

KAMADA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

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CONSOLIDATED BALANCE SHEETS

| | As of September 30, | | As of December 31, |
|--|---------------------|------------|--------------------|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| | In thousands | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 6,476 | \$ 5,787 | \$ 5,047 |
| Short-term investments | 20,722 | 36,473 | 23,259 |
| Trade receivables, net | 14,501 | 14,847 | 23,071 |
| Other accounts receivables | 4,022 | 3,112 | 2,881 |
| Inventories | 28,086 | 26,811 | 26,336 |
| | 73,807 | 87,030 | 80,594 |
| Non-Current Assets | | | |
| Property, plant and equipment, net | 20,720 | 21,303 | 21,309 |
| Other long-term assets | 71 | 97 | 89 |
| | 20,791 | 21,400 | 21,398 |
| | 94,598 | 108,430 | 101,992 |
| Current Liabilities | | | |
| Current maturities of loans and convertible debentures | 416 | 7,710 | 37 |
| Trade payables | 8,916 | 16,833 | 16,917 |
| Other accounts payables | 4,744 | 3,866 | 4,064 |
| Deferred revenues | 4,858 | 1,822 | 1,921 |
| | 18,934 | 30,231 | 22,939 |
| Non-Current Liabilities | | | |
| Loans | 1,502 | - | 151 |
| Employee benefit liabilities, net | 798 | 613 | 787 |
| Deferred revenues | 4,693 | 6,469 | 5,608 |
| | 6,993 | 7,082 | 6,546 |
| Shareholder's Equity | | | |
| Ordinary shares of NIS 1 par value: | | | |
| Authorized - 60,000,000 ordinary shares; Issued and outstanding – 36,418,766 and 36,418,741 shares at September 30, 2016 and 2015, respectively. | 9,320 | 9,320 | 9,320 |
| Share premium | 162,649 | 161,091 | 162,238 |
| Conversion option in convertible debentures | - | 1,147 | - |
| Capital reserve due to translation to presentation currency | (3,490) | (3,490) | (3,490) |
| Capital reserve from hedges | 52 | (49) | (1) |
| Capital reserve from available for sale financial assets | 87 | 121 | 73 |
| Capital reserve from share-based payments | 9,768 | 8,777 | 9,157 |
| Capital reserve from employee benefits | (59) | (81) | (59) |
| Accumulated deficit | (109,656) | (105,719) | (104,731) |
| | 68,671 | 71,117 | 72,507 |
| | \$ 94,598 | \$ 108,430 | \$ 101,992 |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (loss)

| | Nine months period ended September 30, | | Three months period ended September 30, | | Year ended December 31 |
|--|--|-----------|---|------------|---------------------------|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | | | Audited |
| | In thousands (except for per-share data) | | | | |
| Revenues from proprietary products | \$ 38,270 | \$ 25,434 | \$ 15,044 | \$ 9,553 | \$ 42,952 |
| Revenues from distribution | 14,966 | 18,811 | 4,329 | 6,516 | 26,954 |
| Total revenues | 53,236 | 44,245 | 19,373 | 16,069 | 69,906 |
| Cost of revenues from proprietary products | 23,843 | 19,819 | 9,433 | 6,889 | 30,468 |
| Cost of revenues from distribution | 12,711 | 16,686 | 3,664 | 5,472 | 23,640 |
| Total cost of revenues | 36,554 | 36,505 | 13,097 | 12,361 | 54,108 |
| Gross profit | 16,682 | 7,740 | 6,276 | 3,708 | 15,798 |
| Research and development expenses | 12,024 | 12,105 | 4,415 | 5,047 | 16,530 |
| Selling and marketing expenses | 2,557 | 2,693 | 866 | 950 | 3,652 |
| General and administrative expenses | 5,688 | 5,159 | 2,014 | 1,722 | 7,040 |
| Operating loss | (3,587) | (12,217) | (1,019) | (4,011) | (11,424) |
| Financial income | 388 | 363 | 90 | 63 | 463 |
| Income (expense) in respect of currency exchange and derivatives instruments, net | (132) | 420 | (73) | (341) | 625 |
| Financial expense | (106) | (824) | (39) | (333) | (934) |
| Loss before taxes on income | (3,437) | (12,258) | (1,041) | (4,622) | (11,270) |
| Taxes on income | 1,488 | - | - | - | - |
| Loss | (4,925) | (12,258) | (1,041) | (4,622) | (11,270) |
| Other Comprehensive Income (loss): | | | | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | | | | |
| Gain (loss) on available for sale financial assets | 14 | 111 | (32) | 72 | 63 |
| Profit (loss) on cash flow hedges | 124 | 21 | 44 | (173) | 71 |
| Net amounts transferred to the statement of profit or loss for cash flow hedges | (71) | 46 | (1) | (10) | 44 |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | | | |
| Actuarial net gain of defined benefit plans | - | - | - | - | 22 |
| | | \$ | | | |
| Total comprehensive loss | \$ (4,858) | (12,080) | \$ (1,030) | \$ (4,733) | \$ (11,070) |
| <u>Loss per share attributable to equity holders of the Company:</u> | | | | | |
| Basic loss per share | \$ (0.14) | \$ (0.34) | \$ (0.03) | \$ (0.13) | \$ (0.31) |
| Diluted loss per share | \$ (0.14) | \$ (0.34) | \$ (0.03) | \$ (0.13) | \$ (0.31) |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share Capital | Share premium | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|--|---------------------|-------------------|--|---|-----------------------------|---|--|---------------------|------------------|
| | Unaudited | | | | | | | | |
| | In thousands | | | | | | | | |
| <u>Balance as of January 1, 2016 (audited)</u> | \$ 9,320 | \$ 162,238 | \$ 73 | \$ (3,490) | \$ (1) | \$ 9,157 | \$ (59) | \$ (104,731) | \$ 72,507 |
| Loss | - | - | - | - | - | - | - | (4,925) | (4,925) |
| Other comprehensive income | - | - | 14 | - | 53 | - | - | - | 67 |
| Total comprehensive income (loss) | - | - | 14 | - | 53 | - | - | (4,925) | (4,858) |
| Exercise of options into shares, net | * | * | - | - | - | * | - | - | * |
| Forfeiture of options | - | 411 | - | - | - | (411) | - | - | - |
| Cost of share-based payment | - | - | - | - | - | 1,022 | - | - | 1,022 |
| Balance as of September 30, 2016 | <u>\$ 9,320</u> | <u>\$ 162,649</u> | <u>\$ 87</u> | <u>\$ (3,490)</u> | <u>\$ 52</u> | <u>\$ 9,768</u> | <u>\$ (59)</u> | <u>\$ (109,656)</u> | <u>\$ 68,671</u> |

| | Share Capital | Share premium | Conversion option in convertible debentures | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|--------------------------------------|---------------------|-------------------|---|--|---|-----------------------------|---|--|---------------------|------------------|
| | Unaudited | | | | | | | | | |
| | In thousands | | | | | | | | | |
| <u>Balance as of January 1, 2015</u> | \$ 9,208 | \$ 158,417 | \$ 1,147 | \$ 10 | \$ (3,490) | \$ (116) | \$ 8,783 | \$ (81) | \$ (93,461) | \$ 80,417 |
| Loss | - | - | - | - | - | - | - | - | (12,258) | (12,258) |
| Other comprehensive income | - | - | - | 111 | - | 67 | - | - | - | 178 |
| Total comprehensive income (loss) | - | - | - | 111 | - | 67 | - | - | (12,258) | (12,080) |
| Exercise of options into shares, net | 112 | 2,674 | - | - | - | - | (1,533) | - | - | 1,253 |
| Cost of share-based payment | - | - | - | - | - | - | 1,527 | - | - | 1,527 |
| Balance as of September 30, 2015 | <u>\$ 9,320</u> | <u>\$ 161,091</u> | <u>\$ 1,147</u> | <u>\$ 121</u> | <u>\$ (3,490)</u> | <u>\$ (49)</u> | <u>\$ 8,777</u> | <u>\$ (81)</u> | <u>\$ (105,719)</u> | <u>\$ 71,117</u> |

*Represent an amount less than 1 thousands

The accompanying Notes are an integral part of the Consolidated Financial Statements.

| | Share Capital | Share premium | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|--------------------------------------|-----------------|-------------------|--|---|-----------------------------|---|--|---------------------|------------------|
| | Unaudited | | | | | | | | |
| | In thousands | | | | | | | | |
| Balance as of July 1, 2016 | \$ 9,320 | \$ 162,649 | \$ 119 | \$ (3,490) | \$ 9 | \$ 9,455 | \$ (59) | \$ (108,615) | 69,388 |
| Loss | - | - | - | - | - | - | - | (1,043) | (1,043) |
| Other comprehensive income (loss) | - | - | (32) | - | 43 | - | - | - | 11 |
| Total comprehensive income (loss) | - | - | (32) | - | 43 | - | - | (1,043) | (1,030) |
| Exercise of options into shares, net | * | * | - | - | - | - | - | - | * |
| Cost of share-based payment | - | - | - | - | - | 313 | - | - | 313 |
| Balance as of September 30, 2016 | <u>\$ 9,320</u> | <u>\$ 162,649</u> | <u>\$ 87</u> | <u>\$ (3,490)</u> | <u>\$ 52</u> | <u>\$ 9,768</u> | <u>\$ (59)</u> | <u>\$ (109,656)</u> | <u>\$ 68,671</u> |

| | Share Capital | Share premium | Conversion option in convertible debentures | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|--------------------------------------|-----------------|------------------|---|--|---|-----------------------------|---|--|---------------------|------------------|
| | Unaudited | | | | | | | | | |
| | In thousands | | | | | | | | | |
| Balance as of July 1, 2015 | \$ 9,312 | \$ 160,927 | \$ 1,147 | \$ 49 | \$ (3,490) | \$ 134 | \$ 8,362 | \$ (81) | \$ (101,097) | \$ 75,263 |
| Net loss | - | - | - | - | - | - | - | - | (4,622) | (4,622) |
| Other comprehensive income (loss) | - | - | - | 72 | - | (183) | - | - | - | (111) |
| Total comprehensive income (loss) | - | - | - | 72 | - | (183) | - | - | (4,622) | (4,733) |
| Exercise of options into shares, net | 8 | 164 | - | - | - | - | (83) | - | - | 89 |
| Cost of share-based payment | - | - | - | - | - | - | 498 | - | - | 498 |
| | | | | | | | | | \$ | |
| Balance as of September 30, 2015 | <u>\$ 9,320</u> | <u>\$ 61,091</u> | <u>\$ 1,147</u> | <u>\$ 121</u> | <u>\$ (3,490)</u> | <u>\$ (49)</u> | <u>\$ 8,777</u> | <u>\$ (81)</u> | <u>(105,719)</u> | <u>\$ 71,117</u> |

*Represent an amount less than 1 thousands

The accompanying Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital | Share premium | Conversion option in convertible debentures | Available for sale reserve | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|---|---------------------|-------------------|---|----------------------------|---|-----------------------------|---|--|---------------------|------------------|
| | Audited | | | | | | | | | |
| | In thousands | | | | | | | | | |
| Balance as of December 31, 2014 | \$ 9,208 | \$ 158,417 | \$1,147 | \$10 | \$ (3,490) | \$ (116) | \$ 8,783 | \$ (81) | \$ (93,461) | \$ 80,417 |
| Loss | - | - | - | - | - | - | - | - | (11,270) | (11,270) |
| Other comprehensive income | - | - | - | 63 | - | 115 | - | 22 | - | 200 |
| Total comprehensive income (loss) | - | - | - | 63 | - | 115 | - | 22 | (11,270) | (11,070) |
| Exercise of options into shares | 112 | 2,674 | - | - | - | - | (1,533) | - | - | 1,253 |
| Expiration of conversion option on convertible debentures | - | 1,147 | (1,147) | - | - | - | - | - | - | - |
| Cost of share-based payment | - | - | - | - | - | - | 1,907 | - | - | 1,907 |
| Balance as of December 31, 2015 | <u>\$ 9,320</u> | <u>\$ 162,238</u> | <u>\$ -</u> | <u>\$ 73</u> | <u>\$ (3,490)</u> | <u>\$ (1)</u> | <u>\$ 9,157</u> | <u>\$ (59)</u> | <u>\$ (104,731)</u> | <u>\$ 72,507</u> |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Nine months period Ended September 30, | | For the Three months period Ended September 30, | | Year Ended December 31, |
|--|--|--------------|---|--------------|----------------------------|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | | | Audited |
| | In thousands | | | | |
| <u>Cash Flows from Operating Activities</u> | | | | | |
| Net loss | \$ (4,925) | \$ (12,258) | \$ (1,041) | \$ (4,622) | \$ (11,270) |
| Adjustments to reconcile loss to net cash provided by (used in) operating activities: | | | | | |
| Adjustments to the profit or loss items: | | | | | |
| Depreciation, amortization and impairment of equipment | 2,631 | 2,438 | 922 | 866 | 3,227 |
| Finance expense (income), net | (150) | 41 | 22 | 611 | (154) |
| Cost of share-based payment | 1,022 | 1,527 | 313 | 498 | 1,907 |
| Income tax expense | 1,488 | - | - | - | - |
| Loss(gain) from sale of property and equipment | (23) | - | (33) | - | - |
| Change in employee benefit liabilities, net | 11 | (109) | 396 | (80) | 87 |
| | <u>4,979</u> | <u>3,897</u> | <u>1,620</u> | <u>1,895</u> | <u>5,067</u> |
| Changes in asset and liability items: | | | | | |
| Decrease (increase) in trade receivables, net | 8,948 | 2,563 | 1,644 | 352 | (5,604) |
| Decrease (increase) in other accounts receivables | (654) | 360 | (801) | 862 | 118 |
| Decrease (increase) in inventories | (1,750) | (1,388) | 235 | (2,026) | (913) |
| Decrease (increase) in deferred expenses | (487) | (1,129) | 287 | 271 | (565) |
| Increase (decrease) in trade payables | (8,277) | 643 | (1,408) | 2,104 | 887 |
| Increase (decrease) in other accounts payables | 681 | (103) | (45) | 481 | 94 |
| Increase (decrease) in deferred revenues | 2,022 | (1,643) | (987) | (396) | (2,405) |
| | <u>483</u> | <u>(697)</u> | <u>(973)</u> | <u>1,648</u> | <u>(8,388)</u> |
| Cash received (paid) during the period for: | | | | | |
| Interest paid | (46) | (362) | (37) | (119) | (484) |
| Interest received | 657 | 912 | 233 | 318 | 1,143 |
| Taxes paid | (1,781) | (47) | (1,475) | - | (47) |
| | <u>(1,170)</u> | <u>503</u> | <u>(1,279)</u> | <u>199</u> | <u>612</u> |
| Net cash used in operating activities | \$ (633) | \$ (8,555) | \$ (1,673) | \$ (880) | \$ (13,979) |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Nine months period Ended September 30, | | For the Three months period Ended September 30, | | Year Ended December 31, |
|---|--|----------|---|----------|----------------------------|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | | | Audited |
| | Thousands of US dollar | | | | |
| <u>Cash Flows from Investing Activities</u> | | | | | |
| Proceeds from sale of short term investments, net | \$ 2,369 | \$ 641 | \$ 1,593 | \$ 616 | \$ 13,971 |
| Purchase of property and equipment | (1,904) | (1,932) | (435) | (600) | (2,718) |
| Proceeds from sale of property and equipment | 41 | - | 20 | - | - |
| Net cash provided by (used in) investing activities | 506 | (1,291) | 1,178 | 16 | 11,253 |
| <u>Cash Flows from Financing Activities</u> | | | | | |
| Proceeds from exercise of warrants and options | * | 1,254 | * | 89 | 1,254 |
| Receipt of long-term loans | 1,701 | - | - | - | 197 |
| Repayment of long-term loans | (159) | - | (98) | - | (9) |
| Repayment of convertible debentures | - | - | - | - | (7,797) |
| Net cash provided by (used in) financing activities | 1,542 | 1,254 | (98) | 89 | (6,355) |
| <u>Exchange differences on balances of cash and cash equivalent</u> | 14 | (167) | (67) | (245) | (418) |
| <u>Increase (decrease) in cash and cash equivalents</u> | 1,429 | (8,759) | (660) | (1,020) | (9,499) |
| <u>Cash and cash equivalents at the beginning of the period</u> | 5,047 | 14,546 | 7,136 | 6,807 | 14,546 |
| <u>Cash and cash equivalents at the end of the period</u> | \$ 6,476 | \$ 5,787 | \$ 6,476 | \$ 5,787 | \$ 5,047 |
| <u>Significant non-cash transactions</u> | | | | | |
| Purchase of property and equipment through capital lease | \$ 132 | \$ - | \$ 48 | \$ - | \$ - |

* Represent an amount less than 1 thousands

The accompanying Notes are an integral part of the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1:- General

These Financial Statements have been prepared in a condensed format as of September 30, 2016 and for the nine and three months then ended ("interim consolidated financial statements").

These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2015 and for the year then ended and the accompanying notes ("annual consolidated financial statements").

Note 2:- Significant Accounting Policies

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

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting".

Note 3:- Operating Segments

a. General:

The Company has two operating segments, as follows:

| | |
|----------------------|---|
| Proprietary Products | - Medicine development, manufacture and sale of plasma-derived therapeutics products. |
| Distribution | - Distribution of drugs in Israel manufacture by other companies for clinical uses, most of which are produced from plasma or its derivatives products. |

b. Reporting on operating segments:

| | Proprietary Products | Distribution | Total |
|---|-------------------------|------------------|------------------|
| | Unaudited | | |
| <u>Nine months period ended September 30,2016</u> | | | |
| Revenues | <u>\$ 38,270</u> | <u>\$ 14,966</u> | <u>\$ 53,236</u> |
| Gross profit | <u>\$ 14,427</u> | <u>\$ 2,255</u> | 16,682 |
| Unallocated corporate expenses | | | (20,269) |
| Finance income, net | | | <u>150</u> |
| Loss before taxes on income | | | \$ (3,437) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 3:- Operating Segments (Cont.)**

| | Proprietary Products | Distribution | Total |
|--|---------------------------------|---------------------|--------------|
| | Unaudited | | |
| <u>Nine months period ended September 30,2015</u> | | | |
| Revenues | \$ 25,434 | \$ 18,811 | \$ 44,245 |
| Gross profit | \$ 5,615 | \$ 2,125 | 7,740 |
| Unallocated corporate expenses | | | (19,957) |
| Finance expense, net | | | (41) |
| Loss before taxes on income | | | \$ (12,258) |
| | Proprietary Products | Distribution | Total |
| | Unaudited | | |
| <u>Three months period ended September 30,2016</u> | | | |
| Revenues | \$ 15,044 | \$ 4,329 | \$ 19,373 |
| Gross profit | \$ 5,611 | \$ 665 | 6,276 |
| Unallocated corporate expenses | | | (7,295) |
| Finance expense, net | | | (22) |
| Loss before taxes on income | | | \$ (1,041) |
| | Proprietary Products | Distribution | Total |
| | Unaudited | | |
| <u>Three months period ended September 30,2015</u> | | | |
| Revenues | \$ 9,553 | \$ 6,516 | \$ 16,069 |
| Gross profit (loss) | \$ 2,664 | \$ 1,044 | 3,708 |
| Unallocated corporate expenses | | | (7,719) |
| Finance expenses, net | | | (611) |
| Loss before taxes on income | | | \$ (4,622) |
| | Proprietary Products | Distribution | Total |
| | In thousands | | |
| | Audited | | |
| <u>Year Ended December 31, 2015</u> | | | |
| Revenues | \$ 42,952 | \$ 26,954 | \$ 69,906 |
| Gross profit | \$ 12,484 | \$ 3,314 | \$ 15,798 |
| Unallocated corporate expenses | | | (27,222) |
| Finance income, net | | | 154 |
| Loss before taxes on income | | | \$ (11,270) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4:- Financial Instruments

a. Classification of financial instruments by fair value hierarchyFinancial assets (liabilities) measured at fair value

| | Level 1 | Level 2 |
|---|-----------------|------------------|
| | In thousands | |
| <u>September 30, 2016</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 75 | \$ - |
| Mutual funds | 393 | - |
| Debt securities (corporate and government) | 1,054 | - |
| | <u>1,522</u> | |
| Derivatives instruments | | \$ 38 |
| Available for sale debt securities (corporate and government) | <u>\$ -</u> | <u>\$ 19,201</u> |
| | <u>\$ 1,522</u> | <u>\$ 19,239</u> |
| <u>September 30, 2015</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 535 | - |
| Mutual funds | 1,272 | - |
| Exchange traded notes | 21 | - |
| Debt securities (corporate and government) | <u>\$ 7,040</u> | <u>\$ -</u> |
| | 8,868 | - |
| Derivatives instruments | \$ - | \$ (57) |
| Available for sale debt securities (corporate and government) | <u>\$ -</u> | <u>\$ 27,605</u> |
| | <u>\$ 8,868</u> | <u>\$ 27,548</u> |
| <u>December 31, 2015</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 67 | \$ - |
| Mutual funds | 365 | - |
| Debt securities (corporate and government) | 993 | - |
| | <u>1,425</u> | <u>-</u> |
| Derivatives instruments | - | 34 |
| Available for sale debt securities (corporate and government) | <u>-</u> | <u>21,834</u> |
| | <u>\$ 1,425</u> | <u>\$ 21,868</u> |

- b. During the nine months ended on September 30, 2016 there was no transfer due to the fair value measurement of any financial instrument from Level 1 to Level 2, and furthermore, there were no transfers to or from Level 3 due to the fair value measurement of any financial instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5:- Significant Events during the period

- a. Commencing January 1, 2016, the Israeli corporate tax rate decreased from 26.5% to 25%.
- b. In April 2016 the Company received payments as a result of achieving certain regulatory and sales milestones under the strategic agreements with Chiesi Farmaceutici S.p.A. and Baxalta Incorporated and recorded them as deferred revenues. These deferred revenues will be recognized during the term of the strategic agreements.
- c. On May 8, 2016 the Company's Board of Directors approved the grant, for no consideration, of 263,900 options to employees exercisable in 13 installments, 25% of the options vest on the first anniversary of the grant date and 6.25% vest at the end of each quarter thereafter into ordinary shares at an exercise price of NIS 14.82 per option. Expected volatility of the share prices is 33%-51%. Risk-free interest rate is 0.13%-1.35%. Expected average forfeiture rate is 2%-5%. Dividend yield is 0%. According to a calculation formula based on the Binomial Model, the fair value of the options was estimated at \$462 thousands.
- d. On July 10, 2016 the Company and the Israel Tax Authority (ITA) entered into a settlement agreement for the tax years 2004-2006. As part of the agreement, the Company paid NIS 5 million (\$ 1.3 million) (including interest and CPI adjustment). As of December 31, 2015, the Company has carried forward losses in the amount of \$ 85.8 million.
- e. On July 12, 2016 the Company's Board of Directors approved the grant to the Company's management, of 57,500 options at an exercise price of NIS 15.20 per option. The options are exercisable in 13 installments, 25% of the options vest on the first anniversary of the grant date and 6.25% vest at the end of each quarter thereafter into ordinary shares. Expected volatility of the share prices is 32%-41%. Risk-free interest rate is 0.2%-1.3%. Expected average forfeiture rate is 0%. Dividend yield is 0%. According to a calculation formula based on the Binomial Model, the fair value of the options was estimated at \$86 thousands.
- f. On August 30, 2016, the General Meeting of the Company's Shareholders approved the grant of 19,167 restricted shares ("RS") to the Company's management, 18,000 options and 6,000 RS to Mr. Amir London, the Company's CEO, and 50,000 options to the Company's directors. The RSs do not have exercise price. The options are exercisable in 13 installments, 25% of the options vest on the first anniversary of the grant date and 6.25% vest at the end of each quarter thereafter into ordinary shares at an exercise price of NIS 15.2 per option. Expected volatility of the share prices is 32%-41%. Risk-free interest rate is 0.2%-1.4%. Expected average forfeiture rate is 0%. Dividend yield is 0%. According to a calculation formula based on the Binomial Model, the fair value of the options was estimated at \$151 thousands. The fair value of the RS was estimated based on the market price of the share on the grant date at \$124 thousands.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6:- Subsequent Events

- a. On October 6, 2016, the Company and Shire amended the supply and distribution agreement, and extended the period of minimum purchases of Glassia until 2020. Minimum revenue for Glassia in the extended agreement for the years 2017 to 2020 will reach approximately \$237 million and may be expanded to \$288 million during that period.