Anchiano Therapeutics Ltd.

Consolidated Financial Statements
December 31, 2018

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Anchiano Therapeutics Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Anchiano Therapeutics Ltd. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, operations and other comprehensive loss, change in equity (deficiency), and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1B to the consolidated financial statements, the Company has incurred recurring losses from operations that, together with other matters described in the aforesaid note, raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these issues are also described in Note 1B. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)

Consolidated Statements of Financial Position as at December 31,

$ thousands

	Note	2018	2017
Assets			
Cash and cash equivalents	4	**7,517**	1,454
Receivables	5	**3,403**	400
Total current assets		**10,920**	1,854
Non-current assets			
Long-term prepaid expenses		**1,115**	11
Long-term pledged deposits		**120**	-
Asset for employee benefits, net		**34**	3
Fixed assets, net		**385**	219
Total non-current assets		**1,654**	233
Total assets		**12,574**	2,087
Liabilities			
Trade payables		**396**	160
Other payables	6	**2,021**	2,381
Short-term employee benefits		**644**	155
Derivative instruments	8,10	**6,975**	-
Total current liabilities		**10,036**	2,696
Non-current liabilities			
Derivative instruments	8,10	**3,628**	-
Total non-current liabilities		**3,628**	-
Total liabilities		**13,664**	2,696
Contingent liabilities and commitments	7		
Equity	8		
Share capital			
Additional paid-in capital		**70,595**	60,043
Currency translation differences reserve		**872**	457
Capital reserve from share-based payments	9	**3,566**	1,767
Accumulated loss		**(76,123)**	(62,876)
Total equity (deficiency)		**(1,090)**	(609)
Total liabilities and equity		**12,574**	2,087

/s/ Dr. Stephen Hoffman	/s/ Dr. Frank Haluska	/s/ Jonathan Burgin
Dr. Stephen Hoffman Chairman of the Board	Dr. Frank Haluska Chief Executive Officer	Jonathan Burgin Chief Operating Officer & Chief Financial Officer

Date of approval of the financial statements: March 11, 2019

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

Consolidated Statements of Operations for the Year Ended December 31,

$ thousands (other than per share amounts)

	Note	2018	2017	2016
Research and development expenses	11	**7,559**	6,229	2,384
General and administrative expenses	12	**5,485**	3,163	2,258
Operating loss		**13,044**	9,392	4,642
Financing income	13	**(1,127)**	(1)	(44)
Financing expenses	13	**741**	92	7
Financing (income) expenses, net		**(386)**	91	(37)
Loss before income tax		**12,658**	9,483	4,605
Income tax	14	**621**	323	137
Net loss		**13,279**	9,806	4,742
Loss per share (in $):				
Basic and diluted loss	15	**1.05**	1.09	0.87

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

Consolidated Statements of Operations and Other Comprehensive Loss for the Year Ended December 31,

$ thousands

	2018	2017	2016
Loss for the year	**13,279**	9,806	4,742
Other comprehensive income items that will not be transferred to statement of operations			
Re-measurement of defined benefit plan	**(32)**	-	-
Currency translation differences	**(415)**	(260)	(12)
Total comprehensive loss for the year	**12,832**	9,546	4,730

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

Consolidated Statements of Changes in Equity (Deficiency)

$ thousands

	Share capital*	Additional paid-in capital	Currency translation differences reserve	Capital reserve from share-based payments	Accumulated loss	Total equity (deficiency)
Balance as at January 1, 2018	**-**	**60,043**	**457**	**1,767**	**(62,876)**	**(609)**
Issuance of shares, net	**-**	**10,419**	**-**	**-**	**-**	**10,419**
Exercise of share options	**-**	**7**	**-**	**(1)**	**-**	**6**
Expiration of options	**-**	**126**	**-**	**(126)**	**-**	**-**
Share-based payment	**-**	**-**	**-**	**1,926**	**-**	**1,926**
	-	**10,552**	**-**	**1,799**	**-**	**12,351**
Comprehensive income for the year	**-**	**-**	**415**	**-**	**32**	**447**
Loss for the year	**-**	**-**	**-**	**-**	**(13,279)**	**(13,279)**
Total comprehensive income (loss) for the year	**-**	**-**	**415**	**-**	**(13,247)**	**(12,832)**
Balance as at December 31, 2018	**-**	**70,595**	**872**	**3,566**	**(76,123)**	**(1,090)**
Balance as at January 1, 2017	-	54,983	197	1,186	(53,070)	3,296
Issuance of shares, net	-	4,911	-	-	-	4,911
Expiration of options	-	149	-	(149)	-	-
Share-based payment	-	-	-	730	-	730
	-	5,060	-	581	-	5,641
Comprehensive income for the year	-	-	260	-	-	260
Loss for the year	-	-	-	-	(9,806)	(9,806)
Total comprehensive income (loss) for the year	-	-	260	-	(9,806)	(9,546)
Balance as at December 31, 2017	-	60,043	457	1,767	(62,876)	(609)
Balance as at January 1, 2016	-	49,334	185	948	(48,328)	2,139
Issuance of shares, net	-	5,617	-	-	-	5,617
Expiration of options	-	32	-	(32)	-	-
Share-based payment	-	-	-	270	-	270
	-	5,649	-	238	-	5,887
Comprehensive income for the year	-	-	12	-	-	12
Loss for the year	-	-	-	-	(4,742)	(4,742)
Total comprehensive income (loss) for the year	-	-	12	-	(4,742)	(4,730)
Balance as at December 31, 2016	-	54,983	197	1,186	(53,070)	3,296

* See Note 8.

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

Consolidated Statements of Cash Flows for the Year Ended December 31,

$ thousands

	Note	2018	2017	2016
Cash flows from operating activities				
Loss for the year		**(13,279)**	(9,806)	(4,742)
Financing costs, net		**(641)**	259	55
Depreciation		**66**	51	41
Share-based payments	9	**1,926**	730	270
Taxes on income	14	**621**	323	137
Change in receivables	5	**(3,496)**	204	116
Change in trade payables		**287**	44	(491)
Change in other payables	6	**(343)**	46	940
Change in employee benefits		**526**	(2)	(60)
Change in long-term prepaid expenses		**(156)**	(3)	1
Taxes paid		**(244)**	(362)	-
Interest paid		**(22)**	-	-
Interest received	13	**11**	1	1
Net cash used in operating activities		**(14,744)**	(8,515)	(3,732)
Cash flows from investing activities				
Change in other investment		**-**	-	153
Change in long pledged deposits		**(125)**	-	-
Purchase of fixed assets		**(213)**	(34)	(75)
Net cash (used in) provided by investing activities		**(338)**	(34)	78
Cash flows from financing activities				
Proceeds from issuance of shares	8	**10,911**	5,665	6,503
Receipt of loan		**4,050**	-	-
Repayment of loan		**(4,033)**	-	-
Proceeds from issuance of warrants and derivative instruments		**11,989**	-	-
Issuance costs		**(1,755)**	(423)	(440)
Net cash provided by financing activities		**21,162**	5,242	6,063
Increase (decrease) in cash and cash equivalents		**6,080**	(3,307)	2,409
Cash and cash equivalents at the beginning of the year		**1,454**	4,564	2,203
Effect of exchange rate differences on cash and cash equivalents		**(17)**	197	(48)
Cash and cash equivalents at the end of the year	4	**7,517**	1,454	4,564

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

NOTE 1 – GENERAL

A. The Company is incorporated and registered in Israel. In August 2018, the Company changed its name to Anchiano Therapeutics Ltd. (the "Company") formerly BioCancell Ltd. The official address of the Company is 1/3 High Tech-Village, Edmond J. Safra Campus, Givat Ram, Jerusalem. The Company began trading American Depositary Shares ("ADSs"), each representing five ordinary shares, no par value of the Company (the "ordinary shares"), on the Nasdaq Capital Market in Febuary 2019, while its ordinary shares have traded on the Tel Aviv Stock Exchange since 2006.
The Company wholly owns a subsidiary, Anchiano Therapeutics Israel Ltd. (formerly BioCanCell Therapeutics Israel Ltd.), which itself wholly owns a Delaware-incorporated subsidiary, Anchiano Therapeutics, Inc. (formerly BioCanCell USA, Inc.) for the purposes of operating in the United States. This subsidiary is subject to the tax laws of the State of Delaware.

On February 14, 2019, the Company closed an initial public offering of 2,652,174 ADSs, each representing five ordinary shares of the Company (in total, 13,260,870 ordinary shares), at $11.50 per ADS, resulting in gross proceeds of $30.5 million. The ADSs trade on the Nasdaq Capital Market under the symbol "ANCN.". The underwriters in the offering (Oppenheimer & Co. Inc., Ladenburg Thalmann & Co. Inc. and LifeSci Capital LLC) were granted a 30-day option to purchase up to an additional 397,826 ADSs offered by the Company to cover over-allotments, if any. Pursuant to price protection rights granted to private investors in 2018 and activated in the offering, the Company allocated an additional 8,262,800 ordinary shares (equivalent to 1,652,560 ADSs) to rights holders and adjusted their warrants to be exercisable for an additional 6,207,330 ordinary shares (equivalent to 1,241,466 ADSs).

B. Reporting entity

(1) The consolidated financial statements of the Company as at December 31, 2018 include those of the Company, Anchiano Therapeutics Israel Ltd. and Anchiano Therapeutics, Inc., which are wholly owned by the Company (collectively, the "Group").

(2) The Group is involved in research and development of drugs for 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 product development, obtain regulatory approvals and achieve marketing success. The Company has incurred recurring losses from operations. Continuation of the development stages related to the planned activities depend on future events, including raising additional capital and achieving operating profits in the future. The Group is taking steps to raise the capital required for the continuation of its operations (including an initial public offering resulting in gross proceeds of $30.5 million on February 14, 2019, see Note 1A. However, as at the reporting date, there is substantial doubt as to the Group's ability to continue operating as a going concern. As of the approval date hereof and based on the Group's assessments, the Group's financial resources are expected to suffice until the end of the second quarter of 2020. The financial statements do not include any measurement or presentation adjustment for assets and liabilities that would be required if the Group does not continue operating as a going concern.

C. Definition
In these financial statements -

(1) The Company - Anchiano Therapeutics Ltd.

(2) The Group - Anchiano Therapeutics Ltd. and its subsidiaries.

(3) Subsidiaries - the Company's wholly-owned subsidiary, Anchiano Therapeutics Israel Ltd., and its wholly-owned subsidiary, Anchiano Therapeutics, Inc., the financial statements of which are fully consolidated with those of the Company and which are fully owned and controlled by the Company.

(4) Related party - Within its meaning in International Accounting Standard ("IAS") 24 (2009), Related Party Disclosures.

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

NOTE 2 – BASIS OF PREPARATION

A. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 11, 2019.

B. Functional and presentation currency

The New Israeli Shekel ("NIS") is the currency that represents the principal economic environment in which the Group operates and is thus its functional currency. However, for financial reporting purposes, these financial statements, which are prepared using the functional currency for all amounts, including historical amounts, reflected in the Company's financial statements, have been translated into a different presentation currency, the U.S. dollar. In preparation for its Nasdaq IPO, the Company intended ceased using the NIS and began using the U.S. dollar as its presentation currency to facilitate U.S. investors' understanding of the Company's financial statements. The assets and liabilities are translated at the exchange rates at the balance sheet date; Income and expenses are translated at average exchange rates and shareholders' equity is translated based on historical exchange rates. Translation adjustments are not included in determining net loss but are included in foreign exchange translation adjustments to other comprehensive loss, a component of shareholders' equity (deficiency).

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities: share-based payment and assets and liabilities for employee benefits.

D. Operating cycle

The regular operating cycle of the Company is one year. As a result, current assets and current liabilities also include items the realization of which is intended to take place within the period of the Company's regular operating cycle.

E. Classification of expenses recognized in the statement of operations

The classification of expenses recognized in the statement of operations is based on the nature of the expense. Additional information regarding the nature of the expense is included in the notes to the financial statements.

F. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
The use of accounting estimates in the preparation of the Group's financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

NOTE 2 – BASIS OF PREPARATION (CONT.)

G. Determination of fair value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Note 9D (Share-Based Payment) and Note 10G (Financial Instruments—Derivatives) include further information about the assumptions that were used to determine fair value.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

H. Changes in accounting policies

Initial application of new standards IFRS 9 (2014), Financial Instrument

As of January 1, 2018, the Group applies IFRS 9, Financial Instruments ("IFRS 9"), which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Furthermore, as from that date, the Group applies the amendment to IFRS 9.
Additionally, following the application of IFRS 9, the Group has adopted consequential amendments to IFRS 7, Financial Instruments: Disclosures, and to IAS 1, Presentation of Financial Statements.

The adoption of IFRS 9 did not have a material effect on these financial statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group for all periods presented in these consolidated financial statements.

A. Basis of consolidation

A subsidiary is an entity controlled by the Company. The financial statements of the subsidiary are included in the consolidated financial statements from the date of obtaining control. The accounting policies of the subsidiary are aligned with the policies adopted by the Group.

Transactions eliminated on consolidation
Intra-group balances and any unrealized income and expenses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

B. Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rate in effect at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Gains and losses from exchange rate differences are recognized in the statement of operations.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Financial instruments

(1) Non-derivative financial assets

Non-derivative financial assets include cash and cash equivalents, receivables, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial asset is recognized when the Group accepts the contractual conditions of the instrument. A financial asset is derecognized when the Group's contractual rights to receive the cash flows deriving from the financial asset expire, or the Group transfers the financial asset to others without retaining control of the asset or transfers all the risks and rewards deriving from the asset. Regular way purchases and sales of financial assets are recognized on the date of the transaction, meaning on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, taking into account transaction costs, less impairment losses.

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments with original maturities of three months or less, which are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables.

(2) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset (deferred issuance expenses) in the statement of financial position under receivables.

The costs are deducted from equity upon the initial recognition of the equity instruments.

In cases where the issuance is no longer likely to take place, the costs are recorded as general and administrative expenses in the statement of operations.

(3) Derivative financial instruments

Measurement of derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Financial instruments (cont.)

(3) Derivative financial instruments (cont.)

Measurement of derivative financial instruments (cont.)

The changes in fair value of these derivatives are recognized in profit or loss, as financing income or expense.

Issuance of parcel of securities

The consideration received from the issuance of a parcel of securities is attributed initially to financial liabilities that are measured each period at fair value through profit or loss. The remaining amount is the value of the equity component.

Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the parcel, as described above.

D. Fixed assets – Recognition and Measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses. Costs includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. Research and development

Research activities involve activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditures from research activities are recognized in the statement of operations as profit or loss when incurred.
Development activities involve a plan or design for the production of new or substantially improved products and processes. Expenditures from development activities are recognized as an intangible asset only if the costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient resources to complete research and development and to use or sell the asset.

None of the Company's expenditures meet the above conditions for development activities, and therefore are recognized in the statement of operations as profit or loss as incurred.

F. Impairment

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the Group discounts the future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generates cash from continuing use that are largely independent of other assets or groups of assets (the "Cash-Generating Unit").

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. Employee benefits

The Group has a number of post-employment benefit plans as described below:

(1) Employee benefit plans

For employee benefits prior to April 1, 2014, the Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on high-quality linked corporate debentures that have maturity dates approximating the terms of the Group's obligations and that are denominated in dollars. The calculations are performed by an actuary.

Re-measurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on the plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Re-measurements are recognized immediately directly in retained earnings through other comprehensive income. The liability for a benefit accumulated until the date of change of this plan is $175 thousand, and is presented net of the fair value of plan assets in the amount of $209 thousand.

On April 1, 2014, the Company entered into an agreement with Israeli employees whereby as from that date they are eligible for severance pay under Section 14 of the Severance Pay Law, 1963, and therefore as from that date, the plan is classified as a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

(2) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).
The employee benefits are classified as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.
A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(3) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment.

(4) Share-based payment transactions

The fair value at grant date of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity over the period that the employees become eligible for the awards. The amount recognized as an expense that is conditional upon meeting service conditions is adjusted to reflect the number of awards that are expected to vest. For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the fair value at grant date 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Legal claims
A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value.

Commitments to pay royalties

The Group does not recognize commitments to pay royalties until the event underlying the commitment occurs.

I. Grants for participation in research and development expenses

Grants are recognized initially at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expense.
Grants from the Israel Innovation Authority ("IIA") in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the IIA are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognized in profit or loss. The Group operates in the biotechnology industry and there is significant uncertainty (due to the preliminary stage it is in and the substantial financing that is required) regarding the success of the products under development and the return of the grant. Additionally, there is no requirement under the IIA grants to transfer the intellectual property underlying the research and development projects funded by the grants if the Group abandons the research and development or otherwise cannot generate product or licensing revenues from such research and development.
The Group believes that as at the reporting date, the conditions for recognition of a liability have not been met. Accordingly, the Group did not record a liability in respect of the IIA grants.

J. Leases

The Group's leases are classified as operating leases and the leased assets are not recognized in the Group's statement of financial position. Payments made under operating leases are recognized in the statement of operations on a straight-line basis over the term of the lease (see Note 3N (Significant Accounting Policies—New standards and interpretations not yet adopted)).

K. Financing income and expenses

The Group's financing income comprises changes in the fair value of derivative financial instruments, interest income on funds invested and exchange rate differences. Changes in the fair value of derivative financial instruments are recognized through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

The Group's financing expenses include issuance costs of derivative financial instruments, and bank and other commissions. Borrowing costs are recognized in the statement of operations using the effective interest method. Issuance costs for derivative financial instruments are recognized through profit or loss.
In the statements of cash flows, interest received and interest paid are presented as cash flows from operating activities.
Foreign currency gains and losses are reported on a net basis as either financing income or financing expenses depending on foreign currency fluctuations.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Loss per share

The Group presents basic and diluted loss per share data for its ordinary shares. Basic loss per share is also the diluted loss calculated by dividing the loss attributable to holders of ordinary shares of the Group by the weighted average number of ordinary shares outstanding during the period.

M. Income tax expenses

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Offset of current tax assets and liabilities

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

N. New standards and interpretations not yet adopted

IFRS 16, Leases

IFRS 16, Leases (“IFRS 16”) replaces IAS 17, Leases and the interpretations related to that standard. The provisions of IFRS 16 eliminates the current requirement for lessees to classify leases as operational or financial. Instead, the new standard introduces a single model for the accounting of leases by lessees, whereby the lessee recognizes a right-of-use asset and liability for the lease in its financial statements. IFRS 16 includes two exceptions to the general model, whereby a lessee can elect not to implement the recognition requirements of the right-of-use asset and liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

IFRS 16 applies for annual periods commencing January 1, 2019. The standard includes various approaches for implementation: full retrospective application with a restatement of comparative information or modified retrospective application with the cumulative impact of the initial application of IFRS 16 adjusting the opening balance of the retained earnings at that date.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. New standards and interpretations not yet adopted (cont.)

The Group intends to apply IFRS 16 starting from January 1, 2019 using the modified retrospective approach, while adjusting the accumulated loss as of January 1, 2019.

The Group intends to elect to apply the transitional provisions whereby on the date of initial application it will recognize a lease liability at the present value of the balance of the future lease payments discounted at the incremental interest rate of the lease as at that date and at the same time it will recognize in the same amount as a liability, a right of use asset in the lease, adjusted for lease payments made in advance or that were accrued and that were recognized as an asset or liability prior to the initial application. As a result, the application of IFRS 16 is not expected to have an impact on the balance of retained earnings (deficit) as of the initial application.

In respect of leases in which the Group is the lessee and that were classified at the time of the initial application as an operating lease, except for cases where the Group elected to apply the expedients of IFRS 16, as stated, the Group is required to recognize on the date of initial application a right-of-use asset and a lease liability in respect of all leases for which it has the right to control the use of the identified assets for a defined time period. These changes, as stated, are expected to lead to an increase of about $1.7 million in the balance of right-of-use assets and an increase of about $1.7 million in the balance of the lease liabilities. Additionally, depreciation and amortization expenses will be recognized for the right-of-use assets, which will be evaluated for impairments in accordance with the provisions of IAS 36. In addition, financing expenses will be recognized for the lease liabilities. Therefore, from the date of initial application of IFRS 16, rent expenses related to operating leases, which were presented in the general and administrative expenses and research and development expenses in the statement of operations, will be capitalized as assets and expensed as part of depreciation expenses in successive periods.

NOTE 4 – CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
	$ thousands	
Cash	**1,517**	1,436
Cash equivalents	**6,000**	18
	7,517	1,454

The Group's exposure to interest rate risk, foreign currency risk and a sensitivity analysis in respect of cash and cash equivalents is included in Note 10 (Financial Instruments).

NOTE 5 – RECEIVABLES

	December 31, 2018	December 31, 2017
	$ thousands	
Government authorities	**92**	73
Deferred issuance expenses	**689**	265
Prepaid expenses - clinical trial	**2,491**	-
Prepaid expenses - others	**110**	47
Other	**21**	15
	3,403	400

For the Group's exposure to foreign currency and liquidity risks from receivables, see Note 10 (Financial Instruments).

NOTE 6 – OTHER PAYABLES

	December 31, 2018	December 31, 2017
	$ thousands	
Institutions and employees for salary	**89**	96
Accrued expenses	**1,932**	2,285
	2,021	2,381

For the Group’s exposure to foreign currency and liquidity risks from other payables, see Note 10 (Financial Instruments).

NOTE 7 – CONTINGENT LIABILITIES AND COMMITMENTS

A. Liability for royalty payments to the Israel Innovation Authority

The Group has financed part of its research and development activities with grants from the IIA. In return for the IIA grants, the Group will be required to pay royalties of between 3% and 5% from the revenue from sales of the product developed using the IIA grants, up to the full amount of the grant, linked to the dollar/NIS exchange rate plus an agreed rate of interest. No new grant applications have been submitted to the IIA since 2013.

As at December 31, 2018, the Group’s maximum liability for repayment of the royalties is estimated at $4.0 million. The transfer outside of Israel of all or part of the production of the product developed using the IIA grants requires higher payments of royalties of up to 200% of the total liability. The Group has yet to start paying royalties. The financial statements do not include a liability for royalties for these grants since the conditions for recognition of the liability have not been fulfilled (see also Note 3I (Significant Accounting Policies—Grants for participation in research and development expenses) above).

B. Royalties agreement

The research and development activities of the Group are based on an exclusive license granted to the Group to use patent-protected technology and/or applications for the registration of patents developed by the Group.

The rights to these patents originally belonged to Yissum Technology Transfer, the research development company of The Hebrew University of Jerusalem (hereinafter , “Yissum”). Under the 2005 license agreement between Yissum and the Group, as amended (the “License Agreement"), Yissum granted an exclusive license to the Group for the global development, use, manufacture and commercialization of products that are based on the patents. In return, the Group undertook to pay royalties to Yissum at the following rates:

(1) 4% of sales net of distribution costs; and
(2) 10% of the total consideration received by the Group from any third party obtaining a sub-license to use the Group’s technologies.

The rate of royalties from sales in countries where a patent has not been registered, in which a third party sells identical products, will be reduced by 50%.

The Group does not recognize a liability for royalties until the event underlying the liability actually occurs and therefore the financial statements do not include a liability for these royalties.

Regarding the payment period of the royalties, it was determined that for countries in which a patent is registered, the payment period of the royalties for sales in such countries will continue until the later of (A) the expiry date of the patent in that country; (B) the expiry of the exclusivity period (set by an authorized entity in that country) for a product based on the patent; or (C) nine years from the date of the first commercial sale in that country. For countries in which no patent has been registered with success, the payment period of the royalties for sales in such countries will continue until the later of (1) the expiry date of the regulatory exclusivity in that country; or (2) nine years from the date of the first commercial sale in that country.

NOTE 7 – CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

B. Royalties agreement (cont.)

The license with Yissum will remain valid after the end of the royalty period for both countries in which a patent was registered and for countries in which a patent was not registered, at which time the Group will have an irrevocable, unlimited license that is exempt from payment of royalties for sales in the country where the royalty period has ended.

The Group has undertaken to indemnify Yissum and The Hebrew University of Jerusalem, their employees, officers, representatives and any person acting on their behalf (hereinafter, the "Indemnitees") for any liability, including product liability, damages, losses, expenses, fees and reasonable legal expenses (hereinafter, "Damages") that they may incur due to the acts and omissions of the Group, and/or arising from the use, development, production, marketing, sale and/or grant of a biotechnology sublicense, unless the Damages are due to gross or malicious negligence by the Indemnitees. In addition, before the clinical trials started and prior to the first commercial sale, the Group undertook to purchase comprehensive liability insurance for product liability and the Group's undertaking for their indemnification and to add Yissum as an additional insured party. The Group also undertook to purchase, at its expense, when the clinical trials begin, a liability insurance policy for clinical trials in an appropriate amount and in accordance with customary commercial practice. The Group acquired insurance for the clinical trials it finances.

NOTE 7 – CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

C. Car rentals

The Group has agreements to lease vehicles for 12-36 months each. In respect of these agreements, the Group has made deposits to secure future lease commitments. As at the balance sheet date, the balance of these deposits is approximately $11 thousand. The deposits are linked to the Israeli Consumer Price Index ("CPI") and do not bear interest.
At the end of the reporting period, the minimum rent to be paid for the lease agreements is as follows:

	$ thousands
2019	32
2020	14
	46

D. Office and lab rental

In January 2018, the Company signed an agreement to rent a laboratory and offices in Jerusalem's Har Hotzvim industrial zone through May 2023. The Company has an option to extend the agreement by another five years. The annual rent (including management fees) is approximately $360 thousand and is linked to the CPI. Pursuant to the agreement, bank guarantees were provided to the property owner of $103 thousand. The minimum future rental fee for the rental agreements is $1.6 million.

In November 2013, the Company signed a rental agreement with the Development & Management of Jerusalem Industrial Zones Administration Ltd. in the Edmund J. Safra High-Tech Village in Givat Ram, Jerusalem, which was extended until September 2021. However, The total annual rent is approximately $60 thousand. Under the agreement, a bank guarantee of $17 thousand was provided in favor of the property owner. The minimum future rent is $14 thousand.

In May 2018, Anchiano Therapeutics, Inc signed a new agreement to rent space for offices in Cambridge, Massachusetts, until December 2021. The annual rent is approximately $140 thousand. The minimum future rental fee for the rental agreements is $0.4 million.

E. In June 2018, the Company signed an agreement with Syneos Health ("Syneos") to act as the Company's clinical research organization (CRO) and to manage the Group's first registrational bladder cancer clinical trial. The minimum future obligation to Syneos is approximately $2.7 million.

NOTE 8 – EQUITY

A. General

(1) In June 2018, the Company completed a 10:1 reverse share split, canceled the par value of its ordinary shares and increased its authorized capital to 30 million ordinary shares. In December 2018, the Company increased its authorized capital to 100 million ordinary shares. All amounts of shares, underlying shares, share prices and exercise prices in these financial statements reflect these adjustments.

(2) On February 14, 2019, the Company completed its initial public offering of 2,652,174 ADSs, each representing five ordinary shares. The ADSs are listed on the Nasdaq Capital market under the symbol "ANCN" (see Note 1 (General) for additional information).

B. Share capital

	Number of ordinary shares	
	2018	2017
In thousands of shares		
Issued and paid up share capital as of January 1	**9,613**	7,400
Issued during the year – fundraising	**5,961**	2,213
Issued during the year – other	**2**	-
Issued and paid up share capital as of December 31	**15,576**	9,613
Authorized capital	**100,000**	19,000

C. Issuances

Summary of fundraising securities issuances in 2018 and 2017:

Date	Class	Shares	Gross Consideration (USD thousands)	Issuance expenses (USD thousands)
June 2018	Private offering of shares (1)	5,960,787	22,900	1,038
April 2017	Public offering of shares (2)	2,213,430	5,665	754

(1) In June 2018, the Company completed a fundraising of $22.9 million from investors in 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 outstanding 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 $4.32). The warrants are exercisable for five years from the closing date of the transaction, as of December 31, 2018, and may be exercised on a cashless basis.

In addition, the investors were granted price protection rights (to shares and warrants) in the event of a future share issuance 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). For details of an allocation pursuant to these rights, see Note 1 (General) above.

The consideration was allocated to additional paid-in capital and to two derivative financial instruments: financial instrument – warrants and financial instrument – price protection mechanism (collectively, the "shares" ("Derivative Financial Instruments"). The Derivative Financial Instruments were measured at fair value on the date of the transaction, since they constitute Level 3 derivative financial instruments. The Company used the Probability-Weighted Expected Return Method and the main assumptions underlying the calculation were 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) is approximately $6.5 million and $5.5 million, respectively. The remaining balance was allocated to equity.

NOTE 8 – EQUITY (CONT.)

C. Issuances (cont.)

Instruments are measured at fair value at the end of every reporting period and the difference in the fair value is recognized in the statement of operations as financing expenses. The issuance costs related to the fundraising amounted to approximately $1.0 million, of which $492 thousand was deducted from equity and $546 thousand was charged to the statement of operations as financing expenses. As of December 31, 2018, the fair value of the Derivative Financial Instruments (warrants and price protection mechanism) is $3.6 million and $7.0 million, respectively. The change in fair value between June 30, 2018 and December 31, 2018 was a profit of $1.1 million, which was recognized in the statement of operations as financing income.

(2) In April 2017, the Company issued shares to the public in Israel pursuant to a shelf offering report. In the offering, the Company issued 2,213,430 ordinary shares at a price per share of $2.60, for gross proceeds of $5.7 million.

NOTE 9 – SHARE-BASED PAYMENT

A. The table below summarizes the terms of the grants and the number of options granted by the Company and not yet exercised, forfeited or expired as of December 31, 2018:

Grant Date	Number of options	No. of underlying shares [(1)]	Exercise price per share [(1)]	Actual vesting date	Contractual life of options
2009	38,000	447	$71.82	4 years [(2)]	10 years
2010	140,000	1,649	$64.57	3 years [(3)]	10 years
2011	300,000*	3,533	$65.72	4 years [(2)]	10 years
2013	150,000	1,766	$23.11	4 years [(2)]	10 years
2014	130,000*	14,639	$6.24	4 years [(2)]	10 years
2015	201,000*	20,100	$3.23	4 years [(2)]	10 years
2016	5,627,816*	562,782	$2.60	4 years [(4)]	10 years
2017	1,649,416*	164,942	$2.90	4 years [(4)]	10 years
	10,000*	1,000	$2.90	4 years [(5)]	10 years
	2,793,533*	279,353	$2.43	4 years [(5)]	10 years
	40,000	4,000	$2.50	4 years [(5)]	10 years
	20,000	20,000	$3.90	2 years [(6)]	10 years
2018	909,203*	909,203	$3.67	4 years [(4)]	10 years
	340,000*	340,000	$2.94	4 years [(5)]	10 years
	130,000*	130,000	$4.00	4 years [(5)]	10 years
	353*	353	$3.93	4 years [(5)]	10 years
Total as of December 31, 2018	12,479,321	2,453,767			

* Some or all of the options were granted to related parties and/or key managerial personnel in the Group (1,249,556 options in 2018; 2,652,949 options in 2017; 5,627,816 options in 2016; 60,000 options in 2015; 40,000 options in 2014 and 300,000 options in 2011). See also Note 16A (Transactions and Balances with Related Parties—Benefits for key managers (including directors)).

NOTE 9 – SHARE-BASED PAYMENT (CONT.)

D. The table below presents the fair value of the services received in consideration of the options granted, based on the fair value of the granted options, using the Black and Scholes option pricing model:

	Granted in 2018	Granted in 2017
Fair value at the grant date (1)	$2.6 million	$1.1 million
The following parameters were used in the model:		
Share price at the grant date	$2.93 - $4.00	$2.54 - $3.92
Exercise price	$2.94 - $4.00	$2.62 - $3.92
Expected volatility (2)	54.0% - 71.8%	66.9% - 78.1%
Expected life of the option (3)	5.38 - 7 years	5.13 - 7.06 years
Risk-free interest rate (4)	1.41% - 3.10%	0.86% - 2.75%
Rate of expected dividends	-	-

(1) NIS-denominated amounts have been presented in dollars using the Bank of Israel exchange rate in effect on December 31 in the year being presented.

(2) The anticipated volatility is based on the historical volatility of the Company's share price.

(3) For options granted to the Company's chief executive officer ("CEO"), the expected life is subject to certain conditions as set out in Note 16B (Transactions and Balances with Related Parties—CEO Compensation), and will be assessed in each period in accordance with the probability of their occurrence.

(4) The risk-free interest rate is based on the yield to maturity of Israeli government bonds for options with an NIS exercise price, and of U.S. Treasury Securities for options with a dollar exercise price, having a duration to maturity equal to the expected life of the options.

E. Salary expenses for share-based payment amounted to $1.9 million for the year ended December 31, 2018 and $0.7 million for the year ended December 31, 2017 (see also Notes 11 (Research and Development Expenses) and Note 12 (General and Administrative Expenses)). For information regarding options granted to related parties, see also Note 16 (Transactions and Balances with Related Parties).

NOTE 10 – FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments: credit, liquidity and market risks.

A. Framework for risk management

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

The Group's risk management policy was formulated to identify and analyze the risks that the Group faces, to set appropriate limits for the risks and controls, and to monitor the risks and their compliance with the limits. The risk policy and risk management methods are reviewed regularly to reflect changes in market conditions and in the Group's operations. The Group acts to develop an effective control environment in which all employees understand their roles and commitment.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a debtor or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from the Company's receivables.The Group restricts exposure to credit risk by investing only in bank deposits.

Exposure to credit risk
The carrying amount of financial assets represents the Group's maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	December 31	
	2018	2017
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**7,517**	1,454
Long-term pledged deposits	**120**	-
	7,637	1,454

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities as they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.
This does not take into account the potential effect of extreme circumstances that cannot reasonably be predicted.
See also Note 1B(2) (General—Reporting Entity) regarding going concern.

NOTE 10 – FINANCIAL INSTRUMENTS (CONT.)

C. Liquidity risk (cont.)

The following are the carrying amounts of contractual maturities of financial liabilities, including estimated interest payments:

	December 31,	
	2018	2017
	Carrying amount	
	$ thousands	$ thousands
Financial liabilities		
Trade payables	**396**	160
Other payables	**1,545**	2,285
Total	**1,941**	2,445

The amounts of contractual cash flows and liabilities maturing in the six months subsequent to the balance sheet date are identical to the carrying amounts.

D. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, the CPI, interest rates and the prices of equity instruments, will influence the Group's results or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

Currency risk
The Group is exposed to currency risk mainly for cash and purchases for research and development expenses that are denominated in dollars and euros. Therefore, the Group is exposed to exchange rate fluctuations in these currencies against the NIS and takes steps to reduce the currency risk by maintaining its liquid resources in accordance with its future needs.

NOTE 10 – FINANCIAL INSTRUMENTS (CONT.)

E. CPI and foreign currency risks

A. The table below presents the Group's exposure to CPI and currency risks, based on notional amounts:

	December 31, 2018			
	NIS	NIS CPI-Linked	In other currency	Total
	$ thousands			
Assets				
Cash and cash equivalents	**201**	**-**	**7,316**	**7,517**
Long-term pledged deposits	**120**	**-**	**-**	**120**
	321	**-**	**7,316**	**7,637**
Liabilities				
Trade payables	**132**	**-**	**264**	**396**
Other payables	**467**	**-**	**1,078**	**1,545**
Derivative Financial Instruments	**10,603**	**-**	**-**	**10,603**
	11,202	**-**	**1,342**	**12,544**

	December 31, 2017			
	NIS	NIS CPI-Linked	In other currency	Total
	$ thousands			
Assets				
Cash and cash equivalents	322	-	1,132	1,454
	322	-	1,132	1,454
Liabilities				
Trade payables	100	-	60	160
Other payables	501	-	1,784	2,285
	601	-	1,844	2,445

B. Sensitivity analysis

A change as of December 31 in the exchange rates of the dollar and of the euro against the NIS, as indicated below, or a change in the CPI would have increased (reduced) profit or loss and equity by the amounts presented below. The analysis below is based on foreign currency exchange rate and CPI variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2018		December 31, 2017	
	Increase	Decrease	Increase	Decrease
	Equity and profit or loss	Equity and profit or loss	Equity and profit or loss	Equity and profit or loss
Change of 5% in the $/NIS exchange rate	**308**	(308)	**(47)**	47
Change of 5% in the euro/NIS exchange rate	**(9)**	9	**11**	(11)

NOTE 10 – FINANCIAL INSTRUMENTS (CONT.)

F. Interest rate risk

The Group is subject to risks relating to changes in interest rates. The Group's interest-bearing financial instruments are presented below:

	December 31,	
	2018	2017
	$ thousands	$ thousands
Fixed-interest instruments		
Cash and cash equivalents	6,000	18
Long-term pledged deposits	120	-
	6,120	18

G. Fair value

Fair value hierarchy of financial instruments measured at fair value
The table below presents an analysis of financial instruments measured at fair value on the temporal basis using valuation methodology in accordance with the fair value hierarchy levels (for a definition of various hierarchy levels, see Note 2 regarding the basis of prepration of the financial statements).

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**
Financial assets measured at fair value				
Derivative Financial Instrument	-	-	10,603	10,603
	-	-	10,603	10,603

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.)

G. Fair value (cont.)

The following table presents the changes in Level 3 instruments for the year ended December 31, 2018:

	Derivative Financial Instrument- warrants	Derivative Financial Instrument - price protection mechanism	Total
		$ thousands	
Closing balance as of June 29, 2018*	6,531	5,458	11,989
Loss (Gain) recognized in profit or loss during 2018	(2,791)	1,706	(1,085)
Currency translation difference	(112)	(189)	(301)
Closing balance as of December 31, 2018	3,628	6,975	10,603

* The date the Derivative Financial Instruments were issued.

NOTE 10 – FINANCIAL INSTRUMENTS (CONT.)

The Derivative Financial Instruments are measured at fair value using standard valuation techniques for these types of instruments (Probability-Weighted Expected Return Method) on the basis of the following inputs:

Observable inputs :	**December 31, 2018**		**June 29, 2018**	
Share price (NIS)	9.36		13.2	
Exercise price (NIS)	16.2		16.2	
Volatility	48	%	52	%
Risk-free rate	0.54-1.83	%	0.21-1.58	%
Cost of capital	15	%	14	%

NOTE 11 – RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,		
	2018	2017	2016
	$ thousands	$ thousands	$ thousands
Clinical trial materials	**2,672**	1,982	16
Development of production processes	**545**	1,810	1,013
Salaries, wages and incidentals	**2,031**	1,137	706
Clinical trial management	**1,610**	766	195
Labratory rent and maintenance	**376**	232	236
Other	**325**	302	218
	7,559	6,229	2,384

NOTE 12 – GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31		
	2018	2017	2016
	$ thousands	$ thousands	$ thousands
Salaries, wages and incidentals	**1,383**	1,080	794
Share-based payment	**1,651**	550	260
Professionals and consultants	**1,197**	571	618
Rent, maintenance and insurance	**504**	249	131
Investor relations and business development	**436**	367	78
Other	**314**	346	377
	5,485	3,163	2,258

NOTE 13 – FINANCING (INCOME) EXPENSES, NET

	Year ended December 31,		
	2018	2017	2016
	$ thousands	$ thousands	$ thousands
Financing income			
Interest income from deposits	**42**	1	1
Net gain from change in exchange rates	**-**	-	43
Net change in fair value of financial instruments designated at fair value through profit or loss	**1,085**	-	-
Financing income recognized in statement of operations	**1,127**	1	44
Financing expenses			
Net loss from change in exchange rates	**170**	87	-
Issuance costs	**546**	-	-
Interest expenses, bank fees and other	**25**	5	7
Financing expenses recognized in statement of operations	**741**	92	7

NOTE 14 – INCOME TAX

A. Information about the tax environment of the Group:

(1) Anchiano Therapeutics Ltd. is taxed according to Israeli tax laws.

Anchiano Therapeutics Israel Ltd. is taxed according to Israeli tax laws.

Anchiano Therapeutics, Inc. is taxed according to U.S. tax laws.

(2) Rate of corporate tax

Presented hereunder are the tax rates relevant to the Company in the years 2016 through 2018:
2016 – 25%
2017 – 24%
2018 – 23%

(A) On January 4, 2016 ,the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as of January 1, 2016.
Furthermore, on December 22, 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate was reduced from 25% to 24% as from January 2017 and to 23% as from January 2018 and thereafter.
As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at December 31, 2018 were calculated according to the new tax rate specified in the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018), at the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(B) On December 22, 2017, the U.S. Tax Reform Act was signed into law. The legislation significantly changes U.S. tax law, inter alia, by lowering the U.S. federal corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Therefore, the aggregate annual federal and state tax rate applicable for the Company's U.S. subsidiary, Anchiano Therapeutics, Inc., in 2018 is up to 32%.
The U.S. subsidiary provides the Group with general and clinical trial management services. For these services, the subsidiary is compensated on a cost-plus basis, and records income taxes accordingly.

(3) Benefits under the Law for the Encouragement of Capital Investments – beneficiary enterprise

Anchiano Therapeutics Israel Ltd. has elected 2009 as the year of election, under the Law for the Encouragement of Capital Investments, 1959 (the "Encouragement Law"). The income generated by the "Beneficiary Enterprise" is exempt from tax over a period of ten years. The benefits are contingent upon compliance with the terms of the Encouragement Law, including approval to be considered a biotechnology company.

NOTE 14 – INCOME TAX (CONT.)

B. Tax assessments in Israel and the United States

The Company and Anchiano Therapeutics Israel Ltd. have final tax assessments up to and including the 2013 tax year, as well as deduction assessments that are considered final up to and including 2013.
Anchiano Therapeutics, Inc. commenced operations in 2016 and the Company has filed its tax returns for 2016 and 2017 and has a final tax assessment for 2016.

C. Carryforward tax losses

(1) As of December 31, 2018, The Company has carryforward losses for tax purposes of approximately $5.4 million and carryforward capital losses of approximately $12.3 million from the liquidation of BioCanCell Therapeutics, Inc. following at the Company's reorganization as an Israeli corporation (see (3) below). As of December 31, 2017, the Company had carryforward tax losses of approximately $3.7 million and carryforward capital losses of $13.3 million.

(2) As of December 31, 2018, Anchiano Therapeutics Israel Ltd. has carryforward losses for tax purposes of approximately $56 million and carryforward capital losses of approximately $1.4 million. As of December 31, 2017, Anchiano Therapeutics Israel Ltd. had carryforward tax losses of approximately $50.5 million and carryforward capital losses of approximately $1.4 million.

(3) BioCanCell Therapeutics, Inc. was dissolved at the end of 2012 and therefore the Company estimates that its accumulated losses will not be utilized in the future.

D. Unrecognized deferred tax assets

The Group does not create deferred taxes for temporary differences and carryforward losses that require recognition of deferred tax assets, as it does not expect to utilize them in the foreseeable future. According to Israeli tax laws, there is no time limitation on the utilization of losses for tax purposes.

E. Unrecognized deferred tax assets

	December 31,	
	2018	2017
	$ thousands	
Losses for tax purposes	**61,630**	54,290
Deductible temporary differences	**8,649**	7,038
Capital loss for tax purposes	**13,716**	14,828
	83,995	76,156

NOTE 14 – INCOME TAX (CONT.)

F. Reconciliation between the theoretical tax on pre-tax loss and the tax expenses

	Year ended December 31		
	2018	2017	2016
	$ thousands		
Loss before income tax	**(12,658)**	(9,483)	(4,605)
Principal statutory tax rate of the Company	**23%**	24%	25%
Tax calculated at the Company's principal tax rate	**(2,911)**	(2,276)	(1,151)
Addition (saving) in tax liability for:			
Unrecognized expenses	**165**	62	69
Different tax rate in subsidiaries operating outside of Israel	**132**	129	52
Change in temporary differences for which deferred taxes were not recognized	**474**	558	(506)
Taxes in respect of previous years	**(11)**	-	-
Losses and benefits for tax purposes for the year, for which deferred taxes were not recorded	**2,772**	1,850	1,673
Taxes on income from continuing operations	**621**	323	137

NOTE 15 – LOSS PER SHARE

A. Basic loss per share

The calculation of the basic loss per share as of December 31, 2018, 2017 and 2016 was based on the loss attributable to holders of ordinary shares in the amount of $13.3 million, $9.8 million and $4.7 million, respectively, divided by the weighted average number of ordinary shares outstanding of $12.6 million, 9 million and 5.4 million shares, respectively, calculated as follows:

Weighted average number of ordinary shares:

	Year ended December 31,		
	2018	2017	2016
In thousands of shares			
Balance as at January 1	**9,613**	7,400	4,889
Effect of shares issued during the year	**3,021**	1,625	544
Weighted average number of ordinary shares used to calculate basic loss per share	**12,634**	9,025	5,433

NOTE 15 – LOSS PER SHARE (CONT.)

B. Diluted loss per share

The Company did not present data for the diluted loss per share due to the anti-dilutive effect of options (exercisable into 2.5 million shares on December 31, 2018 and 1.2 million shares on December 31, 2017), investor warrants (exercisable into 4.8 million shares on December 31, 2018 and 0 shares on December 31, 2017) and the price protection mechanism. See Note 8 (Equity) and Note 9 (Share Based Payment) for information about options and warrants for the purchase of the Company's ordinary shares and the price protection mechanism, which may have a dilutive effect in the future.

NOTE 16 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A. Benefits for key managers (including directors)

Senior managers in the Group are eligible, in addition to their salary, to non-cash benefits (such as the use of a company car). The Group also contributes to their post-employment benefit plans.

The senior managers also participate in the Company's share options plan. See Note 9 (Share-Based Payment).

Benefits for key managers (including directors):

	Year ended December 31,			
	2018		2017	
	Number of people in the year	Expenditure in $ thousands	Number of people in the year	Expenditure in $ thousands
Short-term employee benefits (including salaries)	**4**	**1,232**	3	970
Post-employment benefits	**1**	**13**	1	13
Share-based payments	**6**	**1,556**	5	628
Salary and insurance for directors	**10**	**154**	9	146
		2,955		1,757

B. CEO Compensation

In June 2018, options to purchase 909,203 shares were allotted to the CEO in accordance with his employment agreement, which includes rights to the grant of options at the time of fundraising at an exercise price of $3.67 per share (the fair value of the Company's ordinary shares on the approval date by the Company's Board of Directors on this matter), vesting in four tranches at the end of each year from the beginning of his employment in May 2016, at a total cost of $1.7 million. As part of the fundraising in June 2018 described in Note 8C (Equity—Issuances) above, the CEO waived his entitlement to additional future grants.