APOSENSE LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

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Auditors' Report to the Shareholders of Aposense Ltd. regarding the Audit of Internal Control Components over Financial Reporting In accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Aposense Ltd. ("the Company") as of December 31, 2012. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Internal control components over financial reporting audited by us were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" ("Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over the purchasing process; (3) controls over the payroll process (all these are named together - audited control components).

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Also, our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2012.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years, the last of which ended December 31, 2012 and our report dated March 21, 2013 expressed an unqualified opinion on those financial statements.

Tel-Aviv, Israel
March 21, 2013

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

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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, 2012 and 2011, and the related statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2012, 2011 and 2010. 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, 2012 and 2011, and the results of its operations, changes in its equity and cash flows for each of the years ended December 31, 2012, 2011 and 2010, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel “Audit of Internal Control Components over Financial Reporting”, the Company’s internal control components over financial reporting as of December 31, 2012, and our report dated March 21, 2013 expressed an unqualified opinion on the maintenance of such effective audited control components.

Tel-Aviv, Israel
March 21, 2013

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BALANCE SHEETS

	Note	December 31, 2012	December 31, 2011
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	7,494	26,312
Short-term deposits	6	58,661	78,672
Accounts receivable	8	1,580	1,403
		67,735	106,387
NON-CURRENT ASSETS:			
Long-term deposits	7	15,960	4,162
Fixed assets	9	2,301	2,085
		18,261	6,247
Total assets		85,996	112,634
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables	10	2,279	2,221
Short-term deferred revenues	16b	855	855
Other accounts payable	11	6,558	6,759
		9,692	9,835
NON-CURRENT LIABILITIES:			
Long-term deferred revenues	16b	10,430	11,115
Liability in respect of research and development grant	16b,e	2,110	1,090
Employee benefit liabilities	14	1,207	1,448
		13,747	13,653
SHAREHOLDERS' EQUITY:	17, 18		
Share capital		265	265
Share premium		270,573	270,419
Receipts on account of options		17,048	17,048
Capital reserve in respect of share-based payment transactions		36,449	34,601
Capital reserve in respect of transactions with controlling shareholders		13,684	13,684
Accumulated deficit		(275,462)	(246,871)
Total shareholders' equity		62,557	89,146
Total liabilities and shareholders' equity		85,996	112,634

March 21, 2013			
Date of approval of the financial statements	Dr. Alon Dumanis Chairman of the Board	Yoram Ashery CEO	Dovi Farkash CFO

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

STATEMENTS OF COMPREHENSIVE INCOME

	Note	2012	2011	2010
		Year ended December 31,		
		NIS in thousands (except per share data)		
Revenues from grant of use rights and from collaboration agreement	16b,d	685	1,048	1,095
Cost of sales		-	121	109
Gross profit		685	927	986
Research and development expenses, net	19a	21,920	23,586	16,849
General and administrative expenses	19b	8,449	9,447	12,920
Operating loss		29,684	32,106	28,783
Finance income	19c	2,347	7,590	1,401
Finance expenses	19c	(1,254)	(272)	(20,831)
Total comprehensive loss		28,591	24,788	48,213
Basic and diluted loss per share attributable to the Company's shareholders (in NIS)	20	1.078	0.935	1.961

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

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, 2010	221	148,651	-	22,980	10,065	(173,870)	8,047
Total comprehensive loss	-	-	-	-	-	(48,213)	(48,213)
Public issuance of shares and options (net of issuance expenses) (1)	21	53,169	4,877	-	-	-	58,067
Issuance of shares and options (net of issuance expenses) (2)	10	26,199	2,279	-	-	-	28,488
Exercise of options into shares	11	32,064	-	-	-	-	32,075
Conversion of loans from controlling shareholders into shares	2	9,890	-	-	-	-	9,892
Conversion of loans from controlling shareholders into options	-	-	9,892	-	-	-	9,892
Capital reserve in respect of transactions with controlling shareholders	-	-	-	-	3,619	-	3,619
Cost of share-based payment	-	-	-	8,509	-	-	8,509
Exercise of consultants' options into shares	*) -	337	-	(124)	-	-	213
Balance as of December 31, 2010	265	270,310	17,048	31,365	13,684	(222,083)	110,589
Total comprehensive loss	-	-	-	-	-	(24,788)	(24,788)
Cost of share-based payment	-	-	-	3,276	-	-	3,276
Exercise of consultants' options into shares	*) -	109	-	(40)	-	-	69
Balance as of December 31, 2011	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

(1) Total expenses related to public issuance were NIS 5,853 thousand.
(2) Total expenses related to private placements were NIS 1,575 thousand.
*) Represents an amount lower than NIS 1 thousand.

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

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Cash flows from operating activities:			
Loss	(28,591)	(24,788)	(48,213)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	554	447	307
Finance expenses (income), net	(2,053)	(6,365)	1,480
Cost of share-based payment	2,002	3,276	8,509
Loss from sale of fixed assets	-	5	-
Changes in liability in respect of research and development grants	456	298	447
Changes in employee benefit liabilities, net	(241)	241	(530)
Loans from controlling shareholders	-	-	1,690
Revaluation of stock options	-	-	13,155
	718	(2,098)	25,058
Changes in asset and liability items:			
Increase in accounts receivable	(1,784)	(206)	(636)
Increase in trade payables	58	818	659
Increase (decrease) in other accounts payable	(201)	3,043	374
Increase (decrease) in deferred revenues	(685)	(873)	3,294
	(2,612)	2,782	3,691
Cash received during the year for:			
Interest received	2,836	1,375	459
Net cash used in operating activities	(27,649)	(22,729)	(19,005)
Cash flows from investing activities:			
Purchase of fixed assets	(770)	(1,080)	(775)
Proceeds from the sale of fixed assets	-	68	-
Collection of (investment in) short-term deposits, net	41,003	29,798	(49,351)
Investment in long-term deposits	(33,574)	(14,000)	(12,000)
Proceeds from sale of held-to-maturity securities	-	-	7,000
Net cash from (used in) investing activities	6,659	14,786	(55,126)

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

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Cash flows from financing activities:			
Proceeds from issuance of shares and options (net of issuance expenses)	-	-	86,555
Cash received from research and development grants	2,172	415	438
Exercise of options	-	282	-
Net cash provided by financing activities	2,172	697	86,993
Increase (decrease) in cash and cash equivalents	(18,818)	(7,246)	12,862
Cash and cash equivalents at beginning of year	26,312	33,558	20,696
Cash and cash equivalents at end of year	7,494	26,312	33,558
Significant non-cash transactions:			
Conversion of loans into shares and options	-	-	19,784
Exercise of options into shares	-	-	32,075
Receivables from exercise of options into shares	-	-	213
Purchase of fixed assets	-	111	-

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

NOTE 1: - GENERAL

a. Aposense Ltd. ("the Company") was incorporated in Israel on October 9, 1996 (and commenced its activities in 1997).

The Company develops products for diagnosing and tracking in various diseases based on its unique technological platform, enabling identifying and attaching to cells and tissues undergoing controlled cell death (Apoptosis). Following the Board and Directors' decision to freeze the development program and clinical studies of ML-10 molecule with the image analysis software Earlitest®, the Company evaluates its diagnostic and imaging activity (for additional etails see also note 22). In the therapeutic field, the Company develops drugs based on its technology platform, conjugates of generic drugs combined with APOSENSE® molecules. As of this report, the Company develops, *inter-alia*, in pre-clinical development stage of the following products: ATT-11T (in agreement with Teva Pharmaceuticals) for the treatment of colorectal cancer and other tumors, ATT-Gem for the treatment of pancreatic cancer and other tumors, and ATT-LD, the next generation of the generic Levodopa used as the standard of care in Parkinson's Disease.

On June 15, 2011 the Company founded a subsidiary in England, APOSENSE UK LIMITED. As of the date of this report the English subsidiary has had no activity.

b. As of its inception to December 31, 2012, the Company raised approximately US$ 69,800 thousand from investors, grants, licensing and cooperation agreements (at a shekel value determined at the relevant exchange rates). The balance of cash, cash equivalents and deposits as of December 31, 2012 amounted to NIS 82,115 thousand (representing US$ 21,997 thousand). As of October 9, 1996 to December 31, 2012, during its R&D stages, the Company accumulated a loss of NIS 275,462 thousand. The cash used by the Company in its operating activities in the year ended on December 31, 2012 amounted to NIS 27,649 thousand. Through the end of the development and the commercialization of the Company's products, significant expenses will be required. The Company has not generated substantial revenues from its activity yet, and therefore, is depends on external funding. The Company finances its activity mainly through capital investments (see Note 17).

In June 2010, the Company has concluded an Initial Public Offering ("IPO") pursuant to a prospectus and listed its shares in the Tel Aviv Stock Exchange ("TASE"). The Company raised a total of NIS 86,555 thousand, net of issuing expenses, of which NIS 58,067 thousand in the issue to the public. Subject to and immediately prior to the issue to the public, the Company raised an investment amounting to NIS 30,063 thousand, net of issue expenses of NIS 1,575 thousand, from existing investors and new investors. The Company issued 2 series of warrants along with the issue of its shares in the IPO, (see Note 17.)

c. Definition:

In these financial statements:

The Company	-	Aposense Ltd.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

Interested parties and controlling shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 2010.
Related parties	-	As defined in IAS 24.
Dollar	-	United States dollar.

a. Basis for presentation of financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").
In addition, the financial statements are prepared in accordance with provisions of the Securities Regulations (Annual Financial Statements), 2010.

The financial statements of the Company have been prepared on a cost basis, except for a liability in respect of share-based payment, certain financial instruments, assets due to employee benefits and liabilities due to employee benefits.

The Company has elected to present the statement of comprehensive income based on the operations attribute method.

The preparation of the financial statements requires management to make critical accounting estimates as well as exercise judgment in the process of adopting significant accounting policies. The matters which required the exercise of significant judgment and the use of estimates, which have a material effect on amounts recognized in the financial statements, are specified in Note 3 below.

b. Functional currency, presentation currency and foreign currency:

The currency of presentation of the financial statements is the NIS.

The functional currency is the currency which best reflects the economic environment in which the Company operates and conducts its transactions, and according to this currency, its financial position and operating results are measured. The Company's functional currency is the NIS.

1. Transactions in foreign currency:

Transactions denominated in foreign currency (any currency other than the Company's functional currency) are recorded upon their initial recognition according to the exchange rate in effect on the date of the transaction. Subsequent to initial recognition, financial assets and liabilities denominated in foreign currency are translated at each balance sheet date into the functional currency, using the exchange rate on said date. Exchange rate differences are recorded in the statement of comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Non-monetary assets and liabilities presented at cost are translated using the exchange rate as of the transaction date.

2. CPI-linked monetary items:

Financial assets and liabilities which under their terms are linked to changes in the Consumer Price Index in Israel ("CPI") are adjusted based on the applicable CPI value, upon each balance sheet date, in accordance with terms and conditions of the agreement. Linkage differences arising from the abovementioned adjustment, except for those capitalized to qualifying assets or carried to equity in hedging transactions, are recorded in the statement of comprehensive income.

c. Cash equivalents:

Cash equivalents are considered highly liquid investments, including short-term bank deposits which are not restricted by a lien, with an original period to maturity which does not exceed three months from the date of investment or which exceeds three months but may be immediately withdrawn without a penalty and which constitute part of the Company's cash management.

d. Short-term deposits:

Short term deposits in banking corporations the original term of which is greater than three months after the date of the investment. The deposits are presented according to their terms of deposit.

e. Financial instruments:

Financial assets

Financial assets within the scope of IAS 39 are recognized at their initial recognition date at fair value, together with directly attributable transaction costs.

Receivables

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss,

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Issuance of a unit of securities

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the components of the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities and compound instruments (such as convertible debentures) that are presented at amortized cost. The proceeds allocated to equity instruments are the residual amount. Issue costs are allocated to each component pro rata to the amounts determined for each component in the unit.

Derecognition of financial instruments

Financial assets

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

Financial liability

A financial liability is derecognized when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is cleared when the debtor (the Company) has paid the liability by making a payment in cash, in other financial assets, in merchandise or services, or is legally released from the liability.

f. Fixed assets

Items of fixed assets are presented at cost plus the direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and not including expenses for current maintenance. Cost includes spare parts and auxiliary equipment that can be used only in connection with the fixed assets.
A part of an item of fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is calculated at equal annual rates on the straight-line method over the estimated useful life of the asset as follows:

	%	Mainly %
Computers and laboratory equipment (1)	15-33	15
Office furniture and equipment	6-20	6
Vehicles	15	15
Leasehold improvements	See below	

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(1) Used for all of the Company's activities.

Leasehold improvements are depreciated by the straight-line method over the leasing period (including the period of the option to extend the lease held by the Company which it intends to exercise) or in accordance with the estimated period of life of the assets, whichever is shorter.

The useful life, depreciation method and residual value of each asset are reviewed at least at the end of each year, and changes are treated as changes to accounting estimates on a prospective basis. The Company estimated that its assets have no residual value. With regard to the examination of impairment of fixed assets, see i. below.

Asset depreciation ceases upon the earlier of the date on which the asset is classified as held for sale and the date on which the asset is disposed of. An asset is derecognized on disposal or when no further economic benefits are expected from its use. A profit or loss from the disposal of the asset (which is calculated as the difference between the net proceeds from the disposal and the depreciated cost in the financial statements) is included in the statement of comprehensive income in the period in which the asset is disposed of.

g. Research and development costs

Research costs are charged to the statement of income as they arise. An intangible asset arising from a development project or from a project of the Company's own development is recognized, if it is possible to prove the technological feasibility of completion of the intangible asset, such that it will be available for use or for sale; the Company's intention to complete the intangible asset and to use it or to sell it; the ability to use the intangible asset or to sell it; the method by which the intangible asset will generate future economic benefits; the existence of the required technical, financial and other resources available for the completion of the intangible asset and the ability to measure reliably the expenses in respect thereof during its development.
As the criteria for recognizing an intangible asset are not met, the Company did not recognize an intangible asset and therefore the research and development costs are recognized as part of comprehensive income.

h. Impairment of non-financial assets

The Company examines the necessity of an impairment of fixed assets when there are signs as a result of events or changes in circumstances indicating that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the net selling price and the value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Losses from impairment are charged to the statement of comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A revaluation resulting in a reduction in the carrying amount of a revalued asset is recognized directly in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any additional reduction in excess of the credit balance is recognized in profit or loss. If an asset's carrying amount is increased as a result of the revaluation, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. Any subsequent increase is carried to a revaluation reserve.

i. <u>Leases</u>

The tests for classification of a lease as finance or operating are based on the nature of the agreements and are examined on the date of the commitment according to the principles provided in IAS 17.

<u>Operating leases</u>

Leasing agreements, in which all of the risks and benefits included in the leased asset are not tangibly transferred, are classified as an operating lease. Lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

j. <u>Government grants</u>

Government grants are recognized where there is reasonable assurance that the grant will be received and the Company will comply with the relevant conditions.

Government grants received from the Office of the Chief Scientist in Israel ("OCI") are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales.

A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Deferred taxes

The Company does not record deferred taxes in the absence of the expectation of their utilization in the foreseeable future.

l. Share-based payment transactions

Employees and service-providers of the Company are entitled to benefits by way of share-based payment in consideration for capital instruments.

m. Equity-settled transactions

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the date of the grant. The fair value is determined through the use of a binomial model which necessitates the use of several estimates as outlined in Note 17. With regard to other service-providers, the cost of the transactions is measured at the fair value of the goods or services received in exchange for the equity instruments. In cases where it is not possible to measure the fair value of the goods or services received in exchange for the equity instruments, they are measured at the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in the statement of comprehensive income along with a concurrent increase in equity over the period in which service conditions are met, and ends on the date when the relevant employees are eligible for the reward ("vesting period"). The accumulated expense recognized in respect of equity-settled transactions at the end of any reporting date up to the vesting date reflects the extent of the passage of the vesting period and the Company's best estimate with regard to the number of equity instruments that will eventually vest. The expense or revenue in the statement of comprehensive income reflects the change in the accumulated expense at the end of the reporting period as compared to the accumulated expense recognized at the end of the prior reporting period.

An expense in respect of grants that do not eventually vest, as a result of forfeiture, is not recognized in profit or loss.

If the Company modifies the conditions on which equity-settled instruments were granted, an additional expense is recognized over and above the original expense that was calculated, in respect of any change that increases the fair value of the share-based payment arrangement or benefits with the employee and the other service-provider at the fair value at the date of the change.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Liabilities due to employee benefits

There are a number of employee benefit plans in the Company:

1. Short-term employee benefits

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and employer social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus, or profit sharing plan, is recognized when the Company has a legal commitment or it is due to pay the said amount in respect of a service provided by the employee and the amount can be reliably measured.

2. Benefits after the completion of employment

The plans are usually financed by contributions to insurance companies and they are classified as defined contribution plans and as defined benefit plans.

The Company has a defined contribution plan, pursuant to Section 14 of the Severance Pay Law, according to which the Company pays on a fixed basis for some of its employees payments without there being a legal commitment or being due to pay additional amounts, even if sufficient amounts have not accumulated in the fund in order to pay all of the benefits to an employee relating to the employee's service in the current period and in previous periods. Deposits to a defined contribution plan in respect of severance pay are recognized as an expense at the time of the contribution to the plan at the same time as the receipt of the labor services from the employee and no additional provision is required in the financial statements.

In addition, the Company operates a defined benefit plan in respect of the payment of severance in accordance with the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relations is presented by the projected unit credit method. The actuarial assumptions comprise future salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate on Government debentures with maturity that matches the estimated term of the benefit payments.

The Company deposits amounts for its severance pay liabilities to some of its employees on an ongoing basis in pension funds and insurance companies ("the plan assets"). Plan assets are assets held by a long-term employee benefit fund and by qualifying insurance policies. Plan assets are not available to Company creditors, and may not be directly paid to the Company.

A liability due to employee benefits presented in the statement of financial position represents the present value of a defined benefit liability, net of the fair value of the plan assets, net of the cost of past services and actuarial profits or losses not yet

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

recognized.
Actuarial profits and losses are transferred to profit or loss in the period they arise.

Severance pay to employees is charged as an expense when the Company is obliged, without the real possibility of cancellation, to dismiss employees before they reach the generally accepted retirement age according to a detailed formal plan.

o. Revenue recognition

Revenues are recognized on the statement of comprehensive income when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred with respect to the transaction can be measured reliably. The revenues are measured at the fair value of the consideration in the transaction.

p. Revenues from the grant of user-rights, cooperation agreements and advance income

Revenues that are not returnable from the grant of a user-right for technology are recognized over the period of the user-right. Revenues that are not returnable in respect of the achievement of milestones in development are recognized at the time of their receipt and after fulfilling the milestone. Amounts that are returnable are recognized as advance income and credited to the statement of comprehensive income if the conditions for their reversal to non-returnable have been fulfilled.

q. Finance income and expenses

Finance income includes interest income in respect of amounts invested, changes in the fair value of financial instruments measured through profit or loss and gains for exchange rate differences. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses include interest expenses on loans received, changes in respect of the time value in respect of provisions, and losses from impairment of financial assets. Borrowing costs, which are not capitalized to qualifying assets, are charged to the statement of comprehensive income according to the effective interest method.

Gains and losses from exchange rate differences are reported net.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Loss per share

The loss per share is calculated by dividing the net loss attributable to the shareholders of the Company by the weighted number of Ordinary shares that exists during the period. In the basic loss per share, only shares which actually exist during the period are included. Potential Ordinary shares (convertible securities, for example, stock options and employee options) are included only in the calculation of the diluted loss per share, if their effect dilutes the loss per share by the fact that their conversion increases the loss per share from continuing activities. In addition, potential Ordinary shares that were converted during the period are included in the diluted loss per share only up to the date of conversion, and from that date are included in the basic loss per share.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Company has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments

Determining the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The model includes data as to the share price and exercise price, and assumptions regarding expected volatility, expected life, expected dividend and risk-free interest rate.

b. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.
The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Government grants

  Government grants received from the Office of the Chief Scientist at the Ministry of Industry, Trade and Labor ("OCI") and from Bird- Foundation are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

regarding the estimated future cash flows and the estimated discount rate used to measure the amount of the liability.

- Pension and other post-employment benefits

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. The carrying amount of the liability may be significantly affected by changes in such estimates.

NOTE 4:- DISCLOSURE FOR NEW IFRS STANDARDS IN THE PERIOD BEFORE THEIR APPLICATION

IAS 19 (Revised) – Employee Benefits

The IASB published IAS 19. The main revisions included in the standard are:

- The remeasurement of the net defined benefit liability (formerly - actuarial gains and losses) are recognized in other comprehensive income and not in profit or loss.
- The “corridor method” that permitted the option of postponing the recognition of actuarial gains and losses was eliminated.
- Income from the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities. The return on plan assets excluding the aforementioned income recognized in profit or loss is included in the remeasurement of the net defined benefit liability.
- The distinction between short-term employee benefits and long term employee benefits will be based upon the date when the benefits are expected to be settled, rather than the date at which the employee becomes entitled to the benefits.
- Past service costs arising from changes in the plan will be recognized immediately.

The standard shall be applied retroactively starting from the financial statements for periods starting January 1, 2013 or later. Early adoption is permissible.

The Company estimates that the Standard is not expected to have a material impact on its financial statements.

IFRS 9 - Financial Instruments

1. The IASB published the first part of phase 1 (PHASE 1) of IFRS 9 - Financial Instruments was published, as part of a project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 (“the standard”) focuses mainly on the classification and measurement of financial assets and applies to all financial assets within the scope of IAS 39.

   The standard stipulates that upon initial recognition, all financial assets (including

NOTE 4:- DISCLOSURE FOR NEW IFRS STANDARDS IN THE PERIOD BEFORE THEIR APPLICATION (Cont.)

hybrid instruments in which the host contract is a financial asset) shall be measured at fair value. In subsequent periods, debt instruments should only be measured at amortized cost if both of the following conditions are met:

- The asset is held in conjunction with a business model aimed at holding assets in order to collect the contractual cash flows derived there from.

- In accordance with contractual terms and conditions of the financial asset, the company is eligible, upon certain dates, to receive cash flows which constitute only principal payments and interest payments on the principal balance.

  Notwithstanding the aforesaid, the Company may, on initial recognition, designate a debt instrument which meets the two said conditions for fair value through profit or loss, if doing so, cancelling or significantly reducing the lack of symmetry in the measurement or recognition (accounting mismatch) that would be caused otherwise.

Subsequent measurement of all other debt instruments and other financial assets shall be at fair value.

Financial assets which are equity instruments shall be measured at fair value in subsequent periods, and differences shall be charged to the income statement or to other comprehensive income (loss), as elected by the accounting policy for each instrument individually (amounts recognized in other comprehensive income cannot be transferred afterwards to profit or loss). In case of equity instruments held for trade, these are to be measured at fair value through profit or loss. The election is final and may not be altered. However, when a company changes its business model used for management of its financial assets, it must re-classify all financial instruments affected by the change in business model, in order to reflect such change. No re-classification of financial instruments is allowed in any other case.

The commencement date of the standard is January 1, 2015. Early adoption is permissible. Initial adoption shall be instituted retroactively while providing required disclosure or restatement of the comparative figures, subject to easements set forth in the standard.

2. amendments to the standard were published on the subject of derecognition and on the subject of financial liabilities. According to the provisions of the amendments, the provisions of IAS 39 should continue to be applied with regard to derecognition and with regard to financial liabilities in respect of which an alternative to fair value (designation to fair value through profit or loss) has not been chosen. That is to say, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

NOTE 4:- DISCLOSURE FOR NEW IFRS STANDARDS IN THE PERIOD BEFORE THEIR APPLICATION (Cont.)

According to the amendments, the amount of the change in the fair value of the liabilities - which is attributable to changes in the credit risk - should be taken to other comprehensive income. All of the other changes in the fair value should be taken to profit or loss. If the recording of the change in the fair value of the liabilities, caused as a result of changes in the credit risk, in other comprehensive income results in a lack of accounting symmetry in profit or loss, then that change will also be recorded in profit or loss, and not in other comprehensive income.

The commencement date of the amendments is January 1, 2015. Early adoption is permissible, provided that the Company also implements the provisions of the standard relating to the classification and measurement of financial assets (asset stage). Initial adoption shall be made retrospectively, while providing the required disclosure or restatement of comparative figures, subject to easements set forth in the standard.

According to the Company’s estimation, the standard is not expected to have a significant impact on the financial statements.

<u>IFRS 13 - Fair Value Measurement.</u>

The IASB published new standard: IFRS 13 Fair Value Measurement.

The new standard will be applied retroactively starting from financial statements for periods starting on January 1, 2013 or later. Early adoption is permissible. The standard include transition provisions with certain easements at the time of initial implementation.

Following are the main provisions of the abovementioned IFRS 13 and its expected impact on the Company:

IFRS 13 (“Standard 13”) establishes a framework for measuring fair value insofar as this measurement is required according to the international standards. Standard 13 defines fair value as the price that would be received upon the sale of an asset, or paid for the transfer of a liability in an orderly transaction between market participants at the time of measurement. In addition, Standard 13 details the characteristics of market participants and determines that fair value will be based on the assumptions that would be used by market participants. Also, Standard 13 determines that fair value measurement will be based on the assumption that the transaction will take place in the primary market for the asset or liability, or in the absence of a primary market, in the most advantageous market. The new standards are required prospectively and do not apply to comparative figures.

The required disclosure shall be included in the Company's financial statements upon the initial adoption of the standard.

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
	NIS in thousands	
Cash linked to NIS	257	64
Cash linked to U.S. dollar	403	99
Cash equivalents - deposits linked to NIS *)	5,664	5,241
Cash equivalents - deposits linked to the U.S. dollar *)	-	20,578
Cash equivalents - deposits linked to the Euro *)	1,132	256
Other cash and cash equivalents	38	74
	7,494	26,312

*) Bank deposits for a period of less than 3 months bearing interest at 0.1% - 2.93%.

NOTE 6:- SHORT-TERM DEPOSITS

	December 31, 2012	December 31, 2011
	NIS in thousands	
Deposits linked to NIS	19,483	33,984
Deposits linked to the U.S. dollar	39,178	44,524
Deposits linked to the Euro	-	164
	58,661	78,672

*) Short-term bank deposits bearing interest at 0.6% - 4%.

NOTE 7:- LONG-TERM DEPOSITS

	December 31, 2012	December 31, 2011
	NIS in thousands	
Deposits linked to NIS bearing interest at 1.65%-3.12%	15,960	4,162

NOTE 8:- ACCOUNTS RECEIVABLE

	December 31, 2012	December 31, 2011
	NIS in thousands	
Government authorities	152	243
Prepaid expenses and others	332	341
Grant receivable from BIRD Foundation and OCS	1,096	819
	1,580	1,403

NOTE 9:- FIXED ASSETS

2012

	Computers and laboratory equipment	Office equipment and furniture	Leasehold improvements	Total
	NIS in thousands			
Cost				
Balance as of January 1, 2012	3,423	1,169	1,316	5,908
Additions during the year	275	200	295	770
Balance as of December 31, 2012	3,698	1,369	1,611	6,678
Accumulated depreciation				
Balance as of January 1, 2012	2,650	833	340	3,823
Additions during the year	332	71	151	554
Balance as of December 31, 2012	2,982	904	491	4,377
Net book value as of December 31, 2012	716	465	1,120	2,301

NOTE 9:- FIXED ASSETS (Cont.)

2011

	Computers and laboratory equipment	Office equipment and furniture	Vehicles	Leasehold improvements	Total
	NIS in thousands				
Cost					
Balance as of January 1, 2011	2,885	1,157	196	701	4,939
Additions during the year	561	15	-	615	1,191
Disposals during the year	(23)	(3)	(196)	-	(222)
Balance as of December 31, 2011	3,423	1,169	-	1,316	5,908
Accumulated depreciation					
Balance as of January 1, 2011	2,376	786	103	260	3,525
Additions during the year	293	47	27	80	447
Disposals during the year	(19)	-	(130)	-	(149)
Balance as of December 31, 2011	2,650	833	-	340	3,823
Net book value as of December 31, 2011	773	336	-	976	2,085

NOTE 10:- TRADE PAYABLES

	December 31,	
	2012	2011
	NIS in thousands	
Open debts linked to the NIS	947	836
Open debts linked to the dollar	1,163	1,175
Open debts linked to the Euro and others	169	210
	2,279	2,221

NOTE 11:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2012	2011
	NIS in thousands	
Salaries and related expenses	881	1,030
Accrued vacation pay	1,647	1,642
Accrued expenses	4,030	4,087
	6,558	6,759

NOTE 12:- FINANCIAL INSTRUMENTS

a. Classification of financial assets and financial liabilities:

The classification of financial assets and financial liabilities in the balance sheet to groups of financial instruments in accordance with IAS 39 is as follows:

	December 31,	
	2012	2011
	NIS in thousands	
Financial assets		
Cash and cash equivalents	7,494	26,312
Short-term deposits	58,661	78,672
Long-term deposits	15,960	4,162
Accounts receivable	1,580	1,403
Financial liabilities		
Trade payables	2,279	2,221
Other accounts payable	6,558	6,759
Liability in respect of research and development grant	2,110	1,090

b. Financial risk factors

The Company's activities expose it to various financial risks, such as market risk (foreign currency risk).
The management of the risks is conducted by the Company's financial department, in accordance with policies approved by the Board of Directors.

Foreign currency risk

A significant part of the Company's expenses, including expenses deriving from the clinical trials that the Company is carrying out, and payments to consultants, are denominated in dollars. Depreciation or appreciation in the exchange rate of the dollar in relation to the NIS could impact the Company's operating results and its financial expenses. The Company's cash is mostly deposited in dollar deposits bearing short and medium-term interest, in an amount matching the forecast of dollar-linked payments and the dollar-managed budget. The rest of the cash is placed mainly in NIS deposits - in order to minimize exposure to changes in the exchange rate.

NOTE 12:- FINANCIAL INSTRUMENTS (Cont.)

c. Sensitivity tests in respect of changes in market factors

	Sensitivity tests to changes in the exchange rate of the dollar	
	Profit (loss) from fluctuation	
	5% increase in exchange rate	5% decrease in exchange rate
	NIS in thousands	
For the year ended December 31, 2012	2,540	(2,540)
For the year ended December 31, 2011	3,035	(3,035)
For the year ended December 31, 2010	3,561	(3,561)

Sensitivity tests and principal working presumptions:

The fluctuations chosen in the relevant risk variables were set in accordance with management assessments regarding possible reasonable changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. Sensitivity tests present the profit or loss for each financial instrument in respect of the relevant risk variable selected for it as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

NOTE 13:- LOAN FROM CONTROLLING SHAREHOLDER

In November 1996, the Company received a loan of US$ 1.8 million (approximately NIS 5,880 thousand) from a controlling shareholder. In accordance with the terms of the loan, the loan was linked to the CPI, did not bear interest and was due to be repaid out of the Company's future profits, up to 17% of the profits each year. The Company anticipated that this amount would indeed be paid out of future profits.

The Company accounted for the transaction as a liability pursuant to IAS 37 and measured the fair value of the abovementioned liability in accordance with IAS 39 on the transaction date and at the beginning of each cut-off period; the differences between the fair value of the liability and the actual amount of the liability were recorded in a capital reserve.

On April 13, 2010, the Board of Directors of the Company, and on May 17, 2010, the general meeting, approved the provisions set forth below, in completion of the issue:

The conversion of a controlling shareholders' loan to 239,558 Ordinary shares and the conversion of a liability for management fees of a controlling shareholder to an option for the purchase of up to 245,547 Ordinary share of the Company in consideration of an exercise price of NIS 0.68 per option.

The option was released from blockage over a period of 18 months, in such a way that from the beginning of the fourth month from the date the shares are listed in June 2010, an amount of shares equal to 2.5% of the total number of shares and options held by the controlling shareholder was released from blockage each month. The Company undertook vis-à-vis the controlling shareholder that if it is liable to the payment of tax prior to the exercise of the said options, the Company will extend a loan which will be used to pay the tax.

In June 2010, with the completion of the issue, the controlling shareholders' loan was converted to shares and the liability for management fees was converted to an option to purchase Ordinary shares of the Company as set forth above.

NOTE 14:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

a. Benefits after termination of employment

The labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee on dismissal or retirement and to make regular deposits in defined deposit plans pursuant to Section 14 of the Severance Pay Law as outlined below. The Company's liability is treated as a benefit after the termination of employment. Calculation of the Company's liability for employee benefits is effected in accordance with the employment agreement in force and is based on the employee's salary and the term of his employment, which give rise to the entitlement to receive severance pay.

The benefits to employees after the termination of employment are generally financed by deposits classified as a defined benefit plan or a defined contribution plan, as outlined below.

b. Defined contribution plans

Some severance payments are subject to conditions set forth in Section 14 of the Severance Pay Law, 1963, pursuant to which the Company's regular deposits in pension funds and/or policies in insurance companies, exempt it from any further liability to employees, in respect of which the aforesaid amounts were deposited. These deposits and deposits in respect of royalties constitute defined contribution plans.

	Year ended December 31,		
	2012	**2011**	**2010**
	NIS in thousands		
Expenses in respect of defined contribution plans	386	404	230

c. Defined benefit plans

The part of the severance payments which is not covered by deposits in a defined contribution plan, as aforesaid, is accounted for by the Company as a defined benefit plan, according to which a liability is recognized in respect of employee benefits and in respect of which the Company deposits amounts in appropriate insurance policies.

NOTE 14:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

1. Expenses recorded in the statement of comprehensive income

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Cost of current service	337	416	383
Cost of capitalization	175	139	143
Expected return on plan assets	(105)	(84)	(69)
Real return transferred from severance pay item to remuneration item	20	22	19
Actuarial loss (gain), net recognized for the year	(224)	130	(123)
Total employee benefit expenses	203	623	353
Actual return on plan assets	88	23	158

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Expenses presented in the statement of comprehensive income as follows:			
Net research and development expenses	116	351	203
General and administrative expenses	87	272	150
	203	623	353

2. Liabilities of the plan, net

	December 31,	
	2012	2011
	NIS in thousands	
Liability in respect of defined benefit plan	(3,439)	(3,507)
Fair value of plan assets	2,232	2,059
Total liability, net	1,207	(1,448)

NOTE 14:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

3. Changes in the present value of the liability in respect of defined benefit plan

	2012	2011
	NIS in thousands	
Opening balance	3,507	2,883
Interest expenses	175	139
Current service cost	337	416
Total severance paid	(359)	-
Net actuarial gain	(221)	69
Closing balance	3,439	3,507

4. Plan assets

a) Plan assets

The assets of the plan include assets held by a long-term employee benefit plan and appropriate insurance policies.

b) Changes in fair value of plan assets

	2012	2011
	NIS in thousands	
Opening balance	2,059	1,676
Expected return	105	84
Contributions by employer	329	382
Severance paid from the assets	(244)	-
Real return transferred from severance pay item to remuneration item	(20)	(22)
Net actuarial gain (loss)	3	(61)
Closing balance	2,232	2,059

5. Principal assumptions used in the determination of the liability in respect of defined benefit plan

	December 31,	
	2012	2011
	%	
Discount rate	3.1	4.53
Expected rate of return on plan assets	3.1	4.53
Future salary increases	4.1	3.00

NOTE 15:- TAXES ON INCOME

a. Tax laws applicable to the Company:

Income Tax (Inflationary Adjustments) Law, 1985

Under the law, through 2007, results are measured for tax purposes in Israel, after adjustment for changes to the Consumer Price Index.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting in 2008, results for tax purposes are measured at nominal values, except for certain adjustments for changes in the Consumer Price Index for the period prior to December 31, 2007. Adjustments related to capital gains, such as on realized real estate (appreciation) and securities, continue to apply through the realization date. The amended act includes, *inter alia*, rescinding of adjustment of the addition and deduction for inflation, and the additional deduction for depreciation starting in 2008.

Law for the Encouragement of Capital Investments, 1959

According to the Law, the Company is entitled to various tax benefits, by virtue of its “approved enterprise” status as defined in this Law.

In 2003, the Company received the status of "approved enterprise" under the alternative track, pursuant to the law, according to which the Company has a period of benefits of 7 years from the date that the program generates revenue, as follows: 1) a full exemption from tax in the first two years and 2) a reduced rate of tax of 25% in place of the ordinary tax rate (see paragraph b. below) for the remaining 5 years. The period of benefits is limited to 12 years from the year of operating the program or 14 years from the date of approval. The period of benefits has not yet commenced, since the Company has still not reported any taxable income.

In the event that a dividend is distributed from tax exempt income as stated above, the Company will be obliged to pay tax at the rate that would have applied to its income from an approved enterprise in the year in which the income was generated, had the Company not chosen the alternative track. Company policy is not to distribute such a dividend.

The benefits from the Company's approved enterprise program are contingent on the fulfillment of conditions set forth in the law and related regulations to the law and the specific criteria of the Company's approved enterprise program. If the Company does not fulfill these conditions, the tax benefits will be cancelled.

Revenues deriving from sources other than the approved enterprise will be taxed at the ordinary rate of corporate tax (see paragraph b. below).

NOTE 15:- TAXES ON INCOME (Cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959

In December 2010, the Economic Policy Law for 2011 and 2012 (Legislation Amendments, 2011, was passed in the Knesset, providing, inter alia, amendments to the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The application of the amendment is from January 1, 2011. The amendment changes the benefits tracks in the Law and applies a uniform tax rate on all of the Company's preferred revenues. With effect from the 2011 tax year, the Company is entitled to choose (without the possibility of retracting its choice) whether to change to the application of the amendment and from the tax year in respect of which the choice is made, the amended tax rates will apply thereto. The tax rates according to the amendment to the Law are: in 2011 and 2012 - 15% (in Development Area A - 10%); in 2013 and 2014 - 12.5% (Development Area A - 7%); and in 2015 and onwards 12% (Development Area A - 6%).

The Company has examined the impact of the amendment to the Law on its financial statements, and as of the date of publishing the financial statements, the Company estimates that it will not change to the application of the amendment.

This assessment by the Company could change in the future.

Law for the Encouragement of Industry (Taxes), 1969

The Company has the status of an "industrial company" as defined in this law. In accordance with this status, and by virtue of the regulations published therein, the Company is entitled to claim a deduction for depreciation at increased rates in respect of equipment used in industrial activity, as set forth in the regulations by virtue of the Adjustments Law (in effect at the end of 2010). In addition, the Company is entitled to amortization in respect of a patent or rights to utilize a patent or know-how that are used for the development and promotion of the enterprise, and the deduction of expenses in respect of shares issued to the public.

b. Tax rates applicable to the Company

The rate of Israeli corporate tax in 2012 was 25%, in 2011 was 24% and in 2010- 25%. An entity is taxable on real capital gains at the corporate tax rate that applied in the year of the sale.

On December 5, 2011, the Knesset (Israeli parliament) enacted the Law for Change in the Tax Burden (Legislative Amendments) 5772-2011 (“the law”). Within the framework of the law, inter alia, commencing in 2012, the corporate tax rate reductions were cancelled. Within the framework of the law as well, the corporate tax rate was increased to 25% commencing in 2012. In light of the increase of the corporate tax rate to 25% as stated above, the tax rates on real capital gains and on real land appreciation were increased accordingly.

NOTE 15:- TAXES ON INCOME (Cont.)

c. Tax losses

As of December 31, 2012, the Company has carryforward tax losses amounting to NIS 182 million. Because of the uncertainty with regard to the existence of taxable income in future years, no deferred taxes have been recorded in respect of the abovementioned losses.

d. Tax assessments

The Company has received final tax assessments for the years up to and including tax year 2007.

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company has a rental agreement in respect of the Company's premises for a period ending December 31, 2013. With effect from September 2010, the Company rented additional office space for a period ending on the said date. According to the rental agreement, there is a rental option for 3 additional years in respect of the additional space.

The rental fees for the years ended December 31, 2012, 2011 and 2010 amounted to NIS 701 thousand, NIS 696 thousand and NIS 529 thousand, respectively.

Minimum future rental payments in respect of the Company's premises as of December 31, 2012 are:

	NIS in thousands
First year	707
Second year to third year	1,414
	2,121

The Company has an operating lease agreement in respect of commercial vehicles. The lease has an average life of 3 years, without any option to extend the contract. No specific restrictions have been imposed on the Company subject to this lease agreement.

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Minimum future lease payments in respect of the leasing of motor vehicles as of December 31, 2012 are:

	NIS in thousands
First year	342
Second year to third year	303
	645

b. In August 2008, the Company signed a contract with IBA Molecular North America Inc. ("IBA N.A."), which is a part of the IBA Group, for the radioactive execution of the ML-10 marker and the supply of the radioactive marker to the sites of the Company's clinical trials in the United States within the framework of Phase III.

In October 2008, the Company and IBA N.A. submitted an application to the BIRD Foundation for a grant in respect of a joint project with regard to the aspects of production and radioactive labeling related to the clinical development process of the ML-10. The application was approved in 2009 and an agreement between IBA N.A., the Company and the BIRD Foundation was signed in September 2009.

The Company has received approval from BIRD Foundation for a participation grant in research and development totaling US$ 590 thousand. The Company undertook to return up to 100% of the amount (linked to USD) upon receipt of FDA approval of marketing of the product derived from the research and development. The total amount of the grants received up to December 31, 2012 was NIS 1,521 thousand. The total liability for this grant in the Company’s balance sheet was NIS 1,366.

In August 2009, a strategic cooperation agreement was signed between IBA Pharma S.A. (the parent company of IBA N.A.; "IBA") and the Company, according to which IBA and the Company would cooperate in the distribution and marketing of the ML-10. In addition, in accordance with the agreement, IBA undertook to carry out the radioactive labeling of the ML-10 at its expense and to distribute the end-product to most of the PET scanners in the United States, Europe and Japan, according to specified timetables, to participate in the financing of the Phase III clinical trials, in the costs of marketing and of future clinical trials, and to pay the Company payments in advance and payments in respect of milestones in the total amount of US$ 7,000 thousand.

Pursuant to the agreement with IBA, in October 2009, the Company received payment in advance on account of future revenues in the total of US$ 2,500 thousand. On receiving revenues from the product, the Company will record to the credit of IBA 17.5% of its share in the joint sales, up to an amount received on account of future revenues, totaling US$ 2,500 thousand. In the absence of joint sales, as aforesaid as of December 31, 2012, the Company deferred recognition of the abovementioned receipt. Pursuant to the terms of the agreement, in November 2010, the Company received an additional payment of US$ 1 million. This amount will not be recovered or set off from future revenues. This amount is recognized as income by the straight-line method over the period expected by the Company until the date of approval of the product by the FDA.

During 2012 IBA and IBA N.A transferred their tights and obligations to IBA Molecular

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Compounds Development S.ar.l (Hereinto IBA Molecular CD).

Following Company's decision to freeze the development program and clinical studies of ML-10 in combination with the image analysis software Earlitest® , the Company evaluates, at this stage, further activities in the field of diagnosis and imaging (for further information see note 22).

c. In September 2005, the Company entered into a cooperation agreement with Teva Pharmaceutical Industries Ltd. ("Teva") for the joint development, manufacture and commercialization of innovative cancer-treating drugs, by the combination of the Company's technology for detecting and connecting cells undergoing apoptosis, together with generic base drugs (i.e., that have no patent protection). The collaboration is divided into a number of phases, the first being based on a budget of US$ 2,000 thousand which the Company will bear; the second, financed by Teva and at its discretion, up to an additional amount of US$ 9,000 thousand; and the third, after accumulated expenditure of US$ 11,000 thousand, in which the Company may choose between (a) continuation of the joint development and equal participation in expenses and commercial rights, (b) participation at a rate of 25% of the expenses and the receipt of 32% of the revenues or (c) non-participation in the expenses and the receipt of royalties at a rate of 7%. In April 2010, the first phase of the Company's and Teva's joint project finished and its results were examined by the two parties. On the basis of this assessment, the companies moved to the second phase of the project, in which Teva is financing the continuation of the development up to an amount of US$ 9,000 thousand. During 2012 the Company started, on its own initiative, expensing development costs in order to meet its schedules for the project. In 2012 these development costs amounted to NIS 2,880 thousand.

d. In November 2010, the Company signed an agreement with Hoffman La Roche ("Roche") for cooperation and the provision of a non-exclusive license for the use of the Earlitest™ system in clinical research in the field of cancer. In April 2012 the Company signed an agreement amendment (“the amendment”) with Hoffmann -La Roche Inc. (“ROCHE”). According to the amendment, ROCHE has to inform the Company in writing 3 months in advance its intention to start the first stage according to the agreement. Furthermore, following December 31, 2012 The Company may file an application in writing to ROCHE for starting the first stage. In case ROCHE will not reply to the Company in writing within 6 months from the Company’s application, the agreement between the companies will be automatically expired.

e. In August 2011, the Company submitted applications to the Chief Scientist for supporting its research and development activity. During January 2012, 3 grant approvals were received in the amount of NIS 3,139 thousand. During 2012, the Company has received payment of NIS 1,727 thousand. As of December 31, 2012 the Company recorded in its balance sheet liabilities of NIS 744 thousand.

NOTE 17:- EQUITY

a. Composition of share capital

	December 31, 2012	
	December 31, 2011	
	Authorized	Issued and paid-up
	Number of shares	
Ordinary shares of NIS 0.01 par value each	50,000,100	26,526,807

b. Changes in share capital

2. Issued and fully paid-up capital

	Number of shares	NIS par value
Balance as of January 1, 2010	22,106,600	221,066
Issue of shares	3,044,606	30,446
Exercise of options into shares	1,114,218	11,142
Exercise of options for consultants into shares	16,370	164
Conversion of deferred share to Ordinary shares (see paragraph 3 below)	100	1
Conversion of loans from controlling shareholders into shares	239,558	2,395
Balance as of December 31, 2010	26,521,452	265,214
Exercise of options for consultants into shares	5,355	54
Balance as of December 31, 2011 And December 31,2012	26,526,807	265,268

3. On April 13, 2010, the Board of Directors of the Company, and on May 17, 2010, the general meeting, approved the conversion of one deferred share of NIS 1 par value, which was held by a controlling shareholder, to 100 Ordinary shares of the Company of NIS 0.01 par value each.

c. Rights related to the Company's shares

The Ordinary shares accord their holders the right to participate in the general meetings of the Company and to vote therein, to appoint the directors of the Company, to participate in the distribution of dividends, bonus shares or other assets, to participate in the distribution of assets on the liquidation of the Company - all relative to the paid-up nominal amount of the shares without taking into account any premium paid for them.

NOTE 17:- SHAREHOLDERS' EQUITY (Cont.)

d. Raising of capital and warrants

1. On February 20, 2004, and on May 20, 2004, the Company signed a convertible loan agreement with some of its shareholders. Pursuant to the agreement, the shareholders loaned the Company the sum of US$ 1,500 thousand (approximately NIS 6,798 thousand). In December 2004, the loan was converted into 1,428,000 Ordinary shares of the Company. As a part of the agreement, the Company issued to the lenders warrants to purchase shares up to an amount of US$ 3,000 thousand. The warrants were exercisable at any time up to February and May 2012, respectively, or up to a week before an issue to the public, whichever was earlier. The exercise price was the lower of (1) 70% of the value of the Company as determined according to the next capital fund raising by the Company and (2) the value of US$ 52,500 thousand.

   In 2006, the Company decided to change the terms of the warrants above, whereby the number of shares that would derive from the exercise of the warrants would be 1,286,000 Ordinary shares of the Company and the exercise price was determined at US$ 0.952 per share.

   On April 13, 2010, the Board of Directors of the Company, and on May17, 2010, the general meeting, approved the amendment to the terms of the said warrants in such a way as to exercise the warrants on a "cashless" basis, without the payment of an exercise price. In June 2010, 1,286,000 warrants were exercised against the receipt of a reduced number of shares reflecting the benefit value only totaling 1,114,218 shares. As of the date of exercising the warrants, their value was assessed at their intrinsic value and amounted to a total of NIS 32,075 thousand.

2. In June 2010, the Company completed the issue of securities of the Company to the public pursuant to a prospectus and the listing of its securities on the Tel Aviv Stock Exchange ("the Stock Exchange"). The Company raised a total of NIS 86,555 thousand, net of issue expenses, of which NIS 58,067 thousand was in the issue to the public.

NOTE 17:- EQUITY (Cont.)

The Company issued 50,730 units at a price of NIS 1,260 per unit. Each unit included 40 Ordinary shares at an aggregate price of NIS 1,260, 10 Series 1 warrants for nil consideration and 20 Series 2 warrants for nil consideration.
Pursuant to the issue to the public, 2,029,200 Ordinary shares of NIS 0.01 par value each, 507,300 Series 1 warrants and 1,014,600 Series 2 warrants were issued.

Series 1 warrants are exercisable to shares at a ratio of 1:1 on each day of trading on the Stock Exchange, with effect from the date of listing for trade until May 31, 2012 at an exercise price of NIS 44 not linked to the CPI. On 4th and 11th of July 2012, the Company's shareholders meeting and Series 1 warrants owners meeting approved Series 1 warrants' terms so that their final exercise date would be November 30 2013 (instead of their original date on May 31 2012).
On July 24 2012, the court has approved the abovementioned arrangement. The warrants exercise date extension did not have any impact on the Company's financial statements.

Series 2 warrants are exercisable to shares at a ratio of 1:1 on each day of trading on the Stock Exchange, with effect from the date of listing for trade until May 31, 2014 at an exercise price of NIS 63 not linked to the CPI.

3. On May 17, 2010, the Board of Directors of the Company, and on May 31, 2010, the general meeting, approved the investment agreement in the Company of two existing shareholders. The investment was made subject to and immediately prior to the issue to the public pursuant to a prospectus and amounted to NIS 11,313 thousand, net of issue expenses of NIS 450 thousand, against the private placement of Ordinary shares and warrants of the class which was issued to the public pursuant to the prospectus.

   For the purpose of the abovementioned investment, the shareholders in question exercised the right granted by the Company in an investment agreement signed in November 2006, according to which the holders of the right were entitled to invest in the next round of capital raising to be carried out in the Company by external investors an amount equal to the amount of their investment under the agreement, at a price reflecting a discount of 15% of the price of the additional investment round. In addition, the purchasers were entitled to a refund of the expenses connected to the investment amounting to 4% of the investment which was recorded as issue expenses.

   The number of shares issued was calculated according to the price of the unit determined in the issue, offset by the discount as aforesaid.

4. On May 25, 2010, an agreement was signed between the Company and a new investor ("the agreement") regarding an investment in the Company amounting to NIS 18,750 thousand, net of issue expenses totaling NIS 1,125 thousand, in consideration for the allocation of shares and warrants of the Company. The investment was made in June 2010, following the completion of the issue to the public pursuant to a prospectus.

NOTE 17:- EQUITY (Cont.)

According to the agreement, the investor purchased Ordinary shares and warrants of the Company of the class issued to the public pursuant to the prospectus at an identical price to that provided in the issue to the public pursuant to the prospectus, and was entitled to an early undertaking commission discount.

e. Capital reserve in respect of transactions with controlling shareholders

Assets and liabilities in respect of which a transaction was entered into between the Company and controlling shareholders therein or between companies under the same control are recognized at the date of the transaction at fair value. The difference between the fair value and the consideration provided in the transaction is carried to equity. The Company has a credit difference in respect of beneficiary loans from controlling shareholders which are not under market conditions. A credit difference by its nature constitutes an owner's investment and is therefore presented as a separate item in equity "Reserve in respect of transaction with controlling shareholder". As of December 31, 2012 and 2011, and as of December 31, 2010, the balance of the reserve in respect of transactions with controlling shareholders was NIS 13,684 thousand. (see Note 13).

f. Management of capital in the Company

The objective of the Company in the management of its capital is to preserve the Company's ability to guarantee the continuity of the business, and so generate a return for the shareholders, investors and other interested parties.

The Company manages its capital structure in order to guarantee the continuity of activity and makes adjustments as a result of changes in the economic conditions and risk features of its activity, taking into account the Company's current activity in the field of life sciences, which are in the research and development stages. From time to time, the Company is likely to take various measures in order to preserve or adjust its capital structure for that purpose. Since its establishment, the Company has financed its activity mainly through the issue of capital and shareholders' loans.

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS

In 2007, the Board of Directors of the Company approved the Employee Option Plan (2007) ("the option plan"), according to which non-marketable warrants exercisable to Ordinary shares of NIS 0.01 par value each will be granted to employees of the Company, directors, consultants and service-providers. The employee option plan was determined pursuant to Section 102 of the Income Tax Ordinance.

In addition, the Board of Directors of the Company approved a number of opportunities some of which preceded the date of approving the option plan, at the dates and under the terms set forth in paragraph b. above, the issue of warrants to the former Chairman of the Board of Directors of the Company.

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

a. Options to employees

The following table presents share-based benefit expenses arising from options granted to employees and included in the statements of comprehensive income of the Company:

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Research and development expenses	1,095	1,656	1,362
General and administrative expenses	875	1,271	1,689
Total share-based benefit expenses	1,970	2,927	3,051

Share-based payment transactions granted by the Company to its employees are outlined below:

On June 1, 2008, the Chief Executive Officer of the Company was granted an option to purchase 652,000 Ordinary shares of the Company at an exercise price of US$ 3.635 per share (which was translated to NIS 11.75 according to the date of granting the options) in accordance with the option plan. As of December 31, 2012 the abovementioned options were vested.

During June 2008, January 2009 and September 2009, the Company approved the grant of 858,000 options for Ordinary shares of NIS 0.01 par value each, to additional employees of the Company. The exercise price is US$ 3.635 per option (translated to NIS according the grant date). The options will vest over a period of 4 years and they may be exercised within 10 years from the date of grant. Options that have not been exercised by the end of the exercise period will expire. Of the said grant, 115,000 options are subject to annual performance targets, as stipulated by the Company management. As of December 31, 2011, the annual performance targets were achieved.

The fair value of the options granted to the Chief Executive Officer and to the other employees was assessed at the date of the grant using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 100%, risk-free interest of 2.417%-4.695%, dividend yield of 0% and an option life of 10 years. The overall economic value of the options amounts to a total of approximately US$ 3,217 thousand (NIS 10,638 thousand).

In August 2010, the Company granted 405,000 options for Ordinary shares of NIS 0.01 par value each to additional employees of the Company. The exercise price is NIS 27.46 per option. The options will vest over a four-year period and may be exercised within 10 years of the date of grant. Options not exercised by the end of the exercise period will expire.

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The fair value of the options granted to employees of the Company was assessed on the date of the grant using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 100%, risk-free interest of 4.66%, dividend yield of 0% and an option life of 10 years. The overall economic value of the options to employees amounts to a total of NIS 5,417 thousand.

In January 2011, the Company granted 58,000 options for Ordinary shares of NIS 0.01 par value each to additional employees of the Company. The exercise price is NIS 19.18 per option. The options will vest over a four-year period and may be exercised within 10 years of the date of grant. Options not exercised by the end of the exercise period will expire.
The fair value of the options granted to employees of the Company was assessed on the date of the grant using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 87.85%, risk-free interest of 5.07%, dividend yield of 0% and an option life of 10 years. The overall economic value of the options to employees amounts to a total of NIS 623 thousand.

During March 2012, the Company granted 18,000 options for Ordinary shares of NIS 0.01 par value each to additional employees of the Company. The exercise price is NIS 9.58 per option. The options will vest over a four-year period and may be exercised within 10 years of the date of grant. Options not exercised by the end of the exercise period will expire.
The fair value of the options granted to employees of the Company was assessed on the date of the grant using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 79.76%, risk-free interest of 4.89%, dividend yield of 0% and an option life of 10 years. The overall economic value of the options to employees amounts to a total of NIS 112 thousand.

A summary of activity in options of the Company's employees and relevant information for the year ended December 31, 2011 is as follows:

	Number of options	Weighted average exercise price - in NIS *)	Weighted average remaining contractual life - in years
Balance as of January 1, 2012	1,673,000	15.90	7.09
Granted	18,000	9.58	9.21
Exercised	-	-	-
Forfeited	(60,855)	20.09	6.85
Balance as of December 31, 2012	1,630,145	15.67	6.10
Exercisable	1,311,340	13.42	5.71

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

A summary of activity in options of the Company's employees and relevant information for the year ended December 31, 2011 is as follows:

	Number of options	Weighted average exercise price - in NIS *)	Weighted average remaining contractual life - in years
Balance as of January 1, 2011	1,630,000	15.81	8.04
Granted	58,000	19.18	9.08
Exercised	-	-	-
Forfeited	(15,000)	19.18	9.08
Balance as of December 31, 2011	1,673,000	15.90	7.09
Exercisable	1,140,313	11.75	6.42

*) The exercise price of options granted at a dollar exercise price was translated at the currency exchange rate at the date of the grant.

b. Allocation of options to the former Chairman of the Board of Directors

In January 2002, the Company issued to the former Chairman of the Board of Directors of the Company ("the former Chairman") options to purchase 667,000 Ordinary shares of the Company. Half of the options are exercisable on the commencement of the term of office of the Chairman (May 2002) in consideration for their par value. The balance of the options ("the second half") vests over 5 years (a fifth each year), at an exercise price reflecting the value of the Company of US$ 50,000 thousand, in accordance with the issued and fully paid-up share capital of the Company at the exercise date.
As of December 31, 2012, the abovementioned options were fully vested and are not yet exercised.

In December 2007, the Company issued to a company under the control of the former Chairman options to purchase up to 624,000 Ordinary shares of the Company at an exercise price of US$ 3.635 per share. 368,000 options vest on a quarterly basis over a period of 2.5 years (commencing May 2007) and are exercisable for the term of office of the Chairman or up to 12 months from the date of the end thereof or a date close to the date of an offering of the Company's securities to the public pursuant to a prospectus ("an issue event") and 256,000 options exercisable in four quarterly installments, from the date of an issue event if it occurs before December 31, 2009. In January 2010, the Board of Directors of the Company ratified the postponement of the date of the occurrence of an issue event to December 31, 2011.

The fair value of the options was assessed at the date of the grant using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 58.28%, risk-free interest of 4.095%, dividend yield of 0% and an option life of 5 years.

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

As a result of the postponement of the last date for the occurrence of an issue event, the Company calculated the fair value as a result of the abovementioned change and estimated it at NIS 2,586 thousand. This value will be recognized over the balance of the vesting period of the options. The said fair value was assessed using the binomial model. The parameters used for the purpose of the calculation are as follows: volatility of 87.69%, risk-free interest of 1.72%, dividend yield of 0% and an option life of 2.3 years.

On April 13, 2010, the Board of Directors of the Company, and on May 17, 2010, the general meeting, approved an amendment to the terms of the options granted to the company under the control of the former Chairman in January 2002 and December 2007, according to which the options will be exercisable (with regard to parts that have vested) for up to five years from the date of completing an issue to the public pursuant to a prospectus or up to December 31, 2015, whichever is earlier. As a result of the said amendment, the Company calculated the fair value which was estimated at a total of NIS 3,038 thousand. This value is being recognized over the balance of the vesting period of the options. The said fair value was assessed using the binomial model. The parameters used for the purpose of the calculation were as follows: volatility of 100%, risk-free interest of 2.292%, dividend yield of 0% and an option life of 5 years.

The balance of the options granted to the former Chairman, as of December 31, 2011, was as follows:

Date of issue	Options for Ordinary shares	Average exercise price per share	Exercisable options	Terms of performance
January 2002	667,000	US$ 0.925	667,000	None
December 2007	368,000	US$ 3.635	368,000	None
December 2007	256,000	US$ 3.635	256,000	Sale or issue event

The share-based benefit expenses arising from the options granted to the former Chairman or to the company under his control in respect of his services as director and included in the Company's statement of comprehensive income are as follows:

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
General and administrative expenses	-	295	5,364
Total share-based benefit expenses	-	295	5,364

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

c. Options to consultants

In June 2008, the Company granted 30,000 options for Ordinary shares of NIS 0.01 par value each to consultants pursuant to the Employee Option and Share Ownership Plan (2007) ("the Option Plan"). The options were granted at an exercise price of US$ 3.635 per share over a period of 4 years and are exercisable up to 10 years. The fair value of the options was assessed on the date of the grant using the binomial model. The parameters used for the purpose of the calculation were as follows: volatility of 100%, risk-free interest of 4.695%, dividend yield of 0% and an option life of 10 years. The overall economic value of the abovementioned options on the first day of June 2008 was a total of US$ 69 thousand (NIS 226 thousand).

In August 2010, the Company granted 7,000 options for Ordinary shares of NIS 0.01 par value each to a consultant of the Company. The exercise price is NIS 27.46 per option. The options will vest over a period of 4 years and may be exercised within 10 years from the date of the grant. Options that are not exercised by the end of the exercise period will expire.

The fair value of the options granted to the consultant was assessed at the date of the grant using the binomial model. The parameters used for the purpose of the calculation were as follows: volatility of 100%, risk-free interest of 4.66%, dividend yield of 0% and an option life of 10 years. The overall economic value of the options to the consultant was approximately NIS 90 thousand.

The following table presents the share-based benefit expenses arising from the options granted to consultants and included in research and development expenses in the Company's statements of comprehensive income:

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Research and development expenses	32	54	94
Total share-based benefit expenses	32	54	94

NOTE 18:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

A summary of the balance of the options granted to consultants as of December 31, 2011 is as follows:

Date of issue	Options for Ordinary shares	Average exercise price per share	Exercisable options	Exercisable until
June 2008	30,000	US$ 3.635	26,250	June 2018
June 2008	113,275 *)	US$ 3.635	113,275 *)	**)
August 2010	7,000	NIS 27.46	-	August 2020

*) The balance of the options presented is net of the exercise of 16,370 and 5,355 options for 16,370 and 5,355 Ordinary shares of the Company of NIS 0.01 par value each in 2010 and 2011 respectively.

**) The options will be exercisable 30 months after the recipient of the option ceases to act as a consultant of the Company.

NOTE 19:- SUPPLEMENTARY INFORMATION TO ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Research and development expenses

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Salaries, related expenses and motor vehicles	9,023	10,021	7,840
Subcontracted work and maintenance	10,929	9,234	5,201
Use of materials	129	85	117
Patents	301	546	622
Depreciation	388	314	245
Overseas travel	113	393	404
Office maintenance	1,372	1,443	1,206
Cost of share-based payment	1,128	1,710	1,456
Sub-contractors	178	233	164
	23,561	23,979	17,255
Net of grants from BIRD Foundation	(1,641)	(393)	(406)
	21,920	23,586	16,849

b. General and administrative expenses

Salaries, related expenses and motor vehicles	4,545	4,899	3,758
Professional services	1,987	1,722	1,048
Overseas travel	102	149	220
Depreciation	166	134	62
Office maintenance	722	768	562
Other	53	209	217
Cost of share-based payment	874	1,566	7,053
	8,449	9,447	12,920

NOTE 19:- SUPPLEMENTARY INFORMATION TO ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME (Cont.)

c. Finance income and expenses

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Finance income			
Interest income from securities held to maturity whose value has not been impaired	-	-	41
Interest income from deposits	2,347	2,630	1,282
Net finance income from change in exchange rates	-	4,960	-
Others	-	-	78
	2,347	7,590	1,401
Finance expenses			
Finance expenses in respect of controlling shareholders' loans	-	-	1,690
Finance expenses in respect of revaluation of options	-	-	13,155
Net loss from change in exchange rates	1,027	-	5,937
Commissions and other expenses	227	272	49
	1,254	272	20,831
Finance income (expenses) classified by types of financial instruments			
Loans and receivables	-	-	(1,690)
Investments held to maturity	-	-	41

NOTE 20:- LOSS PER SHARE

a. Composition:

	Year ended December 31,					
	2012		2011		2010	
	Weighted number of shares	Loss attributed to shareholders of the Company	Weighted number of shares	Loss attributed to shareholders of the Company	Weighted number of shares	Loss attributed to shareholders of the Company
	Thousands	NIS in thousands	Thousands	NIS in thousands	Thousands	NIS in thousands
Number of shares and loss for purposes of calculating basic loss	26,527	28,591	26,527	24,788	24,589	48,213
For purposes of calculating diluted loss	26,527	28,591	26,527	24,788	24,589	48,213

b. In calculating the diluted loss per share, convertible securities (potentially dilutive Ordinary shares) set forth below were not included, since their inclusion reduces the basic loss from continuing activities (anti-dilutive effect):

Year ended December 31, 2012

3,071,420 options to employees and consultants in share-based payment plans.
245,547 options to a controlling shareholder in the Company.

Year ended December 31, 2011

3,114,275 options to employees and consultants in share-based payment plans.
245,547 options to a controlling shareholder in the Company.

Year ended December 31, 2010

3,076,630 options to employees and consultants in share-based payment plans.
245,547 options to a controlling shareholder in the Company.
1,286 thousand options which had an anti-dilutive effect until they were converted to shares in an issue to the public.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with interested parties and related parties:

As of December 31, 2012

	For details / conditions, see Note	Key management personnel	Controlling shareholders
		NIS in thousands	
Other accounts payable	8	144	855
Payments on account of options	13	-	9,892

As of December 31, 2011

	For details / conditions, see Note	Key management personnel	Controlling shareholders
		NIS in thousands	
Other accounts payable	8	144	788
Payments on account of options	13	-	9,892

Benefits in respect of the employment of key management personnel (including directors) employed in the Company:

	Year ended December 31,					
	2012		2011		2010	
	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands
Short-term benefits to employees	2	2,885	2	3,130	2	2,545
Benefits after termination of employment	2	147	2	305	2	193
Share-based payment	-	-	1	179	1	840
		3,032		3,614		3,578

In January 2011, the Company's Board of Directors approved an increase from 2011 and thereafter in the salary of the Chief Executive Officer and a controlling shareholder employed by the Company of 11.6% and 10.7%, respectively. In addition, the Board of Directors approved the payment of a contingent grant to the Chief Executive Officer and a controlling shareholder employed in the Company totaling NIS 300 thousand to each. The said grant is contingent on achieving Phase 2 test results on the ML-10 molecule for the FDA and will be paid thereafter. The update of the salary and the amount of the contingent grant to the controlling shareholder were approved by the general meeting on

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

March 22, 2011. As of December 31, 2012, the contingent grant has not yet been paid to the Chief Executive Officer and the controlling shareholder.

Benefits in respect of key management personnel (including directors) not employed in the Company:

	Year ended December 31,					
	2012		2011		2010	
		Amount		Amount		Amount
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Total benefits in respect of directors not employed by the Company (including share-based payment totaling NIS 295 thousand, NIS 5,364 thousand for 2011and 2010, respectively)	9	749	10	653	5	5,560
	9	749	10	653	5	5,560

Benefits to controlling shareholders:

	Year ended December 31,					
	2012		2011		2010	
		Amount		Amount		Amount
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Total benefits in respect of controlling shareholders	-	-	-	-	2	1,690
	-	-	-	-	2	1,690

b. Terms of the transactions with related parties

1. Loan from controlling shareholder

With regard to the terms of a loan from the controlling shareholder, see Note 13.

2. Management fees to controlling shareholder

With regard to the terms of management fees to the controlling shareholder, see Note 13.

3. Consultancy agreements with shareholders and officers

On April 16, 2001, a consultancy agreement was signed between the Company and a shareholder in the Company ("the consultant"). According to the agreement, the consultant will provide the Company with services in the field of financial management and advice in the areas of the Company's business development.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

The services will be given according to the Company's needs and decisions, at scopes and times as determined from time to time between the parties. In consideration for the services, the Company will pay the consultant US$ 4 thousand per month plus VAT.

On September 25, 2005, the Company entered into agreement with a company under the control of the former Chairman of the Board ("the consultancy company") to provide consultancy services. The consultancy company undertook to assist the Company in the promotion of its business, including in the areas of investment and the raising of funds.
In exchange for the services, the Company paid the consultancy company a total of US$ 4 thousand per month plus VAT, with a refund in respect of expenses incurred in activities outside of Israel, subject to the prior approval of the Company and the presentation of receipts.

With effect from June 2010, the said consultancy agreements were cancelled in accordance with a resolution of the Board of Directors of the Company dated May 2010.

4. Share-based payments to the former Chairman of the Board of Directors

With regard to share-based payments to the former Chairman of the Board of Directors, see Note 18b.

5. Employment terms of the Chief Executive Officer

On September 2, 2007, a personal contract of employment was signed between the Company and the Chief Executive Officer for an unspecified period. The agreement provided that each of the parties will be entitled to end the agreement by providing notice to the other party, at least three months in advance. In certain cases provided in the agreement, the Company will not be required to give notice as aforesaid. The agreement includes an undertaking relating to the maintenance of confidentiality, non-competition and provisions regarding the ownership of intellectual property rights according to which all of the intellectual property rights developed by the Chief Executive Officer in connection with his work or in connection with the Company's operations, even if the intellectual property is developed within a year from the end of the period of the agreement, will be under the ownership of the Company and the Chief Executive Officer will not be entitled to receive royalties in respect thereof by virtue of being an employee of the Company (see Note 20a.). On January 26, 2013 The Company’s Board of Directors and the Company’s Chief Executive Officer decided to end the Chief Executive Officer tenure on March 31, 2013. The Company nominated its VP Clinical Development & Regulatory Affairs as an Acting Chief Executive Officer as of April 1st, 2013.

NOTE 22:- SUBSEQUENT EVENTS

On March 10, 2013 the Company's Board of Directors decided to freeze the development program and clinical studies of ML-10 in combination with the image analysis software Earlitest®. The Board of Directors in its decision has evaluated the gaps between the Products' performance, as observed in the Study results and from data collected in other, not yet completed studies, vis-à-vis the performance required for the realization of the business opportunity of molecular imaging of apoptosis, as well as the time, cost and risk level associated with the continuation of the Product development to marketing approval. The Board, in its decision, has relied on the recommendations of the Company management as well as of external experts in various relevant areas. As of the financial statements signature date, the Company is evaluating the accounting implications of the abovementioned event.

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