BioCancell Ltd.

Consolidated Condensed Interim Financial Statements
As of June 30, 2017
(Unaudited)

This English translation is provided for the reader's convenience. The Hebrew financial statements are the authoritative version.

This English translation is provided for the reader's convenience. The Hebrew financial statements are the authoritative version.

BioCancell Ltd.

Condensed Consolidated Interim Financial Statements as of June 30, 2017 (Unaudited)

Table of Contents

Review Report to the Shareholders of BioCancell Ltd.

Introduction

We have reviewed the accompanying financial information of BioCancell Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2017 and the related condensed consolidated interim statements of operations, comprehensive income, changes in equity and cash flows for the six month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section 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 Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. 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 was not prepared, in all material respects, in accordance with IAS 34.

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

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1C to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1C. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty respectfully,

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

July 27, 2017

This English translation is provided for the reader's convenience. The Hebrew financial statements are the authoritative version.

BioCancell Ltd.

Condensed Consolidated Interim Statements of Financial Position (Unaudited) as of

	June 30, 2017	June 30, 2016	December 31, 2016
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	**17,580**	3,848	17,550
Other investments	-	175	-
Receivables and other current assets	**1,340**	3,191	3,336
Total current assets	**18,920**	7,214	20,886
Long-term prepaid expenses	**21**	28	25
Asset for employee benefits, net	**11**	-	10
Property and equipment, net	**746**	786	821
Total non-current assets	**778**	814	856
Total assets	**19,698**	8,028	21,742
Current liabilities			
Trade accounts payable	**720**	182	410
Other payables	**8,095**	3,362	8,117
Short-term employee benefits	**745**	1,050	542
Total current liabilities	**9,560**	4,594	9,069
Non-current liabilities			
Liability for employee benefits, net	**-**	147	-
Total non-current liabilities	**-**	147	-
Total liabilities	**9,560**	4,741	9,069
Stockholders' equity			
Share capital	**9,613**	5,092	7,400
Additional paid-in capital	**219,227**	185,747	203,015
Capital reserve for translation differences	**(31)**	-	(11)
Capital reserve for share-based payments	**5,699**	4,502	5,094
Accumulated deficit	**(224,370)**	(192,054)	(202,825)
Total shareholders' equity	**10,138**	3,287	12,673
Total liabilities and stockholders' equity	**19,698**	8,028	21,742

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: July 27, 2017

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

Condensed Consolidated Interim Statements of Profit or loss (Unaudited)

	For the 6-month period ended		For the 3-month period ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Research and development expenses	14,813	3,770	10,175	1,724	9,142
General and administrative expenses	5,530	3,400	2,632	2,499	8,642
Operating loss	20,343	7,170	12,807	4,223	17,784
Finance income	(84)	(2)	(83)	(32)	(164)
Finance expense	730	17	3	-	25
Finance expense (income), net	646	15	(80)	(32)	(139)
Loss before taxes	20,989	7,185	12,727	4,191	17,645
Taxes on income	556	212	346	212	523
Loss attributed to: **Stockholders of the Company**	21,545	7,397	13,073	4,403	18,168
Ordinary loss per share (in NIS):					
Basic and diluted loss	0.26	0.15	0.14	0.09	0.33
Number of shares used to compute loss per share (thousands of shares)	84,212	49,005	94,428	49,117	54,334

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

Statements of Condensed Consolidated Interim Comprehensive Income (Unaudited)

	For the 6-month period ended		For the 3-month period ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Loss for the year	**21,545**	7,397	**13,073**	4,403	18,168
Other comprehensive income items that after initial recognition in comprehensive loss will be transferred to profit or loss					
Foreign currency translation differences for foreign operations	**20**	-	**291**	-	11
Total other comprehensive loss for the period attributed to the Company's shareholders	**21,565**	7,397	**13,364**	4,403	18,179

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

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)

	Share capital	Additional paid-in capital	Translation reserve from foreign operations	Capital reserve for share-based payment	Accumulated deficit	Total Shareholders equity
		(NIS thousands)				
For the six-month period ended June 30, 2017						
Balance as of January 1, 2017	**7,400**	**203,015**	**(11)**	**5,094**	**(202,825)**	**12,673**
Issuance of stock	**2,213**	**15,728**	**-**	**-**	**-**	**17,941**
Expiration of warrants	**-**	**484**	**-**	**(484)**	**-**	**-**
Share-based payment	**-**	**-**	**-**	**1,089**	**-**	**1,089**
Other comprehensive loss for the year	**-**	**-**	**(20)**	**-**	**-**	**(20)**
Loss for the period	**-**	**-**	**-**	**-**	**(21,545)**	**(21,545)**
Balance as of June 30, 2017	**9,613**	**219,227**	**(31)**	**5,699**	**(224,370)**	**10,138**
For the six-month period ended June 30, 2016						
Balance as of January 1, 2016	4,889	183,935	-	4,179	(184,657)	8,346
Issuance of stock	203	1,695	-	-	-	1,898
Expiration of warrants	-	117	-	(117)	-	-
Share-based payment	-	-	-	440	-	440
Loss for the period	-	-	-	-	(7,397)	(7,397)
Balance as of June 30, 2016	5,092	185,747	-	4,502	(192,054)	3,287
For the three-month period ended June 30, 2017						
Balance as of April 1, 2017	**7,400**	**203,499**	**260**	**4,998**	**(211,297)**	**4,860**
Expiration of warrants	**2,213**	**15,728**	**-**	**-**	**-**	**17,941**
Share-based payment	**-**	**-**	**-**	**701**	**-**	**701**
Other comprehensive loss for the period	**-**	**-**	**(291)**	**-**	**-**	**(291)**
Loss for the period	**-**	**-**	**-**	**-**	**(13,073)**	**(13,073)**
Balance as of June 30, 2017	**9,613**	**219,227**	**(31)**	**5,699**	**(224,370)**	**10,138**
For the three-month period ended June 30, 2016						
Balance as of April 1, 2016	4,889	184,015	-	4,123	(187,651)	5,376
Issuance of stock	203	1,695	-	-	-	1,898
Expiration of warrants	-	37	-	(37)	-	-
Share-based payment	-	-	-	416	-	416
Loss for the period	-	-	-	-	(4,403)	(4,403)
Balance as of June 30, 2016	5,092	185,747	-	4,502	(192,054)	3,287
For the year ended December 31, 2016						
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
Share-based payment	-	-	-	1,038	-	1,038
Expiry of options	-	123	-	(123)	-	-
Other 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

The accompanying notes are an integral part of the condensed consolidated interim financial state

Condensed Consolidated Interim Statements of Cash Flows

	For the 6-month period ended		For the 3-month period ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities					
Loss for the period	**(21,545)**	(7,397)	**(13,073)**	(4,403)	(18,168)
Finance expenses (income), net	**1,171**	8	**113**	(37)	213
Depreciation of property and equipment	**81**	70	**37**	50	156
Taxes on income	**1,089**	440	**701**	416	1,038
Share-based payments	**556**	212	**346**	212	523
Change in receivables and other current assets	**770**	592	**387**	664	447
Change in trade accounts payable	**316**	(2,112)	**(1,854)**	(336)	(1,884)
Change in other payables	**(1,626)**	873	**(1,466)**	1,010	3,610
Change in employee benefits	**211**	435	**(18)**	388	(230)
Change in long-term prepaid expenses	**4**	(1)	**11**	(1)	2
Interest received	**6**	2	**5**	1	2
Net cash used in operating activities	**(18,967)**	(6,878)	**(14,811)**	(2,036)	(14,291)
Cash flows from investing activities					
Change in other investments	**-**	413	**-**	110	589
Purchase of property and equipment	**(7)**	(170)	**-**	(98)	(291)
Net cash provided by (used in) investing activities	**(7)**	243	**-**	12	298
Cash flows from financing activities					
Proceeds from issuance of stock	**20,696**	2,048	**20,696**	2,048	24,854
Issuance costs	**(485)**	(150)	**(485)**	(150)	(1,679)
Net cash provided by financing activities	**20,211**	1,898	**20,211**	1,898	23,175
Increase (decrease) in cash and cash equivalents	**1,237**	(4,737)	**5,400**	(126)	9,182
Cash and cash equivalents balance at beginning of year	**17,550**	8,595	**12,517**	3,938	8,595
Effect of currency exchange rate on cash and cash equivalents	**(1,207)**	(10)	**(337)**	36	(227)
Cash and cash equivalents at end of year	**17,580**	3,848	**17,580**	3,848	17,550

The accompanying notes are an integral part of the condensed consolidated interim 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, Edmond J. Safra Campus, Givat Ram, Jerusalem. The Company's controlling party is Clal Biotechnology Industries Ltd. (henceforth: "CBI"), whose ultimate parent company is Access Industries Group, which holds 44.09% of the Company as of the financial statements' approval date.

B. Definitions

In these financial statements –

(1) The Company – BioCancell Ltd.

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

(3) The Group – BioCancell Ltd. and its consolidated subsidiaries.

C. Reporting entity

The condensed consolidated interim financial statements of the Company as of June 30, 2017 include those of the Company, and of its wholly-owned subsidiaries, BioCancell Therapeutics Israel Ltd. and BioCancell USA Inc.

The Group is engaged in research and development of drugs for the treatment of cancer. The Group's products are in the development stage. Therefore, there is no certainty regarding the Group's ability to complete the product's development, receipt of regulatory permits, and success of its marketing. The continuation of the stages of development and the realization of assets related to the planned activities depend on future events, including additional equity 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 December 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.

Note 2 – Basis of Financial Statement Presentation

A. Declaration of Compliance with International Financial Reporting Standards

The consolidated financial statements were prepared by the Group in conformity with IAS 34 Interim financial Reporting, and do not include all the information required in full annual financial statements. They are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2016.

The condensed consolidated interim financial statements were approved for publication by the Board of Directors on July 27, 2017.

B. Use of estimates and judgment

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

Management's judgment when implementing the Group's accounting policy and the key assumptions used in assessments involving uncertainty are consistent with those used in the annual financial statements.

Note 3 – Significant Accounting Principles

The Group's accounting policies in these condensed consolidated interim financial statements are the accounting policies applied in the policies applied in the Group's consolidated financial statements for the year ended December 31, 2016.

Note 4 – Significant Event during the Report Period

1. In April 2017, the Company announced the results of a public shelf offering of shares. In the framework of the offering, the Company issued 22,134,300 ordinary shares to the public at a price per share of NIS 0.935 (approximately $0.26 as per the exchange rate at the time), for a total gross fundraising of approximately NIS 20,696 thousand (approximately $5,665 thousand). The fundraising costs totaled approximately NIS 2,755 thousand.
   To the best of the Company's knowledge and as reported to it, Palisade Capital Management LLC ("Palisade") and Patata Beroa LLC ("Patata Beroa") purchased 18,482,000 and 769,300 ordinary shares, respectively, pursuant to their announcement from March 2017, according to which they reached an agreement with Edgewater Partner Holdings Limited ("Edgewater"), a company incorporated in Samoa, according to which in the second quarter of 2017, Edgewater would acquire 18,461,538 ordinary shares from Palisade for a consideration of $4.8 million, and would acquire 769,231 ordinary shares from Patata Beroa for a consideration of $0.2 million. The shares sold, that were purchased from the Company by Palisade and Patata Beroa as part of a private placement, are subject to the remaining lock-up periods set out in Section 15C of the Israeli Securities Law. To the best of the Company's knowledge, as of the time of publication, Edgewater has not completed the aforementioned purchases.

2. Further to Note 18e of the Annual Financial Statements regarding additional grants of stock options to the Company's CEO, Dr. Frank Haluska, when making allocations to investors, in May 2017, pursuant to a recommendation of the Compensation Committee, the Board of Directors approved the allocation of 1,649,416 stock options to the CEO in accordance with his employment agreement, with an exercise price of $0.29 (the Fair Market Value of the Company's shares on the date of the resolution) and vesting in 4 portions at the end of each year from the CEO's commencement of employment in May 2016, at an estimated total cost of 290 thousand dollars. 1,434,579 of these options will be allocated pursuant to the approval of the general meeting of shareholders of the Company of November 17, 2016, while the remaining 214,837 options will be allocated pursuant to the approval of the general meeting of July 20, 2017. The grant is subject to the approval of the Tel Aviv Stock Exchange Ltd. (the "TASE").
   In addition, pursuant to a recommendation of the Compensation Committee and approval of the Board of Directors, the general meeting approved that the mechanism for making the aforementioned additional grants in the future will be as follows, subject to the approval of a general meeting: The Company will allocate the number of additional nonqualified stock options required to bring the CEO's holdings to 7% of the Company's share capital (post-option allocation) after the completion of each fundraising until (but not including) the earlier of a U.S. public offering or two years from the approval of the general meeting. These grants will vest in four annual tranches from the date of the CEO's commencement of employment (May 2016), and the exercise price will be the Fair Market Value of the Company's shares on the date of approval of the grant by the Board, but not less than $0.26.

3. In May 2017, the Compensation Committee and Board of Directors of the Company approved the allocation of 1,010,000 warrants exercisable into 1,010,000 ordinary shares of the Company, to Company employees, at a total estimated cost of approximately NIS 669 thousand. The allocation is subject to TASE approval.

Note 5 – Subsequent Event

In July 2017, the Compensation Committee and Board of Directors of the Company approved the submission of an options outline for the allocation of warrants to Company employees, including immediate allocation of 3,230,000 warrants exercisable into 3,230,000 ordinary shares of the Company, to Company employees, at a total estimated cost of approximately NIS 1,815 thousand. This allocation is subject to TASE approval.