IMPORTANT NOTE

This document is an unofficial translation of the Hebrew original, September 30, 2012 financial report of Can-Fite BioPharma Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on November 29, 2012.
The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version.
This translation is for the convenience of English readers only.

**CAN-FITE BIOPHARMA LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2012**

**UNAUDITED**

**INDEX**



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# Auditors' review report to the shareholders of Can-Fite Biopharma Ltd.

## Introduction

We have reviewed the accompanying financial information of Can-Fite Biopharma Ltd. and its subsidiary ("the Group"), which comprises the condensed consolidated statement of financial position as of September 30, 2012 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to the matter stated in Note 1b to the interim consolidated financial statements regarding the Company's financial position and regarding the uncertainty involving the ability to obtain additional financial resources for the Company's continued operating activities.

Haifa, Israel
November 29, 2012

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | September 30, | | December 31, |
|---|---|---|---|
| | 2012 | 2011 | 2011 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 7,524 | 1,787 | 14,622 |
| Accounts receivable | 2,319 | 2,994 | 3,760 |
| | 9,843 | 4,781 | 18,382 |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment, net | 171 | 394 | 278 |
| | 10,014 | 5,175 | 18,660 |

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | September 30, | | December 31, |
|---|---|---|---|
| | 2012 | 2011 | 2011 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | 1,893 | 1,537 | 1,930 |
| Other accounts payable | 2,578 | 2,114 | 2,686 |
| Options exercisable into shares (series 5) | - | 413 | 138 |
| Options exercisable into shares (series 6) | 198 | - | 396 |
| Options exercisable into shares (series 8) | 349 | - | - |
| | 5,018 | 4,064 | 5,150 |
| NON-CURRENT LIABILITIES: | | | |
| Options exercisable into shares (series 7) | 753 | - | 793 |
| Employee benefit liabilities, net | 91 | 121 | 190 |
| | 844 | 121 | 983 |
| | 5,862 | 4,185 | 6,133 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | |
| Share capital | 2,734 | *) 2,328 | 2,606 |
| Share premium | 233,754 | *) 209,993 | 229,299 |
| Capital reserve for share-based payment transactions | 15,196 | 14,573 | 14,670 |
| Options exercisable into shares (series 9) | 669 | - | - |
| Treasury shares | (4,760) | - | (4,760) |
| Adjustments arising from translating financial statements of foreign operations | 347 | - | 75 |
| Accumulated deficit | (246,319) | (225,904) | (231,584) |
| | 1,621 | 990 | 10,306 |
| Non-controlling interests | 2,531 | - | 2,221 |
| Total equity | 4,152 | 990 | 12,527 |
| | 10,014 | 5,175 | 18,660 |

*) Reclassified.

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

| November 29, 2012 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Mr. Avigdor Kaplan<br>Chairman of the Board of Directors | Prof. Pnina Fishman<br>Member of the Board and CEO | Mr. Motti Farbstein<br>Chief Operating and Financial Officer |

## CONSOLIDATED 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 | - | 1,339 | - | 446 | 1,785 |
| Research and development expenses | 9,273 | 9,845 | 2,776 | 2,614 | 12,969 |
| General and administrative expenses | 6,121 | 5,037 | 1,954 | 1,762 | 7,081 |
| Other income | (32) | - | (3) | - | (88) |
| Operating loss | 15,362 | 13,543 | 4,727 | 3,930 | 18,177 |
| Expenses relating to the merger transaction | - | - | - | - | 11,496 |
| Finance expenses | 279 | 36 | 253 | 1 | 232 |
| Finance income | (457) | (1,121) | (154) | (617) | (1,669) |
| Loss before taxes on income | 15,184 | 12,458 | 4,826 | 3,314 | 28,236 |
| Taxes on income | - | 142 | - | 49 | 191 |
| Loss | 15,184 | 12,600 | 4,826 | 3,363 | 28,427 |
| Other comprehensive income - adjustments arising from translating financial statements of foreign operations | (332) | - | (219) | - | (92) |
| Total comprehensive loss | 14,852 | 12,600 | 4,607 | 3,363 | 28,335 |
| Loss attributable to: | | | | | |
| Equity holders of the Company | 14,735 | 12,600 | 6,297 | 3,363 | 25,499 |
| Non-controlling interests | 449 | - | (1,471) | - | 2,928 |
| | 15,184 | 12,600 | 4,826 | 3,363 | 28,427 |
| Total comprehensive loss (income) attributable to: | | | | | |
| Equity holders of the Company | 14,463 | 12,600 | 6,117 | 3,363 | 25,424 |
| Non-controlling interests | 389 | - | (1,510) | - | 2,911 |
| | 14,852 | 12,600 | 4,607 | 3,363 | 28,335 |
| Net loss per share attributable to equity holders of the Company (in NIS): | | | | | |
| Basic and diluted net loss per share | 0.06 | 0.05 | 0.02 | 0.01 | 0.12 |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital | Share premium | Capital reserve for share-based payment transactions | Options exercisable into shares (series 9) | Treasury shares | Adjustments arising from translating financial statements of foreign operations | Accumulated deficit | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | | | | |
| | NIS in thousands | | | | | | | | | |
| Balance as of January 1, 2012 (audited) | 2,606 | 229,299 | 14,670 | - | (4,760) | 75 | (231,584) | 10,306 | 2,221 | 12,527 |
| Loss | - | - | - | - | - | - | (14,735) | (14,735) | (449) | (15,184) |
| Total other comprehensive income | - | - | - | - | - | 272 | - | 272 | 60 | 332 |
| Total comprehensive loss | - | - | - | - | - | 272 | (14,735) | (14,463) | (389) | (14,852) |
| Exercise of unlisted share options | 5 | 171 | - | - | - | - | - | 176 | - | 176 |
| Exercise of share options (series 5) | 1 | 75 | - | - | - | - | - | 76 | - | 76 |
| Issue of shares and options (series 9) | 122 | 4,209 | - | 669 | - | - | - | 5,000 | - | 5,000 |
| Cost of share-based payment | - | - | 526 | - | - | - | - | 526 | 699 | 1,225 |
| Balance as of September 30, 2012 | 2,734 | 233,754 | 15,196 | 669 | (4,760) | 347 | (246,319) | 1,621 | 2,531 | 4,152 |
| Balance as of January 1, 2011 (audited) | *) 2,321 | *) 209,704 | 14,351 | - | - | - | (213,304) | 13,072 | - | 13,072 |
| Total comprehensive loss | - | - | - | - | - | - | (12,600) | (12,600) | - | (12,600) |
| Exercise of share options | 7 | 289 | - | - | - | - | - | 296 | - | 296 |
| Cost of share-based payment | - | - | 222 | - | - | - | - | 222 | - | 222 |
| Balance as of September 30, 2011 | 2,328 | 209,993 | 14,573 | - | - | - | (225,904) | 990 | - | 990 |

*) Reclassified.

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital | Share premium | Capital reserve for share-based payment transactions | Options exercisable into shares (series 9) | Treasury shares | Adjustments arising from translating financial statements of foreign operations | Accumulated deficit | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | | | | |
| | NIS in thousands | | | | | | | | | |
| Balance as of July 1, 2012 | 2,733 | 233,717 | 15,073 | 669 | (4,760) | 167 | (240,022) | 7,577 | 827 | 8,404 |
| Income (loss) | - | - | - | - | - | - | (6,297) | (6,297) | 1,471 | (4,826) |
| Total other comprehensive income | - | - | - | - | - | 180 | - | 180 | 39 | 219 |
| Total comprehensive income (loss) | - | - | - | - | - | 180 | (6,297) | (6,117) | 1,510 | (4,607) |
| Exercise of unlisted share options | 1 | 37 | - | - | - | - | - | 38 | - | 38 |
| Cost of share-based payment | - | - | 123 | - | - | - | - | 123 | 194 | 317 |
| Balance as of September 30, 2012 | 2,734 | 233,754 | 15,196 | 669 | (4,760) | 347 | (246,319) | 1,621 | 2,531 | 4,152 |
| Balance as of July 1, 2011 | 2,326 | 209,924 | 14,548 | - | - | - | (222,541) | 4,257 | - | 4,257 |
| Total comprehensive loss | - | - | - | - | - | - | (3,363) | (3,363) | - | (3,363) |
| Exercise of share options | 2 | 69 | - | - | - | - | - | 71 | - | 71 |
| Cost of share-based payment | - | - | 25 | - | - | - | - | 25 | - | 25 |
| Balance as of September 30, 2011 | 2,328 | 209,993 | 14,573 | - | - | - | (225,904) | 990 | - | 990 |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital | Share premium | Capital reserve for share-based payment transactions | Treasury shares | Adjustments arising from translating financial statements of foreign operations | Accumulated deficit | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Audited | | | | | | | | |
| | NIS in thousands | | | | | | | | |
| Balance as of January 1, 2011 | *) 2,321 | *) 209,704 | 14,351 | - | - | (213,304) | 13,072 | - | 13,072 |
| Loss | - | - | - | - | - | (25,499) | (25,499) | (2,928) | (28,427) |
| Total other comprehensive income | - | - | - | - | 75 | - | 75 | 17 | 92 |
| Total comprehensive loss | - | - | - | - | 75 | (25,499) | (25,424) | (2,911) | (28,335) |
| Allocation of share capital to subsidiary | 179 | 5,626 | - | (4,760) | - | (1,045) | - | - | - |
| Cost of share-based payment | - | - | 319 | - | - | - | 319 | - | 319 |
| Issue of share capital (net of issue expenses) | 99 | 4,611 | - | - | - | - | 4,710 | - | 4,710 |
| Exercise of share options | 7 | 289 | - | - | - | - | 296 | - | 296 |
| Expenses relating to the merger transaction | - | 9,069 | - | - | - | - | 9,069 | 1,991 | 11,060 |
| Change in equity as a result of the merger transaction | - | - | - | - | - | 8,264 | 8,264 | 3,141 | 11,405 |
| Balance as of December 31, 2011 | 2,606 | 229,299 | 14,670 | (4,760) | 75 | (231,584) | 10,306 | 2,221 | 12,527 |

*) Reclassified.

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

## CONSOLIDATED 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 | (15,184) | (12,600) | (4,826) | (3,363) | (28,427) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | | | |
| Adjustments to the profit or loss items: | | | | | |
| Depreciation of property, plant and equipment | 70 | 171 | 21 | 49 | 218 |
| Cost of share-based payment | 1,225 | 222 | 317 | 25 | 319 |
| Interest on deposits | (49) | (82) | (11) | (7) | (89) |
| Gain from sale of property, plant and equipment | (32) | - | (3) | - | (88) |
| Increase (decrease) in employee benefit liabilities, net | (99) | (10) | 8 | (12) | 59 |
| Taxes on income | - | 9 | - | 5 | 11 |
| Decrease in fair value of options exercisable into shares (series 5) | (138) | (987) | - | (562) | (1,262) |
| Increase (decrease) in fair value of options exercisable into shares (series 6) | (198) | - | (79) | - | 94 |
| Decrease in fair value of options exercisable into shares (series 7) | (40) | - | (40) | - | (172) |
| Increase in fair value of options exercisable into shares (series 8) | - | - | 8 | - | - |
| Exchange rate differences on balances of cash and cash equivalents | 36 | (175) | 13 | (210) | (181) |
| Expenses relating to the merger transaction | - | - | - | - | 11,060 |
| | 775 | (852) | 234 | (712) | 9,969 |
| Changes in asset and liability items: | | | | | |
| Decrease (increase) in accounts receivable | 1,441 | (2,444) | 740 | (317) | (3,210) |
| Increase (decrease) in trade payable | (37) | 1,021 | 427 | 547 | 1,414 |
| Increase (decrease) in other accounts payable | (108) | (1,313) | 286 | (335) | (741) |
| | 1,296 | (2,736) | 1,453 | (105) | (2,537) |
| Cash paid and received during the period for: | | | | | |
| Interest received | 49 | 82 | 11 | 7 | 89 |
| Taxes paid | - | (9) | - | (5) | (11) |
| | 49 | 73 | 11 | 2 | 78 |
| Net cash used in operating activities | (13,064) | (16,115) | (3,128) | (4,178) | (20,917) |

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

## CONSOLIDATED 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 investing activities: | | | | | |
| Purchase of property, plant and equipment | (13) | (75) | - | (43) | (81) |
| Proceeds from sale of property, plant and equipment | 82 | - | 3 | - | 163 |
| Net cash provided by (used in) investing activities | 69 | (75) | 3 | (43) | 82 |
| Cash flows from financing activities: | | | | | |
| Issue of share capital (net of issue expenses) | 4,331 | - | - | - | 4,710 |
| Proceeds on account of share options (series 8 and 9) (net of issue expenses) | 1,018 | - | - | - | 1,266 |
| Exercise of unlisted share options | 176 | 296 | 38 | 71 | 296 |
| Exercise of share options (series 5) | 76 | - | - | - | - |
| Sale of shares to non-controlling interests | - | - | - | - | 11,405 |
| Net cash provided by financing activities | 5,601 | 296 | 38 | 71 | 17,677 |
| Exchange rate differences on balances of cash and cash equivalents | 296 | 175 | 206 | 210 | 274 |
| Decrease in cash and cash equivalents | (7,098) | (15,719) | (2,881) | (3,940) | (2,884) |
| Cash and cash equivalents at the beginning of the period | 14,622 | 17,506 | 10,405 | 5,727 | 17,506 |
| Cash and cash equivalents at the end of the period | 7,524 | 1,787 | 7,524 | 1,787 | 14,622 |

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1:- GENERAL

a. 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 accompanying notes ("annual consolidated financial statements").

b. Can-Fite Biopharma Ltd. ("the Company") incurred losses of approximately NIS 14,735 thousand and negative cash flows from operating activities of approximately NIS 5,650 thousand for the nine months period ended September 30, 2012. The Company also has accumulated losses from previous years. Furthermore, the Company has not yet earned significant revenues from the sale of its internally developed products and it is dependent on capital raisings and other sources for financing its operation. After the reporting period, the Company received approximately NIS 780 thousand from the subsidiary as participation in expenses and is expected to receive an additional amount of approximately NIS 950 thousand in the coming year. The Company also obtained the Chief Scientist's approval for participation in funding the development at the Company in 2012 by approximately NIS 1,700 thousand (see Note 3h below). The Company's management is acting to achieve financing for its activities through capital raisings and collaborations with multinational corporations in the industry and has devised concrete plans for financing its operations using these means. Nevertheless, there is uncertainty involving the ability to obtain additional financial resources required for the Company's continued operating activities. The Company's management and Board are of the opinion that the additional resources needed for the Company's continued operating activities will be achieved in the coming year from the date of signing the financial statements.

### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated 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 consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements.

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

b. Disclosure of new IFRSs in the period prior to their adoption:

*Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities:*

In June 2012, the IASB issued amendments to IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11") and IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). The amendments include clarification of the transition guidance in IFRS 10.

The amendments provide relief in the application of the transition guidance in IFRS 10, IFRS 11 and IFRS 12 and permit adjustment of comparative data for only one year. The adjustment of comparative data for earlier periods is permitted but not required. The amendments also eliminate the requirement to disclose comparative data for previous periods in respect of unconsolidated structured entities.

The amendments become effective starting from the financial statements for annual periods beginning on January 1, 2013, which is the effective date of IFRS 10, IFRS 11 and IFRS 12.

## NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. In January 2012, the subsidiary granted a member of the subsidiary's Board 235,000 options to purchase 235,000 Ordinary shares of the subsidiary at the exercise price of $ 2 per share.

During the period, the subsidiary recorded expenses of NIS 699 thousand in respect of said grant.

b. In the nine months period ended September 30, 2012, 384,208 unlisted share options expired without being exercised. The expiration of the options did not have an effect on the Company's equity.

c. In the nine months period ended September 30, 2012, 602,889 unlisted share options were exercised by employees into 602,889 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 176 thousand.

d. On March 26, 2012, 23,333 share options (series 5) were exercised into 23,333 Ordinary shares of the Company of NIS 0.01 par value each in consideration of an exercise increment of approximately NIS 76 thousand. The remaining 13,226,667 share options (series 5) which had not been exercised expired on March 31, 2012.

## NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

e. On April 2, 2012, the Company's Board approved a private placement to employees and senior employees in the Company ("the optionees") of 600,000 unlisted options of the Company that are exercisable into 600,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 0.385 per option (the closing price for the Company's shares on the trading day which preceded the receipt of the approval from the Company's Board).

According to the binomial model, the economic value of the options for each of the employees on the date when the Company's Board accepted the decision was NIS 0.198 per option and a total of NIS 35,557 for all options, this based on the following inputs: closing price of the Company's share, as above, ranges of risk-free interest of 2.61%-6.65%, life of options of 10 years, annual standard deviation range of 51.62%-74.12%, annual employee turnover of 5%, early exercise coefficient of 2 and distribution of annual dividend of 0%.

According to the binomial model, the economic value of the options for each of the senior employees on the date when the Company's Board accepted the decision was NIS 0.215 per option and a total of NIS 77,259 for all options, this based on the following inputs: closing price of the Company's share, as above, ranges of risk-free interest of 2.61%-6.65%, life of options of 10 years, annual standard deviation range of 51.62%-74.12%, annual employee turnover of 5%, early exercise coefficient of 2.5 and distribution of annual dividend of 0%.

The optionees are entitled to exercise the options over 48 months from the allocation date such that 1/16 of the number of options granted to each optionee, as above, is exercisable every quarter. The term of the options is 10 years from the allocation date.

Assuming that the optionees exercise all options, the underlying shares will constitute 0.23% of the issued and outstanding share capital and 0.18% on a fully diluted basis. The shares were admitted to trading on May 2, 2012.

f. On May 1, 2012, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company published on May 27, 2010. The securities were offered to the public in 4,000 units ("the units") by a tender on the unit's price where the minimum price was NIS 1,431 per unit. Each unit comprises 3,000 Ordinary shares at NIS 0.477 per share, 2,000 share options (series 8) and 3,000 share options (series 9). Both series of options are at no consideration. Each share option (series 8) will be exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.55, linked to the Israeli CPI with the base index being the CPI of March 2012. The exercise period of the share options is until May 1, 2013.

**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

In addition, each share option (series 9) will be exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.85, unlinked. The exercise period of the share options is until May 1, 2015.

There was overwriting in the issuance and 4,056 units at NIS 1,440 per unit were ordered. Total net issuance proceeds amounted to approximately NIS 5,350 thousand (net of issue expenses of approximately NIS 491 thousand). The issuance consideration was received on May 2, 2012. Until the issuance consideration is used, the issuance proceeds are held in the Company's accounts and invested by it consistently with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

The shares were admitted to trading on May 1, 2012.

g. On May 8, 2012, the general meeting approved the extension of the exercise term of 2,032,136 unlisted options of the Company which had been granted in 2007 to a director in the Company with an exercise term of 5 years at an exercise price of NIS 1.25 by an additional term of 5 years such that the exercise term shall be 10 years from the original date of grant (through May 9, 2017), similarly to the exercise term under the Company's option plan.

h. On May 21, 2012, the Company received the Chief Scientist's approval to finance the development of the CF102 drug with a budget of NIS 4,890 thousand and with the Chief Scientist's participation in the total of approximately NIS 1,700 thousand based on performance over a one-year period from January 1, 2012. As of the date of the approval of the financial statements, the Company has not signed on the above letter of approval with the Chief Scientist.

i. On June 17, 2012, the Petach-Tikva District Court approved the Company's motion to extend the exercise period of all share options (series 6) until December 31, 2012, this in keeping with the general meeting's decision of June 6, 2012. The share options (series 6) were issued to the public in the offering of November 16, 2011 and were supposed to expire on May 16, 2012.

j. On July 26, 2012, the Company issued a shelf prospectus for offering Ordinary shares of the Company of NIS 0.01 par value each and share options (series 10 through 14) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each.

**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

k. On July 30, 2012, in keeping with the Company's Board's decision of June 7, 2012, the Company's general meeting approved a private offering to directors in the Company of 450,000 (unlisted) options that are exercisable into 450,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 0.6 per option.

According to the binomial model, the economic value of the options for each of the directors on the date when the Company's Board accepted the decision was NIS 0.17 per option and a total of NIS 72,831 for all options, this based on the following inputs: closing price of the Company's share of NIS 0.365, ranges of risk-free interest of 2.23%-6.95%, life of options of 10 years, annual standard deviation range of 55.13%-73.45%, annual employee turnover of 5%, early exercise coefficient of 2.5 and distribution of annual dividend of 0%.

Each optionee is entitled to exercise half of the options granted to him immediately upon grant and the other half are exercisable every quarter over a period of two years.

The 450,000 shares underlying the exercise of the options represent about 0.1% on a fully diluted basis.

The options were admitted to trading by the General Director of the Stock Exchange on August 20, 2012.

**NOTE 4:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

On October 4, 2012, the Company announced that it started to trade in Level 1 American Depository Receipt (ADRs) of the Company in the U.S.

Each ADR will represent 50 Ordinary shares of the Company and it will be traded over-the-counter (OTC) market under the symbol CANFY. The Bank of New York Mellon maintains the ADR facility for the Company. The ADRs will be traded via licensed U.S. brokers.

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**CAN-FITE BIOPHARMA LTD.**

**FINANCIAL DATA FROM THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**ATTRIBUTABLE TO THE COMPANY**

**AS OF SEPTEMBER 30, 2012**

**UNAUDITED**

**INDEX**



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**CAN-FITE BIOPHARMA LTD.**

**Special Report in accordance with Regulation 38d**

**Financial Data and Financial Information from the Interim Consolidated Financial Statements**

**Attributable to the Company**

The following separate financial data and financial information attributable to the Company are derived from the interim consolidated financial statements of the Group as of September 30, 2012 ("the consolidated financial statements") which were published in the periodic reports and which were disclosed in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

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To
The Shareholders of
Can-Fite Biopharma Ltd.

**Special auditor's Report on the Review of the Separate Interim Financial Information in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970**

**Introduction**

We have reviewed the separate interim financial information disclosed in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Can-Fite Biopharma Ltd. ("the Company") as of September 30, 2012 and for the nine three-month periods then ended. The Company's board of directors and management are responsible for the separate interim financial information. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

**Scope of review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of the separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the separate interim financial information is not prepared, in all material respects, in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to the matter stated in Note 1b to the separate financial information and financial data attributable to the Company out of the Group's interim consolidated financial statements regarding the Company's financial position and regarding the uncertainty involving the ability to obtain additional financial resources for the Company's continued operating activities.

Haifa, Israel
November 29, 2012

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

**Financial Data from the Consolidated Statements of Financial Position**
**Attributable to the Company**

| | September 30, | | December 31, |
|---|---|---|---|
| | 2012 | 2011 | 2011 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 1,364 | 1,787 | 1,475 |
| Subsidiary | 386 | - | 2,710 |
| Accounts receivable | 790 | 2,994 | 1,574 |
| | 2,540 | 4,781 | 5,759 |
| NON-CURRENT ASSETS: | | | |
| Investment in subsidiary | 2,465 | - | 4,306 |
| Royalty rights | 1,757 | - | 5,488 |
| Property, plant and equipment, net | 171 | 394 | 278 |
| | 4,393 | 394 | 10,072 |
| | 6,933 | 5,175 | 15,831 |

The accompanying additional information is an integral part of the separate financial data and financial information.

**Financial Data from the Consolidated Statements of Financial Position**
**Attributable to the Company**

| | September 30, | | December 31, |
|---|---|---|---|
| | 2012 | 2011 | 2011 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | 1,889 | 1,537 | 1,910 |
| Other accounts payable | 2,032 | 2,114 | 2,098 |
| Options exercisable into shares (series 5) | - | 413 | 138 |
| Options exercisable into shares (series 6) | 198 | - | 396 |
| Options exercisable into shares (series 8) | 349 | - | - |
| | 4,468 | 4,064 | 4,542 |
| NON-CURRENT LIABILITIES: | | | |
| Options exercisable into shares (series 7) | 753 | - | 793 |
| Employee benefit liabilities, net | 91 | 121 | 190 |
| | 844 | 121 | 983 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | | |
| Share capital | 2,734 | *) 2,328 | 2,606 |
| Share premium | 233,754 | *) 209,993 | 229,299 |
| Capital reserve for share-based payment transactions | 15,196 | 14,573 | 14,670 |
| Options exercisable into shares (series 9) | 669 | - | - |
| Treasury shares | (4,760) | - | (4,760) |
| Accumulated deficit | (245,972) | (225,904) | (231,509) |
| Total equity | 1,621 | 990 | 10,306 |
| | 6,933 | 5,175 | 15,831 |

*) Reclassified.

The accompanying additional information is an integral part of the separate financial data and financial information.

| November 29, 2012 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Mr. Avigdor Kaplan Chairman of the Board of Directors | Prof. Pnina Fishman Member of the Board and CEO | Mr. Motti Farbstein Chief Operating and Financial Officer |

## Financial Data from the Consolidated Statements of Comprehensive Income Attributable to the Company

| | Nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2011 |
| | Unaudited | | | | Audited |
| | NIS in thousands | | | | |
| Revenues | - | 1,339 | - | 446 | 1,785 |
| Research and development expenses | 5,019 | 9,845 | 1,349 | 2,614 | 12,183 |
| General and administrative expenses | 4,261 | 5,037 | 1,373 | 1,762 | 6,593 |
| Other income | (32) | - | (3) | - | (88) |
| Operating loss | 9,248 | 13,543 | 2,719 | 3,930 | 16,903 |
| Expenses relating to the merger transaction | - | - | - | - | 9,505 |
| Finance expenses | 4,398 | 36 | 10,515 | 1 | 42 |
| Finance income | (958) | (1,121) | (236) | (617) | (5,408) |
| Company's share of losses (earnings) of investee, net | 2,047 | - | (6,701) | - | 4,266 |
| Loss before taxes on income | 14,735 | 12,458 | 6,297 | 3,314 | 25,308 |
| Taxes on income | - | 142 | - | 49 | 191 |
| Loss attributable to the Company | 14,735 | 12,600 | 6,297 | 3,363 | 25,499 |
| Other comprehensive loss (income) attributable to the Company: | | | | | |
| Adjustments arising from translating financial statements of foreign operations | (272) | - | (180) | - | (75) |
| Other comprehensive income (loss) attributable to the Company | (272) | - | (180) | - | (75) |
| Total comprehensive loss attributable to the Company | 14,463 | 12,600 | 6,117 | 3,363 | 25,424 |

The accompanying additional information is an integral part of the separate financial data and financial information.

## Financial Data from the Consolidated Statements of Cash Flows Attributable to the Company

| | 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 of the Company: | | | | | |
| Loss attributable to the Company | (14,735) | (12,600) | (6,297) | (3,363) | (25,499) |
| Adjustments to reconcile loss to net cash used in operating activities of the Company: | | | | | |
| Adjustments to the profit or loss items of the Company: | | | | | |
| Depreciation of property, plant and equipment | 70 | 171 | 21 | 49 | 218 |
| Cost of share-based payment | 526 | 222 | 123 | 25 | 319 |
| Revaluation of investment in subsidiary | 3,731 | - | 10,445 | - | (3,851) |
| Interest on deposits | (23) | (82) | (5) | (7) | (86) |
| Gain from sale of property, plant and equipment | (32) | - | (3) | - | (88) |
| Increase (decrease) in employee benefit liabilities, net | (99) | (10) | 8 | (12) | 59 |
| Company's share of losses (earnings) of investee, net | 2,047 | - | (6,701) | - | 4,266 |
| Taxes on income | - | 9 | - | 5 | 11 |
| Decrease in fair value of options exercisable into shares (series 5) | (138) | (987) | - | (562) | (1,262) |
| Increase (decrease) in fair value of options exercisable into shares (series 6) | (198) | - | (79) | - | 94 |
| Decrease in fair value of options exercisable into shares (series 7) | (40) | - | (40) | - | (172) |
| Decrease in fair value of options exercisable into shares (series 8) | - | - | 8 | - | |
| Exchange rate differences on balances of cash and cash equivalents | 197 | (175) | (32) | (210) | (181) |
| Expenses relating to the merger transaction through profit or loss | - | - | - | - | 9,069 |
| | 6,041 | (852) | 3,745 | (712) | 8,396 |
| Changes in asset and liability items of the Company: | | | | | |
| Decrease (increase) in accounts receivable | 784 | (2,444) | 399 | (317) | (1,023) |
| Decrease (increase) in subsidiary's balance | 2,324 | - | 15 | - | (2,710) |
| Increase (decrease) in trade payable | (21) | 1,021 | 423 | 547 | 1,394 |
| Increase (decrease) in other accounts payable | (66) | (1,313) | 194 | (335) | (1,329) |
| | 3,021 | (2,736) | 1,031 | (105) | (3,668) |
| Cash paid and received during the period in the Company for: | | | | | |
| Interest received | 23 | 82 | 5 | 7 | 86 |
| Taxes paid | - | (9) | - | (5) | (11) |
| | 23 | 73 | 5 | 2 | 75 |
| Net cash used in operating activities of the Company | (5,650) | (16,115) | (1,516) | (4,178) | (20,696) |

The accompanying additional information is an integral part of the separate financial data and financial information.

## Financial Data from the Consolidated Statements of Cash Flows Attributable to the Company

| | 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 investing activities of the Company: | | | | | |
| Investment in subsidiary | - | - | - | - | (1,870) |
| Purchase of property, plant and equipment | (13) | (75) | - | (43) | (81) |
| Proceeds from sale of property, plant and equipment | 82 | - | 3 | - | 163 |
| Net cash provided by (used in) investing activities of the Company | 69 | (75) | 3 | (43) | (1,788) |
| Cash flows from financing activities of the Company: | | | | | |
| Receipts on account of share options (net of issue expenses) | 4,331 | - | - | - | 4,710 |
| Issue of share capital (series 8 and 9) (net of issue expenses) | 1,018 | - | - | - | 1,266 |
| Exercise of share options | 176 | 296 | 38 | 71 | 296 |
| Exercise of share options (series 5) | 76 | - | - | - | - |
| Net cash provided by financing activities of the Company | 5,601 | 296 | 38 | 71 | 6,272 |
| Exchange rate differences on balances of cash and cash equivalents | (131) | 175 | 33 | 210 | 181 |
| Decrease in cash and cash equivalents | (111) | (15,719) | (1,442) | (3,940) | (16,031) |
| Cash and cash equivalents at the beginning of the period | 1,475 | 17,506 | 2,806 | 5,727 | 17,506 |
| Cash and cash equivalents at the end of the period | 1,364 | 1,787 | 1,364 | 1,787 | 1,475 |

The accompanying additional information is an integral part of the separate financial data and financial information.

**Additional Information**

## 1:- General

a. This separate financial information has been prepared in a condensed format as of September 30, 2012 and for the nine and three months periods then ended, in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. This separate financial information should be read in conjunction with the separate financial information on the Company's annual financial statements as of December 31, 2011 and for the year then ended and accompanying additional information.

b. Can-Fite Biopharma Ltd. ("the Company") incurred losses of approximately NIS 14,735 thousand and negative cash flows from operating activities of approximately NIS 5,650 thousand for the nine months period ended September 30, 2012. The Company also has accumulated losses from previous years. Furthermore, the Company has not yet earned significant revenues from the sale of its internally developed products and it is dependent on capital raisings and other sources for financing its operation. After the reporting period, the Company received approximately NIS 780 thousand from the subsidiary as participation in expenses and is expected to receive an additional amount of approximately NIS 950 thousand in the coming year. The Company also obtained the Chief Scientist's approval for participation in funding the development at the Company in 2012 by approximately NIS 1,700 thousand (see Note 2g below). Simultaneously, the Company's management is acting to achieve financing for its activities through both capital raisings and collaborations with multinational corporations in the industry and has devised concrete plans for financing its operations using these means. Nevertheless, there is uncertainty involving the ability to obtain additional financial resources required for the Company's continued operating activities. The Company's management and Board are of the opinion that the additional resources needed for the Company's continued operating activities will be achieved in the coming year from the date of signing the financial statements.

## 2:- Additional Information

a. In the nine months period ended September 30, 2012, 384,208 unlisted share options expired without being exercised.

b. In the nine months period ended September 30, 2012, 602,889 unlisted share options were exercised by employees into 602,889 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 176 thousand.

c. On March 26, 2012, 23,333 share options (series 5) were exercised into 23,333 Ordinary shares of the Company of NIS 0.01 par value each in consideration of an exercise increment of approximately NIS 76 thousand. The remaining 13,226,667 share options (series 5) which had not been exercised expired on March 31, 2012.

d. On April 2, 2012, the Company's Board approved a private placement to employees and senior employees in the Company ("the optionees") of 600,000 unlisted options of the Company that are exercisable into 600,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 0.385 per option (the closing price for the Company's shares on the trading day which preceded the receipt of the approval from the Company's Board).

**2:- Additional Information (Cont.)**

According to the binomial model, the economic value of the options for each of the employees on the date when the Company's Board accepted the decision was NIS 0.198 per option and a total of NIS 35,557 for all options, this based on the following inputs: closing price of the Company's share, as above, ranges of risk-free interest of 2.61%-6.65%, life of options of 10 years, annual standard deviation range of 51.62%-74.12%, annual employee turnover of 5%, early exercise coefficient of 2 and distribution of annual dividend of 0%.

According to the binomial model, the economic value of the options for each of the senior employees on the date when the Company's Board accepted the decision was NIS 0.215 per option and a total of NIS 77,259 for all options, this based on the following inputs: closing price of the Company's share, as above, ranges of risk-free interest of 2.61%-6.65%, life of options of 10 years, annual standard deviation range of 51.62%-74.12%, annual employee turnover of 5%, early exercise coefficient of 2.5 and distribution of annual dividend of 0%.

The optionees are entitled to exercise the options over 48 months from the allocation date such that 1/16 of the number of options granted to each optionee, as above, is exercisable every quarter. The term of the options is 10 years from the allocation date.

Assuming that the optionees exercise all options, the underlying shares will constitute 0.23% of the issued and outstanding share capital and 0.18% on a fully diluted basis. The shares were admitted to trading on May 2, 2012.

e. On May 1, 2012, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company published on May 27, 2010. The securities were offered to the public in 4,000 units ("the units") by a tender on the unit's price where the minimum price was NIS 1,431 per unit. Each unit comprises 3,000 Ordinary shares at NIS 0.477 per share, 2,000 share options (series 8) and 3,000 share options (series 9). Both series of options are at no consideration.

Each share option (series 8) will be exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.55, linked to the Israeli CPI with the base index being the CPI of March 2012. The exercise period of the share options is until May 1, 2013.

In addition, each share option (series 9) will be exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.85, unlinked. The exercise period of the share options is until May 1, 2015.

There was overwriting in the issuance and 4,056 units at NIS 1,440 per unit were ordered. Total net issuance proceeds amounted to approximately NIS 5,350 thousand (net of issue expenses of approximately NIS 491 thousand). The issuance consideration was received on May 2, 2012. Until the issuance consideration is used, the issuance proceeds are held in the Company's accounts and invested by it consistently with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

The shares were admitted to trading on May 1, 2012.

**2:- Additional Information (Cont.)**

f. On May 8, 2012, the general meeting approved the extension of the exercise term of 2,032,136 unlisted options of the Company which had been granted in 2007 to a director in the Company with an exercise term of 5 years at an exercise price of NIS 1.25 by an additional term of 5 years such that the exercise term shall be 10 years from the original date of grant (through May 9, 2017), similarly to the exercise term under the Company's option plan.

g. On May 21, 2012, the Company received the Chief Scientist's approval to finance the development of the CF102 drug with a budget of NIS 4,890 thousand and with the Chief Scientist's participation in the total of approximately NIS 1,700 thousand based on performance over a one-year period from January 1, 2012. As of the date of the approval of the financial statements, the Company has not signed on the above letter of approval with the Chief Scientist.

h. On June 17, 2012, the Petach-Tikva District Court approved the Company's motion to extend the exercise period of all share options (series 6) until December 31, 2012, this in keeping with the general meeting's decision of June 6, 2012.

The share options (series 6) were issued to the public in the offering of November 16, 2011 and were supposed to expire on May 16, 2012.

i. On July 26, 2012, the Company issued a shelf prospectus for offering Ordinary shares of the Company of NIS 0.01 par value each and share options (series 10 through 14) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each.

j. On July 30, 2012, in keeping with the Company's Board's decision of June 7, 2012, the Company's general meeting approved a private offering to directors in the Company of 450,000 (unlisted) options that are exercisable into 450,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 0.6 per option. According to the binomial model, the economic value of the options for each of the directors on the date when the Company's Board accepted the decision was NIS 0.17 per option and a total of NIS 72,831 for all options, this based on the following inputs: closing price of the Company's share of NIS 0.365, ranges of risk-free interest of 2.23%-6.95%, life of options of 10 years, annual standard deviation range of 55.13%-73.45%, annual employee turnover of 5%, early exercise coefficient of 2.5 and distribution of annual dividend of 0%.

Each optionee is entitled to exercise half of the options granted to him immediately upon grant and the other half are exercisable every quarter over a period of two years.

The 450,000 shares underlying the exercise of the options represent about 0.1% on a fully diluted basis.

The options were admitted to trading by the General Director of the Stock Exchange on August 20, 2012.

## 3:- Events After the Reporting Period

On October 4, 2012, the Company announced that it started to trade in Level 1 American Depository Receipt (ADRs) of the Company in the U.S.

Each ADR will represent 50 Ordinary shares of the Company and it will be traded over-the-counter (OTC) market under the symbol CANFY. The Bank of New York Mellon maintains the ADR facility for the Company. The ADRs will be traded via licensed U.S. brokers.

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# Board of Directors Explanations of the Company's Business Status as of September 30, 2012

## 1. General information from the Company's Business Description

The Company was established in September 11, 1994 as a private company in Israel according to the Companies Ordinance [new edition], 1983, under the name Can-Fite Technologies Ltd, with the purpose of engaging in any business, investment, or other transactions. On January 7, 2001 the Company changed its name to the current name.

The Company was founded based on the research of Pnina Fishman, Ph.D., a renowned scientist who is the Company's founder and currently serves as a director and the Company's CEO. In her study, Dr. Fishman demonstrated that one of the reasons accounting for muscle resistance to tumor metastasis is the release of small molecules by the muscle tissue that possess robust anti-cancer activity. It was further found that the small molecules are agonists at the A3 adenosine receptor. Synthetic agonists are currently the company drugs under development for the treatment of autoimmune inflammatory, cancer and ophthalmic diseases.

On November 22, 2011, the Company announced the completion of a spinoff of the Company's activity in the field of ophthalmic diseases to a public company in USA against a private placement of shares to the Company in a manner that provides to the Company a controlling stake of the spinoff company. The spinoff was executed by granting an exclusive license for the CF101 drug in the ophthalmic diseases field only to a private Israeli company, which is the Company's wholly owned subsidiary, and its shares were transferred by the Company to OphthaliX Inc. (previously Denali Concrete Management Inc.), an American public company whose shares are quoted on OTCBB (Over the Counter Bulletin Board) in USA, ticker symbol (OTC BB: OPLI) (hereafter: "**OphthaliX**")[1] , so that the subsidiary will become a subsidiary under full ownership of OphthaliX in return for a placement of OphthaliX shares to the Company in a manner that will grant to the Company control of OphthaliX's share capital (82%), while OphthaliX continues development, clinical trials and registration processes of the CF101 drug for ophthalmic diseases (hereafter: the "**Spinoff Transaction**"). For a detailed description of the Spinoff Transaction for ophthalmic

[1] On January 31, 2012 Denali Concrete Management Inc. completed its name change to OphthaliX Inc. and as of February 1, 2012 its OTC ticker symbol is OPLI.

diseases field, see the Company's periodic report for 2011, published on March 29, 2012 (reference: 2012-01-087516).

The Company is a research and development company with several ethical drugs in development. The Company's leading drug, CF101, is at an advanced stage of clinical development. The drug is being tested for several diseases, as follows:

1. **Dry Eye Syndrome:** On May 2009, the Company announced that the trial conducted on CF101, given as a standalone, met its objectives. The trials' results indicate a substantial improvement in patients' condition (over 80% of the patients that were treated with CF101) with significant improvement in corneal staining, which was the study primary endpoint. Maximal safety was observed during the entire trial period, where it became evident that the drug has an additional activity that is manifested in decreasing intraocular pressure in the patients' eyes. On September 2010, the Company announced that following successful conclusion of this study, the FDA approved a Phase 3 clinical study protocol for the treatment of dry eye syndrome with CF101. The study will include 231 patients that will be treated with 2 dosages of CF101 vs. placebo for a period of 6 months. Patient enrolment was initiated on December 2011. The primary endpoint will be % of patients reaching complete corneal staining vs. placebo. The trial is currently conducted in several medical centers in Israel, Europe and USA. As mentioned above, the spinoff transaction, completed on November 2011, included transferring the performance of the trial and the intellectual property rights pertaining to CF101 development for ophthalmic diseases (including dry eye syndrome) to Ophthalix.

2. **Psoriasis:** On September 2009, the Company announced that the trial conducted with CF101 as a standalone drug vs. placebo was successfully completed. Analysis of mean change from baseline in PASI score at week 12 revealed a statistically significant difference between the 2 mg CF101- treated group and the placebo group ($P < 0.001$ vs. baseline and $P = 0.03$ vs. placebo). Analysis of PGA score revealed that 23.5% of the patients treated with the 2 mg CF101 dose achieved a score of 0 or 1, in comparison with 0% in the placebo group. 35.3% of patients in this group achieved PASI≥50 response. CF101 was safe and well tolerated throughout the study. For additional details regarding the trial and its results, see the Company's report from September 7, 2009 (reference: 2009-01-224592). On June 2010, the Company announced that it obtained an FDA approval for conducting a Phase II/III clinical trial with CF101 for the treatment of psoriasis. Patients' enrollment for the trial that will include about 300 patients and will be conducted in several medical centers in Israel, Europe and USA was initiated on August 2011. In October 2012, the Company announced that following positive

interim results from the Phase II/III, which analyzed the safety and efficacy of the drug, it will continue patient enrollment to the study.

3. **Glaucoma:** the Company initiated patients' enrollment for a Phase II trial of CF101 for the treatment of glaucoma after it was proven that the drug reduces intraocular pressure of patients in the Phase 2 dry eye syndrome trial. For details regarding the spinoff transaction which included transferring the performance of the trial and the intellectual property pertaining to CF101 development for ophthalmic diseases (including glaucoma) to Ophthalix – see paragraph 2.2 below.
4. **Rheumatoid Arthritis:** the drug was found efficacious as a standalone drug in a Phase IIa trial. The Company initiated patients' enrollment for a Phase IIb trial of CF101 as a standalone drug for the treatment of rheumatoid arthritis.

The second drug in the Company's development pipeline, CF102, is intended for the treatment of liver diseases such as liver cancer and hepatitis C. A successful Phase 1 trial for this drug was completed during the second quarter of 2008. The drug is being tested for the following diseases:

1. **Liver cancer** – the company initiated a Phase I/II clinical trial for treatment of patients with liver cancer during the second quarter of 2009. On March 21, 2010 the Company announced the conclusion of patients' enrollment for this trial, and on May 11, 2011 the company announced successful interim results for this trial. On January 3, 2012 the company announced successful final results of a Phase I/II trial of CF102 for the treatment of liver cancer. On January 18, 2012, the Company reported that additional significant finding was observed during the Phase I/II trial of CF102 for liver cancer. An analysis performed by the Company examined the relationship between the expression of the target (the A3 receptor) attacked by CF102 and patients' reaction to the drug. A positive patients' reaction after treatment with CF102 was observed in 85% of target over-expression cases.

2. **Hepatitis C:** The Company initiated a Phase I/II clinical trial for the treatment of hepatitis C during the third quarter of 2010. On March 21, 2010, the Company announced the completion of patients' enrollment for this trial. On January 3, 2012 the Company announced that the trial achieved its main objectives – drug safety and its concentration level in the blood, however, no significant decrease in the viral load has been observed at the tested dosages. It should be noted that this group of patients was treated only for a short period of several months with a low dose level of CF102. It should also be noted that in a parallel Phase I/II trial on liver cancer patients,

9 of participating patients were also hepatitis C virus carriers. A reduction of the viral load was observed in 7 of these patients, which were treated with two high dose levels of CF102, a fact that indicates an anti-viral activity of the drug.

## 2. Exceptional Events during the Balance Sheet Period

On January 3, 2012 the Company announced final successful results of the Phase I/II clinical trial of CF102 on liver cancer patients and the results of a separate Phase I/II trial conducted for CF102 treatment of hepatitis C virus carriers. The trial achieved its main objectives – drug safety and its concentration level in blood. For additional details, see the Company's report (reference: 2012-01-003924). On January 18, 2012 the Company reported that additional significant finding was observed during the Phase I/II trial of CF102 for liver cancer where an analysis performed by the Company examined the relationship between the expression of the target (the A3 receptor) attacked by CF102 and the patients' reaction to the drug. A positive patients' reaction after treatment with CF102 was observed in 85% of target over-expression cases. This important finding indicates that the target attacked by CF102 can be considered as a biomarker that will predict the patient's reaction to treatment with the drug. In addition, the Company announced that a separate Phase I/II trial conducted with CF102 on hepatitis C carriers under the management of Prof. Ran Tur-Kaspa, the head of the Internal Medicine D Department and Liver Institute of Rabin Medical Center, Petah-Tikva, achieved its main objectives – drug safety and its concentration level in blood, but no significant reduction of the viral load was found for the tested dose level. It should be noted that this group of patients was treated only for a short period of several months with a low dose level of CF102.

On February 1, 2012 the Company announced that following its announcement from December 21, 2011, its subsidiary Denali Concrete Management Inc. of which the Company holds 82.3% announced on January 31, 2012 the completion of the process of changing its name to OphthaliX Inc., and that as of February 1, 2012 its OTC trade flicker symbol is OPLI.

On February 7, 2012 the Company announced that its subsidiary (about 82% ) OphthaliX Inc. (OTCBB: OPLI) which leads drug development in the field of ophthalmic diseases in Can-Fite group has appointed the Nobel prize winner, Prof. Roger D. Kornberg as a director at OphthaliX Inc. For additional details regarding Prof. Kornberg, see the Company's report (reference: 2012-01-035292).

On February 22, 2012 the Company announced that its subsidiary OphthaliX Inc. (OTCBB: OPLI) of which the Company holds 82.3% announced on February 21, 2012 that the National Copyright

Administration of China has granted a patent certificate due to a patent request submittal in China titled "Adenosine A3 receptor agonists for the treatment of dry eye disorders". This patent protects the CF101 drug held by OphthaliX for treatment of dry eye syndrome in China until February 2026. For additional details, see the Company's report (reference: 2012-01-048534).

On February 22, 2012, the Company announced that the American Food and Drug Administration (FDA) granted an orphan drug status for CF102 for treatment of hepatocellular carcinoma. As mentioned above, orphan drug status is granted for treatments of diseases that affect a small number of people (In the USA, a drug for treating a disease that affects less than 200,000 people a year is considered as an orphan drug). In order to encourage development of drugs for rare and incurable diseases, subject to completion of clinical trials and obtaining an FDA approval for the indication, the developing companies are provided with incentives and preferences which include, among others, a seven years marketing exclusivity from the date of approval, tax breaks, and an exemption on FDA fees payments.

On April 2, 2012 the Company announced the summoning of a special meeting of the shareholders of the Company for approval of extending the exercise period of 2,032,136 unlisted Company options to 5 additional years, so that the options exercise period will be 10 years from the date they were originally granted similar to the exercise period according to the Company's option plan. The options were granted to Mr. Ilan Cohn, a director at the Company with an exercise period of 5 years and an exercise price of NIS 1.27 (reference: 2012-01-112530). On May 8, 2012 the special meeting of the shareholders of the Company approved extending the exercising period of the options as aforesaid.

On April 3, 2012 the Company announced the board of director's approval of a private issuance of 600,000 unlisted options exercisable into 600,000 ordinary shares at a nominal value of NIS 0.01 each to 6 employees, 2 out of whom are officers of the Company. The exercise price of each option is NIS 0.385. The options will be exercisable during 48 months after date of issuance so that 1/16 of the options granted to each offeree is exercisable on a quarterly basis. The options exercise period is 10 years from date of issuance. For additional details, see the Company's report (reference: 2012-01-092565). On May 2, 2012 the Stock Exchange approved the listing for trade of the shares that will be result from exercising the abovementioned options and on May 3, 2012 the Company issued 600,000 unlisted options.

On April 10, 2012, the Company announced that its subsidiary OphthaliX which concentrates the Company's development of drugs in the field of ophthalmic diseases published successful results of preclinical studies which tested the efficacy of CF101 for Anterior Uveitis, a disease which affects

the front part of the eyeball. The pre-clinical trial demonstrated that CF101 is efficacious in preventing the clinical manifestations of the disease in accepted models in the field of ophthalmic diseases. These results, together with the previous published results demonstrating the efficacy of CF101 for Posterior Uveitis, support further development of CF101 as a drug for treatment of patients with Anterior or Posterior Uveitis and as such increase the market to which the drug is intended. The number of patients with these two indications exceeds 200,000 which is the maximal number of patients for which an orphan drug status is granted by the FDA, and therefore OphthaliX will develop CF101 for these two indications that address a larger number of patients.

On April 23, 2012 the Company announced the conclusion of enrolling the first 100 patients for a Phase II/III trial of CF101 for treatment of psoriasis. The Phase II/III trial will include about 300 patients and is conducted in several medical centers in USA, Europe and Israel. The trial includes 3 arms: patients that are treated with a dose level of 1 or 2 mg of CF101 and placebo. After a treatment of the first 100 patients during 3 months, an interim report will be carried out by an external experts committee. The report will include a recommendation by the committee whether to proceed with the trial and complete enrolling all 300 patients for the trial. The primary endpoint that will be tested is an improvement of PGA (Physician's Global Assessment) values. This measure was found statistically significant in the previous Phase II trial conducted by the Company with a similar protocol.

On May 1, 2012 the Company offered securities to the public based on a published shelf offering report (reference: 2012-01-328635) according to a shelf prospectus published by the Company on May 27, 2010. The securities were offered to the public in form of 4,000 units (hereafter: "**Units**"), by way of a tender offer of the Unit price, with a minimal price of NIS 1,431 per Unit. Each Unit consists of 3,000 ordinary Company shares at a nominal value of NIS 0.477 per share, 2,000 options (series 8) and 3,000 options (series 9), both option series are included for no consideration. All Units were made available to the public during the issuance. Total net issuance from this offering was approximately NIS 5,350 thousand (after a deduction of issuance expenses at a total of about NIS 491 thousand). The amounts raised in such issuance was received by the Company on May 2, 2012.

On May 1, 2012 the Company announced a change in the Company's convertible securities according to the announcement of the Tel Aviv Stock Exchange Ltd. (hereafter: "**stock exchange**") from January 8, 2012 regarding payment on T+1 day of convertible shares and securities (hereafter: "**stock exchange announcement**"), and according to the announcement of the Securities Authority

on this matter from March 19, 2012. For details regarding this change, see the C report (reference: 2012-01-112530).

On May 7, 2012 the Company announced that its board of directors decided to submit a settlement or arrangement request according to Section 350 of the Companies Ordinance, 1999, within the framework of which the District Court will be requested to issue an order to hold a meeting of the Company's shareholders and holders of series 6 options that were issued based on a prospectus from May 27, 2010, for approving the extension of the exercise period of series 6 options to December 31, 2012 (hereafter: the "**Request**"). On the same date, the Company reported the submission of a request to the District Court in Petah-Tikva (reference: 2012-01-112530) and the court's decision according to which the request was forwarded to the Securities Authority for a response within 7 days. On May 9, 2012, after receiving a response from the Securities Authority, the court approved: (1) an interim relief according to which the exercise period of series 6 options will be extended to June 30, 2012 and (2) summoning a shareholders and series 6 options holders meeting for approving the aforementioned arrangement. On May 13, 2012 the Company announced the summoning of the shareholders and series 6 options holders general meeting on May 30 2012 (reference: 2012-01-000637). On May 30, 2012 the meeting of the shareholders approved the aforementioned arrangement and the meeting of the holders of series 6 options was postponed due to lack of quorum. The deferred meeting of the holders of series 6 options was held on June 6, 2012 and such meeting approved the arrangement. On June 17, 2012 the District Court in Petah-Tikva approved the aforesaid arrangement as detailed in the Company's application of June 6, 2012 (reference: 2012-01-149628 and 2012-01-158553, respectively).

On May 21, 2012 the Company announced that it has received the approval of the office of the chief scientist at the Ministry of Trade and Industry ("**Chief Scientist**"), for the development budget for the development of CF102 for the treatment of liver cancer, in an amount of NIS 4,859,163 for a research and development period of one year, and with a participation of the Chief Scientist at a rate of 30%-40% of the approved development budget. The receipt of the development budget is contingent upon the approval of the Board of Directors of the Company and compliance with certain terms and conditions set out by the Chief Scientist.

On June 10, 2012 the Company announced that it scheduled an annual meeting, which on its agenda, among others: the re-appointment of Kost Forer Gabbay & Kasierer as the Company's accountants for 2012 and the authorization of the board of directors to approve their salary; the re-appointment of Avigdor Kaplan, Pnina Fishman, Ilan Cohn, Abraham Sartani, Liora Lev and Guy Regev to the board of directors, until the next annual meeting of the Company; approval of a private

issuance to directors of the Company of 450,000 unlisted options exercisable into 450,000 ordinary shares at a nominal value of NIS 0.01 each (reference: 2012-01-151620). On July 30, 2012 the annual meeting approved all the maters on its agenda.

On July 3, 2012 the Company announced that the Company's board of directors has instructed the Company management to act in order to list the Company shares for trading in the US via ADR (American Depository Receipt), subject to filing and receiving all the needed approval from the US Securities and Exchange Commission. The Company will act in order to list a level II ADR and to list it in one of the main US stock markets. In addition, the Company announced that in the coming few months, the psoriasis phase II/III interim report will be announced. The psoriasis study will include about 300 patients and is conducted in medical centers in the US, Europe and Israel under an FDA IND. The interim report will be announced after completing treatment in the first 100 patients. In addition, the Company announced that in the coming months it plan to publish the results of the phase IIb of CF101 for the treatment of Rheumatoid Arthritis. This study includes about 80 patients who are enrolled to the study based on a bio-marker test developed by the Company which predicts patients' response to the treatment.

On July 26, 2012 the Company published a shelf prospectus for offering of shares and warrants (series 10-14) which are exercisable for shares. For details see the Company report from July 26, 2012 (Reference: 2012-01-195330) and the amended report from July 27, 2012 (reference: 2012-01-195834).

On August 12, 2012, 122,500 unlisted share options were exercised into 122,500 Ordinary shares of the Company of NIS 0.01 par value each. The exercise proceeds totaled approximately NIS 46 thousand.

On August 15, 2012 the Company announced, in continuance to summoning the Company's annual meeting published on June 10, 2012 (reference: 2012-01-151620) and in continuance to the approval in the Company's annual meeting on July 30, 2012 (reference: 2012-01-197340), that according to the stock exchange guidelines, adjustments to the exercise price in the private issuance in those reports will be done in a way that the share price won't be below 0.1 NIS (2012-01-208665).

On August 15, 2012 the Company allocated, after receiving the stock exchange approval, 450,000 (unlisted) options to directors in the Company ("optionees"), which are exercisable into 450,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the options is NIS 0.6 per option. According to the binomial model, the economic value of the options for each of

the optionees on the date when the Company's Board accepted the decision was NIS 0.17 per option and a total of NIS 72,831 for all options, this based on the following inputs: closing price of the Company's share of NIS 0.365, ranges of risk-free interest of 2.23%-6.95%, options' life of 10 years, annual standard deviation range of 55.13%-73.45%, annual employee turnover of 5%, early exercise coefficient of 2.5 and distribution of annual dividend of 0%. Each of the optionees are entitled to exercise the options for a maximal period of 120 months from the grant date, according to the following vesting periods: half of the options immediately upon grant and the other half are in 8 equal packets, every quarter over a period starting from the date of approval in the annual meeting until the end of 24 months.

On September 9, 2012, the Company announced that the Bank of New York Mellon has filed an F-6 form to the U.S. Securities and Exchange Commission in order to register Level 1 ADRs (American Depository Receipt) of the Company for trading in the U.S. Each ADR will be comprised of 50 ordinary shares of the Company. Beginning of trading in the OTC is expected only after receiving SEC approval for the F-6. For additional details see the Company's report from September 9, 2012 (reference: 2012-01-234057).

During the report period, 384,208 unlisted options expired and 602,889 unlisted options were exercised into 602,889 ordinary Company shares at a nominal value of NIS 0.01 each. The amount raised from the exercise of the options was about NIS 76,000.

During the report period, 23,333 options (series 5) were exercised into 23,333 Company shares of a nominal value of NIS 0.01 each in return for an exercise amount of NIS 76,000. The remainder of 13,226,667 options (series 5) have expired.

## 3. Financial Situation, Liquidity and Funding Sources

The balance of cash and cash equivalents on the balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 7,524 thousand compared to NIS 14,622 thousand as of December 31, 2011. The decrease in cash during the period is due to payments by the Company for funding of its ongoing activity which exceeded the amounts of capital raised by the Company in such period.

The accounts receivable balance in the balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 2,319 thousand compared to NIS 3,760 thousand as of December 31, 2011. The decrease in the accounts receivables balance is due to materials purchased in advance during the previous year that were partially used.

The net fixed assets balance in the balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 171 thousand compared to NIS 278 thousand as of December 31, 2011. The decrease in the fixed assets balance is due to current depreciation expenses and sale of fixed assets that exceed new purchases.

The consolidated balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 10,014 thousand compared to NIS 18,660 thousand as of December 31, 2011. This change results from a decrease in cash, receivables and net fixed assets.

The balance of liabilities to suppliers and service providers in the balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 1,893 thousand compared to NIS 1,930 thousand as of December 31, 2011. The decrease in this balance is insignificant.

The accounts payable balance on the balance sheet o the Company as of September 30, 2012 totaled a sum of NIS 2,578 thousand compared to NIS 2,686 thousand as of December 31, 2011. The decreased is mainly due to payments to service providers of the subsidiary which did not exist in the previous year.

The balance of warrants exercisable to shares (series 6) is NIS 198 thousand represented by its value on the stock exchange as of September 30, 2012. The balance of warrants exercisable to shares (series 8) is NIS 349 thousand represented by its value on the stock exchange as of September 30, 2012. Warrants (series 5) expired on March 31, 2012. The expiration date of warrants (series 6 and 8) is within less than a year from reporting date. At the year ended at December 31, 2011, the balance of warrants from both abovementioned series (series 5 and 6) was

NIS 534 thousand compared to the balance of warrants from both abovementioned series (series 6 and 8) NIS 547 thousand as of September 30, 2012.

The balance of long-term liabilities in the balance sheet of the Company as of September 30, 2012 totaled a sum of NIS 844 thousand compared to NIS 983 thousand as of December 31, 2011. The balance is mainly due to the recorded value of warrants (series 7) for a sum of NIS 753 thousand in comparison to NIS 793 thousand as of December 31, 2011. These warrants are linked to the Consumer Price Index and therefore are presented as a liability and measured by their value on the stock exchange as of reporting date.

Total capital in the consolidated balance sheet as of September 30, 2012 was NIS 4,152 thousand compared to NIS 12,257 thousand on December 31, 2011. The capital decrease results mainly from the Company's current loss that exceeded the raising of capital during the year.

## 4. **Business Activity Results**

The loss for the period of 9 months ended on September 30, 2012 totaled a sum of NIS 15,184 thousand compared to NIS 12,600 thousand during the corresponding period in the previous year, and NIS 28,427 thousand for the year ended at December 31, 2011. The loss increase compared to the corresponding period in the previous year is mainly due to a decrease in revenues, increase in operating expenses and decrease in financing income.

The net research and development expenses of the Company for the period of 9 months ended at September 30, 2012 totaled a sum of NIS 9,273 thousand compared to NIS 9,845 thousand during the corresponding period in the previous year, and NIS 12,969 thousand for the year ended at December 31, 2011. The decrease in the Company's research and development expenses compared to the corresponding period in the previous year is insignificant.

The general and administrative expenses for the period of 9 months ended at September 30, 2012 totaled a sum of NIS 6,121 thousand compared to NIS 5,037 thousand during the corresponding period in the previous year. At the year ended at December 31, 2011 these expenses totaled a sum of NIS 7,081 thousand. The increase of expenses in the present year compared to the previous years is a result of several sections, among other – an increase of professional services volume, increase of directors salary, salary updates and insurance expenses mainly in the subsidiary.

Financing fees for the period of 9 months ended at September 30, 2012 totaled a sum of NIS 279 thousand compared to NIS 36 thousand during the previous year, and NIS 232 thousand for the year ended at December 31, 2011. The increase is mainly due to exchange rate differentials expenses

during the 9 months in comparison to exchange rate differentials expenses last year and in comparison to revenues from exchange rate differentials for the year ended at December 31, 2011.

The financing revenues for the period of 9 months ended at September 30, 2012 totaled a sum of NIS 457 thousand compared to NIS 1,121 thousand during the corresponding period in the previous year. At the year ended at December 31, 2011, these revenues totaled a sum of NIS 1,669 thousand. Financing revenues during the report period and the corresponding period in the previous year and in the year ended December 31, 2011 resulted mainly from a decrease of value of the warrants exercisable to shares.

No tax expenses on revenue incurred for the period of the first 9 months of 2012 compared to tax expenses at a total of NIS 142 thousand for the corresponding period in the previous year and NIS 191 thousand for the year ended at December 31, 2011. Tax expenses in the previous periods mainly include a deduction at source of 10% from SKK revenues (and KDP in the corresponding quarter of the previous year). Without an expectation of utilizing this deduction in the foreseeable future and due to the Company's large tax losses, the deduction at source for tax expenses was reduced. Since there were no revenues during the first 9 months of 2012, and therefore no tax was deducted, no tax expenses were incurred in the Company.

Net cash used in operating activities for the period of the first 9 months ended September 30, 2012 totaled NIS 13,064 compared to NIS 16,115 in the corresponding period in the previous year. In the year ended December 31, 2011 totaled NIS 20,917 thousand. The decrease is mainly from decrease in accounts receivable and increase in share-based payment transactions.

The net cash from investment activity in the first 9 months of 2012 totaled a sum of NIS 69 thousand compared to cash utilized for investment activity of a total of NIS 75 thousand during the corresponding period in the previous year and to a total of NIS 82 thousand of cash from investment activity for 2011. The change is mainly due to the fact that during the report period and the fourth quarter of the previous year the Company actualized fixed assets, compared to purchases during the corresponding quarter of the previous year.

Net cash derived to the Company from financing activity totaled a sum of NIS 5,601 thousand during the period of 9 months ended at September 30, 2012 compared to NIS 296 thousand during the corresponding period of the previous year. At the year ended at December 31, 2011 this activity totaled NIS 17,677 thousand. The increase results from a public offering at the second quarter of 2012 in which the Company raised NIS 5,349 in equity and 2 series of warrants exercisable to shares (8 and 9).

## 5. The Company's Internal Auditor

There are no material changes regarding the internal auditor disclosure as publish in the company financial statements to the year ended at December 31, 2011.

## 6. Financial Statements Approval Process

The board of directors is responsible for the overall control of the auditing process of the Company. The Company's board of directors appointed the committee for auditing the financial statements whose responsibilities and composition are as follows (hereafter: the "**Committee**"):

The Committee and its members:

a. The Committee is an audit committee.

b. The Committee consists of three directors as follows:

1. **Gil Oren** – chairman of the Committee (an external director with accounting and financial expertise – see paragraph 6 below).
2. **Yechezkel Bernholtz -** (external director) - Education: PhD in biochemistry, The Hebrew University.
3. **Liora Lev (director)** – holds accounting and financial expertise – see paragraph 6 below).

The Committee members were appointed after a qualification inquiry and submitting declarations according to the instructions of section 3 of the Company Ordinance (Instructions and conditions for financial statements approval process), 2010.

Financial Statements Approval Process:

a. The Company's financial statements were discussed during the Committee's meeting held on November 28, 2012.

b. All of the Committee members participated in the meeting. Committee members were summoned to the meeting for receiving a presentation of data and providing explanations by the Company's CEO, Operations and Financing VP, the Company's accountants, external auditors, and the Company's attorney (the Company's internal auditor was summoned to the meeting but did not attend).

c. In preparation for the meeting, the draft of the financial statements and the Company's board of directors' report for the period ended at September 30, 2012 was sent for evaluation by the

Committee. The aforementioned material was sent to the Committee members about three days before the meeting.

d. During the Committee meeting, the following issues were presented to participants: (1) The accounting policy and treatment implemented by the Company regarding material matters; (2) Estimates and assessments regarding financial statements; (3) Risk management; (4) discussion regarding value evaluation, assumptions and assessments; (5) Internal controls related to financial reporting; (6) Completeness and appropriateness of the disclosure in financial statements; (7) The Company's financial statements data for the period ended at September 30, 2012.

e. The Committee members held a detailed discussion regarding the financial statements and their changes during the year. In addition, the Committee members were presented with the auditors' opinion regarding the aforementioned accounting policy and estimates, and various alternatives available to the Company. The Company's auditing accountant reviewed regulation aspects and their implementation in regard to the Company's activity.

f. The participants were presented with the Company's information regarding the financial statements, including financial and operative condition, and information regarding the corporation regime, auditing and risk management in the Company. All information was detailed in the presentations. In addition, a discussion was held regarding the effectiveness of future internal control processes that are expected to be executed by the Company.

g. The Company's management presented the decisions making process in the Company regarding accounting matters vis-a-vis the Company's judgment regarding various matters.

h. The Committee members examined the process of decision making in the Company and held a detailed discussion regarding accounting estimates and assessments in the financial statements, while examining the accounting policy determined and the Company's judgment on various issues.

i. After a detailed discussion on the subject, the Committee members agreed that the Company implemented a proper accounting policy and used proper estimates and assessments.

j. In addition, with the assistance of the auditors, the Company examined the material issues in the financial statements, estimates, and judgment during the preparation of the financial statements, internal reports and so on. All were found reasonable and proper.

k. After a detailed and independent discussion by the Committee, a detailed summary document was submitted to the Company's board of directors. The document included the Committee recommendations regarding approval of the Company's financial statements for the period

ended at September 30, 2012 while implementing the policy and estimates presented to and approved by the Committee members. The summary document was forwarded to the board of directors within a reasonable time before the board of directors' meeting.

l. In addition, Committee members were under the opinion that the statements disclosure is complete and proper, including correct analysis of the Company's risks and main exposures.

m. During the process of the board of directors' approval of the Company's financial statements, a draft of the financial statements and a draft of the board of directors' report for the period ended at September 30, 2012 were submitted for review by the board of directors 3 days before the meeting for the approval of such reports. During this period questions and remarks were forwarded from board members to the person responsible for financial matters in the Company.

n. During the board of directors meeting held on November 30, 2012, the business results, financial condition and the Company's cash flow were reviewed and activity data compared to the corresponding period in the previous year were presented. The Company's auditors and attorney also participated in the meeting. After discussion and based on the Committee's recommendation, the board of directors approved the financial statements.

## 7. Directors with Financial Accounting Expertise

According to the Company's board of directors' decision from September 21, 2005, the minimal number of directors with financial accounting expertise is one. The board of directors based its decision on the Company's activity volume, nature of activity as a research and development Company, and lack of special complexity of the Company's activity.

The following are Company directors that hold financial and accounting expertise:

1. Avigdor Kaplan – Chairman of the Company's board of directors. Education: a bachelor's degree in Economics and Statistics, a master's degree in Industrial Engineering and Management. A chairman of Clal Insurance Enterprises Holdings Ltd., and a director in several companies.

***2.*** Liora Lev – Company director. Education: CPA, holds a bachelor's degree in Accounting and Economics, a master's degree in Industrial Engineering and Management (specialization in information systems), a graduate of the Senior Management program of Harvard Business School. A partner in a venture capital fund.

3. Gil Oren – an external director of the Company. Education: CPA, holds a bachelor's degree in Accounting and Economics and a master's degree in Industrial Engineering and Management (specialization in financing). An owner of a business consulting Company.
4. Guy Regev - Company director. Education: a bachelor's degree in law and a master's degree in Accounting and Auditing. The CEO of Shaked Global Group.

## 8. Disclosure Regarding Critical Accounting Estimates

According to the evaluation of the Company's management, no critical accounting estimates were used in its financial statements.

# 9. Indexation Report

Linkage Balance as of September 30, 2012

| | September 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | In dollars or linked to dollars | In euro or linked to euro | Linked to CPI | No linkage | Non-Monetary Items | Total |
| | Thousand NIS | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 7,155 | 5 | | 364 | | 7,524 |
| Accounts receivable | | | | 85 | 2,234 | 2,319 |
| Fixed Assets, net | | | | | 171 | 171 |
| | 7,155 | 5 | | 449 | 2,405 | 10,014 |
| Liabilities | | | | | | |
| Liabilities to suppliers and service providers | 876 | 837 | | 180 | | 1,893 |
| Accounts payable | 1,516 | | | 1,062 | | 2,578 |
| Warrants exercisable to shares (series 6) | | | 198 | | | 198 |
| Warrants exercisable to shares (series 8) | | | 349 | | | 349 |
| Warrants exercisable to shares (series 7) | | | 753 | | | 753 |
| Liability due to discontinuation of employee-employer relations, net | | | | 91 | | 91 |
| | 2,392 | 837 | 1,300 | 1,333 | | 5,862 |
| **Assets after liabilities deduction** | 4,736 | (832) | (1,300) | (884) | 2,405 | 4,152 |

## Linkage Balance as of September 30, 2011

| | September 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **In dollars or linked to dollars** | **In euro or linked to euro** | **Linked to CPI** | **No linkage** | **Non-Monetary Items** | **Total** |
| | **Thousand NIS** | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 1,170 | 164 | - | 453 | - | 1,787 |
| Accounts receivable | - | - | - | 81 | 2,913 | 2,994 |
| Fixed Assets, net | - | - | - | - | 394 | 394 |
| | 1,170 | 164 | - | 534 | 3,307 | 5,175 |
| Liabilities | | | | | | |
| Liabilities to suppliers and service providers | 767 | 361 | - | 409 | - | 1,537 |
| Accounts payable | 871 | - | - | 797 | 446 | 2,114 |
| Warrants exercisable to shares (series 5) | - | - | 413 | - | - | 413 |
| Liability due to discontinuation of employee-employer relations, net | - | - | | 121 | - | 121 |
| | 1,638 | 361 | 413 | 1,327 | 446 | 4,185 |
| **Assets after liabilities deduction** | (468) | (197) | (413) | (793) | 2,861 | 990 |

## Linkage Balance as of December 31, 2011

| | December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **In dollars or linked to dollars** | **In euro or linked to euro** | **Linked to CPI** | **No linkage** | **Non-Monetary Items** | **Total** |
| | | | **Thousand NIS** | | | **Thousand NIS** |
| Assets | | | | | | |
| Cash and cash equivalents | 14,089 | 65 | | 468 | | 14,622 |
| Accounts receivable | | | | 374 | 3,386 | 3,760 |
| Fixed Assets, net | | | | | 278 | 278 |
| | 14,089 | 65 | - | 842 | 3,664 | 18,660 |
| Liabilities | | | | | | |
| Liabilities to suppliers and service providers | 1,029 | 570 | - | 331 | - | 1,930 |
| Accounts payable | 1,725 | - | - | 961 | - | 2,686 |
| Warrants exercisable to shares (series 5) | | | 138 | - | - | 138 |
| Warrants exercisable to shares (series 6) | - | - | 396 | - | - | 396 |
| Warrants exercisable to shares (series 7) | - | - | 793 | - | - | 793 |
| Liability due to discontinuation of employee-employer **relations, net** | | | | 190 | | |
| | 2,754 | 570 | 1,327 | 1,482 | - | 6,133 |
| **Assets after liabilities deduction** | 11,335 | (505) | (1,327) | (640) | 3,664 | 12,527 |

## 10. Sensitivity Tests Tables

**Dollar Exchange Rate Sensitivity**

| Type of Asset/ (liability) | Fair value as of (30.9.12) | Profit (loss) from changes | | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | | An increase of 10% in dollar rate | An increase of 5% in dollar rate | A decrease of 10% in dollar rate | A decrease of 5% in dollar rate |
| | | Thousand NIS | | | |
| Cash and cash equivalents | | 716 | 358 | (716) | (358) |
| Liabilities to suppliers and service providers | | (88) | (44) | 88 | 44 |
| Accounts payable | | (152) | (76) | 152 | 76 |
| Total | | 476 | 238 | (476) | (238) |

Sensitivity to changes of interest in NIS and dollars is not significant.

Since a major part of the Company's expenses are in US dollars, the Company takes action for minimizing currency risks by preserving some of its liquidity in US dollars or linked to US dollars. As protection of financial exposure which does not contradict the accounting exposure, the Company holds most of its current assets in foreign currency balances and balances linked to foreign currency.

## 11. Exceptional Events after the Balance Period

On October 4, 2012, in continuance to its announcement from September 9, 2012, the Company announced the beginning of trading of its level I ADRs in the U.S. under the ticker CANFY. The Bank of New York Mellon operates the ADRs for the Company and the ADRs will be tradable via licensed U.S. brokers in the U.S. For additional details see the Company's report from October 4, 2012 (reference: 2012-01-248355).

On October 9, 2012, the Company announced that following positive interim results it will continue patient enrollment for its Phase II/III clinical study with CF101 for the treatment of Psoriasis. The interim results included safety and efficacy data from the first 103 patients who completed 24 weeks of treatment in the trial with CF101 as a standalone therapy. The maximal effects of the treatment were in the CF101-2 mg BID dose relative to placebo and were observed in a variety of standard psoriasis assessment parameters, with the responses accumulating steadily over the 24-week treatment period. These data corroborate with the previously Phase 2 study conducted by the Company which results were published in a leading scientific journal. The Company therefore intends to complete patient enrollment for this Psoriasis Phase II/III clinical study which will include 2 arms of CF101-2 mg BID and placebo.

On November 13, 2012, the Company announced that it had filed a patent application for the treatment of sexual dysfunction utilizing the Company's drugs, and is planning to develop its pipeline drug CF602, licensed from the Leiden University, for this indication. During clinical studies conducted with other drugs of the Company, patients suffering from sexual dysfunction reported that they returned to normal function following the treatment with Company drugs. These findings are correlated with the Company's platform technology, which is targeting the A3 adenosine receptor as a therapeutic target. Adenosine is responsible, among others, for sexual functioning and erectile dysfunction mechanism via cAMP regulation, a mechanism which is also involved in the activity of Viagra.CF602 is an A3 adenosine receptor allosteric modulator enhancing the affinity of the natural ligand adenosine to its A3 adenosine receptor. The Company’s scientific team believes that the unique characteristics of the Company's drugs including the CF602 drug make it an applicable drug to be developed for the treatment of sexual dysfunction. The erectile dysfunction therapeutic market is estimated to be approximately $3 billion, and includes mainly the drugs Viagra, Cialis and Levitra.

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| Avigdor Kaplan, | Pnina Fishman, |
| Chairman of the Board of Directors | CEO and Director |

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