

APOSENSE LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

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AUDITOR'S REPORT

To the Shareholders of

APOSENSE LTD.

We have audited the accompanying balance sheets of Aposense Ltd. ("the Company") as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2014, 2013 and 2012. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations, changes in its equity and cash flows for each of the years ended December 31, 2014, 2013 and 2012, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Tel-Aviv, Israel
March 29, 2015

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

BALANCE SHEETS

	December 31,	
	2014	2013
	NIS in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	1,683	939
Short-term deposits	43,253	57,628
Accounts receivable	556	361
	<u>45,492</u>	<u>58,928</u>
NON-CURRENT ASSETS:		
Long-term deposits	8,680	-
Fixed assets	1,361	1,740
	<u>10,041</u>	<u>1,740</u>
<u>Total assets</u>	<u>55,533</u>	<u>60,668</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	365	511
Other accounts payable	1,845	3,704
	<u>2,210</u>	<u>4,215</u>
NON-CURRENT LIABILITIES:		
Liability in respect of research and development grant	966	745
Employee benefit liabilities	326	799
	<u>1,292</u>	<u>1,544</u>
SHAREHOLDERS' EQUITY:		
Share capital	265	265
Share premium	274,689	271,326
Receipts on account of options	17,048	17,048
Capital reserve in respect of share-based payment transactions	32,599	35,992
Capital reserve in respect of transactions with controlling shareholders	13,684	13,684
Accumulated deficit	(286,254)	(283,406)
<u>Total shareholders' equity</u>	<u>52,031</u>	<u>54,909</u>
<u>Total liabilities and shareholders' equity</u>	<u>55,533</u>	<u>60,668</u>

March 29, 2015

Date of approval of the
financial statements

Dr. Alon Dumanis
Chairman of the Board

Dovi Farkash
Acting CEO & CFO

STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2014	2013	2012
Revenues from grant of use rights and from collaboration agreement	-	4	685
Research and development expenses, net	2,088	12,056	21,920
General and administrative expenses	4,941	7,098	8,449
Other income	-	13,099	-
Operating loss	7,029	6,051	29,684
Finance income	4,148	1,062	2,347
Finance expenses	260	2,940	1,254
Total loss	3,141	7,929	28,591
Basic and diluted loss per share attributable to the Company's shareholders (in NIS)	0.118	0.299	1.078
<u>Other comprehensive loss</u>			
<u>Amounts which will not be classified to profit or loss</u>			
Loss (profit) from re-measurement of defined compensation plan	(293)	15	-
Total comprehensive loss	2,848	7,944	28,591

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Receipts on account of options	Capital reserve in respect of share-based payment transactions	Capital reserve in respect of transactions with controlling shareholders	Accumulated deficit	Total
	NIS in thousands						
Balance as of January 1, 2012	265	270,419	17,048	34,601	13,684	(246,871)	89,146
Total comprehensive loss	-	-	-	-	-	(28,591)	(28,591)
Cost of share-based payment	-	-	-	2,002	-	-	2,002
Employees options expiration	-	154	-	(154)	-	-	-
Balance as of December 31, 2012	265	270,573	17,048	36,449	13,684	(275,462)	62,557
Actuary loss	-	-	-	-	-	(15)	(15)
Total comprehensive loss	-	-	-	-	-	(7,929)	(7,929)
Cost of share-based payment	-	-	-	296	-	-	296
Employees options expiration	-	753	-	(753)	-	-	-
Balance as of December 31, 2013	265	271,326	17,048	35,992	13,684	(283,406)	54,909
Actuary profit	-	-	-	-	-	293	293
Total comprehensive loss	-	-	-	-	-	(3,141)	(3,141)
Cost of share-based payment	-	-	-	(30)	-	-	(30)
Employees options expiration	-	3,363	-	(3,363)	-	-	-
Balance as of December 31, 2014	265	274,689	17,048	32,599	13,684	(286,254)	52,031

Please note that this English version is a free translation prepared for your convenience only. The Hebrew version is the formal binding document for all intents and purposes

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(3,141)	(7,929)	(28,591)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	372	524	554
Finance expenses (income), net	(4,941)	1,960	(2,053)
Cost of share-based payment	(30)	296	2,002
Fixed assets impairment	-	60	-
Loss from sale of fixed assets	12	54	-
Changes in liability in respect of research and development grants	143	(1,181)	456
Changes in employee benefit liabilities, net	(180)	(423)	(241)
	(4,624)	1,290	718
Changes in asset and liability items:			
Increase in accounts receivable	(454)	(989)	(1,784)
Increase (decrease) in trade payables	(146)	(1,768)	58
Increase (decrease) in other accounts payable	(1,859)	(2,854)	(201)
Increase (decrease) in deferred revenues	-	(11,285)	(685)
	(2,459)	(16,896)	(2,612)
Cash received during the year for:			
Interest received	791	1,341	2,836
Net cash used in operating activities	(9,433)	(22,194)	(27,649)
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(63)	(104)	(770)
Proceeds from the sale of fixed assets	58	27	-
Collection of short-term deposits, net	19,676	13,692	41,003
Investment in long-term deposits	(9,832)	-	(33,574)
Net cash from investing activities	9,839	13,615	6,659

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
<u>Cash flows from financing activities:</u>			
Cash received from research and development grants	338	2,024	2,172
Net cash provided by financing activities	338	2,024	2,172
<u>Increase (decrease) in cash and cash equivalents</u>	744	(6,555)	(18,818)
<u>Cash and cash equivalents at beginning of year</u>	939	7,494	26,312
<u>Cash and cash equivalents at end of year</u>	<u>1,683</u>	<u>939</u>	<u>7,494</u>