Anchiano Therapeutics Ltd.

Condensed Consolidated Interim Financial Statements

September 30, 2018

(Unaudited)

Condensed Consolidated Interim Financial Statements as of September 30, 2018 (Unaudited)

Contents

Condensed Consolidated Interim Statements of Financial Position as at

$ thousands

	September 30, 2018 (Unaudited)	December 31, 2017
Current assets		
Cash and cash equivalents	**10,912**	1,454
Receivables	**3,009**	400
Total current assets	**13,921**	1,854
Non-current assets		
Long-term prepaid expenses	**808**	11
Long-term pledged deposits	**124**	-
Asset for employee benefits, net	**3**	3
Fixed assets, net	**347**	219
Total non-current assets	**1,282**	233
Total assets	**15,203**	2,087
Current liabilities		
Trade payables	**808**	160
Other payables	**1,608**	2,381
Short-term employee benefits	**539**	155
Derivative instruments	**7,005**	-
Total current liabilities	**9,960**	2,696
Non-current liabilities		
Derivative instruments	**5,010**	-
Total liabilities	**14,970**	2,696
Equity		
Share capital*	**-**	-
Additional paid-in capital	**70,469**	60,043
Capital reserve from share-based payments	**3,328**	1,767
Currency translation differences reserve	**782**	457
Accumulated loss	**(74,346)**	(62,876)
Total equity (deficiency)	**233**	(609)
Total liabilities and equity	**15,203**	2,087

* See Note 5D.

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

Date of approval of the financial statements: November 8, 2018

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

Condensed Consolidated Interim Statements of Operations (unaudited)

$ thousands (other than per share amounts)

	For the nine-month period ended		For the three-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Research and development expenses	**5,722**	5,222	**1,372**	1,125
General and administrative expenses	**4,346**	2,288	**1,133**	777
Operating loss	**10,068**	7,510	**2,505**	1,902
Financing income	**(12)**	(38)	**(12)**	(36)
Financing expense	**953**	176	**72**	2
Financing expense (income), net	**941**	138	**60**	(34)
Loss before taxes on income	**11,009**	7,648	**2,565**	1,868
Income tax	**461**	210	**68**	57
Net loss for the period	**11,470**	7,858	**2,633**	1,925
loss per share (in $):				
Basic and diluted loss*	**0.98**	0.89	**0.17**	0.20
Number of shares used to compute basic and diluted loss per share (thousands of shares)	**11,666**	8,816	**15,574**	9,539

* Following reverse share split. See Note 5D.

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

Condensed Consolidated Interim Statements of Operations and Other Comprehensive Loss (Unaudited)

$ thousands

	For the nine-month period ended		For the three-month period ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Loss for the period	**11,470**	7,858	**2,633**	1,925
Other comprehensive loss (income) items that will not be transferred to statement of operations				
Currency translation difference	**(325)**	(320)	**15**	24
Total comprehensive loss for the period	**11,145**	7,538	**2,648**	1,949

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

Condensed Consolidated Interim Statements of Changes in Equity (Deficiency) (Unaudited)

	Share capital*	Additional paid-in capital	Currency translation differences reserve	Capital reserve for share-based payments	Accumulated loss	Total equity (deficiency)
	$ thousands					
For the nine-month period ended September 30, 2018						
Balance as of January 1, 2018	-	**60,043**	**457**	**1,767**	**(62,876)**	**(609)**
Issuance of shares, net	-	**10,419**	**-**	**-**	**-**	**10,419**
Exercise of options	-	**7**	**-**	**(1)**	**-**	**6**
Share-based payment	-	**-**	**-**	**1,562**	**-**	**1,562**
Comprehensive income for the period	-	**-**	**325**	**-**	**-**	**325**
Loss for the period	-	**-**	**-**	**-**	**(11,470)**	**(11,470)**
Balance as of September 30, 2018	-	**70,469**	**782**	**3,328**	**(74,346)**	**233**
For the nine-month period ended September 30, 2017						
Balance as of January 1, 2017	-	54,983	197	1,186	(53,070)	3,296
Issuance of shares, net	-	4,911	-	-	-	4,911
Expiration of options	-	141	-	(141)	-	-
Share-based payment	-	-	-	450	-	450
Comprehensive income for the period	-	-	320	-	-	320
Loss for the period	-	-	-	-	(7,858)	(7,858)
Balance as of September 30, 2017	-	60,035	517	1,495	(60,928)	1,119

* See Note 5D.

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

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
	$ thousands	
Cash flows from operating activities		
Loss for the period	**(11,470)**	(7,858)
Financing expenses, net	**866**	250
Depreciation	**46**	37
Share-based payment	**1,562**	450
Taxes on income	**461**	210
Change in receivables	**(2,414)**	158
Change in trade payables	**706**	60
Change in other payables	**(314)**	141
Change in employee benefits	**400**	9
Change in long-term prepaid expenses	**(803)**	1
Taxes paid	**(244)**	(81)
Interest paid	**(23)**	-
Interest received	**4**	(3)
Net cash used in operating activities	**(11,223)**	(6,626)
Cash flows from investing activities		
Long-term pledged deposits	**(125)**	-
Purchase of fixed assets	**(187)**	(26)
Net cash used in investing activities	**(312)**	(26)
Cash flows from financing activities		
Receipt of loan from bank	**1,050**	-
Repayment of loan from bank	**(1,033)**	-
Receipt of loan from controlling shareholder	**3,000**	-
Repayment of loan from controlling shareholder	**(3,000)**	-
Proceeds from issuance of warrants and derivative instruments	**11,989**	-
Proceeds from issuance of shares	**10,911**	5,665
Issuance costs	**(1,755)**	(430)
Net cash provided by financing activities	**21,162**	5,235
Increase (decrease) in cash and cash equivalents	**9,627**	(1,417)
Cash and cash equivalents balance at beginning of period	**1,454**	4,564
Effect of exchange rate differences on cash and cash equivalents	**(169)**	189
Cash and cash equivalents at end of period	**10,912**	3,336

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 Israel Companies Law, 1999 (the "Companies Law"), as a private company limited by shares originally called BioCanCell Ltd., changed in August 2018 to Anchiano Therapeutics Ltd. (the "Company")., and its official address is 1/3 High-Tech Village, Edmond J. Safra Campus, Givat Ram, Jerusalem. As of the second quarter of 2018, the Company has no controlling shareholder.

B. Definitions

In these financial statements -

(1) The Company - Anchiano Therapeutics Ltd. (formerly BioCanCell Ltd.)

(2) Subsidiaries - The Company's subsidiary, Anchiano Therapeutics Israel Ltd. (formerly BioCancell Therapeutics Israel Ltd.) and its subsidiary Anchiano Therapeutics, Inc. (formerly 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 - The Company and the Subsidiaries.

(4) Dollars or "$" - U.S. dollars.

C. The reporting entity

The condensed consolidated interim financial statements of the Company as of September 30, 2018 include those of the Company and of the wholly-owned Subsidiaries.

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 development of the products, obtain regulatory permits, and achieve marketing success. The Company has incurred recurring losses from operations. The continuation of the stages of development related to the Company's planned activities depends on future events, including raising additional capital and achieving operational profitability. The Group is working to raise the capital needed for its continuing operations, although, as of the date of the statement of financial position, 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 the second quarter of 2019.

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 condensed consolidated interim financial statements were prepared by the Group in conformity with IAS 34 Interim Financial Reporting. They do not include all the information required in full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017, which were prepared in conformity with IFRS as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements were approved for publication by the Board of Directors of the Group on November 8, 2018.

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.

The Company uses critical estimates to measure the fair value of derivative instruments. For further information, see Note 5E.

NOTE 3 - SIGNIFICANT ACCOUNTING PRINCIPLES

Except as stated in this note and in Note 5E below, the Group's accounting policies in these condensed consolidated financial statements are the accounting policies applied in the annual financial statements.

Below is a description of the principal changes to the accounting policies in these condensed consolidated financial statements and their impact:

First-time application of new accounting standards, amendments to standards and interpretations

Commencing from the first quarter of 2018, the Group applies International Financial Reporting Standard IFRS 9 (2014), Financial Instruments (in this section: "the Standard" or "IFRS 9"), which replaces International Accounting Standard 39, Financial Instruments: Recognition and Measurement (in this section "IAS 39"). Application of the Standard did not have material impact on the financial statements.

NOTE 4 - SHARE-BASED PAYMENT

The table below summarizes the terms of the grants and the number of options granted by the Company during the period:

Grant date/eligible employees	Terms of Options	No. of underlying shares (thousands)	Vesting terms	Contractual life of the options (years)
Grant of options to officers of the Company in March 2018	Each option is exercisable into one ordinary share without par value, at the Fair Market Value of the shares at the time of the grant.	130	25% of the options vest after one year, and the remainder in 12 equal quarterly tranches.	10
Grant of options to the Company's CEO in June 2018	Each option is exercisable into one ordinary share without par value, at the Fair Market Value of the shares at the time of the grant.	909	Vesting in four equal annual tranches from May 2016	10
Total options		1,039		

The fair value at the grant date of the options was estimated using the Black and Scholes option pricing model.

Parameters used to measure fair value at the grant date of the share-based option plans:

	Grant to officers	Grant to the CEO
Fair value at the grant date	$0.3 million	$1.7 million
Parameters included in the fair value calculation:		
Share price at the grant date	$4.02	$3.61
Exercise price	$4.00	$3.67
Expected volatility	68.3% - 71.8%	56.3%
Expected life of the option	5.5 - 7 years	Up to 11/2023
Risk-free interest rate	2.63% - 2.74%	2.7%
Rate of expected dividends	-	-

The expected volatility is based on historical fluctuations of the price of the Company's shares. The expected life of the options was based on Management's estimate of the period that the employees will hold the options, taking into consideration their position in the Company and the Company's experience regarding termination of employment. The risk-free interest rate was determined based on yields of U.S. Treasury Notes with time to maturity equal to the expected life of the options.
The total expense recognized as a salary expense in the nine- and three-month period ended September 30, 2018 amounted to approximately $1.1 million and $0.2 million, respectively.

For further information, see Note 5C below.

NOTE 5 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD

A. In January 2018, the Company signed an agreement to rent a laboratory and offices in Jerusalem's Har Hotzvim industrial zone. The term of the agreement is five years; the Company has an option to extend the agreement by another five years. The monthly rental fees (including management fees) are $34 thousand, linked to the CPI. Pursuant to the agreement, bank guarantees were provided to the property owner in an aggregate amount of approximately $0.1 million and three months' rent was paid in advance.

In addition, in May 2018, Anchiano Therapeutics, Inc. signed an agreement to rent office space in Cambridge, Massachusetts, for a period of three and a half years. The annual rent is approximately $0.1 million.

B. During February, March and April 2018, the Company received three bridge loans of $1 million each from Clal Biotechnology Industries Ltd. ("CBI"), then the Company's controlling shareholder. The loans bore annual interest at the rate paid on U.S. 3-Month Treasury Bills. In addition, in May 2018, the Company received a bank loan of about $1 million, bearing annual interest at the rate of 8.6%. The loans were repaid upon the completion of the fundraising in June 2018, described in Note 5E below, in June 2018.

C. During the period the Company allocated 130,000 options in aggregate to officers of the Company, and 909,203 options to the Company's CEO in accordance with the terms of his employment, which included rights to the granting of options at the time of a fundraising. As part of the fundraising described in Note 5E below, the CEO waived his entitlement to additional future grants beyond the current option grant. For further details of the options grants, see Note 4 above.

D. In June 2018, the Company completed a 10:1 reverse share split, canceled the par value of its shares and increased the authorized capital to 30 million shares.

E. In June 2018, the Company completed a fundraising of $22.9 million from investors from the United States and Israel, as well as existing shareholders, led by Shavit Capital Funds. In consideration for the investment, the Company issued 5,960,787 ordinary shares (constituting approximately 38% of the Company's issued and paid-up share capital after completion of the transaction) at a price per share of about $3.842, as well as warrants to acquire additional shares equal to 80% of the shares issued, at an exercise price per share of NIS 16.20 (about $4.47). The warrants will be exercisable at any time as from the closing date of the transaction up to four years from the closing date of the transaction. However, if there is no qualified IPO (as defined below) by December 31, 2018, the warrants will be exercisable up to five years from the closing date of the transaction. The warrants may be exercised on a cashless basis. A "qualified IPO" means: an initial public offering of the Company's shares (or securities representing the Company's shares, such as ADRs) on the stock exchange, in accordance with the U.S. Securities Act of 1933, with a net consideration to the Company of at least $30 million.

In addition, investors were granted price protection in the event of a future share issue by the Company wherein the price does not increase by at least approximately 42.86% over the price per share in the fundraising (or the adjusted price per share, if the price has already been adjusted), and additional rights. The issuance costs amounted to approximately $1.0 million, of which approximately $0.5 million was deducted from equity and $0.5 million was charged to the statement of operations as financing expenses. The consideration was allocated to two derivative financial instruments: financial instrument - warrants; and financial instrument - price protection mechanism for securities ("Derivative Financial Instruments"). These instruments were measured at fair value on the date of the transaction, since they constitute a Level 3 derivative financial instrument, using the Probability-Weighted Expected Return Method, the main assumptions underlying which are a share price of NIS 13.20 (about $3.62 at the time of allocation), expected volatility of 52%, cost of capital of 14%, a risk-free interest rate range of 0.21% to 1.58% and no dividend payments during the valuation period. The fair value as of the transaction date of the Derivative Financial Instruments (warrants and price protection mechanism) was approximately $6.5 million and $5.5 million, respectively. The remaining balance was allocated to the Company's equity.

NOTE 5 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD (CONT.)

As of September 30, 2018, the fair value of the Derivative Financial Instruments (warrants and price protection mechanism) is approximately $5.0 million and $7.0 million, respectively. The change in fair value between June 30, 2018 and September 30, 2018 totals $26 thousand, which was recognized in the statement of operations as financing expenses. The main assumptions underlying the valuation as of September 30, 2018, are a share price of NIS 11.13 (about $3.07), expected volatility of 49%, cost of capital of 14%, a risk-free interest rate range of 0.23% to 1.68% and no dividend payments during the valuation period.

F. In June 2018, the Company signed an agreement with Syneos Health to act as the Company’s clinical research organization (CRO) and to manage the Group’s first pivotal bladder cancer clinical trial. The scope of the agreement (direct and indirect expenses) is $12.5 million. According to the terms of the agreement, the Group paid Syneos an advance of $1 million.