

APOSENSE LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

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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, 2013.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years, the last of which ended December 31, 2013 and our report dated March 24, 2014 expressed an unqualified opinion on those financial statements.

Tel-Aviv, Israel
March 24, 2014

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

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, 2013, 2012 and 2011. 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, 2013 and 2012, and the results of its operations, changes in its equity and cash flows for each of the years ended December 31, 2013, 2012 and 2011, 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, 2013, and our report dated March 24, 2014 expressed an unqualified opinion on the maintenance of such effective audited control components.

Tel-Aviv, Israel
March 24, 2014**KOST FORER GABBAY & KASIERER**
A Member of Ernst & Young Global

BALANCE SHEETS

	December 31,		
	2013	2012	
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	939	7,494	
Short-term deposits	57,628	58,661	
Accounts receivable	361	1,580	
	<u>58,928</u>	<u>67,735</u>	
NON-CURRENT ASSETS:			
Long-term deposits	-	15,960	
Fixed assets	1,740	2,301	
	<u>1,740</u>	<u>18,261</u>	
<u>Total assets</u>	<u>60,668</u>	<u>85,996</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables	511	2,279	
Short-term deferred revenues	-	855	
Other accounts payable	3,704	6,558	
	<u>4,215</u>	<u>9,692</u>	
NON-CURRENT LIABILITIES:			
Long-term deferred revenues	-	10,430	
Liability in respect of research and development grant	745	2,110	
Employee benefit liabilities	799	1,207	
	<u>1,544</u>	<u>13,747</u>	
SHAREHOLDERS' EQUITY:			
Share capital	265	265	
Share premium	271,326	270,573	
Receipts on account of options	17,048	17,048	
Capital reserve in respect of share-based payment transactions	35,992	36,449	
Capital reserve in respect of transactions with controlling shareholders	13,684	13,684	
Accumulated deficit	(283,406)	(275,462)	
	<u>54,909</u>	<u>62,557</u>	
<u>Total shareholders' equity</u>	<u>54,909</u>	<u>62,557</u>	
<u>Total liabilities and shareholders' equity</u>	<u>60,668</u>	<u>85,996</u>	
March 24, 2014			
Date of approval of the financial statements	Dr. Alon Dumanis Chairman of the Board	Dr. Miri Ben-Ami CEO	Dovi Farkash CFO

STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2013	2012	2011
Revenues from grant of use rights and from collaboration agreement	4	685	1,048
Cost of sales	-	-	121
Gross profit	4	685	927
Research and development expenses, net	12,056	21,920	23,586
General and administrative expenses	7,098	8,449	9,447
Other income	13,099	-	-
Operating loss	6,051	29,684	32,106
Finance income	1,062	2,347	7,590
Finance expenses	(2,940)	(1,254)	(272)
Total comprehensive loss	7,929	28,591	24,788
Basic and diluted loss per share attributable to the Company's shareholders (in NIS)	0.299	1.078	0.935

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, 2011	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
Actuary loss	-	-	-	-	-	(15)	(15)
Total comprehensive loss	-	-	-	-	-	(7,929)	(7,929)
Cost of share-based payment	-	-	-	296	-	-	296
Employees options expiration	-	753	-	(753)	-	-	-
Balance as of December 31, 2013	265	271,326	17,048	35,992	13,684	(283,406)	54,909

*) Represents an amount lower than NIS 1 thousand.

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(7,929)	(28,591)	(24,788)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	524	554	447
Finance expenses (income), net	1,960	(2,053)	(6,365)
Cost of share-based payment	296	2,002	3,276
Fixed assets impairment	60	-	-
Loss from sale of fixed assets	54	-	5
Changes in liability in respect of research and development grants	(1,181)	456	298
Changes in employee benefit liabilities, net	(423)	(241)	241
	1,290	718	(2,098)
Changes in asset and liability items:			
Increase in accounts receivable	(989)	(1,784)	(206)
Increase (decrease) in trade payables	(1,768)	58	818
Increase (decrease) in other accounts payable	(2,854)	(201)	3,043
Increase (decrease) in deferred revenues	(11,285)	(685)	(873)
	(16,896)	(2,612)	2,782
Cash received during the year for:			
Interest received	1,341	2,836	1,375
Net cash used in operating activities	(22,194)	(27,649)	(22,729)
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(104)	(770)	(1,080)
Proceeds from the sale of fixed assets	27	-	68
Collection of short-term deposits, net	13,692	41,003	29,798
Investment in long-term deposits	-	(33,574)	(14,000)
Net cash from (used in) investing activities	13,615	6,659	14,786

STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
<u>Cash flows from financing activities:</u>			
Cash received from research and development grants	2,024	2,172	415
Exercise of options	-	-	282
Net cash provided by financing activities	2,024	2,172	697
<u>Decrease in cash and cash equivalents</u>	(6,555)	(18,818)	(7,246)
<u>Cash and cash equivalents at beginning of year</u>	7,494	26,312	33,558
<u>Cash and cash equivalents at end of year</u>	939	7,494	26,312
<u>Significant non-cash transactions:</u>			
Purchase of fixed assets	-	-	111