			
Interest			
In respect of liability to related parties	-	9	-
In respect of credit from banks	46	38	69
Exchange differences	21	-	156
Other	69	-	66
	136	92	291
	(134)	(31)	291

NOTE 13 - RELATED PARTIES

	Year ended December 31		
	2012	2011	2010
	$ in thousands		
Managements fees – included in General and administrative	354	375	302

Balance with related parties:

	Year ended December 31		
	2012	2011	2010
	$ in thousands		
Short Terms Loan	200	191	270
Long Terms Loan	-	100	139

NOTE 14 - GEOGRAPHICAL SEGMENTS

Geographic information:

(1) The Company's revenues by geographic areas (based on location of customers) are as follows:

	Year ended December 31		
	2012	2011	2010
	$ in thousands		
North America (mainly the United States)	1,966	1,737	1,812
Germany	950	182	400
Italy	175	730	83
Other European countries	1,609	734	570
China	1,246	660	580
Japan	-	100	-
Korea	-	270	380
Israel	123	268	-
Other Far Eastern countries	639	964	87
	6,708	5,645	3,912

(2) The Company's long-lived assets by geographic areas are as follows:

	Year ended December 31	
	2012	2011
	$ in thousands	
Israel	737	718
U.S.A.	17	20
	754	738