

**APOSENSE LTD.**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2011**

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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, 2011. 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, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2011 and 2010 and for each of the three years, the last of which ended December 31, 2011 and our report dated March 18, 2012 expressed an unqualified opinion on those financial statements.

Tel-Aviv, Israel  
March 18, 2012

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, 2011 and 2010, and the related statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009. 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, 2011 and 2010, and the results of its operations, changes in its equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009, 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, 2011, and our report dated March 18, 2012 expressed an unqualified opinion on the maintenance of such effective audited control components.

Tel-Aviv, Israel  
March 18, 2012**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**BALANCE SHEETS**

	Note	December 31,	
		2011	2010
		NIS in thousands	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	26,312	33,558
Short-term deposits	4	78,672	81,540
Accounts receivable	6	1,403	1,788
		<u>106,387</u>	<u>116,886</u>
<b>NON-CURRENT ASSETS:</b>			
Long-term deposits	5	4,162	12,102
Fixed assets	7	2,085	1,414
		<u>6,247</u>	<u>13,516</u>
<u>Total assets</u>		<u>112,634</u>	<u>130,402</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables	8	2,221	1,403
Short-term deferred revenues	1d, 14f	918	1,112
Other accounts payable	9	6,759	3,605
		<u>9,898</u>	<u>6,120</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term deferred revenues	1d	11,052	11,731
Liability for research and development grant		1,090	755
Employee benefit liabilities	12	1,448	1,207
		<u>13,590</u>	<u>13,693</u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	15, 16	265	265
Share premium		270,419	270,310
Receipts on account of options		17,048	17,048
Capital reserve for share-based payment transactions		34,601	31,365
Capital reserve for transactions with controlling shareholders		13,684	13,684
Accumulated deficit		<u>(246,871)</u>	<u>(222,083)</u>
<u>Total shareholders' equity</u>		<u>89,146</u>	<u>110,589</u>
<u>Total liabilities and equity</u>		<u>112,634</u>	<u>130,402</u>
March 18, 2012			
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	Year ended December 31,		
		2011	2010	2009
		NIS in thousands (except per share data)		
Revenues from grant of use rights and from collaboration agreement		1,048	1,095	645
Cost of sales		121	109	118
Gross profit		927	986	527
Research and development expenses, net	17a	23,586	16,849	11,772
General and administrative expenses	17b	9,447	12,920	8,028
Operating loss		32,106	28,783	19,273
Finance income	17c	7,590	1,401	868
Finance expenses	17c	(272)	(20,831)	(10,171)
Total comprehensive loss		24,788	48,213	28,576
Basic and diluted loss per share attributable to the equity holders of the Company (in NIS)	18	0.935	1.961	1.293

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 for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Accumulated deficit	Total
	NIS in thousands						
Balance as of January 1, 2009	221	148,651	-	17,834	6,580	(145,294)	27,992
Total comprehensive loss	-	-	-	-	-	(28,576)	(28,576)
Capital reserve for transactions with controlling shareholders	-	-	-	-	3,485	-	3,485
Cost of share-based payment	-	-	-	5,146	-	-	5,146
Balance as of December 31, 2009	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 for 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

(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,		
	2011	2010	2009
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(24,788)	(48,213)	(28,576)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	447	307	247
Finance expenses (income), net	(6,365)	1,480	(868)
Cost of share-based payment	3,276	8,509	5,146
Capital loss from sale of fixed assets	5	-	12
Changes in liability for research and development grant	298	447	-
Changes in employee benefit liabilities, net	241	(530)	170
Loans from controlling shareholders	-	1,690	4,284
Revaluation of options	-	13,155	5,773
	(2,098)	25,058	14,764
Changes in asset and liability items:			
Increase in accounts receivable	(206)	(636)	(597)
Increase (decrease) in trade payables	818	659	(527)
Increase in other accounts payable	3,043	374	19
Increase (decrease) in deferred revenues	(873)	3,294	9,549
	2,782	3,691	8,444
Cash received during the year for:			
Interest received	1,375	459	824
Net cash used in operating activities	(22,729)	(19,005)	(4,544)
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(1,080)	(775)	(170)
Proceeds from sale of fixed assets	68	-	-
Investment in short-term deposits, net	29,798	(49,351)	(9,684)
Investment in long-term deposits	(14,000)	(12,000)	-
Investment in held-to-maturity securities	-	-	(7,000)
Proceeds from sale of held-to-maturity securities	-	7,000	14,000
Net cash provided by (used in) investing activities	14,786	(55,126)	(2,854)

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

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**STATEMENTS OF CASH FLOWS**

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of shares and options (net of issuance expenses)	-	86,555	-
Cash received from grants from the BIRD Foundation	415	438	-
Exercise of options	282	-	-
Net cash provided by financing activities	697	86,993	-
Increase (decrease) in cash and cash equivalents	(7,246)	12,862	(7,398)
Cash and cash equivalents at beginning of year	33,558	20,696	28,094
Cash and cash equivalents at end of year	26,312	33,558	20,696
<u>Significant non-cash transactions:</u>			
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.



**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1: - GENERAL**

- a. Aposense Ltd. ("the Company") was incorporated in Israel on October 9, 1996 (and commenced its activities in 1997). The Company is a research and development company in the field of bio-technology which has developed a platform based on a family of molecules, Aposense ® molecules, which are able to identify and to attach themselves to cells and tissues that undergo controlled cell death (apoptosis). The Company develops, on the basis of the said platform, molecular imaging products for the personalized medicine market and the diagnostic imaging market, and the drugs based on Aposense ® molecules. On August 19, 2008, the Company changed its name from NST Neuro Survival Technologies Ltd. to Aposense Ltd. 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. From its establishment to December 31, 2011, the Company raised US\$ 69,200 thousand from investors, grants and revenues from the grant of 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, 2011 amounted to NIS 109,146 thousand (representing US\$ 28,565 thousand). During the research and development stages from October 9, 1996 to December 31, 2011, the Company accumulated a loss amounting to NIS 246,871 thousand. The cash used by the Company in its operating activities in the year ended December 31, 2011 amounted to NIS 22,729 thousand. Through the end of the development and the commercialization of the Company's products, significant expenses will be demanded. The Company has yet to generate significant revenues from its activity, and therefore, is dependent on external financing sources. The Company finances its activity mainly through capital investments (see Note 15).

In June 2010, the Company completed the issue of securities 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 issuance expenses, of which NIS 58,067 thousand for the public issuance. Subject to and immediately prior to the public issuance, 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. Within the framework of the issue to the public, the Company issued 2 series of options (see Note 15).

- c. The Company completed safety trials of the compound ML-10 on humans, the Company's product for molecular imaging on cell death (apoptosis) using a PET scanner. Thereafter, the Company completed clinical trials to examine the effectiveness of the ML-10 by the imaging of cerebral infarction in stroke patients. Further, the Company completed an additional clinical trial to examine the effectiveness of the Earlitest™ system, a system developed by the Company for the early assessment of the effect of anti-cancerous treatment, based on the imaging of cell death via the ML-10. This test included cancer patients with metastases in the brain being treated with overall brain irradiation. In May 2008, the Company received approval from the U.S. Food and Drug Administration ("FDA") to continue its clinical trials on patients in the United States with the status of "investigational new drug" ("IND"), which is required for conducting trials for the

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

purpose of registering the product for marketing in the United States. In January 2009, the Company commenced Phase II on 18F-ML-10 under the IND.

- d. 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, which is the owner of a large distribution network around the world for markers for molecular imaging by PET, 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. Subject to the contract, IBA N.A. has the right of first refusal to the contract on the matter of the radioactive labeling and distribution of the ML-10 at the commercial stage, this, subject to the conditions set forth in the contract. In October 2008, the Company and IBA N.A. submitted a request 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 request was approved in 2009 and an agreement between IBA N.A., the Company and the BIRD Foundation was signed in September 2009.

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, 2011, the Company deferred recognition of the abovementioned receipt. The Company estimates that it is dependent on IBA in all matters related to the marking and distribution of the ML-10 to the market of customized therapy and the molecular imaging market for diagnostic needs.

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.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

- e. 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.

- f. Definition:

In these financial statements:

The Company	- Aposense Ltd.
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.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis for presentation of financial statements:

1. Measurement basis:

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 and shareholders' loans.

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## 2. Format for preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

- a) International Financial Reporting Standards (IFRS).
- b) International Accounting Standards (IAS).
- c) Interpretations to International Financial Reporting Standards (IFRIC) and to Standing Interpretations Committee Standards (SICs).

In addition, the financial statements are prepared in accordance with provisions of the Securities Regulations (Annual Financial Statements), 2010.

## 3. Consistent accounting policy:

The accounting policy has been applied to these financial statements consistently in all periods presented.

## 4. Changes in accounting policy in the light of the implementation of new standards:

IAS 1 – Presentation of Financial Statements

In accordance with the amendment to IAS 1, ("the amendment"), the movement between the opening balance and the closing balance in respect of each component of other comprehensive income can be presented in the statement of changes in equity or within the framework of the notes to the annual financial statements. The amendment was applied retroactively with effect from January 1, 2011. The retroactive implementation of the amendment did not have an impact on the financial statements of the Company.

IAS 24 - Related Party Disclosures

The Amendment to IAS 24 ("the amendment"), clarifies the definition of a related party in order to simplify the identification of the relationship with a related party, and prevent inconsistency in the application of this definition. The amendment was applied retroactively starting with the financial statements for the periods commencing on January 1, 2011. The retroactive implementation of the amendment did not have an impact on the financial statements of the Company.

IFRS 7 - Financial Instruments: Disclosures

The Amendment to IFRS 7 ("the amendment") clarifies the required disclosure detailed in the Standard. In this framework, the interaction between the qualitative and quantitative disclosures is emphasized, as well as the nature and the extent of risks arising from financial instruments. Furthermore, within the framework of the Amendment, the disclosure requirements regarding the securities held by a company have been reduced, and certain disclosure requirements regarding credit risk were amended. The amendment was applied retroactively starting with the financial statements for the periods commencing on January 1, 2011. The

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

retroactive implementation of the amendment did not have an impact on the financial statements of the Company.

b. Estimates and assumptions used in the preparation of the financial statements:

The preparation of financial statements requires management to use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The main assumptions made in the financial statements in connection with the uncertainty at the balance sheet date and critical estimates that were calculated by the Company and which a material change in estimates and assumptions may alter the value of the assets and liabilities in the financial statements on the future reporting year:

Government Grants

Government grants received from the Israel-US Bi-national Research and Development Foundation (“BIRD Foundation”) are recognized as liabilities if economic benefits are expected as a result of the research and development activity entitling a refund of the grant. There is uncertainty regarding the estimate of the timing and estimate of the capitalization rate that was used for determining the amount of the liability. Regarding the accounting treatment of the grants received from the BIRD Foundation, see also Note 2k below.

Pension benefits and other post-employment benefits

Liability in respect of a defined benefit plan after the termination of employment is determined using actuarial valuation techniques. Calculation of the liability involves setting assumptions with regard to, inter alia, discount rates, expected rates of return on assets, rates of wage increase and employee turnaround rates. These estimates are subject to uncertainty, because these are long-term plans. For further information, see Note 12

Determination of the fair value of share-based payment transactions

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**c. Functional currency and foreign currency:1. Functional currency and presentation 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.

2. 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, except for those capitalized to qualifying assets or carried to equity in hedging transactions, are recorded in the statement of comprehensive income. Non-monetary assets and liabilities presented at cost are translated using the exchange rate as of the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are presented at fair value are translated to the functional currency at the exchange rate on the date on which the fair value was determined.

3. 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.

d. 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 not be immediately withdrawn without a penalty and which constitute part of the Company's cash management.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**e. Short-term deposits:

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

## f. 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.

Investments held to maturity

Investments held to maturity which are financial assets (non-derivative) with fixed or determinable payments and have fixed maturity dates which the Company intends and is able to hold until maturity. After initial recognition, investments held to maturity are measured at amortized cost using the effective interest method, which also takes into account the transaction costs. Profits and losses are recognized in the statement of comprehensive income at the date of disposing of the investments or in the event that impairment is recognized in respect of them, as well as resulting from the systematic amortization. With regard to recognition of interest income, see paragraph p.

Loans and receivables

The Company has receivables which are financial assets (non-derivative) with fixed or determinable payments that are not traded on an active market. After initial recognition, short-term credit is presented according to its conditions, usually at its nominal value. Profits and losses are recognized in the statement of comprehensive income when the receivables are disposed of or if impairment is recognized in respect of them, as well as resulting from the systematic amortization.

Financial liabilitiesFinancial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities that are intended on their initial recognition to be stated at fair value with changes therein recorded in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS**

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**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 priority: Fair value is first determined for financial derivatives (such as option warrants with an exercise price denominated in a foreign currency, a currency other than the Company's functional currency) and other financial instruments measured at fair value in each period; fair value is then determined for financial liabilities and complex instruments (such as convertible debentures) which are not measured at fair value in each period, but rather at amortized cost, with the proceeds allocated to equity instruments determined as the residual value, in accordance with the difference between total proceeds and the allocated proceeds as set forth above. The issue costs are allocated to each component pro rata to the amounts determined for each component net of income taxes, if any, in respect of equity instruments. After such allotment, each component is treated in line with its contractual nature (financial liability or equity instrument).

Derecognition of financial instrumentsFinancial 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 liabilities

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:

- 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.

Repayment of Financial Liabilities through Capital Instruments

Capital instruments issued to exchange debt are valued at the fair value of the capital instruments issued, if it can be reliably estimated. If the fair value of the capital instruments issued cannot be reliably measured, the capital instruments are measured according to the fair value of the financial liability that was repaid, at the date of repayment. The difference in the financial statements between the balance of the financial liability repaid and the fair value of the capital instruments issued is recognized as profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. 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.

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

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

(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.

Items of fixed assets having a significant cost relative to total item cost are depreciated individually using the component method. Depreciation for such assets is calculated using the straight-line method at annual rates considered sufficient to depreciate the assets over their expected useful life.

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.

h. 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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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.

i. 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.

j. Leases:

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.

Operating leases

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.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**k. Government grants:

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 Israel-United States Bi-National Research and Development Fund ("the BIRD Foundation") in respect of support of research and development activities including a liability to repay the grant, which is contingent on the receipt of approval from the FDA, are recognized at the date of their receipt as a liability if economic benefits are expected as a result of the research activity entitling a refund of the grant. Grants recognized as a liability are treated as a loan in accordance with IAS 20 (Revised), this in accordance with IAS 39 - Financial Instruments: Recognition and Measurement. Accordingly, when a liability in respect of the loan is recognized, it will be initially recognized at fair value with capitalization according to market interest. The difference between the amount of the loan received and the fair value will be accounted for from the date of receipt of the loan as a Government grant, and therefore recognized as a reduction of research and development costs. The liability is amortized using the effective interest method.

Every balance sheet date, the Company examines whether there is reasonable assurance that that liabilities, in whole or in part, will not be paid (since it will not be required to return the grant) based on the Company's best estimate, and if there is, an appropriate liability is deducted against a reduction of research and development expenses. If, in a later period, the examination of the estimate shows that such reasonable assurance does not exist, an appropriate liability reflecting the refund payments of the forecast grant is recognized and, at the same time, research and development expenses are recognized. Amounts paid as a refund of a grant are recognized as liability clearing.

As aforesaid, receipts of the grant are recognized as a reduction in the research and development expenses in the statement of comprehensive income and the expected refund payments of the grant are recognized as an expense in the statement of comprehensive income.

l. Deferred taxes:

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**m. 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.

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 16. 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.

In case 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.

**NOTES TO THE FINANCIAL STATEMENTS**

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**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 recognized.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

3. Benefits in respect of severance pay:

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.

Benefits provided to employees who leave upon voluntary retirement are charged when the Company offered the employees a plan encouraging voluntary retirement, the plan is expected to be accepted, and the number of employees accepting the offer can be reliably estimated.

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.

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.

p. 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.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. 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.

r. Presentation of statements of comprehensive income:

The Company has chosen to present a single statement of comprehensive income, including the statement of income items.

s. Disclosure for new IFRS standards in the period before their application:

IAS 19 (Revised) – Employee Benefits

In June 2011 the IASB published IAS 19 (Revised) (“the standard”). The main revisions included in the standard are:

- Actuarial gains and losses will be recognized only in other comprehensive income and will not be charged to profit or loss.
- The “corridor method” that permitted the option of postponing the recognition of actuarial gains and losses was eliminated.
- The yield from the assets of the plan will be recognized as a gain or loss by applying the discount rate used to measure the obligation in respect of the employee benefits, regardless of actual composition of the investment portfolio.
- 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 is analyzing the potential impact of the standard, but at this stage, cannot estimate the impact, if any, on the financial statements.

IFRS 7 - Financial instruments: Disclosure

The amendment to IFRS 7 (“the amendment”) deals with the requirements for new and extensive disclosure requirements with regard to financial assets disposals and a disclosure requirement in cases where exceptional transfers are made around the reporting date. The object of the amendment is to assist users of the financial statements to assess the

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

exposures to risks in respect of the transfers of financial assets and the impact of these risks on the Company's financial position. The amendment will increase the reporting transparency of transfer transactions, particularly of financial assets securitization transactions. The amendment will be applied prospectively with effect from the financial statements for periods commencing January 1, 2012. Early adoption is permissible.

The appropriate disclosures will be included in the Company's financial statements.

**IFRS 9 - Financial Instruments**

1. In November 2009, the first part of 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 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.



**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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. In October 2010, 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.

The changes arising from the amendments, as aforesaid, affect the measurement of the liabilities in respect of which the alternative to fair value was chosen. 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.

In addition, according to the amendments, liabilities in respect of certain derivatives on unquoted equity instruments will not be measurable at cost, but only at fair value.

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.

In the opinion of the management, the standard is not expected to have a significant impact on the financial statements.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Fair Value Measurement

In May 2011, the IASB published 4 new standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement (“the new standards”), and amended two existing standards IAS 27R (Revised 2011) Separate Financial Statements and IAS 28R (Revised 2011) Investments in Associates and Joint Ventures.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The new standards will be applied retroactively starting from financial statements for periods starting on January 1, 2013 or later. Early adoption is permissible, however if the Company chooses to implement it, it must adopt all of the new standards as one (aside from the disclosure requirements as per IFRS 12 that can be adopted separately). The standards 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.

Standard 13 determines that use of observable market data should be maximized compared to the use of data that is not observable market data. In addition, Standard 13 sets out a ranking of the fair value according to the source that was used in determining the fair value:

- Level 1: Quoted prices (with no adjustments) in an active market of identical assets and liabilities.
- Level 2: Data that is not quoted prices included in Level 1 that can be expected directly or indirectly.
- Level 3: Data that is not based on available market data (evaluation methods without the use of available market data).

In addition, Standard 13 sets out various disclosure requirements.

The new disclosures as well as the measurement of assets and liabilities of Standard 13 are required prospectively, only in respect of the periods commencing after the date of its implementation, starting from the annual financial statements for the periods starting on January 1, 2013 or later. Early adoption is permissible. These new disclosures do not apply to comparative figures.

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

With respect to the impact on the financial statements, in the opinion of the management, the standard is not expected to have a significant impact on the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 3:- CASH AND CASH EQUIVALENTS**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Cash linked to NIS	64	387
Cash linked to U.S. dollar	99	926
Cash equivalents - deposits linked to NIS *)	5,241	27,829
Cash equivalents - deposits linked to the U.S. dollar *)	20,578	3,021
Cash equivalents - deposits linked to the Euro *)	256	1,232
Other cash and cash equivalents	74	163
	<u>26,312</u>	<u>33,558</u>

\*) Bank deposits for a period of less than 3 months bear interest at 0.72% - 2.93%.

**NOTE 4:- SHORT-TERM DEPOSITS**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Deposits linked to NIS	33,984	13,010
Deposits linked to the U.S. dollar	44,524	68,468
Deposits linked to the Euro	164	62
	<u>78,672</u>	<u>81,540</u>

\*) Short-term bank deposits bear interest at 1.5% - 4%.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5:- LONG-TERM DEPOSITS

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Deposits linked to NIS bear interest at 3.12%	4,162	12,102

### NOTE 6:- ACCOUNTS RECEIVABLE

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Government authorities	244	186
Prepaid expenses and others	341	688
Debtors in respect of shares	-	213
Grant receivable - BIRD Foundation	819	701
	<u>1,404</u>	<u>1,788</u>

### NOTE 7:- FIXED ASSETS

#### 2011

	<b>Computers and laboratory equipment</b>	<b>Office equipment and furniture</b>	<b>Vehicles</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>NIS in thousands</b>				
<u>Cost</u>					
Balance at 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 at December 31, 2011	<u>3,423</u>	<u>1,169</u>	<u>-</u>	<u>1,316</u>	<u>5,908</u>
<u>Accumulated depreciation</u>					
Balance at 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 at December 31, 2011	<u>2,650</u>	<u>833</u>	<u>-</u>	<u>340</u>	<u>3,823</u>
<u>Depreciated cost at December 31, 2011</u>	<u>773</u>	<u>336</u>	<u>-</u>	<u>976</u>	<u>2,085</u>

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7:- FIXED ASSETS (Cont.)

2010

	<u>Computers and laboratory equipment</u>	<u>Office equipment and furniture</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>NIS in thousands</u>				
<u>Cost</u>					
Balance at January 1, 2010	2,535	954	196	479	4,164
Additions during the year	350	203	-	222	775
Balance at December 31, 2010	2,885	1,157	196	701	4,939
<u>Accumulated depreciation</u>					
Balance at January 1, 2010	2,178	756	74	210	3,218
Additions during the year	198	30	29	50	307
Balance at December 31, 2010	2,376	786	103	260	3,525
<u>Depreciated cost at December 31, 2010</u>	<u>509</u>	<u>371</u>	<u>93</u>	<u>441</u>	<u>1,414</u>

## NOTE 8:- TRADE PAYABLES AND OTHER SERVICE PROVIDERS

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Open debts linked to the NIS	836	625
Open debts linked to the U.S. dollar	1,175	611
Open debts linked to the Euro and others	210	167
	<u>2,221</u>	<u>1,403</u>

## NOTE 9:- OTHER ACCOUNTS PAYABLE

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Salaries and related expenses	1,030	919
Accrued vacation pay	1,642	1,221
Accrued expenses	4,087	1,465
	<u>6,759</u>	<u>3,605</u>

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 10:- 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:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
<u>Financial assets</u>		
Accounts receivable	<u>1,403</u>	<u>1,788</u>

b. Financial risk factors:

The Company's activities expose it to various financial risks, such as market risk (foreign currency risk, consumer price index risk).

The management of the risks is conducted by the Company's financial department, in accordance with the policy approved by the Board of Directors.

1. Foreign currency risk:

A significant part of the Company's expenses, including expenses deriving from the clinical trials that the Company is carrying out mainly abroad, 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 - so as to minimize exposure to changes in the exchange rate.

2. CPI risk:

Until June 2010, the Company had a liability in respect of loans from controlling shareholders which were linked to the CPI (see Note 11). The amount linked to the CPI, and in respect of which the Company had exposure to changes in the CPI, is NIS 0 thousand, as of December 31, 2011 and 2010 and NIS 21,713 thousand as of December 31, 2009.

**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 10:- FINANCIAL INSTRUMENTS (Cont.)**

 c. Sensitivity tests in respect of changes in market factors:

	<b>Sensitivity tests to changes in the exchange rate of the dollar</b>	
	<b>Profit (loss) from fluctuation</b>	
	<b>5% increase in exchange rate</b>	<b>5% decrease in exchange rate</b>
	<b>NIS in thousands</b>	
For the year ended December 31, 2011	<u>3,035</u>	<u>(3,035)</u>
For the year ended December 31, 2010	<u>3,561</u>	<u>(3,561)</u>
For the year ended December 31, 2009	<u>999</u>	<u>(999)</u>
	<b>Sensitivity tests to changes in the CPI</b>	
	<b>Profit (loss) from fluctuation</b>	
	<b>3% increase in CPI</b>	<b>3% decrease in CPI</b>
	<b>NIS in thousands</b>	
For the year ended December 31, 2011	<u>-</u>	<u>-</u>
For the year ended December 31, 2010	<u>-</u>	<u>-</u>
For the year ended December 31, 2009	<u>(651)</u>	<u>651</u>

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.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 11:- LOAN FROM CONTROLLING SHAREHOLDERS**

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 taken to 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 will be 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 will be 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.



## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 12:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

a. Benefits following employment termination:

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.

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Expenses in respect of defined contribution plans	<u>404</u>	<u>230</u>	<u>80</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

1. Expenses recorded in the statement of comprehensive income:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>NIS in thousands</b>		
Cost of current service	416	383	392
Cost of capitalization	139	143	126
Expected return on plan assets	(84)	(69)	(51)
Real return transferred from severance pay item to remuneration item	22	19	26
Actuarial loss (gain), net recognized for the year	130	(123)	55
Total employee benefit expenses	<u>623</u>	<u>353</u>	<u>548</u>
Actual return on plan assets	<u>23</u>	<u>158</u>	<u>(37)</u>

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>NIS in thousands</b>		
Expenses presented in the statement of comprehensive income as follows:			
Research and development expenses net	351	203	355
General and administrative expenses	272	150	193
	<u>623</u>	<u>353</u>	<u>548</u>

2. Liabilities of the plan, net:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Liability in respect of defined benefit plan	(3,507)	(2,883)
Fair value of plan assets	2,059	1,676
Total liabilities, net	<u>(1,448)</u>	<u>(1,207)</u>

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

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

	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Opening balance	2,883	2,978
Interest expenses	139	143
Current service cost	416	383
Total severance paid	-	(606)
Net actuarial gain	<u>69</u>	<u>(15)</u>
Closing balance	<u><u>3,507</u></u>	<u><u>2,883</u></u>

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:

	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Opening balance	1,676	1,241
Expected return	84	69
Contributions by employer	382	883
Severance paid from the assets	-	(606)
Real return transferred from severance pay item to remuneration item	(22)	(19)
Net actuarial gain (loss)	<u>(61)</u>	<u>108</u>
Closing balance	<u><u>2,059</u></u>	<u><u>1,676</u></u>

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

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>%</u>	
Discount rate	<u>4.35</u>	<u>4.53</u>
Expected rate of return on plan assets	<u>4.35</u>	<u>4.53</u>
Future salary increases	<u>3.00</u>	<u>3.00</u>

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 13:- 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's 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).

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 13:- 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 2009 was 26%, in 2010 was 25% and in 2011- 24%. An entity is taxable on real capital gains at the corporate tax rate that applied in the year of the sale. As a temporary order for the years 2006-2009, it was determined that the sale of an asset other than marketable securities (excluding goodwill which was not paid for) purchased before January 1, 2003 and sold through December 31, 2009 – on the portion of real capital gains attributed on a linear basis to the period up until December 31, 2002, the corporate rate as set out in the Ordinance in the year of the sale will be applied and with respect to the portion of real capital gains attributed on a linear basis to the period from January 1, 2003 up until the time of sale a tax rate of 25% will apply.

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.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 13:- TAXES ON INCOME (Cont.)**c. Tax losses:

As of December 31, 2011, the Company has carryforward tax losses amounting to NIS 152 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 14:- COMMITMENTS AND CONTINGENT LIABILITIES**

- a. The Company has received approval from the Israel - United States Bi-National Research and Development Fund (BIRD Foundation) for a participation grant in research and development totaling US\$ 590 thousand, in consideration for which it undertook to return it up to 100% of the amount (linked to the dollar) on the date of receiving (FDA) approval of marketing of the product deriving from the research and development. The total amount of the grants received up to December 31, 2011 was NIS 1,076 thousand.
- b. 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, 2011, 2010 and 2009 amounted to NIS 696 thousand, NIS 529 thousand and NIS 464 thousand, respectively.

Minimum future rental payments in respect of the Company's premises as of December 31, 2011 are:

	<u>NIS in thousands</u>
First year	705
Second year to third year	<u>1,410</u>
	<u><u>2,115</u></u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Minimum future lease payments in respect of the leasing of motor vehicles as of December 31, 2011 are:

	<u>NIS in thousands</u>
First year	500
Second year to third year	<u>554</u>
	<u><u>1,054</u></u>

- c. In September 2005, the Company signed an agreement with Teva for the joint development of innovative drugs for the treatment of cancer, on the basis of focusing the drug on the treatment of the cells undergoing the process of controlled cell death (apoptosis). The collaboration between the Company and Teva is being carried out in three phases, as outlined in Note 1e.
- d. In August 2008, the Company signed agreements with IBA for optimization, automation and scale-up of the radioactive labeling of the ML-10 marker and the supply of the compound marked for phase III of the Company's clinical tests in the United States. In August 2009, the companies expanded the collaboration between them and entered into an exclusive cooperation agreement for the radioactive labeling and commercial distribution of ML-10 to hospitals and imaging institutes by IBA, and also cooperation in the financing of clinical testing and marketing. For further information, see Note 1d.
- e. In December 2008, the Company signed an agreement with GlaxoSmithKline ("GSK"), whereby GSK would be granted the non-exclusive user-right of the Earlitest™ system for the purpose of assessing the activity of drugs in clinical and pre-clinical trials of oncological drugs, both existing and under development by GSK. The validity of the agreement is for two years including an option to extend the agreement by an additional year for additional consideration. In May 2011, GSK and the Company signed an agreement for the extension of the period set out in the agreement (the period that was set originally for 2 years) for no additional consideration through October 15, 2011, on which date the agreement between the two companies expires.
- f. 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. The first phase of the agreement will include a preliminary clinical test in the framework of which Roche will use the Earlitest™ system, Roche will bear the cost of using the Earlitest™ system and the cost of testing, and will share with the Company the clinical data obtained in the trials. In addition, Roche will pay the Company for the success of the first phase testing and will be able to extend the license for using the Earlitest™ in consideration of an annual additional cost for up to six years. Roche will bear the cost of the clinical trials at the second phase, and will transfer to the Company clinical data relating to the safety and effectiveness of using the ML-10 marker (which is a part of the Earlitest™ system) as set forth in the agreement. Subsidiaries of Roche according to the agreement will also be able to benefit from Roche's user-license in consideration of additional annual payment. The Company believes that the amounts in the agreement are not significant to its business.

**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

- g. In August 2011, the Company submitted an application to the Chief Scientist for a year in the amount of NIS 1.9 million. In January 2012, an approval for a grant in the amount of NIS 863 thousand was received. As of the date of this report, the Company has not yet received payment in respect of the grant from the Chief Scientist.

**NOTE 15:- SHAREHOLDERS' EQUITY**

- a. Composition of share capital:

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

	<u>December 31, 2010</u>	
	<u>Authorized</u>	<u>Issued and paid-up</u>
	<u>Number of shares</u>	
Ordinary shares of NIS 0.01 par value each	<u>50,000,100</u>	<u>26,521,452</u>

- b. Changes in share capital:

1. Issued and fully paid-up capital:

	<u>Number of shares</u>	<u>NIS par value</u>
<u>Balance as of January 1, 2009</u>	<u>22,106,600</u>	<u>221,066</u>
<u>Balance as of December 31, 2009</u>	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	<u>239,558</u>	<u>2,395</u>
<u>Balance as of December 31, 2010</u>	<u>26,521,452</u>	<u>265,214</u>
Exercise of options for consultants into shares	5,355	54
<u>Balance as of December 31, 2011</u>	<u>26,526,807</u>	<u>265,268</u>



## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)

2. 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.

d. Raising capital and options:

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 options to purchase shares up to an amount of US\$ 3,000 thousand. The options 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 options above, whereby the number of shares that would derive from the exercise of the options 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 May 17, 2010, the general meeting, approved the amendment to the terms of the said options in such a way as to exercise the options on a "cashless" basis, without the payment of an exercise price. In June 2010, 1,286,000 options 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 options, 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.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 15:- SHAREHOLDERS' 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 options for nil consideration and 20 Series 2 options 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 options and 1,014,600 Series 2 options were issued.

The Series 1 options 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.

The Series 2 options 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 options 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 options of the Company. The investment was made in June 2010, following the completion of the issue to the public pursuant to a prospectus.

According to the agreement, the investor purchased Ordinary shares and options 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.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)**

- 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, 2011 and 2010, and as of December 31, 2009, the balance of the reserve in respect of transactions with controlling shareholders was NIS 13,684 thousand, and NIS 10,065 thousand, respectively (see Note 11).

- 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 16:- 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 options 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 options to the former Chairman of the Board of Directors of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 16:- 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:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>NIS in thousands</b>		
Research and development expenses	1,656	1,362	1,300
General and administrative expenses	1,271	1,689	3,509
<b>Total share-based benefit expenses</b>	<b>2,927</b>	<b>3,051</b>	<b>4,809</b>

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. According to the option agreement:

- 385,000 options will vest and will be available for exercise over a period of four years, such that a quarter of the shares of the first amount will vest at the end of each year commencing September 2, 2007. In the event of a merger or acquisition of the Company, half of the balance which has not yet vested will vest immediately, and the second half will also vest in the event that the purchasing entity requests to terminate the employment of the Chief Executive Officer or to demote him.
- 267,000 options will vest on the completion of a merger or acquisition agreement or completion of an initial public offering, provided that the Chief Executive Officer is acting in his capacity on the date of signing the agreement or the issue. As a result of the initial public offering in June 2010, the aforesaid options 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.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

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.

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.

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

	<b>Number of options</b>	<b>Weighted average exercise price - in NIS *)</b>	<b>Weighted average remaining contractual life - in years</b>
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	<u>1,673,000</u>	<u>15.90</u>	<u>7.09</u>
Exercisable	<u>1,140,313</u>	<u>11.75</u>	<u>6.42</u>

**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 16:- 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, 2010 is as follows:

	<b>Number of options</b>	<b>Weighted average exercise price - in NIS *)</b>	<b>Weighted average remaining contractual life - in years</b>
Balance as of January 1, 2010	1,495,000	11.93	7.50
Granted	405,000	27.46	9.62
Exercised	-	-	-
Options transferred to consultants **)	(135,000)	11.75	7.42
Forfeited	(135,000)	11.75	7.42
Balance as of December 31, 2010	<u>1,630,000</u>	<u>15.81</u>	<u>8.04</u>
Exercisable	<u>895,000</u>	<u>11.75</u>	<u>7.42</u>

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

\*\*) Options granted to one of the Company's employees who became a consultant. Subject to an agreement between the parties, the life of the options was updated such that they will be exercisable over her term of office as a consultant. During 2010, the Company charged the expenses of changing the terms of the options totaling NIS 490 thousand to research and development expenses.

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, 2011, the abovementioned options were fully vested and have not been exercised yet.

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.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

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.

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.

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

<u>Date of issue</u>	<u>Options for Ordinary shares</u>	<u>Average exercise price per share</u>	<u>Exercisable options</u>	<u>Terms of performance</u>
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:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
General and administrative expenses	<u>295</u>	<u>5,364</u>	<u>239</u>
Total share-based benefit expenses	<u>295</u>	<u>5,364</u>	<u>239</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 16:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

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.

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:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>NIS in thousands</b>		
Research and development expenses	54	94	98
Total share-based benefit expenses	<u>54</u>	<u>94</u>	<u>98</u>



**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 16:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)**

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

<u>Date of issue</u>	<u>Options for Ordinary shares</u>	<u>Average exercise price per share</u>	<u>Exercisable options</u>	<u>Exercisable until</u>
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.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17:- SUPPLEMENTARY INFORMATION TO ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME

a. Research and development expenses:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>NIS in thousands</b>		
Salaries, related expenses and motor vehicles	10,021	7,840	5,669
Subcontracted work and maintenance	9,234	5,201	2,659
Use of materials	85	117	72
Patents	546	622	575
Depreciation	314	245	196
Overseas travels	393	404	226
Office maintenance	1,443	1,206	953
Cost of share-based payment	1,710	1,456	1,398
Sub-contractors	233	164	248
	<u>23,979</u>	<u>17,255</u>	<u>11,996</u>
Net of grants from BIRD Foundation	<u>(393)</u>	<u>(406)</u>	<u>(224)</u>
	<u><u>23,586</u></u>	<u><u>16,849</u></u>	<u><u>11,772</u></u>

b. General and administrative expenses:

Salaries, related expenses and motor vehicles	4,899	3,758	2,388
Professional services	1,722	1,048	1,195
Overseas travels	149	220	192
Depreciation	134	62	51
Office maintenance	768	562	321
Other	209	217	133
Cost of share-based payment	1,566	7,053	3,748
	<u>9,447</u>	<u>12,920</u>	<u>8,028</u>

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17:- SUPPLEMENTARY INFORMATION TO ITEMS IN THE STATEMENTS OF COMPREHENSIVE INCOME (Cont.)

c. Finance income and expenses:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
<u>Finance income</u>			
Interest income from held to maturity marketable securities whose value has not been impaired	-	41	180
Interest income from deposits	2,630	1,282	688
Finance income in respect of revaluation of options	-	-	-
Net finance income from change in exchange rates	4,960	-	-
Others	-	78	-
	<u>7,590</u>	<u>1,401</u>	<u>868</u>
<u>Finance expenses</u>			
Finance expenses in respect of controlling shareholders' loans	-	1,690	4,284
Finance expenses in respect of revaluation of options	-	13,155	5,773
Net loss from change in exchange rates	-	5,937	14
Commissions and other expenses	272	49	100
	<u>272</u>	<u>20,831</u>	<u>10,171</u>
<u>Finance income (expenses) classified by types of financial instruments</u>			
Loans and receivables	-	(1,690)	(4,284)
Held to maturity investments	-	41	180

**NOTES TO THE FINANCIAL STATEMENTS**
**NOTE 18:- LOSS PER SHARE**

a. Composition:

	Year ended December 31,					
	2011		2010		2009	
	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	26,522	24,618	24,589	48,213	22,107	28,576
Effect of potentially dilutive Ordinary shares	-	-	-	-	-	-
For purposes of calculating diluted loss	<u>26,522</u>	<u>24,618</u>	<u>24,589</u>	<u>48,213</u>	<u>22,107</u>	<u>28,576</u>

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, 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.

Year ended December 31, 2009

2,816 thousand options to employees and consultants in share-based payment plans.  
1,286 thousand options.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with interested parties and related parties:As of December 31, 2011

	<u>For details / conditions, see Note</u>	<u>Key management personnel NIS in thousands</u>	<u>Controlling shareholders NIS in thousands</u>
Other accounts payable	9	144	788
Payments on account of options	11	-	9,892

As of December 31, 2010

	<u>For details / conditions, see Note</u>	<u>Key management personnel NIS in thousands</u>	<u>Controlling shareholders NIS in thousands</u>
Other accounts payable	9	110	612
Payments on account of options	11	-	9,892

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

	<u>Year ended December 31,</u>					
	<u>2011</u>		<u>2010</u>		<u>2009</u>	
	<u>Number of people</u>	<u>Amount NIS in thousands</u>	<u>Number of people</u>	<u>Amount NIS in thousands</u>	<u>Number of people</u>	<u>Amount NIS in thousands</u>
Short-term benefits to employees	2	2,830	2	2,545	2	1,995
Benefits following employment termination	2	305	2	193	2	309
Share-based payment	1	179	1	840	1	2,221
		<u>3,314</u>		<u>3,578</u>		<u>4,525</u>

In January 2011, the Company's Board of Directors approved a salary increase from 2011 and thereafter to 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

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

March 22, 2011. As of December 31, 2011, the contingent grant has not been paid yet 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,					
	2011		2010		2009	
	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands	Number of people	Amount 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 and NIS 239 thousand for 2011, 2010 and 2009, respectively)	10	653	5	5,560	3	616
	10	653	5	5,560	3	616

Benefits to controlling shareholders:

	Year ended December 31,					
	2011		2010		2009	
	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands
Total benefits in respect of controlling shareholders	-	-	2	1,690	2	4,284
	-	-	2	1,690	2	4,284

b. Terms of the transactions with related parties:

1. Loan from controlling shareholder:

With regard to the terms of a loan from controlling shareholder, see Note 11.

2. Management fees to controlling shareholder:

With regard to the terms of management fees to controlling shareholder, see Note 11.

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. The services will be given according to the Company's needs and decisions, at scopes

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 19:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

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.

The agreement includes an undertaking to maintain confidentiality and the prohibition of unauthorized use of confidential information of the Company. The agreement provides that all of the rights in respect of inventions, progress, developments, improvements, ideas, applications, etc. that the consultant develops or that he obtains in any other way in connection with the performance of the services or in connection with the Company's operations as they are or as they may be in the future, even if they are supplied within two years after he ceases to perform the services for the Company, will become the property of the Company.

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, including identifying and creating contacts with potential investors, business opportunities, including the identification of potential strategic partners and the promotion of discussions with partners, as aforesaid, the planning and performance of business strategy, development of target markets and other areas, as will be agreed from time to time between the parties.

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.

The agreement includes an undertaking to maintain confidentiality and the prohibition of unauthorized use of confidential information of the Company.

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 16b.

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 19:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

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 19a).

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