Convenience translation

BioCancell Ltd.

Consolidated Financial Statements

As of December 31, 2016

Consolidated Financial Statements as of December 31, 2016

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Independent Accountant's Audit Report for Shareholders of BioCancell Ltd.

We have audited the attached consolidated financial statements of BioCancell Ltd. (henceforth – "the Company") as of December 31, 2016 and 2015 and the related consolidated profit and loss, comprehensive income, changes in equity and cash flow statements for each of the years in the three-year period ending on December 31, 2016. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit according to the generally accepted standards in Israel, including those prescribed by the Auditors Regulations (Mode of Performance) – 5733 – 1973. These standards require that we plan and perform the audit with the aim of obtaining a reasonable level of certainty that the nominal financial statements have no significantly misleading representations. An audit includes examining a sample of the evidence supporting the amounts and information in the financial statements. An audit also includes assessing the accounting principles applied and the significant estimates made by the Board of Directors and the management, as well as evaluating the appropriateness of the presentation of the nominal financial statements overall. We are satisfied that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BioCancell Ltd. and its consolidated companies as of December 31, 2016 and 2015, and the results of their operations and their cash flows, for each of the years in the three-year period ending December 31, 2016, in conformity with the International Financial Reporting Standards ("IFRS") and the Securities Regulations Instructions (Annual Financial Reports) 5775 – 2010.

Without qualifying our above opinion, we draw attention to Note 1B of the financial statements, regarding the Company being in the research and development stage, whereby continuation of the development stages and realization of the assets related to the planned activity being dependent on future events including the raising of additional capital and achieving operational profits in the future. These factors, together with others detailed in the aforementioned Note, raise significant doubt regarding the Company's ability to continue as a going concern. Management's plans with regard to these matters are described in the aforementioned Note. An assessment of the final results of the aforesaid cannot be determined at this stage. The financial statements do not include all the adjustments regarding the values of assets and liabilities and their classification, which would likely be required if the Company was unable to continue operating as a going concern.

Somekh Chaikin
Certified Public Accountants (Isr.)
A Member Firm of KPMG International

March 29, 2017

Consolidated Statement of Financial Position as of December 31

NIS thousands

	Note	2016	2015
Current assets			
Cash and cash equivalents	4	**17,550**	8,595
Other investments	5	**-**	588
Receivables and other current assets	6	**3,336**	3,783
Total current assets		**20,886**	12,966
Long-term prepaid expenses		**25**	27
Asset for employee benefits, net		**10**	-
Fixed assets, net		**821**	686
Total non-current assets		**856**	713
Total assets		**21,742**	13,679
Current liabilities			
Suppliers and service provider accounts payable	7	**410**	2,294
Other accounts payable	8	**8,117**	2,277
Short-term employee benefits		**542**	615
Total current liabilities		**9,069**	5,186
Non-current liabilities			
Liability for employee benefits, net		**-**	147
Total non-current liabilities		**-**	147
Total liabilities		**9,069**	5,333
Contingent liabilities and commitments	9		
Shareholders' equity	10		
Ordinary shares		**7,400**	4,889
Additional paid-in capital		**203,015**	183,935
Translation differences of capital reserve		**(11)**	-
Capital reserve for share-based payment	11	**5,094**	4,179
Accumulated deficit		**(202,825)**	(184,657)
Total shareholders' equity		**12,673**	8,346
Total liabilities and shareholders' equity		**21,742**	13,679

Lawrence Howard	Frank Haluska	Jonathan Burgin
Chairman of the Board	Chief Executive Officer	Chief Operating Officer & Chief Financial Officer

Approval date of the financial statements: March 29, 2017

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Profit or Loss for the year ended December 31

NIS thousands (unless stated otherwise)

	Note	2016	2015	2014
Research and development expenses	13	**9,142**	23,277	17,636
General and administrative expenses	14	**8,642**	4,432	4,254
Operating loss		**17,784**	27,709	21,890
Finance income	15	**(164)**	(4)	(705)
Finance expense	15	**25**	1,437	336
Financing expenses (income), net		**(139)**	1,433	(369)
Pre-income tax loss		**17,645**	29,142	21,521
Income tax	16	**523**	-	-
Net loss attributed to:				
Company shareholders		**18,168**	29,142	21,521
Loss per ordinary share (in NIS)	17			
Basic and fully-diluted loss*		**0.33**	0.64	0.85*

* After retroactive adjustment in respect of issuance of rights in 2015, as described in Note 10B below.

The accompanying notes form an integral part of these consolidated financial statements.

BioCancell Ltd.

Consolidated Statement of Profit and Loss and Comprehensive Income for the year ended December 31

NIS thousands

	2016	2015	2014
Loss for the year	**18,168**	29,142	21,521
Other comprehensive income items that will be reclassified to statement of profit or loss			
Foreign currency translation differences for foreign operations	**11**	-	-
Other comprehensive income items that will not be reclassified to statement of profit or loss			
Re-measurement of defined benefit plan	**-**	18	90
Total comprehensive loss for the year attributed to the Company's stockholders	**18,179**	29,160	21,611

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statements of Changes in Equity for the year ended December 31

NIS thousands

	Ordinary Stock	Additional Paid-in Capital	Capital Reserve of Foreign Activities	Capital Reserve on Share-based Payment Capital	Accumulated Deficit	Total
Balance as of January 1, 2016	**4,889**	**183,935**	**-**	**4,179**	**(184,657)**	**8,346**
Issuance of stock	**2,511**	**18,957**	**-**	**-**	**-**	**21,468**
Expiry of options		**123**	**-**	**(123)**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**1,038**	**-**	**1,038**
	2,511	**19,080**	**-**	**915**	**-**	**22,506**
Comprehensive loss for the year			**(11)**	**-**	**-**	**(11)**
Loss for the year	**-**	**-**	**-**	**-**	**(18,168)**	**(18,168)**
Balance as of December 31, 2016	**7,400**	**203,015**	**(11)**	**5,094**	**(202,825)**	**12,673**
Balance as of January 1, 2015	3,005	167,730	-	4,180	(155,497)	19,418
Issuance of stock	1,884	15,945	-	-	-	17,829
Share-based payments	-	260	-	(1)	-	259
	1,884	16,205	-	(1)	-	18,088
Comprehensive loss for the year	-	-	-	-	(18)	(18)
Loss for the year	-	-	-	-	(29,142)	(29,142)
	-	-	-	-	(29,160)	(29,160)
Balance as of December 31, 2015	4,889	183,935	-	4,179	(184,657)	8,346
Balance as of January 1, 2014	1,529	132,376	-	5,922	(133,886)	5,941
Issuance of stock	1,476	33,291	-	-	-	34,767
Share-based payments	-	2,063	-	(1,742)	-	321
	1,476	35,354	-	(1,742)	-	35,088
Comprehensive loss for the year	-	-	-	-	(90)	(90)
Loss for the year	-	-	-	-	(21,521)	(21,521)
	-	-	-	-	(21,611)	(21,611)
Balance as of December 31, 2014	3,005	167,730	-	4,180	(155,497)	19,418

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow for the year ended December 31

NIS Thousands

	Notes	2016	2015	2014
Cash Flows from Operating Activities				
Loss for the year		**(18,168)**	(29,142)	(21,521)
Financing costs, net	**15**	**213**	1,270	(144)
Depreciation of fixed assets		**156**	86	71
Share-based transaction payments	**11**	**1,038**	259	321
Income Tax	**16**	**523**	-	-
Change in receivables and other current assets	**6**	**447**	(2,208)	(267)
Change in suppliers and service providers	**7**	**(1,884)**	1,644	246
Change in other payables	**8**	**3,610**	(750)	833
Change in employee benefits		**(230)**	158	(143)
Change in long-term prepaid expenses		**2**	15	3
Change in liability for grant repayment	**9C**	**-**	41	364
Interest paid	**15**	**-**	(57)	(198)
Interest received	**15**	**2**	7	55
Net cash used in operating activities		**(14,291)**	(28,677)	(20,380)
Cash Flows from investing activities				
Change in other investments	**5**	**589**	4,687	(520)
Purchase of fixed assets		**(291)**	(339)	(191)
Net Cash provided by (used in) investment activities		**298**	4,348	(5,370)
Cash Flows from financing activities				
Repayment of liability for grant	**9C**	**-**	(447)	(520)
Proceeds from issuance of stock	**10**	**24,854**	18,024	35,080
Issuance costs		**(1,679)**	(195)	(313)
Net cash provided by financing activities		**23,175**	17,382	34,247
Increase (decrease) in cash and cash equivalents		**9,182**	(6,947)	8,497
Cash and cash equivalents balance at beginning of the year		**8,595**	16,822	8,420
Effect of exchange rate on cash and cash equivalents		**(227)**	(1,280)	(95)
Cash and cash equivalents balance at end of year	**4**	**17,550**	8,595	16,822

The accompanying notes form an integral part of these consolidated financial statements.

Note 1 - General

A. The Company was incorporated and registered in Israel on September 22, 2011 under the Israeli Companies Law, 1999 (henceforth: the "Companies Law"), as a private company limited by shares named BioCancell Ltd. (henceforth: the "Company"), and its official address is Pavilion 1.3, High-Tech Village, Givat Ram, Jerusalem. The Company is a direct subsidiary of Clal Biotechnology Industries Ltd. (henceforth: "CBI") of the Access Industries Group, which holds 57.28% (as of the financial statements' approval date) of the Company.

In May 2016 BioCancell Therapeutics Israel Ltd. established a subsidiary in Delaware, USA, named BioCancell USA, Inc. for the purpose of operating in the US. The company is subject to the tax laws of the state of Delaware.

B. Reporting entity

(1) The consolidated financial statements of the Company as of December 31, 2016 include those of the Company, of BioCancell Therapeutics Israel Ltd. and of BioCancell USA, Inc., which are wholly-owned subsidiaries of the Company.

(2) The Group is engaged in research and development of drugs for the treatment of cancer. The Group's products are in the research and development stage, and therefore there is no certainty regarding the Group's ability to complete development of the products, receive regulatory permits and achieve marketing success. The continuation of the development stages and the realization of assets related to the planned activities depend on future events, including recruitment of additional financing and achieving operational profitability in the future. The Group is working to raise the capital needed for its continuing operations, although as of the Balance Sheet date, there is significant doubt as to the Company's ability to continue operating as a going concern. As of the signing date of the financial statements, and based on the Group's assessments, the Group's financial resources are expected to suffice until April 2017. However, to the extent that the commitment received by the Company comes to pass, whereby certain investors will invest $5 million in the Company in the framework of a public fundraising (if this takes place – see Note 19 below for details), the Group's financial resources are expected to suffice until July 2017. These financial statements do not include any measurement or presentation adjustments for assets and liabilities that would be required if the Group does not continue operating as a going concern.

C. Separate financial information in accordance with Regulation 9C

In February 2015 the Israel Securities Authority affirmed (No Action) that the company would not have to include separate financial information in its periodic reports for 2014 in accordance with Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, in view of the re-organization that took place in the company during previous years, along with repayment and conversion of convertible loans and the exercise of options, so that after these processes the Group's main activities are performed in BioCancell Therapeutics Israel Ltd. and therefore there will be no significant additional information for the reasonable investor in the separate financial statements that is not already included in the framework of the consolidated financial statements.

The Company assessed the negligible additional information derived, quantitatively and qualitatively with respect to financial information in comparison to information from the consolidated financial statements according to the following parameters:

Note 1 – General (cont'd)

- The percentage of company assets out of the total assets of the consolidated group.
- The percentage of company liabilities out of the total liabilities of the consolidated group.
- The percentage of cash flows from operating activities of the company out of the total flow from current operations in the consolidated statement.

For additional information regarding relations and commitments between the parent company and the subsidiary, see Note 18 – Transactions and balances with interested parties and related parties.

D. Definitions

In these financial statements -

(1) The Company – BioCancell Ltd.

(2) The Group – BioCancell Ltd. and its consolidated companies.

(3) Consolidated Companies – The Company subsidiary, BioCancell Therapeutics Israel Ltd. and BioCancell USA, Inc., whose financial statements are fully consolidated with those of the Company and which is wholly owned and controlled by the Company.

(4) Related party – as defined in International Accounting Standard 24 (2009) regarding related parties.

(5) Interested parties – as defined in Paragraph (1) of the definition of an "interested party" in a corporation, in Article 1 of the Israeli Securities Law, 5728-1968.

Note 2 - Basis of Presentation

A. Declaration of Compliance with International Financial Reporting Standards

The consolidated financial statements were prepared by the Group in conformity with the International Financial Reporting Standards (henceforth: "IFRS"). These financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) 5770-2010.

The consolidated financial statements were approved by the Board of Directors on March 29, 2017.

B. Functional currency and presentation currency

The consolidated financial statements are presented in NIS, the Group's functional currency, and are rounded to the nearest thousand. The New Israeli Shekel is the currency that represents the principal economic environment in which the Group operates.

C. Measurement basis

The financial statements were prepared on the basis of historical cost, except for the following assets and liabilities: Share-based payments and assets and liabilities in respect of employee benefits.

D. Operating cycle

The Company's regular operating cycle is one year. Consequently, current assets and current liabilities include items that are expected to be realized within the Company's regular operating cycle.

Note 2 - Basis of Presentation (cont'd)

E. Format for analysis of expenses recognized in the Profit or Loss statement

The format for analysis of expenses recognized in the Profit or Loss statement is according to a classification method based on the operating characteristic of the expense. Additional information on the nature of the expense is included in the notes to the financial statements.

F. Use of estimates and judgment

The preparation of financial statements in conformity with IFRS, the Group's management is required to use judgment in its assessments, estimates and assumptions that affect the implementation of policies and the amounts of assets and liabilities, incomes and expenses. The actual results may differ from these estimates.

When formulating the accounting estimates used in the Group's financial statements, Company management must make assumptions regarding circumstances and events that involve considerable uncertainty. Management's judgment in determining estimates is based on past experience, various facts, external circumstances and reasonable assumptions according to the appropriate circumstances for each estimate.

The estimates and the assumptions on which they are based are reviewed regularly. Changes in accounting estimates are recognized in the period for which the estimates were modified and in every future period impacted.

G. Determination of fair value

For purposes of preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities.

In Note 11D – Share-based Payments, additional information is included based on the assumptions used in determining the fair value.

Note 3 - Significant Accounting Policies

The accounting policies provided below were applied on a consistent basis for all the periods presented in these consolidated financial statements by the group entities.

A. Consolidation basis

The Subsidiary is an entity controlled by the Company. The subsidiaries' consolidated financial statements have been included in the consolidated financial statements from the date control was achieved. The Subsidiary's accounting policies are identical to those adopted by the Company.

Transactions eliminated upon consolidation

Intercompany balances in the Group and unrealized income and expenses resulting from intercompany transactions were eliminated in preparation of the consolidated financial statements.

B. Foreign currency

Transactions in foreign currency are converted into the Group's functional currency at the exchange rate prevailing on the date of each transaction. Monetary assets and liabilities in foreign currency on the reporting date are translated into the functional currency at the exchange rate prevailing that date. Exchange rate differences are recognized in the Profit and Loss statement.

Note 3 - Significant Accounting Policies (cont'd)

C. Foreign Activities

Assets and liabilities of foreign activities were translated into shekels according to the valid exchange rate on the date of reporting. Revenues and expenses of foreign activities were translated into shekels according to the valid exchange rate on the date of the transactions. Exchange rate differences for translation are recognized in comprehensive income and represented as capital in the foreign activities translation reserve.

D. Financial instruments

(1) Non-derivative financial instruments

Non-derivative financial instruments include receivables, cash and cash equivalents, other investments, suppliers and other payables. Non-derivative financial instruments are initially recorded at fair value, plus all directly attributable transaction costs, for instruments not stated at fair value with changes recorded in the Profit or Loss statement. Subsequent to initial recognition, non-derivative financial instruments are measured as specified below.

A financial instrument is recognized when the Group assumes the instrument's contractual terms. Financial assets are derecognized when the Group's contractual rights to the cash flows derived from the financial assets lapse or when the Group transfers the financial assets to others without retaining control of the asset, or when it essentially transfers all of the risks and benefits deriving from the asset. Purchases and sales of financial assets made in the regular manner are recognized on the transaction date, that is, on the date the Group undertook to buy or sell the asset. Financial liabilities are derecognized when the Group's obligation, as specified in the agreement, lapses or when it is discharged or cancelled.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed payments or payments that may be determined, that are not traded on an active market. After initial recognition, loans and receivables assets are measured at net book value, amortized by the effective interest method, while considering transaction costs and deduction of impairment provisions.

Cash and cash equivalents
Cash includes cash balances for immediate use and demand deposits. Cash equivalents include short-term investments with an original maturity of up to 3 months, with a high level of liquidity that can easily be converted to known amounts of cash and that are exposed to insignificant risk of change in value.

Non-derivative financial liabilities
Non-derivative financial liabilities include: loans and credit from other credit providers, supplier accounts payable and other payables.

Note 3 - Significant Accounting Policies (cont'd)

D. Financial Instruments (cont'd)

(2) Capital Stock

Ordinary stock is classified as equity. Incremental costs attributed directly to the issuance of ordinary stock are presented as a deduction from equity.

Incremental costs related directly to the expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset (deferred issuing expenses) in the financial position statement in the form of receivables and other current assets. The costs are deducted from equity upon the initial recognition of the equity instruments or they are deducted in the profit or loss statement as financing expenses when the issuance is no longer expected to occur.

E. Fixed Assets

Recognition and measurement

Fixes asset items are measured at cost with accumulated depreciation and impairment losses deducted. The cost includes expenditures that can be attributed directly to the purchase of the asset. Depreciation is a methodical allocation of the recoverable amount of an asset over its useful life.

F. Intangible Assets

Research and Development

Expenditures related to research activities, for the purpose of acquiring new scientific or technical know-how, are recognized in profit or loss when incurred.

Development activities are related to a plan to produce new products or processes, or to significantly improve existing products or processes. Expenses for development activities are recognized as an intangible asset only if: the development costs may be reliably measured; the product or process is technically and commercially feasible; future economic benefit is expected from the product and the Group has the intent and adequate resources to complete the development and use or sell the asset.

None of the Company's development costs meet the above conditions, so they are attributed to profit or when incurred.

Also see Note 3J below regarding the offset of grants for participation in research and development expenses.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment

(1) Financial assets

A financial asset is examined for impairment when there is objective evidence that one or more events have had a negative impact on the estimated future cash flows of the asset.

Impairment losses are recognized in the profit or loss statement.

An impairment loss will be cancelled when it is objectively attributable to an event that occurred after recognition of the impairment loss. Cancellation of the impairment loss for financial assets measured at net book value is recognized in the profit or loss statement.

(2) Non-financial Assets

The book value of the Group's non-financial assets is reviewed at each reporting date to determine whether there are indications of impairment. If there are indications, as noted, an estimate of the asset's recoverable amount is made.

The recoverable amount of an asset or of a cash-generating unit is the higher between the value of use and fair value, with realization costs deducted. In determining value of use, the Group discounts projected future cash flows at a pre-tax discount rate that reflects market assessments of the time value of the money and the specific risks related to the asset. For the purpose of examining impairment, the assets are grouped together at the lowest level that generates cash flows from ongoing usage, which are essentially independent of other Group assets ("cash-generating unit").

Impairment losses are recognized when the book value of an asset or of the cash-generating unit to which the asset belongs exceeds the recoverable amount and is recognized in the profit or loss statement.

Impairment losses recognized in previous periods are re-examined at each reporting date in order to determine whether there are signs indicating that the losses decreased or no longer exist. An impairment loss is cancelled if a change has occurred in the estimates used to determine the recoverable amount, but only to the extent that the book value of the asset, after reversal of the impairment loss, does not exceed the book value of depreciation or amortization that would have been determined had the impairment loss not been recognized.

Note 3 - Significant Accounting Policies (cont'd)

H. Employee Benefits

The Group has several post-termination benefit plans.

(1) Defined benefit plans

As of April 1, 2014, the Group's net obligation relating to a defined benefit plan for post-termination benefits is calculated by estimating the future benefit amount that an employee will receive in return for his services during the current period and over previous periods. This benefit is presented at present value after deducting the fair value of the plan's assets. The discount rate is determined according to the yield of high quality linked corporate bonds in shekels, whose maturity date is similar to the terms of the Group's obligation on the reporting date. The calculations are made by an actuary.

Re-measurement of the net liability (asset), for a defined benefit includes actuarial profits and losses, yield on the plan's assets (except for interest) and any change in the effect on the ceiling of the assets (to the extent relevant, except for interest). Re-measurement is immediately attributed to retained earnings via other comprehensive income. The commitment in respect of the benefit that accrued until the date the plan was changed is NIS 708 thousand and it is presented after deducting the fair value of the plan's assets, which total NIS 718 thousand.

The Company entered into an agreement with employees on April 1, 2014, whereby as of that date they are entitled to severance pay under Section 14 of the Severance Pay Law 5723-1963 and therefore, starting from that date, it is defined as a contribution plan. A defined contribution plan is a post-termination plan according to which the Group makes fixed payments to a separate entity without having any legal or implied commitment to make additional payments. The Group's commitments to deposit into a defined contribution plan are attributed to profit or loss for the periods during which the employees provided the related services.

Short-term Benefits

(2) The commitments for short-term employee benefits are measured on a non-discounted basis and the expense is recognized when the related service is rendered or in the event of a non-accruing absence (such as maternity leave) – at the time of the actual absence.

The classification of employee benefits as short-term or other long-term benefits for the purpose of their presentation in the statement of financial position is based on the Company's forecast for full settlement of all the benefits.

The provision for short-term employee benefits for a cash bonus is recognized in the amount expected to be paid when the Group has a current legal or tacit commitment to pay the said amount for services provided by the employee in the past, and the commitment may be estimated reliably.

Note 3 - Significant Accounting Policies (cont'd)

H. Employee Benefits (cont'd)

(3) Benefits for termination

Benefits for termination are recognized only when the group is demonstrably obligated, without any reasonable possibility of cancelling employee termination.

(4) Share-based payment transactions

The fair value on the date of share-based payments to employees is attributed as a salary expense concurrent with an increase in equity, over the employees' period of eligibility for the grants. The amount attributed as an expense, which is contingent on terms of maturity that are a condition of service, is adjusted to reflect the number of grants for shares that are expected to mature.

For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

In transactions in which the parent company grants employees of the Company rights to its equity instruments, the Group treats the grant as a share-based payment transaction settled in equity instruments.

In transactions in which the subsidiary grants its employees rights in equity instruments of the parent company, the Group treats the grant as a share-based payment transaction settled in capital instruments.

I. Provisions

A provision is recognized when the Group has a current legal or implied commitment resulting from an event that occurred in the past which may be reliably estimated and when it is expected that an outflow of economic benefits will be necessary to settle the obligation.

Legal claims

The provision for legal claims is recognized when the Group has a current legal obligation or an implied obligation resulting from an event that occurred in the past, and it is more likely than not that the Group will require its economic resources to discharge the commitment and it may be reliably estimated. When the effect of the time value is significant, the provision is measured based on its present value.

Royalty Liabilities

The Group does not recognize royalty obligations until the occurrence of the event in which the obligation is actually formed.

Note 3 - Significant accounting policies (cont'd)

J. Grants for participation in research and development expenses

Grants are initially recognized at fair value when there is reasonable assurance of their receipt and of the Group's compliance with the related terms. Grants received as reimbursement of expenses borne by the Group are presented as a reduction of the related expense.

Grants from the Chief Scientist for research and development projects are treated as forgivable loans, in accordance with the provisions of IAS 20. Grants received are recognized as a liability based on their fair value on the date received, unless it is reasonably certain on that date that the amount received will not be repaid. The amount of the liability is re-examined during every period and the changes, if any, in the current value of cash flows, discounted at the grant's original interest, are attributed in the profit or loss statement. The Group operates in the biotechnology industry and there is significant uncertainty (on account of the preliminary stage of the Company and the significant funding required) as to the success of the product under development and of repayment of the grant. In the Company's opinion, as of the report date, the conditions for recognition of the said liability have not been fulfilled and therefore, the Group did not record a liability for receipt of these grants. In respect of BIRD Foundation grants – See Note 9C.

K. Leases

Leases are classified as operating leases, and the leased assets are not recognized on the Group's statement of financial position. Lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease.

L. Financing Incomes and Expenses

Financing income includes interest income on the amounts invested and gains from differences in exchange rates. Interest income is recognized when accrued, using the effective interest method.

Financing expenses include bank commissions and others. Credit costs are attributed to the profit or loss statement by the effective interest method.

<u>In the Cash Flow statement, interest received and interest paid are presented in cash flows from current operations.</u>

Profits and losses from exchange rate differences are reported net, as financing income or financing expenses, depending on the fluctuations of the exchange rate.

M. Loss per share

The Group presents basic and fully-diluted loss per share data for its ordinary stock. The basic loss per share is also the diluted loss calculated by dividing the loss attributable to the Group's ordinary shareholders by the weighted average number of shares outstanding during the period.

Note 3 - Significant accounting policies (cont'd)

N. New standards and interpretations not yet adopted

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. For lessees, the standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

IFRS 16 is applicable for annual periods as of January 1, 2019.

The Group has not yet commenced examining the effects of adopting IFRS 16 on the financial statements.

IFRS 9 (2014), *Financial Instruments*

IFRS 9 (2014) replaces the current guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting.

IFRS 9 (2014) is effective for annual periods beginning on January 1, 2018 with early adoption being permitted.

The Group has examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation provides that the date of the transaction for the purpose of determining the exchange rate for recording a foreign currency transaction that includes prepayment is the date of initial recognition of the non-monetary asset/liability from the prepayment. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRIC 22 is applicable for annual periods beginning on January 1, 2018, with earlier application permitted.

The Group has examined the effects of applying IFRIC 22 and in its opinion the effect on the financial statements will be immaterial.

Note 4 - Cash and Cash Equivalents

	31 December	
	2016	**2015**
	NIS Thousands	
Israeli currency:		
Cash	**920**	1,158
Cash equivalents	**40**	1,540
Foreign currency:		
Cash	**16,590**	5,897
	17,550	8,595

The Group's exposure to interest rate risk, currency risk and a sensitivity analysis of cash and cash equivalent balances is provided in Note 12 regarding financial instruments.

Note 5 - Other investments

	31 December	
	2016	2015
	NIS Thousands	
Traded money market funds	**-**	588

For information on interest and linkage according to types of financial asset investments, see Note 12 regarding financial instruments.

Note 6 - Receivables and other current assets

	31 December	
	2016	2015
	NIS Thousands	
VAT Authorities	**496**	413
Deferred issue expenses	**2,150**	914
Prepaid expenses	**651**	2,364
Others	**39**	92
	3,336	3,783

For the Group's exposure to currency and liquidity risks on receivable balances, see Note 12 regarding financial instruments.

Note 7 - Trade accounts payable

	31 December	
	2016	2015
	NIS Thousands	
Open accounts	**368**	2,260
Post-dated checks and notes payable	**42**	34
	410	2,294

For the Group's exposure to currency and liquidity risk on supplier accounts payable, see Note 12 regarding financial instruments.

Note 8 - Other payables

	31 December	
	2016	2015
	NIS Thousands	
Institutions and employees for salary	**550**	358
Expenses payable	**7,567**	1,919
	8,117	2,277

For the Group's exposure to currency and liquidity risk on some of the payable balances, see Note 12 regarding financial instruments.

Note 9 - Contingent Liabilities and Commitments

A. Liability for royalty payments to the Office of the Chief Scientist (OCS)

The Group has financed part of its research and development activities with grants from the Office of the Chief Scientist in the Ministry of Trade and Industry (henceforth: "OCS"). In return for the OCS grants, the Group will be required to pay royalties at a rate of between 3% and 5% of revenues from sales of the product developed with the OCS grant, up to full repayment of the grant amount, linked to the U.S. dollar exchange rate and bearing an agreed-upon interest rate. Commencing from 2013, no new applications were submitted to the Chief Scientist.

As of December 31, 2016 the Group's maximum commitment for repayment of the said royalties is approximately USD 3.7 million. The transfer of part/all production outside of Israel requires the payment of increased royalties of up to twice the commitment. The Group has yet to begin to pay royalties. The financial statements do not include a liability for the payment of royalties for these grants, since the conditions for recognition of the liability were not fulfilled (see also Note 3J above).

B. Royalties agreement

The Group's research and development activities are based on an exclusive license given to the Group to use technology protected by patent and/or applications filed to register patents that were developed by the Group's Chief Scientist.

The rights to the said patents were originally the property of Yissum – the Research Development company of the Hebrew University of Jerusalem (henceforth: "Yissum"). According to the licensing agreement signed between Yissum and the Group in 2005 and the amendments to the agreement (henceforth: "the License Agreement"), Yissum granted an exclusive license to the Group for the global development, use, production and commercialization of products that are based on the said patents. In return, the Group undertook to pay Yissum royalties at the following rates:

(1) 4% of sales net of distribution costs.
(2) 10% of the total proceeds that the Group receives from any third party that obtained a sub-license to use the Group's technology.

The royalty rate on sales in countries where a patent was not registered and in which a third party sells identical products, will be reduced by 50%.

The Group does not recognize a liability for royalty payments until the occurrence of the event which triggers the actual obligation and therefore the financial statements do not include a liability for these royalties.

With regard to the period of royalty payment, it was determined that with respect to the country in which the patent was registered, the period of royalty payment will continue until the later of: (a) the patent's date of expiration in that country; or (b) the end of the exclusivity period (that was determined by the authorized body in that country) with regard to the product based on the patent; or (c) nine years from the date of the first commercial sale in that country. With regard to countries in which no patent was successfully registered, the royalty payment period in connection with sales in that certain country will continue until the later of: (a) the expiration date of the regulatory exclusivity in that country; or (b) nine years from the first commercial sale in that country.

Note 9 - Contingent Liabilities and Commitments (cont'd)

B. Royalties agreement (cont'd)

The license will remain valid in connection with each and every country even after the end of the royalty period, whether with regard to the countries in which a patent was registered or with regard to countries in which patents were not registered, when the Group will have an irrevocable license unlimited in time and exempt from the requirement to pay royalties (with regard to sales in that country).

The Group has undertaken to indemnify Yissum and the Hebrew University of Jerusalem, their employees, officers, representatives and any person acting on their behalf (henceforth: the "Indemnitees") from and against any liability including product liability, damages, losses, expenses, including reasonable legal fees and litigation costs (henceforth: "Losses") incurred by the Indemnitees as a result of the Group's acts and/or omissions and/or result from use, development, manufacture, marketing, sale and/or sublicensing of the technology unless such Losses are determined to have resulted from the gross negligence or willful misconduct of Indemnitees. Additionally, upon the commencement of any clinical trial, and prior to the first commercial sale, the Group has undertaken to procure comprehensive insurance related to product liability and the Company's indemnification obligation, and to add Yissum as an additional insured party. The Group has also undertaken to acquire, at its expense, with the commencement of clinical trials, clinical trial liability insurance of a reasonable amount commensurate with accepted commercial practice. The Group acquired insurance for the clinical trials it finances.

C. Liability for payment - Israel-US Binational Industrial Research and Development Foundation (BIRD)

In April 2015, the Group repaid USD 105 thousand (final payment), and as of December 31, 2016 the Group no longer has any liability toward the BIRD Foundation.

D. Clinical Trial Agreements (henceforth: "research agreements") between the Group and Medical Centers (henceforth: "Hospitals")

The Group has signed research agreements with medical centers, whereby the Hospitals will carry out clinical trials studying the effect of the drug developed by the Group. According to the research agreements, the Group will finance the clinical trials, including supply of the study drug. The consideration for the Hospitals depends upon the number of patients participating in the trials and the duration and number of treatments in the Hospitals. The Group has undertaken to indemnify the Hospitals, including the medical teams participating in the trials, against any claim deriving from the trials, as long as the trials were conducted in accordance with the research agreements and the damage was not sustained as a result of the negligence of the Hospitals. The Group has undertaken to insure the Hospitals, including the managers and employees involved in the trials, with liability insurance policies that will be not less than USD 5 million (NIS 19.5 million) per case. These commitments will continue to be in effect even after the termination of the research agreements. Premium payments for the insurance policy are recognized as a current expense in clinical trial expenses in the research and development item in the Profit and Loss statement.

Note 9 - Contingent Liabilities and Commitments (cont'd)

E. Research and development services agreement

The Group's research and development activities are carried out primarily by a laboratory research team in the Hebrew University of Jerusalem. The Group signed an agreement with Yissum to receive research and development services from January 1, 2015 to December 31, 2016, which extended until September 2017, in return for a sum of not less than NIS 600 thousand plus VAT.

As of the report date, the Group transferred NIS 252 thousand for the first quarter of 2017 for research and development services to be rendered in the future in the laboratories of the Hebrew University, which are included in the accounts receivable item.

F. Vehicle leases

The Group has lease agreements for five vehicles for a period of 12-36 months each. In connection with these agreements, the Company made deposits to secure future lease payment obligations. The balance of these deposits as of the Balance Sheet date is NIS 46 thousand. The deposits are linked to the Israeli Consumer Price Index and do not bear interest.

As of the end of the reporting period, the minimum future annual lease fees payable in connection with the lease agreements are as follows:

	NIS Thousands
2016	**169**
2017	**67**
2018	**42**
	278

G. Office rental

During the month of November 2013, the Group signed a new rental agreement with MPNAT in the Edmund J. Safra High-Tech Village in Givat Ram, Jerusalem, for the months between March 2014 and September 2016, which extended until September 2021. The total monthly rental fees will be NIS 16 thousand. A guarantee of NIS 63 thousand was furnished through Bank Leumi in favor of the property owner, to secure the agreement. Minimum future rental fees to be paid in connection with the agreements are NIS 48 thousand.

In addition, During July the subsidiary BioCancell USA, Inc. signed a rental agreement for 12 month with Vedantra Pharmaceuticals, Inc. for offices in the US, where the monthly rental will be USD 5 thousand. Minimum future rental fees to be paid in connection with the agreements are USD 32.5 thousand.

Note 9 - Contingent Liabilities and Commitments (cont'd)

H. Liability for payment of royalties to the Jerusalem Development Authority (JDA)

During 2009, the Company received a grant of NIS 135 thousand from the JDA. In consideration for the grant, the Company is obligated to pay royalties at a rate of 4% of revenues from sales up to repayment of the full amount of the grant received, linked to the Consumer Price Index. The financial statements do not include a liability for receipt of this grant, due to the significant uncertainty regarding repayment of the grant.

I. Manufacturing and manufacturing processes development agreements

On October 10, 2016 the Group made a firm order to the European drug manufacturer Boehringer Ingelheim (henceforth: "BI") to manufacture the active ingredient of BC-819 (henceforth: "the Drug") in the scope of about 4.1 million Euro (about 2.2 million Euro during 2017 and 1.9 million Euro during 2018). According to the terms of the agreement, in the event of cancellation by the Group, in whole or in part, BI can charge the Group with cancellation fees whose rate is a function the length of time between the date of cancellation and the planned date of performing the work.

As of this report, the company estimates that the amount of drug to be produced for this order will suffice for most of the needs of two pivotal clinical trials of the drug on patients with bladder cancer the group is prepared for as of the reporting date.

J. Investment banker agreement

The Company has an agreement with U.S. investment bank Raymond James & Associates, Inc., whereby the latter will provide investment banking services in return for a fee equal to 7% of the gross proceeds of private offers (a reduced fee of 3.5% for the first $5 million received from the Company's controlling party). The total fee, in any case, will be no less than $1 million as of the first issue.

Note 10 - Shareholders' equity

A. Share Capital

	Number of Common Stock Shares	
	2016	**2015**
Thousands of shares NIS 0.10 par value each		
Share capital issued and paid up as of January 1	**48,892**	30,050
Issued during the year	**25,105**	18,842
Share capital issued and paid up as of December 31	**73,997**	48,892
Registered capital	**190,000**	75,000

B. Issuances

The table below summarizes the issuances executed for the purpose of raising capital between the years 2014 and 2016:

Date	Type	Shares	Proceeds (Gross)	Controlling Shareholder's Participation	Cost of Issue	Benefit Element*
			NIS Thousands			
October 2016	Private Issuance (1)	23,076,922	Approx. 22,805	-	Approx. 3,236**	Not applicable
June 2016	Rights Issuance (2)	2,028,047	Approx. 2,048	Approx. 2,000	Approx. 150	-
March 2015	Rights Issuance	17,934,058	Approx. 17,934	Approx. 15,400	Approx. 195	12.61%
July 2014	Rights Issuance	10,841,859	Approx. 26,024	Approx. 25,517	Approx. 185	-
January 2014	Rights Issuance	3,915,798	Approx. 9,241	Approx. 6,419	Approx. 313	4.57%

* The benefit element is calculated as the ratio between the base trading price of the share ex-rights to the closing price of the share on the trading day prior to the ex-date, and it is the ratio that is the basis for the increase in the number of underlying shares from the Company's warrants at the time of the rights issue.

** Of this amount 1,620 Thousand Shekel has not yet been paid.

(1) In October 2016 the company completed a private allocation to two investors in the US, in which the company allocated a total of 18,461,538 ordinary shares in the company with a nominal value of NIS 0.10 each to Palisade Medical Equity I LP (approximately 24.95% of the company equity and voting rights in it after the allocation, and about 24.69% fully diluted), in return for an investment totaling USD 4.8 million, and another 4,615,384 ordinary shares to Patata Beroa LLC (approx. 6.24% of the company equity and voting rights and about 6.17% fully diluted) in return for an investment totaling USD 1.2 million (henceforth together: "the private offer"). The price paid per share was USD 0.26. The total number of shares allocated to the investors in the framework of the private offer makes up 31.19% of the company's issued and paid up share capital and of the voting rights in the company after executing the private offer and about 30.86% fully diluted.

Note 10 - Shareholders' equity (cont'd)

B. Issuances (cont'd)

(2) In June 2016, the company raised a gross total of NIS 2,048 thousand (NIS 2,000 thousand was from CBI) via a rights issuance to shareholders, according to a shelf offer report and in accordance with the company's shelf prospectus from October 21, 2013. In accordance with the shelf offer report, company shareholders were offered 23,008,128 name-registered ordinary shares in the company with a nominal value of NIS 0.10 each by way of rights in a manner that for every 102 ordinary shares in the company, the shareholder was eligible to exercise one rights unit, which included 48 ordinary shares at a price of NIS 1.01 per share (NIS 48.48 per unit). Rights holders purchased 2,028,047 ordinary shares in the company (in about 42,251 rights units), making up about 8.81% of the offered securities.

The table below summarizes the issuances executed according to the Company's commitment to allot anti-dilutive shares between the years 2014 and 2015:

Date	Number of Offerees	Shares	Proceeds (NIS thousands)
February 2015	13 including CBI	907,455 (1)	Approx. 90

(1) In addition, a total of 74,061 shares in 2015 and 250,266 shares in 2013 were offered to an additional investor, which has not yet transferred the minimum required proceeds to the Company according to the bylaws of the TASE. Otherwise, the Company has no commitments to issue anti-dilutive shares and the Company has no agreements in effect that include a commitment to offer protection against dilution in the future.

<u>Exercise and expiration of warrants between 2014 and 2016</u>
During March and November 2014, warrants deriving from issuances of March and November 2010 expired, respectively. Moreover, the rights to future cash payment expired.

<u>Fully-diluted Company equity</u>
As of December 31, 2016, the Company's fully-diluted equity is comprised solely of the securities described in Note 10A above and Note 11A below.

Note 11 - Share-based payment

A. The table below summarizes the terms of the grants and the number of warrants granted by the Board of Directors but not yet exercised, forfeited or expired as of December 31, 2016:

Year	No. of Warrants	No. of Underlying Shares (1)	Exercise Price Per Share (1)	Actual Vesting Dates		Contractual Life of Warrant
2008	335,000	39,448	NIS 10.78	3-4 Years	(2)	10 Years
	120,000*	14,131	USD 5.07	3 Years	(3)	10 Years
2009	38,000	4,475	NIS 26.92	4 Years	(2)	10 Years
2010	30,000*	3,533	NIS 26.92	3 Years	(3)	10 Years
	205,000**	24,138	NIS 24.20	3 Years	(3)	10 Years
2011	300,000*	35,327	NIS 24.63	4 Years	(2)	10 Years
2012	300,000*	35,327	NIS 13.44	4 Years	(2)	10 Years
	20,000	2,355	NIS 8.32	4 Years	(2)	10 Years
	400,000*	47,103	NIS 8.41	4 Years	(2)	10 Years
2013	150,000	17,663	NIS 8.66	4 Years	(2)	10 Years
2014	157,750**	177,642	NIS 2.34	4 Years	(2)	10 Years
	3,200**	3,605	NIS 2.52	3 Years	(3)	10 Years
2015	20,000	22,522	NIS 1.17	4 Years	(2)	10 Years
	275,437**	275,437	NIS 1.21	4 Years	(2)	10 Years
2016	**5,627,816***	**5,627,816**	**USD 0.26**	**4 Years**	**(4)**	**10 Years**
Total as of December 31, 2016	**7,982,203**	**6,330,522**				

* These warrants were granted to interested parties or key managerial personnel in the Group (see Note 18D).

** Some of the warrants were granted to interested parties and/or key managerial personnel in the Group (105,937 warrants in 2015; 53,750 warrants in 2014 and 60,000 warrants in 2010).

(1) Following historic adjustments to the Company's capital, primarily a reverse split in 2013.
(2) The warrants vest in 16 equal quarterly portions.
(3) The warrants vest in 12 equal quarterly portions.
(4) The warrants vest in 4 equal annual portions on each anniversary of the commencement of vesting.

Note 11 - Share-based payment (cont'd)

B. Changes in the stock warrants and the weighted average of the exercise price (pursuant to requisite adjustments*) are presented in the table below:

	2016			2015			2014		
	Underlying Shares*	Weighted Average of Exercise Price		Underlying Shares*	Weighted Average of Exercise Price		Underlying Shares*	Weighted Average of Exercise Price	
		NIS	USD		NIS	USD		NIS	USD
Outstanding at beginning of period	**816,519**			437,965			291,726		
Increment due to issuance of rights in first quarter of 2014	**-**			**-**			13,332		
Increment due to issuance of rights in first quarter of 2015	**-**			55,228			-		
Granted during year	**5,627,816**	**-**	**0.26**	378,026	1.21	-	201,400	2.64	-
Forfeited during year	**(86,020)**	**1.40**	**-**	(23,068)	3.11	-	(15,685)	3.90	-
Exercised during year	**-**	**-**	**-**	-	-	-	-	-	-
Expired during year (NIS-linked)	**(21,993)**	**7.81**	**-**	(31,632)	13.00	-	(50,717)	30.40	-
Expired during year (USD-linked)	**(5,800)**	**-**	**0.68**	-	-	-	(2,091)	-	5.71
Total underlying shares outstanding at end of the period	**6,330,522**			816,519			437,965		
Composition:									
Average exercise price in NIS	**688,575**	**5.70**	**-**	796,588	5.29	-	420,265	10.10	-
Average exercise price in USD	**5,641,947**	**-**	**0.27**	19,931	-	3.79	17,700	-	4.27

* Following the reverse stock split at the ratio of 10:1, an issuance of the Company's rights from the first quarter of 2014, including an inherent benefit of 4.57%, and the issuing of the Company's rights from the first quarter of 2015, which included a benefit of 12.61%.

** The weighted average of the contractual life of the warrants outstanding as of December 31, 2016 is 7.95 years (and was 5.94 years as of December 31, 2015).

Note 11 - Share-based payment (cont'd)

C. The data presented below is the average exercise price for warrants exercisable as of the end of period:

	As of December 31					
	2016		2015		2014	
	Number of Underlying Shares	Exercise Price	Number of Underlying Shares	Exercise Price	Number of Underlying Shares	Exercise Price
Warrants with NIS-denominated exercise price	**522,832**	NIS 7.03	408,957	NIS 8.75	236,929	NIS 14.59
Warrants with USD-denominated exercise price	**14,131**	USD 5.07	19,931	USD 3.79	17,700	USD 4.27
Total number of underlying shares	**536,963**		428,888		254,629	

D. The fair value of the services received in return for the share warrants granted are based on the fair value of the warrants granted, measured by the Black & Scholes option pricing model:

	Grants During 2016	Grants During 2015
Fair value on date of grant	**NIS 3,123 thousands**	NIS 247 thousands
Parameters used in application of the model are as follows:		
Share price on grant date	**USD 0.23**	NIS 0.96 – 1.36
Adjusted exercise price	**USD 0.26**	NIS 1.17 – 1.21
Expected volatility (1)	**69.23%**	0.75 – 0.91
Expected life of the warrant (2)	**7 years**	5.125 – 7 years
Risk-free interest rate (3)	**2.06%**	0.69% - 1.38%
Expected dividend rate	**-**	-

(1) The expected volatility was determined based on the historical volatility of the Company’s share price.

(2) The expected life of the warrant depends on certain conditions detailed in Note 18E, and will be re-considered in each period with regard to the likelihood of it taking place.

(3) The risk-free interest rate was determined based on the yield to maturity of State of Israel bonds for warrants with an exercise price linked to the Shekel, and for U.S Government (U.S Treasury Securities) for the warrants with an exercise price linked to the Dollar, with their duration to maturity is equal to the expected life of the warrants.

Note 11 - Share-based payment (cont'd)

E. Salary expense for share-based payment (also see Notes 13-14)

	For the Year Ending on December 31		
	2016	2015	2014
	NIS Thousands		
Warrants granted in 2011, net	**-**	1	16
Warrants granted in 2012, net	**-**	16	55
Warrants granted in 2013, net	**4**	13	21
Warrants granted in 2014, net	**38**	98	229
Warrants granted in 2015, net	**32**	131	-
Warrants granted in 2016, net	**964**	-	-
	1,038	259	321

Regarding the warrants granted to related parties, see also Note 18 regarding related party and interested party transactions and balances.

Note 12 - Financial Risk Management

The Group is exposed to the following risks, deriving from the use of financial instruments:

* Credit risk
* Liquidity risk
* Market risk

A. Risk management framework

The Board of Directors has the overall responsibility for providing the basis for the Group's risk management framework and its oversight.

The Group’s risk management policy was formulated in order to identify and analyze the risks facing the Group, to determine and control the limits of reasonable risks and to monitor the risks and comply with limitations. The risk management policy and methods are reviewed regularly in order to reflect changes in market conditions and in the Group’s activities. The Group acts to develop an effective control environment in which all the employees understand their functions and obligations.

Note 12 - Financial Risk Management (cont'd)

B. Credit risk

Credit risk is the risk of monetary loss that the Group will sustain if a debtor or counterparty to a financial instrument does not meet their contractual obligations and is mainly derived from the debts of various debtors.

The Group currently limits the exposure to credit risk by investing only in bank deposits.

Exposure to credit risk
The book value of the financial assets represents the maximum credit exposure. The maximum credit risk on the balance sheet date was as follows:

	As of December 31	
	2016	**2015**
	Carrying Value	
	NIS Thousands	
Cash and cash equivalents	**17,550**	8,595
Other investments	**-**	588
Receivables	**496**	476
	18,046	9,659

Note 12 - Financial risk management (cont'd)

C. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they come due. The Group's approach to management of liquidity risks is to ensure, as much as possible, an adequate degree of liquidity to meet its obligations on time, under ordinary conditions and under conditions of stress, without sustaining unwanted losses or damaging its reputation.

The Group verifies the existence of adequate cash levels, according to the requirements for payment of expected operating expenses, including amounts required to meet its financial obligations.

The aforesaid does not take into account the potential effect of extreme scenarios that cannot reasonably be foreseen.

See also Note 1B regarding the substantial doubt as to the ability of the Company to continue as a going concern.

	As of December 31, 2016		
	Carrying Value	Contractual Cash Flow	Up to 6 Months
		NIS Thousands	
Financial Liabilities			
Supplier and service provider payables	**410**	**410**	**410**
Other Payables	**7,593**	**7,593**	**5,443**
	8,003	**8,003**	**5,853**

	As of December 31, 2015		
	Carrying Value	Contractual Cash Flow	Up to 6 Months
		NIS Thousands	
Financial Liabilities			
Supplier and service provider payables	2,294	2,294	2,294
Other Payables	2,277	2,277	2,277
Total	4,571	4,571	4,571

Note 12 - Financial risk management (cont'd)

D. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, consumer price indexes, interest rates and prices of financial instruments will affect the Group's results or the value of its holdings in financial instruments. The goal of market risk management is to manage and monitor exposure to market risks within accepted parameters, while maximizing yield.

Currency risk:
The Group is exposed to currency risk mainly from cash and purchases for research and development expenses that are denominated in U.S. dollars and Euros; the Company is therefore exposed to volatility in the dollar/shekel and Euro/shekel exchange rates and acts to reduce the currency risk by retaining the liquid resources in its possession according to its future needs.

E. Index and foreign currency risks

(1) The Group's exposure to the Consumer Price Index (CPI) and to foreign currency risk, based on stated values, is as follows:

	As of December 31, 2016			
	Unlinked	**CPI Linked**	**Foreign Currency Linked**	**Total**
	NIS Thousands			
Assets				
Cash and Cash Equivalents	**960**	**-**	**16,590**	**17,550**
Accounts receivable	**-**	**496**	**-**	**496**
	960	**496**	**16,590**	**18,046**
Liabilities				
Supplier and service provider payables	**256**	**-**	**154**	**410**
Other payables	**1,651**	**-**	**5,942**	**7,593**
	1,907	**-**	**6,096**	**8,003**

	As of December 31, 2015			
	Unlinked	**Linked to the Cost of Living Index**	**Linked to Foreign Currency**	**Total**
	NIS Thousands			
Assets				
Cash and Cash Equivalents	2,698	-	5,897	8,595
Other investments	-	-	588	588
Accounts receivable	-	476	-	476
	2,698	476	6,485	9,659
Liabilities				
Supplier and service provider payables	683	-	1,611	2,294
Other payables	1,588	-	689	2,277
	2,271	-	2,300	4,571

Note 12 - Financial risk management (cont'd)

E. Index and foreign currency risks (cont'd)

(2) Sensitivity analysis

A change in the dollar/shekel and euro/shekel exchange rates, as noted below, as of December 31, and a change in the CPI, would increase (decrease) earnings and equity by the amounts presented below. The analysis below is based on changes in exchange rates and in the CPI which, in the Group's opinion, are reasonably possible as of the end of the reporting period. This analysis assumed that all the other variables, specifically interest rates, remained fixed.

	As of December 31, 2016		As of December 31, 2015	
	Increase	Decrease	Increase	Decrease
	Capital Gain and Loss			
5% Change in the Consumer Price Index	**25**	**(25)**	24	(24)
5% Change in the US Dollar Exchange Rate	**521**	**(521)**	235	(235)
5% Change in the Euro Exchange Rate	**4**	**(4)**	(25)	25

F. Interest rate risk

Type of interest:

Details on the type of interest borne by the Group's interest-bearing financial instruments are presented below:

	As of December 31	
	2016	**2015**
	NIS Thousands	
Fixed-interest instruments		
Financial assets	**496**	1,953

G. Fair value

The carrying value of financial assets and liabilities, including cash and cash equivalents, other receivables, other short-term investments, trade payables and other payables equals or approximates their fair value.

Fair value hierarchy of instruments measured at fair value
The table below presents the financial instruments measured at fair value, using a valuation method based on their fair value level:

	As of December 31	
	2016	**2015**
	NIS Thousands	
	Level 1 – Quoted Price	
Traded monetary funds	**-**	588

Note 13 - Research and development expenses

	For the Year Ended on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Research			
Manufacturing process development (See Note 9I)	**3,876**	7,087	6,027
Subcontractors	**905**	2,758	3,818
Salary, wages and related expenses	**1,716**	2,331	2,237
Raw materials, tools and consumables	**224**	168	654
Share-based payments	**39**	125	175
Patents	**236**	280	225
Depreciation and amortization	**156**	102	71
Others	**175**	185	25
	7,327	13,036	13,232
Clinical Trials			
Trial management	**749**	1,571	2,070
Salary, wages and related expenses	**955**	1,056	1,294
Materials	**64**	7,522	968
Share-based payments	**-**	19	18
Others	**47**	73	54
	1,815	10,241	4,404
Total Research and Development Expenses	**9,142**	23,277	17,636

Note 14 - General and administrative expenses

	For the Year Ended on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Salary, wages and related expenses	**3,050**	1,841	1,868
Share-based payments	**999**	115	128
Directors' salaries	**670**	624	534
Professional and consulting fees	**1,533**	645	708
Rent, maintenance and insurance	**504**	477	458
Investment contacts and business development	**301**	250	186
Issuance expenses	**843**	-	-
Travel	**497**	307	174
Fees	**127**	77	87
Other	**118**	96	111
	8,642	4,432	4,254

Note 15 - Financing expense (income), net

Composition

	For the Year Ended on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Interest income on deposits	**2**	4	58
Net profit from changes in exchange rates	**162**	-	647
Net financing incomes attributed to profit or loss	**164**	4	705
Net loss from changes in exchange rates	**-**	1,382	-
Interest, bank commission and other expenses	**25**	55	336
Financing expenses attributed to profit or loss	**25**	1,437	336

Note 16 - Taxes on income

A. Details on the tax environment in which the Group operates

(1) BioCancell Ltd. is taxed under the tax laws in Israel.

BioCancell Therapeutics Israel Ltd. is taxed under the tax laws in Israel.

BioCancell USA, Inc. is taxed under the tax laws in the U.S.

(2) Corporate tax rates

(a) The relevant tax rates for the Company for the years 2014-2016:
2014 – 26.5%
2015 – 26.5%
2016 – 25%

On January 4, 2016 the Knesset passed the Law to Amend the Income Tax Ordinance (No. 216) – 5776-2016, which prescribed, inter alia, a 1.5% reduction in the corporate tax rate, as of January 1, 2016 onward, so that the tax rate will stand at 25%.

Also, on December 22, 2016, the Knesset passed the Economic Efficiency Law (Amendments to legislation for achieving budgetary objectives for the budget years of 2017 and 2018) 5777-2016, which determined, inter alia, the reduction of the corporate tax rate from 25% to 23% as of January 2018 and onward.

Note 16 – Taxes on income (cont'd)

(b) On January 12, 2012, Amendment 188 to the Income Tax Ordinance (New Version) – 5721-1961 (henceforth: "the Ordinance") was published in the Official Gazette. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby Accounting Standard No. 29 "Adoption of International Financial Reporting Standards (IFRS)", that was issued by the Israel Accounting Standards Board, shall not apply when determining the taxable income for the tax years 2007 – 2011, even if this standard was applied when preparing the financial statements (henceforth: "the Temporary Order"). On July 31, 2014, Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the tax years of 2012 and 2013.

(c) The relevant yearly rate for the Company's U.S. subsidiary is up to 40%.

(3) Benefits under the Law for Encouragement of Capital Investments – Beneficiary Enterprise

BioCancell Therapeutics Israel Ltd. chose 2009 as the year of choice under the Encouragement of Capital Investments Law, 5719-1959. Income generated by a "beneficiary enterprise" will be exempt from tax for a period of 10 years. The benefits are contingent upon compliance with the criteria prescribed in the Encouragement Law, including receipt of approval to be considered a biotechnology company. The Company is in the process of obtaining such approval.

B. Tax assessments in Israel

The Company and BioCancell Therapeutics Israel Ltd. has final assessments for the tax years up to and including 2012 and withholding tax assessments considered final for the tax years up to and including 2012.
BioCancell USA, Inc. was established during 2016 and has not yet filed an annual tax return.

C. Tax losses to be carried forward

(1) Company – Tax losses carried forward totaling NIS 10 million and capital loss carried forward totaling NIS 46 million, resulting from the liquidation of BioCancell Therapeutics Inc.

(2) BioCancell Therapeutics Israel Ltd. has tax losses carried forward for the coming year in the sum of NIS 152 million as of the balance sheet date and a capital loss carried forward of NIS 5 million (at the end of the 2015 tax year – tax losses carried forward of about NIS 129 million and a capital loss of NIS 5 million carried forward).

(3) BioCancell Therapeutics Inc. was liquidated at the end of 2012 and therefore the company estimates that its accumulated losses will not be utilized in the future.

Note 16 - Taxes on income (cont'd)

D. Unrecognized deferred tax assets

The Company does not create deferred taxes on temporary differences and on losses carried forward for which recognition of deferred tax assets is required, since it does not expect to utilize them in the foreseeable future. According to existing tax laws in Israel, there is no time limit for utilization of tax losses.

E. Unrecognized deferred tax assets (cont'd)

Deferred tax assets have not been recognized for the following items:

	For the Year Ending on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Losses for tax purposes	**161,502**	135,832	111,998
Deductible temporary differences	**14,389**	22,130	17,076
Capital loss for tax purposes	**51,408**	51,408	51,408
	227,229	209,370	180,482

F. Adjustment between the theoretical tax on profit before taxes on income and tax expenses:

	For the Year Ending on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Loss before income tax	**17,645**	(21,142)	(21,521)
Primary tax rate for the company	**25%**	26.5%	26.5%
Tax calculated according to the company's primary tax rate	**(4,411)**	(7,722)	(5,703)
Incremental tax (tax savings) in respect of:			
Unrecognized expenses	**265**	72	93
Different tax rate of foreign subsidiaries	**199**	-	-
Change in temporary differences for which deferred tax is not recognized	**(1,943)**	1,346	637
Losses and benefits for tax purposes for which deferred taxes were not recorded	**6,413**	6,304	4,973
Taxes on income from ongoing activities	**523**	-	-

Note 17 - Loss per share

A. Basic loss per share

The calculation of basic loss per share as of December 31, 2016 is based on the loss attributable to ordinary shareholders amounting to NIS 18,168 thousand (in the years 2015 and 2014: NIS 29,142 thousand and NIS 21,521 thousand, respectively), divided by the weighted average number of ordinary outstanding shares (including the benefit element for the retroactive adjustment of the rights issuance (Note 10B) of 54,334 thousand shares (for the years 2015 and 2014: 45,538 thousand shares and 25,402 thousand shares, respectively) is calculated as follows:

Weighted average number of ordinary shares:

	For the Year Ending on December 31		
	2016	**2015**	**2014**
		NIS Thousands	
Thousands of shares NIS 0.10 Par Value			
Balance as of January 1	**48,892**	35,542	17,389
Effect of shares issued during the year	**5,442**	12,996	8,013
Weighted average of the number of ordinary shares used to calculate the basic loss per share	**54,334**	45,538	25,402

B. Fully diluted loss per share

The Company did not present data on the fully-diluted loss per share because of the anti-dilutive effect of convertible securities. See Notes 10 and 11 regarding details on the Company's option warrants that could have a dilutive effect in the future.

On December 31, 2016, option warrants exercisable for 6,253 thousand ordinary shares (in 2015 and 2014: option warrants exercisable for 817 thousand ordinary shares and 493 thousand ordinary shares, respectively) were not included in the calculation of the weighted average for the number of ordinary shares (diluted) as their effect is anti-dilutive.

Note 18 – Transactions and Balances with Interested and Related Parties

A. Subsidiaries

The Company holds 100% of the share capital of BioCancell Therapeutics Israel Ltd. and of the capital of BioCancell USA, Inc. The company does not have significant restrictions on the transfer of resources (For the use of assets for settling a liability) between the groups.

B. Relationships, commitments and significant transactions with Investee Companies

1. Capital note

BioCancell Therapeutics Israel Ltd. issued a capital note to the Company in the sum of NIS 13 million during the period. The capital note is not linked to the index, bears no interest and there is no intention to repay it before the end of 5 years. As of its establishment, the company has transferred capital notes totaling approximately NIS 166.5 million under the conditions noted above.

2. Agreement to provide services

As of October 2013, the Company provides management and business services and business support to the subsidiary BioCancell Therapeutics Ltd. For the consulting services the subsidiary is obligated to pay management fees. Total management fees for 2016 were NIS 656 thousand (NIS 656 thousand in 2015 and NIS 650 thousand in 2014).

3. Share-based payments

The company has granted the employees of its subsidiaries option warrants exercisable for shares in the Company. Expenses in 2016 regarding these warrants were NIS 998 thousand (NIS 153 thousand for 2015 and NIS 198 thousand in 2014), and were recorded in the subsidiaries.

C. Financial data on the current liabilities of the company itself*:

	For the Year Ending on December 31	
	2016	**2015**
	NIS Thousands	
Cash and cash equivalents	**13,736**	3,080
Accounts receivable	**2,312**	914
	16,048	3,994
Suppliers	**46**	68
Accounts payable	**4,759**	776
Short-term benefits for employees	**218**	211
	5,023	1,055

* The parent company has no non-current liabilities and commitments from banking institutions.

Note 18 – Transactions and Balances with Interested and Related Parties (cont'd)

D. Benefits to key managerial personnel (including directors)

The Group's senior managers are entitled, in addition to salary, to non-cash benefits (such as a company car, etc.). The Group deposits payments for them in a post-termination defined benefits plan.

Senior managers also participate in a Company share warrants plan. See Note 11 with regard to share-based payments.

The benefits for employment of key managerial personnel (including directors) include:

	For the Year Ending on December 31			
	2016		2015	
	No. of Persons During the Year	Expense Amount in NIS Thousands	No. of Persons During the Year	Expense Amount in NIS Thousands
Short-term employee benefits (incl. salary)	**4**	**2,397**	2	1,248
Post-termination benefits	**2**	**80**	2	81
Share-based payments	**5**	**996**	5	111
Fees and insurance for directors who are not employees	**9**	**718**	5	673
		4,191		2,313

E. Appointment of CEO

In May 2016 Dr. Frank Haluska took up the position of CEO. A summary of his significant employment conditions as CEI are as follows: (1) an annual salary of USD 400,000; (2) an annual bonus, subject to achievement of the objectives set by the Board of Directors, in the amount of USD 200,000; (3) the granting of 5,627,816 warrants (at an estimated value of approximately NIS 3 million), each of which can be exercised into a common share of the company with a nominal value of NIS 0.10, at exercise price of USD 0.26 (the private offer share price), which will vest in four equal portions over a period of four years, such that Dr. Haluska will hold 7% of the share equity of the company, fully diluted, after the grant. In addition, when executing certain allocations to investors at a share price similar to that of the private offer (within the framework of raising capital, which company management believes, as of this reporting date, if executed, will be made in the first half of 2017), Dr. Haluska will be awarded an additional number of warrants, such that he shall continue to hold 7% of the company's fully diluted share equity after these grants; (4) payment of 9 months of salary upon termination (or resignation under qualifying circumstances), a partial annual bonus (pro rata) and partial vesting acceleration of the option warrants (and in the case of termination or voluntary resignation with regard to changes in control of the company: a full annual bonus and full vesting acceleration for the warrants); and (5) social benefits and reimbursement of expenses.

Note 18 – Transactions and Balances with Interested and Related Parties (cont'd)

F. Directors and officers insurance policy

In August 2015, the Company purchased a directors' and officers' insurance policy for itself and for the Subsidiary, with a liability limit of USD 5 million for a single claim or cumulative, for each insurance period. The policy is valid until August 31, 2017. The annual premium for the policy is USD 12 thousand per annum. Officers will not bear any co-payment participation, whereas the Company will bear co-payment participation of USD 7.5 thousand worldwide, except for the U.S. and Canada, where co-payment participation is USD 35 thousand (USD 100 thousand for SEC claims).

Note 19 – Subsequent Events

On March 28, 2017, Palisade Capital Management LLC ("Palisade") and Patata Beroa LLC ("Patata"), who hold 24.95% and 6.24% of the Company's issued capital, respectively, announced that they had reached an agreement with Edgewater Partner Holdings Limited ("Edgewater" or "the Purchaser"), a company incorporated in Samoa, according to which the Purchaser will acquire from Palisade its entire holdings in the Company's shares (18,461,538 ordinary shares) for a consideration of $4.8 million and acquire from Patata shares equal to approximately 1.04% of the Company's issued share capital (769,231 ordinary shares) for a consideration of $0.2 million. The shares being sold, that were purchased from the Company by Palisade and Patata as part of a private offer, will be purchased subject to the remaining lock-up periods set out in Section 15C of the Israeli Securities Law.

Concurrently, Palisade and Patata have informed the Company that they waive all their rights from the Company in respect of the investment agreements entered into with the Company and that they intend to participate in a public offering of the Company's shares, if such an offering takes place, in an aggregate amount of $5 million, provided that the price does not exceed $0.26 per share, which is the price per share in which the Company's shares were purchased in the private offering completed in October 2016.

It should be noted that in recent months the Purchaser has been in advanced negotiations with the Company to make an investment in the Company, in the framework of which a sum of $5 million was deposited in the Company's account ("the Deposit") and held in trust for the Purchaser. The Company was not entitled to use this amount, which is why it was not included in the Company's assets as of December 31, 2016. However, in light of the TASE restrictions that do not allow the execution of a private offering if it results in the public's holdings dropping below 10%, this investment could not have been implemented, thus it was not brought to the approval of the Company's Board of Directors and was therefore not approved by the latter. In view of the above, the Company and the other parties involved examined various options that would enable the Company to raise additional capital, resulting in reaching the aforementioned agreements. As part of these agreements, the parties will act to transfer the Deposit amounts to a dedicated trust account and they will be used to finance the participation of Palisade and Patata in the aforesaid public offering of shares by the Company, assuming that the latter takes place.