APOSENSE LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

AS OF MARCH 31, 2013

UNAUDITED

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BALANCE SHEETS

	March 31, 2013	March 31, 2011	December 31, 2012
	Unaudited		Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,773	8,382	7,494
Short-term deposits	55,120	77,549	58,661
Accounts receivable	1,173	1,481	1,580
	59,066	87,412	67,735
NON-CURRENT ASSETS:			
Long-term deposits	15,660	14,876	15,960
Fixed assets	2,143	2,376	2,301
	17,803	17,252	18,261
	76,869	104,664	85,996
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables	1,325	1,755	2,279
Short-term deferred revenues	-	855	855
Other accounts payable	5,831	6,852	6,558
	7,156	9,462	9,692
NON-CURRENT LIABILITIES:			
Long-term deferred revenues	-	10,944	10,430
Liability for research and development grants	807	1,237	2,110
Employee benefit liabilities	1,246	1,483	1,207
	2,053	13,664	13,747
SHAREHOLDERS' EQUITY:			
Share capital	265	265	265
Share premium	270,696	270,419	270,573
Receipts on account of options	17,048	17,048	17,048
Capital reserve for share-based payment transactions	36,563	35,252	36,449
Capital reserve for transactions with controlling shareholders	13,684	13,684	13,684
Accumulated deficit	(270,596)	(255,130)	(275,462)
Total shareholders' equity	67,660	81,538	85,996
	76,869	104,664	62,557

STATEMENTS OF OPERATIONS

	Three months ended March 31, 2013	Three months ended March 31, 2012	Year ended December 31, 2012
	Unaudited	Unaudited	Audited
	NIS in thousands (except per share data)		
Revenues from grant of use rights and from collaboration agreement	4	171	685
Cost of sales	-	-	-
Gross profit	4	171	685
Research and development expenses, net	4,964	5,165	22,075
General and administrative expenses	2,125	2,284	8,518
Other income	(12,871)	-	-
Operating profit (loss)	5,786	(7,278)	(29,908)
Finance income	333	685	2,347
Finance expenses	(1,253)	(1,666)	(1,254)
Actuary profit for "defined" benefit plans	-	-	224
Total comprehensive profit (loss)	4,866	(8,259)	(28,591)
Basic profit (loss) per share attributable to the equity holders of the Company (in NIS)	0.183	(0.311)	(1.078)
Diluted profit (loss) per share attributable to the equity holders of the Company (in NIS)	0.181	(0.311)	(1.078)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Share capital	Share premium	Receipts on account of options	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Accumulated deficit	Total equity
	Unaudited						
	NIS in thousands						
Balance as of January 1, 2012	265	270,419	17,048	34,601	13,684	(246,871)	89,146
Total comprehensive loss	-	-	-	-	-	(8,259)	(8,259)
Cost of share-based payment	-	-	-	651	-	-	651
Balance as of March 31, 2012	265	270,419	17,048	35,252	13,684	(255,130)	81,538

	Share capital	Share premium	Receipts on account of options	Capital reserve for share-based payment transactions	Capital reserve for transactions with controlling shareholders	Accumulated deficit	Total equity
	Unaudited						
	NIS in thousands						
Balance as of January 1, 2012 (audited)	265	270,419	17,048	34,601	13,684	(246,871)	89,146
Total comprehensive loss	-	-	-	-	-	(28,591)	(28,591)
Cost of share-based payment	-	-	-	2,002	-	-	2,002
Employees' options expiration	-	154	-	(154)	-	-	-
Balance as of December 31, 2012	265	270,573	17,048	36,449	13,684	(275,462)	62,557

STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2013	Three months ended March 31, 2012	Year ended December 31, 2012
	Unaudited	Unaudited	Audited
	NIS in thousands		
Cash flows from operating activities:			
Profit (loss)	4,866	(8,259)	(28,591)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit and loss items:			
Depreciation and amortization	149	131	554
Finance expenses (income), net	904	734	(2,053)
Cost of share-based payment	237	651	2,002
Capital loss from sale of fixed assets	22	-	-
Change in liability for research and development grants	(1,199)	14	456
Change in employee benefit liabilities, net	39	35	(241)
	152	1,565	718
Changes in asset and liability items:			
Increase in accounts receivable	(206)	(245)	(1,784)
Increase (decrease) in trade payables	(954)	(466)	58
Increase in other accounts payable	(727)	22	(201)
Decrease in deferred revenues	(11,285)	(171)	(685)
	(13,172)	(860)	(2,612)
Cash received during the period for:			
Interest received	322	192	2,836
Net cash used in operating activities	(7,832)	(7,362)	(27,649)
Cash flows from investing activities:			
Purchase of fixed assets	(20)	(351)	(770)
Proceeds from sale of fixed assets	7	-	-
Proceeds from short-term deposits, net	2,614	4,447	41,003
Investment in long-term deposits, net	-	(14,964)	(33,574)
Net cash provided by (used in) investing activities	2,601	(10,868)	6,659

STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2013	Three months ended March 31, 2012	Year ended December 31, 2012
	Unaudited	Unaudited	Audited
	NIS in thousands		
Cash flows from financing activities:			
Cash received from governmental grants	510	300	2,172
Exercise of options		-	
Net cash provided by financing activities	510	300	2,172
Decrease in cash and cash equivalents	(4,721)	(17,930)	(18,818)
Cash and cash equivalents at beginning of period	7,494	26,312	26,312
Cash and cash equivalents at end of period	2,773	8,382	7,494
Significant non-cash transactions:			
Purchase of fixed assets	-	71	-

NOTE 1: - GENERAL

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

The Company develops drugs based on its technology platform, conjugates of generic drugs combined with APOSENSE® molecules. As of this report, the Company develops, inter-alia, in pre-clinical development stage of the following products: ATT-11T (in agreement with Teva Pharmaceuticals) for the treatment of colorectal cancer and other tumors, ATT-Gem for the treatment of pancreatic cancer and other tumors, and ATT-LD, the next generation of the generic Levodopa used as the standard of care in Parkinson's Disease (See also Note 3).

In June 2011 the Company established a wholly-owned subsidiary in the United Kingdom named: "APOSENSE UK LIMITED". On May 27, 2013 the Company's Board of Directors decided on the subsidiary voluntary liquidation. As for this financial statement date, there is not any activity in the UK subsidiary.

b. From its establishment to March 31, 2013, the Company raised US$ 69,940 thousand from investors, from 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 March 31, 2013 amounted to US$ 20,163 thousand (representing NIS 73,553 thousand). During the research and development stages from October 9, 1996 to March 31, 2013, the Company accumulated a loss amounting to NIS 270,596 thousand. The cash used by the Company in its operating activities in the quarter ended March 31, 2013 amounted to NIS 7,832 thousand. Through the end of the development and the commercialization of the Company's products, significant expenses will be required. The Company has not generated significant revenues from its activity, and therefore, is dependent on external financing sources. The Company finances its activity mainly through capital investments.

NOTE 2: - SIGNIFICANT ACCOUNTING PILICIES

1. Basis of preparation of the interim financial statements:

The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the annual financial statements.

2. New IFRS standard note

IAS 19R - Employee Benefits:

In June 2011, the IASB issued IAS 19R. The principal amendments included in IAS 19R are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not carried to profit or loss.

NOTE 2: - SIGNIFICANT ACCOUNTING PILICIES (CONT.)

- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.
- The return on the plan assets is recognized in profit or loss based on a discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- The cost of past services arising from changes in the plan will be recognized immediately.

IAS 19R is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The principal amendment adoption did not have any impact on the Company's financial statements.

NOTE 3: - SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

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

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

Following the Company's decision to freeze the development program and clinical studies in March 2013, the Company recognized deferred revenues in the amount of NIS 11,285 thousand as other income.

In addition, according to the Company's management estimation, as of this report preparation date, the probability of receiving FDA approval is low. As a result, the other income which was recognized due to BIRD-Fund liability offset totaled into NIS 1,586 thousand.

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