

APOSENSE LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

AS OF MARCH 31, 2014

UNAUDITED

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BALANCE SHEETS

| | <u>March 31,</u> | | <u>December 31,</u> |
|--|-------------------------|----------------------|----------------------|
| | <u>2014</u> | <u>2013</u> | <u>2013</u> |
| | <u>Unaudited</u> | | <u>Audited</u> |
| | <u>NIS in thousands</u> | | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 2,738 | 2,773 | 939 |
| Short-term deposits | 51,541 | 55,120 | 57,628 |
| Accounts receivable | 323 | 1,173 | 361 |
| | <u>54,602</u> | <u>59,066</u> | <u>58,928</u> |
| NON-CURRENT ASSETS: | | | |
| Long-term deposits | 1,711 | 15,660 | - |
| Fixed assets | 1,573 | 2,143 | 1,740 |
| | <u>3,284</u> | <u>17,803</u> | <u>1,740</u> |
| | <u><u>57,886</u></u> | <u><u>76,869</u></u> | <u><u>60,668</u></u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | 415 | 1,325 | 511 |
| Other accounts payable | 2,685 | 5,831 | 3,704 |
| | <u>3,100</u> | <u>7,156</u> | <u>4,215</u> |
| NON-CURRENT LIABILITIES: | | | |
| Liability for research and development grants | 827 | 807 | 745 |
| Employee benefit liabilities | 831 | 1,246 | 799 |
| | <u>1,658</u> | <u>2,053</u> | <u>1,544</u> |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | 265 | 265 | 265 |
| Share premium | 272,514 | 270,696 | 271,326 |
| Receipts on account of options | 17,048 | 17,048 | 17,048 |
| Capital reserve for share-based payment transactions | 34,817 | 36,563 | 35,992 |
| Capital reserve for transactions with controlling shareholders | 13,684 | 13,684 | 13,684 |
| Accumulated deficit | (285,200) | (270,596) | (283,406) |
| <u>Total</u> shareholders' equity | <u>53,128</u> | <u>67,660</u> | <u>54,909</u> |
| | <u><u>57,886</u></u> | <u><u>76,869</u></u> | <u><u>60,668</u></u> |

STATEMENTS OF OPERATIONS

| | Three months ended March 31, | | Year ended December 31, |
|--|--|--------------|----------------------------|
| | 2014 | 2013 | 2013 |
| | Unaudited | | Audited |
| | NIS in thousands (except per share data) | | |
| Revenues from grant of use rights and from collaboration agreement | - | 4 | 4 |
| Cost of sales | - | - | - |
| Gross profit | - | 4 | 4 |
| Research and development expenses, net | 684 | 4,964 | 12,056 |
| General and administrative expenses | 1,413 | 2,125 | 7,098 |
| Other income | - | 12,871 | 13,099 |
| Operating profit (loss) | (2,097) | 5,786 | (6,051) |
| Finance income | 340 | 333 | 1,062 |
| Finance expenses | (37) | (1,253) | (2,940) |
| Actuary profit for "defined" benefit plans | - | - | - |
| Total comprehensive profit (loss) | <u>(1,794)</u> | <u>4,866</u> | <u>(7,929)</u> |
| Basic profit (loss) per share attributable to the equity holders of the Company (in NIS) | <u>(0.068)</u> | <u>0.183</u> | <u>(0.299)</u> |
| Diluted profit (loss) per share attributable to the equity holders of the Company (in NIS) | <u>(0.068)</u> | <u>0.181</u> | <u>(0.299)</u> |

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium | Receipts on account of options | Capital reserve for share-based payment transactions | Capital reserve for transactions with controlling shareholders | Accumulated deficit | Total equity |
|-------------------------------|------------------|----------------|--------------------------------|--|--|---------------------|---------------|
| | Unaudited | | | | | | |
| | NIS in thousands | | | | | | |
| Balance as of January 1, 2014 | 265 | 271,326 | 17,048 | 35,992 | 13,684 | (283,406) | 54,909 |
| Total comprehensive loss | - | - | - | - | - | (1,794) | (1,794) |
| Cost of share-based payment | - | - | - | 13 | - | - | 13 |
| Employees' options expiration | - | 1,188 | - | (1,188) | - | - | - |
| Balance as of March 31, 2014 | <u>265</u> | <u>272,514</u> | <u>17,048</u> | <u>34,817</u> | <u>13,684</u> | <u>(285,200)</u> | <u>53,128</u> |

| | Share capital | Share premium | Receipts on account of options | Capital reserve for share-based payment transactions | Capital reserve for transactions with controlling shareholders | Accumulated deficit | Total equity |
|-------------------------------|------------------|----------------|--------------------------------|--|--|---------------------|---------------|
| | Unaudited | | | | | | |
| | NIS in thousands | | | | | | |
| Balance as of January 1, 2013 | 265 | 270,573 | 17,048 | 36,449 | 13,684 | (275,462) | 62,557 |
| Total comprehensive loss | - | - | - | - | - | 4,866 | 4,866 |
| Cost of share-based payment | - | - | - | 237 | - | - | 237 |
| Employees' options expiration | - | 123 | - | (123) | - | - | - |
| Balance as of March 31, 2013 | <u>265</u> | <u>270,696</u> | <u>17,048</u> | <u>36,563</u> | <u>13,684</u> | <u>(270,596)</u> | <u>67,660</u> |

| | Share capital | Share premium | Receipts on account of options | Capital reserve for share-based payment transactions | Capital reserve for transactions with controlling shareholders | Accumulated deficit | Total equity |
|---------------------------------|------------------|----------------|--------------------------------|--|--|---------------------|---------------|
| | Unaudited | | | | | | |
| | NIS in thousands | | | | | | |
| Balance as of January 1, 2013 | 265 | 270,573 | 17,048 | 36,449 | 13,684 | (275,462) | 62,557 |
| Actuary loss | - | - | - | - | - | (15) | (15) |
| Total comprehensive loss | - | - | - | - | - | (7,929) | (7,929) |
| Cost of share-based payment | - | - | - | 296 | - | - | 296 |
| Employees options expiration | - | 753 | - | (753) | - | - | - |
| Balance as of December 31, 2013 | <u>265</u> | <u>271,326</u> | <u>17,048</u> | <u>35,992</u> | <u>13,684</u> | <u>(283,406)</u> | <u>54,909</u> |

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

STATEMENTS OF CASH FLOWS

| | Three months ended | | Year ended |
|---|--------------------|-----------------|-----------------|
| | March 31, | | December 31, |
| | 2014 | 2013 | 2013 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| <u>Cash flows from operating activities:</u> | | | |
| Profit (loss) | (1,794) | 4,866 | (7,929) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | |
| Adjustments to the profit and loss items: | | | |
| Depreciation and amortization | 105 | 149 | 524 |
| Finance expenses (income), net | (330) | 904 | 1,960 |
| Cost of share-based payment | 13 | 237 | 296 |
| Fixed assets impairment | - | - | 60 |
| Capital loss from sale of fixed assets | 10 | 22 | 54 |
| Change in liability for research and development grants | 122 | (1,199) | (1,181) |
| Change in employee benefit liabilities, net | 32 | 39 | (423) |
| | <u>(48)</u> | <u>152</u> | <u>1,290</u> |
| Changes in asset and liability items: | | | |
| Increase in accounts receivable | (202) | (206) | (989) |
| Decrease in trade payables | (96) | (954) | (1,768) |
| Decrease in other accounts payable | (1,019) | (727) | (2,854) |
| Decrease in deferred revenues | - | (11,285) | (11,285) |
| | <u>(1,317)</u> | <u>(13,172)</u> | <u>(16,896)</u> |
| Cash received during the period for: | | | |
| Interest received | 188 | 322 | 1,341 |
| Net cash used in operating activities | <u>(2,971)</u> | <u>(7,832)</u> | <u>(22,194)</u> |
| <u>Cash flows from investing activities:</u> | | | |
| Purchase of fixed assets | (5) | (20) | (104) |
| Proceeds from sale of fixed assets | 21 | 7 | 27 |
| Proceeds from short-term deposits, net | 6,238 | 2,614 | 13,692 |
| Investment in long-term deposits, net | <u>(1,720)</u> | <u>-</u> | <u>-</u> |
| Net cash provided by investing activities | <u>4,534</u> | <u>2,601</u> | <u>13,615</u> |

STATEMENTS OF CASH FLOWS

| | Three months ended | | Year ended |
|--|---------------------------|-------------|---------------------|
| | March 31, | | December 31, |
| | 2014 | 2013 | 2013 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| <u>Cash flows from financing activities:</u> | | | |
| Cash received from governmental grants | 236 | 510 | 2,024 |
| Net cash provided by financing activities | 236 | 510 | 2,024 |
| Increase (decrease) in cash and cash equivalents | 1,799 | (4,721) | (6,555) |
| Cash and cash equivalents at beginning of period | 939 | 7,494 | 7,494 |
| Cash and cash equivalents at end of period | 2,738 | 2,773 | 939 |
| <u>Significant non-cash transactions:</u> | | | |
| Purchase of fixed assets | 36 | - | - |
