APOSENSE LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2012

UNAUDITED

INDEX

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BALANCE SHEETS

	September 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	46,548	6,156	26,312
Short-term deposits	43,728	102,445	78,672
Accounts receivable	1,686	1,576	1,403
	91,962	110,177	106,387
NON-CURRENT ASSETS:			
Long-term deposits	2,373	4,130	4,162
Fixed assets	2,206	1,652	2,085
	4,579	5,782	6,247
	96,541	115,959	112,634
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables	3,490	1,150	2,221
Short-term deferred revenues	855	1,154	855
Other accounts payable	7,248	6,843	6,759
	11,593	9,147	9,835
NON-CURRENT LIABILITIES:			
Long-term deferred revenues	10,601	11,008	11,115
Liability for research and development grant	2,102	1,164	1,090
Employee benefit liabilities	1,456	1,276	1,448
	14,159	13,448	13,653
SHAREHOLDERS' EQUITY:			
Share capital	265	265	265
Share premium	270,573	270,419	270,419
Receipts on account of options	17,048	17,048	17,048
Capital reserve for share-based payment transactions	36,225	34,067	34,601
Capital reserve for transactions with controlling shareholders	13,684	13,684	13,684
Accumulated deficit	(267,006)	(242,119)	(246,871)
Total shareholders' equity	70,789	93,364	89,146
	96,541	115,959	112,634

STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues from grant of use rights and from collaboration agreement	514	850	171	283	1,048
Cost of sales	-	93	-	31	121
Gross profit	514	757	171	252	927
Research and development expenses, net	17,615	18,363	6,487	6,027	23,586
General and administrative expenses	6,392	7,235	1,978	2,107	9,447
Operating loss	23,493	24,841	8,294	7,882	32,106
Finance income	5,277	7,585	592	6,385	7,590
Finance expenses	(1,919)	(2,780)	(122)	(141)	(272)
Total comprehensive loss	20,135	20,036	7,824	1,638	24,788
Basic and diluted loss per share attributable to the equity holders of the Company (in NIS)	0.759	0.755	0.295	0.062	0.935

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 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	-	-	-	-	-	(20,135)	(20,135)
Cost of share-based payment	-	154	-	1,624	-	-	1,778
Balance as of September 30, 2012	265	270,573	17,048	36,225	13,684	(267,006)	70,789

	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, 2011 (audited)	265	270,310	17,048	31,365	13,684	(222,083)	110,589
Total comprehensive loss	-	-	-	-	-	(20,036)	(20,036)
Cost of share-based payment	-	-	-	2,742	-	-	2,742
Exercise of consultants' options into shares	(* -	109	-	(40)	-	-	69
Balance as of September 30, 2011	265	270,419	17,048	34,067	13,684	(242,119)	93,364

	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 July 1, 2012	265	270,573	17,048	35,709	13,684	(259,182)	78,097
Total comprehensive loss	-	-	-	-	-	(7,824)	(7,824)
Cost of share-based payment	-	-	-	516	-	-	516
Balance as of September 30, 2012	265	270,573	17,048	36,225	13,684	(267,006)	70,789

*) Represents an amount lower than NIS 1 thousand.

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 equity
	Unaudited						
	NIS in thousands						
Balance as of July 1, 2011	265	270,419	17,048	33,255	13,684	(240,481)	94,190
Total comprehensive loss	-	-	-	-	-	(1,638)	(1,638)
Cost of share-based payment	-	-	-	812	-	-	812
Balance as of September 30, 2011	265	270,419	17,048	34,067	13,684	(242,119)	93,364

	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, 2011 (audited)	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

*) Represents an amount lower than NIS 1 thousand.

STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands				
Cash flows from operating activities:					
Loss	(20,135)	(20,036)	(7,824)	(1,638)	(24,788)
Adjustments to reconcile loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	409	327	140	129	447
Finance expenses (income), net	(3,717)	(4,450)	(495)	(6,332)	(6,365)
Cost of share-based payment	1,778	2,742	516	812	3,276
Capital loss from sale of fixed assets	-	4	-	-	5
Change in liability for research and development grants	482	430	(157)	133	298
Change in employee benefit liabilities, net	8	69	38	23	241
	(1,040)	(878)	42	(5,235)	(2,098)
Changes in asset and liability items:					
Decrease in accounts receivable	(1,480)	(437)	(138)	(120)	(206)
Increase (decrease) in trade payables	1,269	(253)	857	(507)	818
Increase in other accounts payable	489	3,238	190	1,076	3,043
decrease in deferred revenues	(514)	(681)	(171)	(284)	(873)
	(236)	1,867	738	165	2,782
Cash received during the period for:					
Interest received	2,783	941	2,445	691	1,375
Net cash used in operating activities	(18,628)	(18,106)	(4,599)	(6,017)	(22,729)
Cash flows from investing activities:					
Purchase of fixed assets	(530)	(572)	(38)	(166)	(1,080)
Proceeds from sale of fixed assets	-	3	-	-	68
Proceeds from short-term deposits, net	54,877	4,576	48,089	5,637	29,798
Investment in long-term deposits	(17,210)	(14,000)	-	-	(14,000)
Net cash provided by (used in) investing activities	37,137	(9,993)	48,051	5,471	14,786

STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands				
Cash flows from financing activities:					
Cash received from governmental grants	1,727	415	91	-	415
Exercise of options	-	282	-	-	282
Net cash provided by financing activities	1,727	697	91	-	697
Increase (decrease) in cash and cash equivalents	20,236	(27,402)	43,543	(546)	(7,246)
Cash and cash equivalents at beginning of period	26,312	33,558	3,005	6,702	33,558
Cash and cash equivalents at end of period	46,548	6,156	46,548	6,156	26,312
Significant non-cash transactions:					
Purchase of fixed assets	-	-	-	-	111

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 established a subsidiary in the United Kingdom named: "APOSENSE UK LIMITED". As for this financial statement date, there is not any activity in the UK subsidiary.

b. From its establishment to September 30, 2012, the Company raised US$ 69,700 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 September 30, 2012 amounted to US$ 23,683 thousand (representing NIS 92,649 thousand). During the research and development stages from October 9, 1996 to September 30, 2012, the Company accumulated a loss amounting to NIS 267,006 thousand. The cash used by the Company in its operating activities in the quarter ended September 30, 2012 amounted to NIS 4,599 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.

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 issue expenses, of which NIS 58,067 thousand in the issue to the public. Subject to and immediately prior to the issue to the public, the Company raised an investment amounting to NIS 30,063 thousand, net of issue expenses of NIS 1,575 thousand, from existing investors and new investors. Within the framework of the issue to the public, the Company issued 2 series of options.
On 4th and 11th of July 2012, the Company's shareholders meeting and Series 1 warrants owners meeting approved Series 1 warrants' terms so that their final exercise date would be November 30 2013 (instead of their original date on May 31 2012).
On July 24 2012, the court has approved the abovementioned arrangement as well. The warrants exercise date extension will have no impact on the Company's financial statements.

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 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, and 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 (NIS 9,402 thousands) . 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 September 30, 2012, 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 (NIS 3,613 thousand). This amount may not be recovered or set off from future revenues. This amount is recognized as income by the straight-line method over the period in that the Company expects until the date of approval of the product by the FDA.

During 2012 IBA and IBA N.A transferred their tights and obligations to IBA Molecular Compounds Development S.ar.l (Hereinto IBA Molecular CD).

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 decided to pass to the second phase of the project, in which Teva would finance continuation of the development up to an amount of US$ 9,000 thousand. During 2012 the Company started, on its own initiative, expensing development costs in order to meet its determined schedules for the project progress.

f. These financial statements have been prepared in a condensed format as of September 30, 2012 and for the nine and three months periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2011 and for the year then ended and the accompanying notes ("annual financial statements.")

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 during the period before its adoption

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.
- 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. Earlier application is permitted.

The Company is currently evaluating the possible impact of the adoption of IAS 19R.

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