

EVOGENE LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010(*)

EXPRESSED IN US\$ THOUSANDS

TABLE OF CONTENTS

	<u>Page</u>
Auditors' Report Regarding The Audit Of Internal Control Components	2
Auditors' Report	3
Consolidated Statements Of Financial Position	4
Consolidated Statements Of Comprehensive Income	5
Consolidated Statements Of Changes In Equity	6
Consolidated Statements Of Cash Flows	7 – 8
Notes To Consolidated Financial Statements	9 - 47

() This report is a translation of Evogene Ltd.'s Hebrew-language financial statements as of December 31, 2010. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version and in the event of any discrepancy, the Hebrew version shall prevail*

Auditors' Report to the Shareholders of Evogene Ltd. on the Audit of Internal Control Components over Financial Reporting in Accordance with Paragraph 9B(c) of Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited the internal control components over financial reporting of Evogene Ltd. ("Company") as at December 31, 2010. These control components are as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal controls over the financial reporting process and for assessing the effectiveness of the Company's internal control components over the financial report attached to the periodic report as at the above-noted date. Our responsibility is to express an opinion on the Company's internal control components over its financial reporting based on our audit.

The internal control components over financial reporting audited by us are in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" ("Auditing Standard 104"). These components include: (1) entity level controls, including controls on the preparation and closing of the financial reporting process and information technology general controls; (2) controls over sales; (3) controls over payments (jointly - "audit control components").

We conducted our audit in accordance with Auditing Standard 104. This Standard requires us to plan and perform the audit to identify the audit control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of the internal controls on financial reporting, identifying the audit control components, assessing the risk that a material weakness exists in the audit control components, and testing and evaluating the design and operating effectiveness of said control components based on the assessed risk. Our audit, regarding those control components, also included such other procedures, as we considered necessary in the circumstances. Our audit referred only to the audit control components, as opposed to internal controls over all significant processes related to financial reporting, and accordingly, our opinion relates to the audit control components only. In addition, our audit also did not consider any mutual effects between the audit control components and any non-audit control components, and accordingly, our opinion does not consider these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context explained above.

Because of its inherent limitations, internal controls over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. In addition, projections of any current evaluation of effectiveness to future periods are subject to a risk that any controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audit control components as at December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as at December 31, 2010 and 2009, for each of the three years in the period ended December 31, 2010. Our report dated March 14, 2011, included an unqualified opinion on said financial statements.

**Tel-Aviv, Israel
March 14, 2011**

**KOST FORER GABBAY & KASIERER
Certified Public Accountants (Isr.)**

Auditors' Report to the Shareholders of Evogene Ltd.

We have audited the accompanying consolidated statements of financial position of Evogene Ltd. ("Company") as at December 31, 2010 and 2009 and the consolidated statements of comprehensive income, changes in equity, and cash flows, for each of the years ended on December 31, 2010, 2009, and 2008. These statements are the responsibility of the Company's board of directors and its management. Our responsibility is to express an opinion on these statements based on our audits

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditors' Mode of Performance), 5733 - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiary as at December 31, 2010 and 2009, and the results of their operations, changes in equity and cash flows for each of the years ended on December 31, 2010, 2009 and 2008, in accordance with International Financial Reporting Standards and in accordance with Securities Regulations (Annual Financial Statements) 5770 – 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting," the components of the Company's internal control over financial reporting as at December 31, 2010. Our report dated March 14, 2011 included an unqualified opinion on the effectiveness of said components.

**Tel-Aviv, Israel
March 14, 2011**

**KOST FORER GABBAY & KASIERER
Certified Public Accountants (Isr.)**

EVOGENE LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2010	2009
		\$ Thousands	
<u>Current Assets</u>			
Cash and cash equivalents	4	10,120	26,215
Short term investments	5	25,729	12,024
Trade receivables		2,142	558
Receivables	6	553	345
		<u>38,544</u>	<u>39,142</u>
<u>Noncurrent Assets</u>			
Prepayments		37	25
Property, plant and equipment	8	4,120	3,440
Financial derivatives	18 E	-	57
Intangible assets	9	171	217
		<u>4,328</u>	<u>3,739</u>
		<u>42,872</u>	<u>42,881</u>
<u>Current Liabilities</u>			
Current maturities of other noncurrent liabilities	10	4,118	4,082
Trade payables	11	1,054	675
Options	13	9,199	-
Other payables	12	1,949	999
		<u>16,320</u>	<u>5,756</u>
<u>Noncurrent Liabilities</u>			
Liabilities in respect of a financial lease		-	117
Options	13	-	4,349
Liabilities in respect of grants from the Chief Scientist	14	3,499	3,293
Deferred revenue		6,313	10,018
Liabilities in respect of employee benefits		9	9
		<u>9,821</u>	<u>17,786</u>
<u>Equity</u>			
Share capital	18	82	80
Share premium		49,248	47,130
Put option		(4,433)	(4,433)
Reserve - transaction with a controlling shareholder		1,156	1,156
Reserve - share-based payments		4,782	2,540
Accumulated Deficit		(34,104)	(27,134)
		<u>16,731</u>	<u>19,339</u>
		<u>42,872</u>	<u>42,881</u>

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

<u>March 14, 2011</u>			
Date Of Financial Statements Approval	Martin Gerstel, Chairman of the Board of Directors	Ofar Haviv, President, Chief Executive Officer	Dorit Kreiner Director of Finance

EVOGENE LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year Ended December 31,		
		2010	2009	2008
		\$ Thousands (Other Than Loss Per Share Data)		
Revenue		12,563	9,993	3,426
Cost of revenue	20 A	5,811	4,962	1,414
Gross profit		6,752	5,031	2,012
Research and development expenses	20 B	5,544	2,569	4,078
Business development expenses	20 C	1,062	739	922
Management and general expenses	20 D	2,069	1,457	1,160
Operating income (loss)		(1,923)	266	(4,148)
Other income (expenses)		(54)	54	-
Financing income	20E	724	1,402	449
Financing expenses	20E	(10)	(54)	(73)
Financing expenses – net revaluation of options		(5,393)	(4,814)	(247)
Financing expenses – net revaluation of liabilities to the Chief Scientist		(314)	(217)	(675)
Company's share of losses - associated company		-	(46)	(114)
Loss		(6,970)	(3,409)	(4,808)
Other comprehensive income:				
Translation of financial statements - adjustments		-	-	293
Total comprehensive loss		(6,970)	(3,409)	(4,515)
Basic loss per share and diluted loss per share (expressed in US\$)	21	(0.24)	(0.13)	(0.22)

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

EVOGENE LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share Premium	Options	Put Option	Reserve - Transaction With A Controlling Shareholder	Reserve - Share- Based Payments	Accumulate d Deficit	Total
	\$ Thousands							
<u>Balance as at January 1, 2008</u>	43	18,294	-	-	948	823	(14,400)	5,708
Loss	-	-	-	-	-	-	(4,808)	(4,808)
Other comprehensive income, after taxes	-	-	-	-	-	-	293	293
Total comprehensive loss	-	-	-	-	-	-	(4,515)	(4,515)
Issuance of shares, net of issuance expenses	10	12,006	-	-	-	-	-	12,016
Issuance of capital put options	-	-	-	(4,433)	-	-	-	(4,433)
Options exercised - employees and service providers	1	93	-	-	-	-	-	94
Effect of change of functional currency	13	4,448	-	-	208	141	(4,810)	-
Classification of options under equity	-	-	72	-	-	-	-	72
Cost of share-based payments	-	-	-	-	-	668	-	668
<u>Balance as at December 31, 2008</u>	67	34,841	72	(4,433)	1,156	1,632	(23,725)	9,610
Loss	-	-	-	-	-	-	(3,409)	(3,409)
Other comprehensive loss, after taxes	-	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	-	(3,409)	(3,409)
Options exercised	13	(* 12,289	(* (72)	-	-	(135)	-	12,095
Cost of share-based payments	-	-	-	-	-	1,043	-	1,043
<u>Balance as at December 31, 2009</u>	80	47,130	-	(4,433)	1,156	2,540	(27,134)	19,339
Loss	-	-	-	-	-	-	(6,970)	(6,970)
Other comprehensive loss, after taxes	-	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	-	(6,970)	(6,970)
Options exercised	2	2,118	-	-	-	(320)	-	1,800
Cost of share-based payments	-	-	-	-	-	2,562	-	2,562
<u>Balance as at December 31, 2010</u>	82	49,248	-	(4,433)	1,156	4,782	(34,104)	16,731

(* Reclassified.

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

EVOGENE LTD.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
<u>Cash flows from operating activities:</u>			
Loss	<u>(6,970)</u>	<u>(3,409)</u>	<u>(4,808)</u>
Adjustments to reconcile cash flows from operating activities:			
Reconciliation of profit and loss items:			
Depreciation and amortization	943	644	370
Cost of share-based payments	2,562	1,043	668
Net financing expenses	4,993	3,683	546
Loss on disposal of property, plant and equipment	54	-	-
Change in net liabilities for employee benefits	-	-	(5)
Company share of losses - associated company	-	46	114
	<u>8,552</u>	<u>5,416</u>	<u>1,693</u>
Changes in operating asset and liability items:			
Decrease (increase) in trade receivables	(1,584)	1,332	(1,890)
Decrease (increase) in other receivables	(208)	(23)	12
Increase in prepayments	(12)	(3)	(1)
Increase in trade payables	24	174	109
Increase in other payables	950	157	96
Increase (decrease) in deferred revenue	<u>(3,779)</u>	<u>(3,430)</u>	<u>16,983</u>
	<u>(4,609)</u>	<u>(1,793)</u>	<u>15,309</u>
Cash received during the period for:			
Interest received	<u>187</u>	<u>672</u>	<u>357</u>
Net cash provided by (used in) operating activities	<u>(2,840)</u>	<u>886</u>	<u>12,551</u>
<u>Cash flows from investing activities:</u>			
Acquisition of property, plant and equipment	(1,403)	(2,586)	(912)
Proceeds on disposal of property, plant and equipment	-	4	-
Proceeds on sale of securities measured at fair value through profit and loss	8,596	6,983	1,304
Purchase of securities measured at fair value through profit and loss	(24,261)	(9,910)	(2,704)
Net Proceeds (deposit) - bank deposits	2,571	6,000	(13,000)
Receipts (investment) - associated company	-	90	(250)
Net cash provided by (used in) investing activities	<u>(14,497)</u>	<u>581</u>	<u>(15,562)</u>

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

EVOGENE LTD.**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
<u>Cash flows from financing activities:</u>			
Net shares issued	2	13	12,016
Net options issued	-	-	72
Options exercised	1,311	9,517	94
Capital put options issued	-	-	(4,433)
Put options issued	-	-	(486)
Repayments in respect of a finance lease	-	(11)	(18)
Assumption of liabilities in respect of grants from Chief Scientist	320	505	991
Repayment of liabilities - grants from the Chief Scientist	(280)	(210)	-
Net cash provided by financing activities	<u>1,353</u>	<u>9,814</u>	<u>8,236</u>
<u>Exchange rate differences - cash and cash equivalent balances</u>	<u>(111)</u>	<u>444</u>	<u>597</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>(16,095)</u>	<u>11,725</u>	<u>5,822</u>
<u>Cash and cash equivalents, beginning of the year</u>	<u>26,215</u>	<u>14,490</u>	<u>8,668</u>
<u>Cash and cash equivalents, end of the year</u>	<u><u>10,120</u></u>	<u><u>26,215</u></u>	<u><u>14,490</u></u>
<u>Significant non-cash activities:</u>			
Acquisition of property, plant and equipment, against credit	<u>355</u>	<u>98</u>	<u>104</u>

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

NOTE 1 - GENERAL:

Evogene Ltd. ("Company") is a biotech company involved in plant improvement research and development. The Company focuses on the development of technology to identify gene sequences (DNA sequences that are responsible for producing proteins; "genes") and other DNA sequences in plants ("DNA sequences"), which are likely to improve one or more of the plant's traits (the target plant and target trait), respectively. These improvements are accomplished through introducing the genes into the target plant, or by natural crossbreeding, so that the resulting seeds will carry the target trait. In addition, the Company is involved in the characterization and breeding of specialized non-edible plant growths, which may, in the future, serve for the extraction of oil for the biotech industry.

The Company was founded in 1999 as Agro Leads Ltd., and began operations on January 1, 2002.

Evogene Inc. is a wholly owned subsidiary of the Company. Evogene Inc. was incorporated in Delaware, as a private company limited by shares during September 2006. As at report date, the subsidiary has no employees and is inactive.

B. In June 2007, the Company made an offering to the public, on the Tel Aviv Stock Exchange, of shares and marketable options.

C. On May 24, 2009, the Company announced, jointly with its partner in a Namibian joint venture (associated company), termination of its Namibian operations. During June 2009, the Company received \$90 thousand from the Namibian venture as consideration for the loan that it had previously extended to the venture. Because of said, and Company losses in Namibia, the investment was written off. During September 2009, the Company received an additional \$ 54 thousand from its Namibian venture. This amount was recorded under "other income."

Definitions:

The Company	- Evogene Ltd.
Consolidated subsidiary	- Evogene Inc.
Associated company	- Leviev - Evogene Namibia Ltd.
Interested parties and controlling shareholders	- As defined by Securities Regulations (Annual Financial Statements), 5770-2010.
Related parties	- As defined by IAS 24.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:A. FINANCIAL STATEMENTS PRESENTATION BASIS:

The Company's financial statements are prepared on the historical cost basis, except for certain financial derivatives and instruments, which are measured at fair value.

The Company has chosen to present its statement of comprehensive income based on the nature of its operations.

Reporting Format:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and include:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC).

These financial statements have also been prepared in accordance with Securities Regulations (Annual Financial Statements), 5770-2010.

Consistently Applied Accounting Policies:

The accounting policies applied in these financial statements have been applied consistently for all periods reported.

Changes in Accounting Policies Further To Adoption of New Standards:IAS 1 – "Presentation of Financial Statements":

IAS 1, amended, considers the classification of liabilities as current or as non-current in respect of convertible financial instruments. Accordingly, liability terms, which enable the counterparty, at any time, to cause a settlement of a liability of the entity by issuing equity instruments, does not by itself affect the classification of liabilities in the financial statements as current or noncurrent.

The amended statement's requirements have been adopted from January 1, 2010. Comparative figures were restated.

IAS 7 – "Statement of Cash Flows":

IAS 7, amended, requires that only cash flows that have triggered an asset recognition, can be classified under cash flows from investing activities. The amendment has been adopted retroactively from January 1, 2010.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):B. SIGNIFICANT JUDGMENTS, ESTIMATES, AND ASSUMPTIONS USED IN PREPARING THE FINANCIAL STATEMENTS:1. Considerations:

During the process of implementing the significant accounting policies used in the preparation of the financial statements, the group has used its discretion, and has made various judgments regarding the following issues, which have a very significant effect on amounts recognized in the financial statements:

Leasing classifications:

For considering whether to classify a lease as a financial lease or as an operating lease, the Company considers whether the lease significantly transfers all risks and benefits attached to ownership of the asset. Under this general principle, the Company considers, inter alia, the existence of any option to purchase the asset at a reduced price, the lease period, the economic useful lifespan of the asset and the fair value of minimum lease payments vis à vis the asset's fair value.

2. Estimates And Assumptions:

Preparation of the financial statements requires management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized as incurred.

Information on the main assumptions used in the financial statements in respect of uncertainty as at report date, and the critical estimates made by the group and for which any significant change in estimates and assumptions could change the value of assets and liabilities in the financial statement in the next reporting period, is as follows:

Deferred Tax Assets:

A deferred tax asset is recognized in respect of carry forward tax losses and temporary differences, which have not yet been used, to the extent that it is probable that future taxable profits will be available for use. Management's judgment is required to determine the amount of the deferred tax asset that can be recognized based on timing, expected taxable income, and tax planning strategy.

Determining The Fair Value Of Share-Based Payment Transactions:

The fair value of share-based payment transactions using an option pricing model. The model's assumptions include the share price, the exercise price, expected fluctuations, expected lifespan, expected dividends, and non-risk interest rates.

C. CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements include the financial statements of Evogene Inc., a fully owned and controlled subsidiary. Control exists if the Company has the ability, either directly or indirectly, to determine the financial and operational policy of the controlled company. When testing if control exists, the effect of potential voting rights, exercisable at report date, are taken into account. The financial statements are consolidated from the date that control is achieved until control ceases.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Material intercompany balances, transactions, profits and losses have been eliminated in full in the consolidated financial statements.

The financial statements of the Company and its subsidiary have been prepared for identical dates and periods. The accounting policies used in the financial statements of the subsidiary have been applied uniformly and consistently with those applied by the Company.

D. FUNCTIONAL CURRENCY AND FOREIGN CURRENCY:1. Functional and Presentation Currencies:

The Company's presentation currency for financial statement purposes is the US Dollar.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each group company, including an associated company which is reported using the equity method, and according to this currency, the financial position and its operating results are measured. Since September 2008, the Company's functional currency has been the US Dollar.

2. Transactions, Assets, and Liabilities in Foreign Currency:

Transactions denominated in foreign currency (in a currency, which is not the functional currency) are initially recorded at the exchange rate prevailing on transaction date. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated to the functional currency at the exchange rate prevailing on report date. Exchange rate differences are charged to the statement of comprehensive income. Nonmonetary assets and liabilities are translated using the exchange rate in effect on transaction date.

E. CASH EQUIVALENTS:

All highly liquid investments, including short-term bank deposits that are not pledged, with original maturities of three months or less from the original investment date, or exceeding three months but cannot be withdrawn immediately without penalty, and are part of the group's cash management framework, are considered cash equivalents.

F. SHORT-TERM DEPOSITS:

Short-term deposits are deposits with original maturities exceeding three months from the date of investment. The deposits are presented in accordance with their terms, at the time of their deposit.

G. THE BUSINESS CYCLE:

The Company's normal business cycle is one year. Accordingly, current assets and current liabilities include items that are designated and are expected to be realized during the Company's regular business cycle.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):H. FINANCIAL INSTRUMENTS:Financial Assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value with the addition of directly attributable transaction costs, other than investments recognized at fair value, with changes therein charged to the statement of comprehensive income, with the cost of the transaction charged to profit and loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- Financial assets measured at fair value through profit and loss.
- Investments held until maturity.
- Loans and other receivables.
- Available-for-sale financial assets.

1. Financial Assets Measured At Fair Value Through Profit And Loss:

The group's financial assets are measured at fair value through profit and loss, and include financial assets available for sale, and financial assets designated upon their initial recognition to be presented at fair value with changes charged to the statements of comprehensive income.

Financial assets are classified as available for sale if they are acquired for being sold or repurchased in the near term, if they form part of a portfolio of identifiable financial instruments that are jointly managed to earn short-term profits or if they are a derivative not held for hedging purposes. Gains or losses on investments available for sale are recognized in the statements of comprehensive income as incurred.

Financial derivatives that are not designated as hedging instruments are classified as available for sale.

2. Loans And Other Receivables :

The group holds various loans and other receivables, which are financial assets (and not derivatives), with fixed repayment terms, or repayment terms that can be fixed, that are not traded in an active market. Short-term credits (such as trade or other credits) are reported at their terms, but generally in nominal terms. Any gain or loss is recognized in the statement of comprehensive income when the loans or other receivables are settled, or if any impairment in value is recognized, even after being amortized.

3. Fair Value:

The fair value of financial instruments traded in an active market is determined by the market price on report date. In respect of financial instruments that do not have an active market, fair value is determined using valuation models. These methods include reference to transactions recently settled at market terms, reference to the current market value of another instrument, which similar in nature, capitalization of cash flows, or any other valuation model.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):Financial Liabilities:1. Financial Liabilities At Amortized Cost:

Loans and credits are initially recognized at fair value less transaction costs attributed directly, if any (for example, the cost of securing a loan). After initial recognition, the loans, including bonds, are reported according to their terms, on the amortized cost basis using the effective interest rate method, which also takes into account the cost of the transaction directly attributed. Any gains or losses are recognized in the statement of comprehensive income upon settlement of the financial liability and after amortization.

2. Financial Liabilities Measured At Fair Value Through Profit And Loss:

Financial liabilities, which are measured at fair value, through profit and loss, include financial derivatives, which are not designated as hedging instruments.

Issuance Of Securities In A Package:

Upon the issuance of securities in a package, the consideration received (before issuance expenses) is allocated to the component securities issued in the package according to the following allocation order: the fair value is first determined for financial derivatives (such as, options with an exercise price in a currency other than the Company's functional currency) and other financial instruments that are presented at fair value in each period; once this is done, the fair value is determined for financial liabilities and compound instruments (such as, convertible bonds), which, instead of being presented at fair value in each period, are presented at their present values, with the consideration allocated to the equity instruments being determined as the residual value, being the difference between the total consideration and the relevant proceeds allocated as above. Issuance expenses are allocated to each component in proportion to the amounts determined for each component as described above, net of the related taxes, if applicable with regard to equity instruments. After making the abovementioned allocation, each component is accounted for in accordance with its contractual substance (either as a financial liability or as an equity instrument).

De-Recognition Of Financial Instruments:Financial Assets:

A financial asset is derecognized when the validity of the contractual right to receive cash flows from the financial asset expires, or if the Company transfers its contractual rights to receive the cash flows from the financial assets, or accepts an obligation to pay out the cash flows received in full to a third party, without any substantive delay, or substantially transferred all risks and benefits inherent in the asset, or did not transfer and even did not substantially maintain all the risks and benefits inherent in the asset, but transferred control over the asset.

Financial Liabilities:

A financial liability is derecognized when the liability is settled, cancelled, or expires. A financial liability is settled when the debtor (the group):

- Repays the debt in cash, in other financial assets, or by goods or services, or
- Is legally released from any liability.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):I. LEASES:

The tests applied to classify a lease as a financial lease, or as an operating lease, are based on the substance of the agreements, which are examined in accordance with the criteria prescribed in IAS 17, at the time of the agreements being entered into, as follows:

The Group As Lessee:Financial Lease:

Under a financial lease, all risks and rewards incident to ownership of the leased asset are effectively transferred to the group. The leased asset is measured at the beginning of the lease period at the lower of the fair value of the leased asset, or at the present value of the minimum lease payments. The liability for lease payments is reported at present value, while the lease payments are apportioned between financial expenses and the repayment of the liability in respect of the lease, using the effective interest method.

After initial recognition, the leased asset is treated in accordance with the usual accounting policy for such assets (see K below).

Operating Lease:

Lease agreements, which do not actually transfer all risks and rewards incident to ownership of the leased asset, are classified as operating leases. Lease payments are recognized as expenses in profit and loss on the straight-line basis, over the lease period. A vehicle lease is considered an operating lease.

J. INVESTMENT IN ASSOCIATED COMPANY:

An associated company is a company over which the group has significant influence on the financial and operating policies, but does not hold control.

The investment in the associated company was recorded using the equity method. Said investment is reported at cost and any changes after acquisition, under group share of net assets, including other comprehensive income (loss) of the associated company. The equity method is used up to the date of any significant loss of control, or its classification as an investment held for sale.

The statement of comprehensive income includes the group's share of the associated company's operating results, which is reported under "group share of income (loss) of associated company," while the "group's share of comprehensive other income (loss)", relating to the associated company is charged as comprehensive income (loss) under equity, as relevant. Profit or loss, in respect of intergroup transactions, is canceled based on the percentage holding of the associated company.

In respect of associated companies that have incurred losses, in amounts that exceed any equity therein, the Company recognizes its share of losses up to the amount of its investment in the associated company, plus any loss that it may incur further to any guarantee or other financial support that it issued, up to the guarantee amount or any other financial consideration. For this purpose, the investment includes long-term monetary items receivable (such as loans receivable), for which there is no intent to settle, and that are not expected to be repaid in the near future.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The financial statements of the Company and the associated company have been prepared for identical dates and periods. The accounting policies used in preparing the financial statements of the associated company have been applied uniformly and consistently with those applied in the financial statements of the group.

The Company discontinues the use of the equity method from when it no longer has significant influence, and treats its investment in accordance with provisions of IAS 39, a company under joint control in accordance with provisions of IAS 31, or a consolidated company in accordance with provisions of IFRS 3 and IAS 27, as relevant.

K. PROPERTY, PLANT, AND EQUIPMENT:

These items are reported at cost, with the addition of direct acquisition costs, and net of accumulated depreciation, and accumulated impairment losses. Routine maintenance costs are not included.

Depreciation is calculated in equal annual installments, on the straight-line basis, over the useful life of the asset, as follows

	<u>%</u>	<u>Primarily,%</u>
Laboratory equipment	15	15
Computers and ancillary equipment	33	33
Office equipment and furniture	6-15	6
Installations and leasehold improvements		See below

Leasehold improvements are depreciated on the straight-line basis, over the respective lease periods (including any renewal option period that the group intends to exercise) or according to the estimated life of the improvement, whichever is the shorter.

The economic life, the depreciation method and the residual value of each asset is re-considered at least at each year end, and any change therein is considered a change in accounting estimate on the going forward basis. Regarding consideration of any value impairment, see M below.

The depreciation of assets is discontinued when the asset is classified as being held for sale or when it is derecognized, whichever is the earlier. An asset is derecognized at the time of its sale or when economic benefits are no longer expected from the use of the asset. The gain or loss on the de-recognition of the asset (calculated as the difference between the net proceeds received from the de-recognition and the depreciated cost of the assets in the financial statements) is carried to the statement of comprehensive income in the period in which the asset is derecognized.

L. INTANGIBLE ASSETS:

Intangible assets acquired separately are measured upon initial recognition at cost plus any directly attributable acquisition costs. After initial recognition, the intangible assets are reported at cost less any accumulated amortization and less any provision for impairment of value. Costs in respect of intangible assets that are developed internally, except for capitalized development costs, are charged to profit and loss as incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

In management's opinion, intangible assets have a finite life. The assets are amortized over their useful economic lives, on the straight-line basis, and a review for impairment is made if events or circumstances indicate a possible impairment of the value of the intangible asset. The amortization period and amortization method of an intangible asset having a finite useful life, are reviewed at least at each year end. Changes in the useful life or in the pattern of expected consumption of the economic benefits expected to be generated by the asset are treated as a change in accounting policy on the going forward basis. Amortization expenses in respect of intangible assets with a finite useful life are charged to profit and loss.

The useful life of the intangible assets is as follows:

	<u>Years</u>
License	7

M. IMPAIRMENT OF NON-FINANCIAL ASSETS:

The Company considers the need to recognize a value impairment of non-financial assets (property, plant, and equipment and intangible assets), when there are signs as a result of events or changes in circumstances indicating that the carrying value in the financial statements of said items is not recoverable. In cases where the carrying values in the financial statements of the non-financial assets exceed their recoverable values, the assets are written down to their recoverable values. Recoverable value is the greater of the fair value less selling costs, and the value in use. In estimating the value in use, the anticipated cash flows are capitalized at a pre-tax discount rate that reflects the specific risks for each asset. With respect to an asset that does not generate cash flows of its own, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are charged to profit and loss.

N. GOVERNMENT GRANTS:

Government grants are recognized when it is reasonably certain that the grants will be received and that the Company will comply with all relevant terms.

Government grants received from Israel's Chief Scientist, in support of research and development activities, which include an undertaking to pay royalties to the State of Israel conditional upon future development-derived sales, are recognized upon receipt as a liability, if any economic benefits are expected to arise as a result of the research activity leading to sales that entitle the State to the royalties. If the royalty payments in respect of the grant do not carry market interest rates, the liability is recognized at fair value and is capitalized using market interest rates in effect when the grant is received. The difference between the grant amount and the fair value of the liability is treated as a government grant, and accordingly is recognized as a reduction of research and development expenses. Amounts paid as royalties are recognized as payments in settlement of the liability. When economic benefits, as referred to above, are not expected, the grants received are recognized as a reduction of the relevant research and development expenses. In this case, the liability for royalties is reported as a contingent liability in accordance with IAS 37, up to the date when the liability is recognized and said expectation is relevant.

At every report date, the Company considers if it is reasonably certain that the liability, in whole or in part, will not be settled (should the Company not be required to pay royalties), based on its best estimate of future sales. If so, the relevant liability is de-recognized and is charged to profit and loss as a reduction of research and development expenses. If the forecast of future sales indicates that said reasonable certainty no longer exists, an appropriate liability is recognized, thereby reflecting the projected royalty payments; and at the same time, a corresponding charge is made to research and development expenses.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):O. SHARE-BASED PAYMENT TRANSACTIONS:

Employees and other service providers of the Company are entitled to benefits in the form of share-based payment transactions as consideration for equity instruments.

Equity-Settled Transactions:

The cost of equity-settled transactions with employees is measured at fair value on the date of granting the equity instruments. The fair value is determined using an accepted option-pricing model. For more information, see note 19. With regards to other service providers, the cost of a transaction is recognized at the fair value of the goods or services received in consideration for the equity instruments. When it is not possible to assess the fair value of the goods or services received in consideration for the equity instruments, they are measured at the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in profit and loss, together with a corresponding increase in equity, over the period when the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions on each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to comprehensive income reflects the change in accumulated expense recognized up to the end of the report period.

No expense is recognized for a grant that does not ultimately vest.

If the Company changes the terms of the equity-settled grant, an additional expense is recorded in addition to the original expense that was calculated, in respect of every change that increases the fair value of the share-based arrangement or that benefits the employee / service provider, at fair value on the date of the change.

Cancellation of a grant settled by an equity instrument is treated as if the grant vested on cancellation date, and the expense not yet recognized in respect of the grant is immediately recognized. However, if the grant that was cancelled is replaced by a new grant and is intended on grant date to be a replacement grant, then the cancelled grant and the new grant will both be treated as a modification to the original grant, as discussed in the preceding paragraph.

P. EMPLOYEE BENEFIT LIABILITIES:

The group has a number of employee benefit programs, as follows:

1. Short-Term Employee Benefits:

Short-term employee benefits include salaries, vacation days, sickness, convalescence, and national insurance employer's contributions, and are recognized as expenses as the services are provided. The liability for cash bonuses is recognized when the group has a legal or implied obligation to pay said in respect of the services provided by the employee in the past and the amount thereof can be reliably estimated.

2. Post-Employment Benefits:

These plans are generally financed by deposits with insurance companies and are classified either as defined contribution plans or as defined benefit plans.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The group has a defined contribution plan, in accordance with Section 14 of the Severance Pay Law, pursuant to which the Group makes regular contributions, without it having any legal or implied obligation to make additional payments, even if the principal amounts that have accumulated are insufficient to pay all the benefits to the employee, which relate to the employee's service in the current period and in past periods. Contributions to the defined contributions plan for severance or compensation are recognized as an expense at the time of their deposit with the plan, matching the receipt of employment services from the employee, and no additional provision is required in the financial statements.

Q. REVENUE RECOGNITION:

Revenue is recognized when it can be reliably measured, when it is probable that the economic benefits associated with the transaction will flow to the Company, and when the costs incurred or to be incurred in respect to the transaction can be reliably measured. Revenue is recognized as the fair value of the transaction consideration.

The specific conditions for the recognition of revenue that must exist are as follows:

Service Revenue:

Revenue earned from providing services is recognized according to the stages of completion of the transaction as at report date. On this basis, revenue is recognized in the reporting period, when the services were provided. If the results of a contract cannot be reliably measured, revenue is recognized up to the amount of expense that can be recovered.

Revenue From Performance Contracts:

The Company has fixed-cost performance contracts.

Revenue from performance contracts is recognized on the percentage of completion basis, provided that the following conditions are met – the revenues are fixed or can be reasonably estimated, collection of the revenues is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the Company's ability (as executing contractor) to complete the contract and to meet the customer's contractual terms, and the percentage of completion can be reasonably estimated. The percentage of completion is determined based on the ratio of actual cost to total estimated cost.

If all criteria for the recognition of revenue from performance contracts are not met, then revenue is recognized up to the amount of costs incurred whose collection is probable ("zero profit margin" presentation).

When a loss on a contract is expected, the full loss is recognized immediately without any relationship to the percentage of completion, under cost of revenue.

Interest Income:

Interest income earned on financial assets is recognized on the accrual basis, using the effective interest method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):Hybrid Sales Agreements:

Revenue from sales agreements without any general right of return, which include multiple components, such as a license or service, are split into separate accounting units, and are recognized separately vis-à-vis each accounting unit. A component is a separate accounting unit, if, and only if, it has separate value to the customer. In addition, reliable and objective proof exists vis à vis the fair value of each component of the agreement, or of the fair value of the components that have not yet been supplied. Components not split into accounting units, because of any noncompliance with terms defined above, are grouped together under one accounting unit. Revenue from the various accounting units is recognized when the terms for revenue recognition, from the components included in said accounting units, are complied with, in accordance, with their nature and only up to the amount of consideration, which is not conditional upon completion or other components of the contracts.

Nonetheless, the recognition as revenue according to the relationship of costs will not exceed Evogene's enforceable rights vis à vis research and development and milestones/services.

R. EARNINGS (LOSS) PER SHARE:

Earnings per share are calculated by dividing net income attributable to equity holders by the weighted number of ordinary shares outstanding during the period. Basic earnings per share include only shares that were actually outstanding during the period. Potential ordinary shares (convertible securities such as convertible bonds, options, and options to employees) are included only when calculating diluted earnings per share if their conversion dilutes earnings per share, such that their conversion decreases earnings per share or increases any loss per share from continuing operations. In addition, potential ordinary shares that were converted during the period are included in diluted earnings per share only up to the date of their conversion, and from that date onwards are included in basic earnings per share. The Company's share of the earnings of investee companies is calculated with reference to its share of the earnings per share of those investee companies multiplied by the number of shares that it holds.

S. TAXES ON INCOME:

No current or deferred taxes were recognized, as there was no tax liability, or temporary differences that could be recognized, respectively.

T. FINANCING INCOME AND EXPENSES:

Financing income includes interest income on amounts that were invested, dividends, changes in the fair value of financial assets measured at fair value through profit and loss, and exchange rate gains. Interest income is recognized on the accrual basis, using the effective interest rate method. Dividend income is recognized when the group earns the right to receive the payment. If the dividend is paid vis à vis traded shares, the group recognizes dividend income on the "ex" date.

Changes in the fair value of financial assets are measured at fair value through profit and loss, also include dividend and interest income.

Financing expenses include changes vis à vis the time value of provisions, and changes in the fair value of financial assets measured at fair value through profit and loss.

Gains and losses on exchange differences are reported on a net basis

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):U. STATEMENT OF COMPREHENSIVE INCOME PRESENTATION:

The Company has elected to present a single statement comprehensive income, which includes statement of income items and other comprehensive income items.

V. DISCLOSURE OF NEW IFR STANDARDS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION:IFRS 7 - "Financial Instruments: Disclosure":The Amendment Deals With A Number Of Issues, Including:

1. Clarification of requirements for disclosure, as explained in the Standard. Accordingly, the connection between quantitative disclosures and qualitative disclosures and the manner and scope of risks related to financial instruments, is stressed. In addition, requirements for disclosure of securities that an entity holds were minimized, while the requirement for disclosure of credit risks was amended. The amendment will be adopted retroactively, from periods starting on January 1, 2011. Early adoption is allowed.

2. New and broad disclosure requirements regarding the settlement of financial assets and disclosure requirements where there are extraordinary transfer rounds close to report date. The objective of the amendment is to aid users of the statements to evaluate the exposure to risks vis à vis transfers of financial assets and the effect of these risks on the financial position of the entity. The amendment will increase transparency of reporting on transfer transactions, especially vis à vis transactions involving the securitization of financial assets. The amendment will be adopted on a going forward basis, from periods starting on January 1, 2012. Early adoption is allowed.

The Company will include all relevant disclosure requirements in its financial statements.

IFRS 9 - "Financial Instruments":

During November 2009, IFRS 9 was published, as part of the first stage in a project to replace IAS 39- "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and is binding on all financial assets that fall under IAS 39.

The Standard requires that upon initial recognition, all financial assets (including hybrid instruments, as part of a host contract, which is a financial asset) be measured at fair value. In subsequent periods, the entity must measure its debt instruments at amortized cost only if the following two terms exist jointly:

- the asset is held as part of a business model, which requires holding the asset so as to collect any contractual cash flows.
- on the basis of the financial asset's contractual terms, the entity is entitled, on certain dates, to receive cash flows, which are solely payments of principal and interest on the principal balance.

Subsequent measurement of all other debt instruments and other financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value, and any differences will be charged to profit and loss or to other comprehensive profit (loss), according to the accounting policy chosen, for each instrument independently. If the issue concerns equity instruments held for trade purposes, said must be measured at fair value through profit and loss. The choice is absolutely irrevocable. However, if the entity changes its business model on the management of financial assets, it must reclassify all financial instruments, which are affected by the change in the business model in order to reflect said change. In all other circumstances, a reclassification of financial assets is not allowed.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

During October 2010, amendments were issued to IFRS 9 dealing with settlements and financial liabilities. According to provisions of the amendment, the entity must continue adopting provisions of IAS 39 in respect of any settlement, and in respect of financial liabilities, for which the fair value alternative was not chosen (designation at fair value through profit and loss). That is, the classification and measurement of IAS 39 will continue to be binding on financial liabilities held for trade purposes and on financial liabilities that are measured at amortized cost.

Changes further to said amendments affect the measurement of liabilities, for which the fair value alternative was chosen. Accordingly, the change in the fair value of liabilities - attributed to changes in credit risks - will be charged to other comprehensive income. All other changes in fair value will be charged to comprehensive income. If the charge vis à vis a change in the fair value of liabilities, as a result of changes in credit risks, to other comprehensive income, causes a lack of accounting symmetry in the statement of comprehensive income, then said change will be also charged to the statement of comprehensive income and not to other comprehensive income.

In addition, the amendment requires that liabilities vis à vis certain derivatives on non-quoted equity instruments, not be measured at cost but rather at fair value.

The Standard becomes binding on January 1, 2013. Early adoption is allowed. Initial adoption will be made retroactively by way of a restatement of comparative figures, subject to relief afforded by the Standard.

The Company is studying the possible effects of this new Standard; however, it is unable at this point in time, to estimate its effect, if any, on its financial statements

NOTE 3 - COLLABORATION AGREEMENTS:

A. On August 27, 2008, the Company signed investment and collaboration agreements with Monsanto. On the basis of the investment agreement, Monsanto invested \$ 18 million. Furthermore, on the basis of the investment agreement, on August 27, 2008, the Company issued, to Monsanto, 3,272,727 Ordinary shares, NIS 0.01 par value each, and a put option that may be exercised at a fixed price of \$ 6.9473 per share for the issue of 1,727,273 additional shares. Issue costs totaled \$ 10 thousand. The put option was charged to equity.

Upon signing the investment agreement, a collaboration agreement for up to \$ 35 million was also signed. Under said agreement, the Company will supply third parties with development services and an exclusive license, unlimited in time, for the use of certain genes based on the Company's technology, for the purpose of research and commercialization to enhance certain genetic plant growths. In addition, the Company will issue a nonexclusive license to a third party for the use of these genes, for research, and will issue, without cost, a nonexclusive license for certain additional findings that will be developed by the Company during a limited period of time, only for the purpose of enhancing certain genetic growths. In addition, Monsanto will pay the Company an additional amount according to milestones that will be achieved, with completion of various stages of the development of products based on said genes, and will pay royalties on future income generated by the agreement. Monsanto was given the right to expand, or alternatively reduce the volume of research and development. Upon signing the cooperation agreement, the Company received \$ 5 million.

As the investment agreement, and the agreement to provide research and development services and the provision of a right to gene licenses, were signed simultaneously, the two agreements were treated as a multiple hybrid contract. Share capital and premium were recorded at the stock exchange price on signing date. The put option was calculated at fair value on said day, using the Black & Scholes model. The royalties that will be paid in the future for the right of use to genes are at fair value and were deferred to the actual date of exercise. The net balance of the two agreements was attributed to revenue from research and development. Accordingly, the consideration received vis à vis the investment agreement was allocated as follows - share capital and premium of \$ 9,529 thousand – at market price on the Tel Aviv Stock Exchange at closing date, a put option of \$ 4,433 thousand and deferred revenue of \$ 12,882 thousand.

B. On April 20, 2009, the Company signed an agreement with Bayer CropScience AG ("Bayer") under which it will supply Bayer, over a period of three years, a certain quantity of genes, which will be identified by the Company as having the potential to improve the target traits. The Company granted Bayer an exclusive license, unlimited in time, for project gene use in the project field, subject to payments as noted below, and further to tests and development of said genes by Bayer. In addition, the Company gave Bayer the right of first refusal, during the project period, to rice licenses to use additional genes that will be identified by the Company as having the potential to improve target traits.

During and after the end of the project period, Bayer will consider the effect of the rice project genes as part of its research and development program, and if one or more of the project genes will trigger an improvement in the commercial value of the target rice traits, Bayer may commercialize a project that will host said gene - that is biotech rice seeds. Bayer is permitted to early-terminate the project without stated reason at any time during the project period.

As consideration, Bayer is committed to paying for two years of research during the project period, and milestone payments, subject to its completion of various phases of product development, which include the project genes, and royalties on any future revenue from the sale of the biotech seeds which include the project genes, and the issue of gene project licenses to third parties.

NOTE 3 - COLLABORATION AGREEMENTS (CONTINUED):

C. On June 25, 2009, the Company signed an agreement with Syngenta under which it will supply Syngenta with a certain quantity of genes having the potential to improve nematode resistance (land-living pests). The Company's involvement in the project is expected to take some 18 to 22 months from the date of signing. Syngenta will consider the effects of the genes under its soybean research and development program, and if one or more of the genes will trigger an increase in the commercial value of the soybean target traits, or any other increase, Syngenta will be granted exclusivity. Syngenta may commercialize a product, which will host this gene - that is, biotech seeds that include said gene.

As consideration for that said above, Syngenta will pay the Company for research conducted during the project period, milestone payments, subject to its completion of various stages in the development of biotech seeds that host the genes, and royalties on future revenue from the sale of the biotech seeds that host the genes, if and when Syngenta will develop and market said product.

D. On February 1, 2010, the Company signed an agreement for the early termination of its alternative energy collaboration agreement with Orfuel Inc., an American company under full ownership of Ormat Industries Ltd. The objective of the original agreement was to develop various improved species of the castor oil plant for the alternative fuel industry. As at report date, the Company continues as previously planned with this project, which it has conducted over the last two years, in respect of the research and development of improved castor oil plant traits for use as raw materials to produce bio diesel.

E. On March 16, 2010, the Company and Biogemma SAS, a French biotech company that is part of the Limagrain Group, signed a contract involving ongoing research and development, possible commercialization of corn lines, of certain genes, which the Company has identified as having the potential to improve crop yield and resistance to drought. As part of the agreement, Biogemma received an exclusive license for the research, development and commercialization of corn genes.

The Company expects to receive payment over a period of three years for granting an exclusive license to corn, subject to ongoing research and development of the genes by Biogemma. Biogemma has the sole and absolute right to terminate its gene research and development efforts at any time.

In addition, should Biogemma decide to develop a commercial product which includes the genes, that is biotech corn seeds, therefore, and subject to completion of various stages of development of the seeds by Biogemma, Biogemma will make various milestone payments (which will be offset, in full, against future royalties), and, over a certain period from the beginning of the commercialization of said products, royalties on future revenue from the sale of the seeds, and from the issue of gene licenses (corn) to third parties.

F. On December 12, 2010, the Company signed a multifaceted collaboration agreement for the genetic improvement of wheat, as well as an investment agreement, with Bayer CropScience AG ("Bayer"), a leading company involved in the production and marketing of improved quality seeds ("collaboration agreement" and "investment agreement", respectively).

1. According to the investment agreement, the Company will issue, upon closing (as defined below) 1,726,619 Ordinary shares, NIS 0.01 par value each (issued shares) to Bayer, against an investment of \$ 12 million. The investment will be based on a share price of \$ 6.95. The closing date of the investment agreement was January 10, 2011.

With closing of the investment agreement, and as long as Bayer's shareholdings of the Company will be at least 4% of the Company's issued shares, Bayer will have the right to appoint an observer, who is not a Bayer employee, or not an employee of any party related to it, to meetings of the Company's Board of Directors.

NOTE 3 - COLLABORATION AGREEMENTS (CONTINUED):

2. Under the collaboration agreement, the Company will supply Bayer with a large quantity of gene sequences and other DNA sequences (including genetic markers), which may improve or lead to an improvement of yield, resistance to any environmental stress (such as drought), a better use of fertilizers and other wheat traits. In addition, the Company will confirm the effect of the project's gene sequences on the target traits, in model plants. The project is expected to continue for five years, subject to any extension or curbing, as detailed below ("project life"). However, the project life will not be less than four years.

Bayer will consider the effect of part of the project's sequences on wheat lines, as part of its research and development programs to develop enhanced growths, by genetic improvements and by advanced breeding techniques. If improved wheat varieties will be developed using the project sequences (improved wheat varieties), they are expected to be commercialized by Bayer through its marketing channels.

As part of the agreement, and as consideration for payment of the Company's research and development expenses, milestone payments and royalties as noted below, the Company gave Bayer an exclusive license, unlimited time, to use the project sequences for research, development and commercialization of improved wheat varieties. The Company will have the sole right to the intellectual property that it will develop as part of the project vis à vis the project's sequences, subject to a license that was granted to Bayer as part of the contract, as noted above.

Bayer will pay the Company €1 million for technology that the Company previously developed, and which will serve also for the collaboration agreement. Half of this amount will be paid upon contract signing and half during January 2012. In addition, the Company will receive, over the project lifespan, annual payments for the project, of up to €14.4 million (approximately \$20 million). In addition, Bayer agreed to make milestone payments of up to millions of Euros, subject to completion of various stages in the development of improved wheat varieties, which include the project sequences and/or which will be developed using the project sequences, by Bayer, and for certain period from the beginning of commercialization of all improved wheat varieties, as noted, royalties against future income from the sale of seeds of improved wheat varieties, and the provision of licenses vis à vis the project sequences to third parties.

As part of the agreement, the Company agreed not to issue licenses for the use of the project sequences for wheat, to other parties, subject to compliance by Bayer with the contract's terms. The Company is also committed, during the project life, not to make contact with other parties vis à vis identifying and issuing licenses to gene sequences and other DNA sequences, for improving wheat lines.

Bayer is authorized, under certain circumstances, as provided by the contract, to extend the project period by one year, in whole, or in part, or to curtail it by one year, in whole or in part. In this case, the research payments will be either increased or reduced, accordingly. In addition, the Company agreed vis à vis any extension by one year as noted, to hold speedy negotiations with Bayer to extend the project beyond a six-year period.

As the investment agreement and the agreement for research and development services and the right of use to gene licenses, were signed simultaneously, the two agreements will be considered as hybrid complex contracts. Share capital and premium will be recorded according to the share price on the Stock Exchange on closing. The net amount of the two agreements will be attributed to research and development income. Income from research services will be recognized in accordance

with that noted in note 2Q.

NOTE 4 - CASH AND CASH EQUIVALENTS:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Cash available for immediate withdrawal, in NIS	536	305
Cash available for immediate withdrawal, in US\$	151	294
Cash available for immediate withdrawal, in €	387	62
Cash available for immediate withdrawal, in another currency	1	107
Cash equivalents-short-term deposits, in NIS	2,255	6,649
Cash equivalents-short-term deposits, in \$	3,853	18,005
Cash equivalents-short-term deposits, in €	2,937	793
	<u>10,120</u>	<u>26,215</u>

NOTE 5 - SHORT TERM INVESTMENTS:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
<u>A. Financial Assets Designated At Fair Value And Changes Therein, Charged To Profit And Loss:</u>		
Money market funds	1,268	1,949
Government bonds and treasury bills	19,961	3,012
	<u>21,229</u>	<u>4,961</u>
<u>B. Bank deposits *</u>	<u>4,500</u>	<u>7,063</u>
	<u>25,729</u>	<u>12,024</u>

* As at December 31, 2010, includes deposits of \$ 107 thousand (December 31, 2009 - \$ 98 thousand) which are restricted by the bank to secure guarantees vis-à-vis rental contracts, and can be used only in certain circumstances.

NOTE 6 - OTHER RECEIVABLES:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Prepayments and other items	201	90
Institutions	183	114
Income receivable	169	141
	<u>553</u>	<u>345</u>

NOTE 7 - INVESTMENT IN ASSOCIATED COMPANY:A. BREAKDOWN:

	December 31,	
	2010	2009
	\$ Thousands	
Cost of shares	-	250
Net accumulated losses, from acquisition date	-	(160)
Less - return of investment	-	(90)
	-	-

B. SUMMARIZED FINANCIAL STATEMENT INFORMATION – ASSOCIATED COMPANY:

	Year Ended December 31		
	2010	2009	2008
	\$ Thousands		
Company's share of the associated company's operating results, on the basis of its percentage holding therein:			
Loss	-	(46)	(114)

NOTE 8 - PROPERTY, PLANT, AND EQUIPMENT:Breakdown And Changes During The Year:2010:

	Laboratory Equipment	Computers And Ancillary Equipment	Office Equipment And Furniture	Installations And Leasehold Improvements	Total
	\$ Thousands				
<u>Cost:</u>					
Balance as at January 1, 2010	1,292	705	168	3,118	5,283
Additions during the year	823	430	10	493	1,756
Disposals during the year	(225)	-	-	-	(225)
Balance as at December 31, 2010	1,890	1,135	178	3,611	6,814
<u>Accumulated Depreciation:</u>					
Balance as at January 1, 2010	656	401	29	757	1,843
Additions during the year	246	180	10	461	897
Disposals during the year	(46)	-	-	-	(46)
Balance as at December 31, 2010	856	581	39	1,218	2,694
<u>Depreciated cost, December 31, 2010</u>	1,034	554	139	2,393	4,120

NOTE 8 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED):

2009:

	Laboratory Equipment	Computers And Ancillary Equipment	Office Equipment And Furniture	Installations And Leasehold Improvements	Total
	\$ Thousands				
<u>Cost</u>					
Balance as at January 1, 2009	1,025	505	90	983	2,603
Additions during the year	271	200	78	2,135	2,684
Disposals during the year	(4)	-	-	-	(4)
Balance as at December 31, 2009	<u>1,292</u>	<u>705</u>	<u>168</u>	<u>3,118</u>	<u>5,283</u>
<u>Accumulated Depreciation</u>					
Balance as at January 1, 2009	486	272	20	466	1,244
Additions during the year	171	129	9	291	600
Disposals during the year	(1)	-	-	-	(1)
Balance as at December 31, 2009	<u>656</u>	<u>401</u>	<u>29</u>	<u>757</u>	<u>1,843</u>
Depreciated cost, December 31, 2009	<u>636</u>	<u>304</u>	<u>139</u>	<u>2,361</u>	<u>3,440</u>

NOTE 9 - INTANGIBLE ASSETS:Breakdown And Changes During The Year:

2010:

	Licenses
	\$ Thousands
<u>Cost</u>	
Balance, as at January 1, 2010 and December 31, 2010	<u>312</u>
<u>Accumulated Amortization</u>	
Balance as at January 1, 2010	95
Amortization during the year	<u>46</u>
Balance as at December 31, 2010	<u>141</u>
<u>Net balance as at December 31, 2010</u>	<u>171</u>

NOTE 9 - INTANGIBLE ASSETS (CONTINUED):2009:

	<u>Licenses</u> <u>\$ Thousands</u>
<u>Cost</u>	
Balance, as at January 1, 2009 and December 31, 2009	312
<u>Accumulated Amortization</u>	
Balance as at January 1, 2009	51
Amortization during the year	44
Balance as at December 31, 2009	95
Net balance as at December 31, 2009	217

Amortization Expenses:

Intangible assets amortization expense is recorded in the statement of comprehensive income, under:

	<u>Year Ended December 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ Thousands</u>		
Research and development expenses	46	44	51

NOTE 10 - CURRENT MATURITIES OF OTHER NONCURRENT LIABILITIES:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Current maturities – deferred revenue	3,718	3,792
Current maturities – liabilities in respect of financial leases	-	7
Current maturities – liabilities to the Chief Scientist	400	283
	4,118	4,082

NOTE 11 - TRADE PAYABLES:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Open accounts	622	368
Notes payable	432	307
	1,054	675

NOTE 12 - OTHER PAYABLES:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Expenses payable	336	149
Liabilities to employees and other salary-related liabilities	745	430
Provisions for vacation and recuperation pay	315	217
Institutions	<u>553</u>	<u>203</u>
	<u>1,949</u>	<u>999</u>

NOTE 13 - NONCURRENT LIABILITIES:Options:

On May 31, 2009, 99.6 % of Series 1 Options that the Company had originally issued as part of its 2007 public issue were exercised. As consideration, the Company received \$ 8.8 million. On exercise date, the Company charged the market value of Series 1 Options - \$ 2.6 million - to equity.

During 2010, 250,386 Series 2 Options were exercised, against a consideration of \$ 854 thousand.

By December 31, 2010, the Company has issued 4,301,198 Series 2 Options that are available for conversion into 4,301,198 Ordinary shares, NIS 0.01 par value each (subject to adjustment) against an exercise premium of NIS 11.05, linked to the Consumer Price Index. The options are available for conversion up to May 31, 2011.

NOTE 14 - LIABILITIES IN RESPECT OF GRANTS FROM THE CHIEF SCIENTIST:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
Balance as at January 1	3,577	3,065
Grants received during the year	320	505
Royalties paid during the year	(280)	(210)
Amounts charged to the statement of comprehensive income	<u>282</u>	<u>217</u>
Balance as at December 31	<u>3,899</u>	<u>3,577</u>
Reported under:		
Current liabilities	<u>400</u>	<u>284</u>
Noncurrent liabilities:	<u>3,499</u>	<u>3,293</u>

The Company received research and development participation grants from the Government, and undertook to pay royalties of 3%-5% on sales derived from research and development projects that were financed by the Government, of up to 100% of the grants received. Up to December 31, 2010, grants received totaled \$ 4,462 thousand, while royalties paid totaled \$ 516 thousand.

NOTE 15 - FINANCIAL INSTRUMENTS:A. CLASSIFICATION OF FINANCIAL ASSETS:

The classification of financial assets by financial instrument groups, in accordance with IAS 39 is as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
<u>Financial Assets:</u>		
Financial assets at fair value through profit and loss:		
Financial assets designated upon initial recognition	21,229	4,961
Financial assets classified as available for sale	-	57
	<u>21,229</u>	<u>5,018</u>
Receivables	<u>11,187</u>	<u>26,115</u>
<u>Financial Liabilities:</u>		
Financial liabilities measured at amortized cost	-	124
Financial liabilities at fair value through profit and loss:		
Financial liabilities designated upon initial recognition	<u>9,199</u>	<u>4,349</u>

B. FINANCIAL RISK FACTORS:

The Company's operations expose it to various financial risks, such as market risk (foreign currency risk, price risk) and credit risk. The group's comprehensive risk management plan focuses on measures to minimize possible negative effects on its financial performance. The Company uses derivative financial instruments to hedge against exposure to certain risks.

The board of directors has provided written guidelines for the Company's overall risk management, and specific policies for various risk exposures, such as foreign currency risk, interest-rate risk, credit risk, the use of derivative financial instruments, non-derivative financial instruments, and excess-liquidity investments.

1. MARKET RISKS:A. Foreign Currency Risk:

The Company operates primarily in Israel, and an exchange rate risk results as it incurs fixed expenses in New Israel Shekels, which is not its functional currency. The Company's CEO manages the net foreign currency positions.

On a regular basis, the Company considers the need for currency hedging transactions on the basis of an analysis of internal and external trends.

NOTE 15 - FINANCIAL INSTRUMENTS (CONTINUED):B. Price Risk:

The Company has investments in bonds, classified as financial instruments, which are measured at fair value through profit and loss. Accordingly, the group is exposed to risk from changes in fair value, determined by Stock Exchange prices.

2. Credit Risk:

The Company holds cash and cash equivalents, short and long-term investments and other financial instruments with various financial institutions. The Company's policy is to spread its investments among various institutions. In accordance with this policy, and on a regular basis, an evaluation is made of the relative credit stability of the various financial institutions.

3. Interest Rate Risk:

The Company is exposed to risks in respect of changes in market interest rates vis à vis its short-term investments and financial leases that carry variable interest rates.

Details of interest classes of the group's interest-bearing financial instruments:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$ Thousands</u>	
<u>Instruments, At Fixed Interest Rates:</u>		
Financial liabilities	-	124
<u>Instruments At Variable Interest Rates:</u>		
Financial liabilities	3,889	3,576

4. Liquidity Risk:

Financial liabilities repayable, in accordance with contractual terms, on an undiscounted basis (including interest), are as follows:

December 31, 2010:

	<u>Up to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 4</u>	<u>4 to 5</u>	<u>More</u>	
	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Than 5</u>	<u>Total</u>
	<u>\$ Thousands</u>						
Trade payables	1,054	-	-	-	-	-	1,054
Other payables	1,949	-	-	-	-	-	1,949
Liabilities to the Chief Scientist	400	487	644	711	837	820	3,899
	<u>3,403</u>	<u>487</u>	<u>644</u>	<u>711</u>	<u>837</u>	<u>820</u>	<u>6,902</u>

NOTE 15 - FINANCIAL INSTRUMENTS (CONTINUED):December 31, 2009:

	<u>Up to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 4 Years</u>	<u>4 to 5 Years</u>	<u>More Than 5 Years</u>	<u>Total</u>
	<u>\$ Thousands</u>						
Trade payables	675	-	-	-	-	-	675
Other payables	999	-	-	-	-	-	999
Liabilities in respect of a financial lease	7	8	8	9	10	81	123
Liabilities to the Chief Scientist	<u>284</u>	<u>436</u>	<u>468</u>	<u>676</u>	<u>745</u>	<u>968</u>	<u>3,577</u>
	<u>1,965</u>	<u>444</u>	<u>476</u>	<u>685</u>	<u>755</u>	<u>1,049</u>	<u>5,374</u>

C. FAIR VALUE:

Cash and cash equivalents, short-term investments, other receivables, trade payables and other payables balances, are equal to or are closely equal to their fair values.

D. FAIR VALUE HIERARCHY:

Financial instruments are reported at fair value and are classified according to categories having similar characteristics, by the following fair value hierarchy, which is a function of the source of information that was used for determining the fair value.

Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities.

Level 2: information, which is not quoted information, included in level 1 that can be observed directly or indirectly.

Level 3: information, which is not based on observable market information (estimation techniques without use of observable market data).

Financial Assets Measured At Fair Value:December 31, 2010:

	<u>Level 1 NIS Thousands</u>
Financial assets at fair value through profit and loss:	
Money market funds	1,268
Government bonds and treasury bills	<u>19,961</u>
	<u>21,229</u>

NOTE 15 - FINANCIAL INSTRUMENTS (CONTINUED):December 31, 2009:

	<u>Level 1</u> <u>NIS</u> <u>Thousands</u>
Financial assets at fair value through profit and loss:	
Money market funds	1,949
Government bonds and treasury bills	3,012
Financial derivatives	<u>57</u>
	<u><u>5,018</u></u>

E. SENSITIVITY TESTS FOR CHANGES IN MARKET FACTORS:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS Thousands</u>	
<u>Sensitivity Tests - Changes In The NIS/\$ Exchange Rate:</u>		
Profit (loss) from change:		
Increase of 5% in the exchange rate	225	(254)
Decrease of 5% in the exchange rate	(225)	254
<u>Sensitivity Tests - Changes In The NIS/€Exchange Rate:</u>		
Profit (loss) from change:		
Increase of 5% in the exchange rate	170	50
Decrease of 5% in the exchange rate	(170)	(50)
<u>Sensitivity Tests - Changes In Stock Exchange Prices Of Marketable Securities:</u>		
Profit (loss) from change		
Increase of 5% in the stock exchange price	920	239
Decrease of 5% in the stock exchange price	(920)	(239)
Change in equity:		
Increase of 5% in the stock exchange price	920	239
Decrease of 5% in the stock exchange price	(920)	(239)

NOTE 15 - FINANCIAL INSTRUMENTS (CONTINUED):Sensitivity Analyses And Main Assumptions:

The changes selected in the relevant risk variables were based on management's assessments of reasonable changes that are likely in these risk variables.

The Company prepared sensitivity tests vis à vis the main market risk factors that could affect its operating results or reported financial situation. The sensitivity tests test profit or loss and/or changes in equity (before tax) for each financial instrument in respect of the relevant risk variable as at the reporting date. The risk factors are tested on the basis of significance of the exposure of the operating results or the financial situation for each risk factor in relation to the functional currency, assuming that all the other variables are constant.

Sensitivity tests for marketable investments with a quoted market price (TASE price) were based on possible changes in these market prices.

NOTE 16 - TAXES ON INCOME:A. TAX LAWS THAT APPLY TO THE COMPANY:Income Tax Law (Taxation Under Inflationary Conditions), 5745 – 1985:

According to the Law, up to the end of 2007, results for tax purposes in Israel were measured after adjustments for changes in the Consumer Price Index.

During February 2008, the Israel Knesset adopted an amendment to Income Tax Ordinance - Income Tax Law (Taxation Under Inflationary Conditions), 5745 – 1985, limiting the applicability of said law from 2008, onwards. From 2008, results for income tax purposes are measured in nominal terms, with the exception of certain adjustments for changes in the Consumer Price Index in the period up to December 31, 2007. Adjustments vis à vis capital gains, for example on the sale of real estate (land improvements) and securities, continue to be required up to their realization dates. The amendment includes, inter alia, cancellation of certain additions, deductions, the special deduction for inflation, and the additional deduction for depreciation, as at 2008.

Law for Encouragement of Capital Investment, 5719-1959 ("Law"):

Under this Law, the Company is entitled to various tax benefits, based on its "approved enterprise" status, as granted to some of its plants, and as defined by the Law. The primary benefits include:

Benefits and Reduced Tax Rates:Alternative Track:

Under this track, during the benefit period, the Company is entitled to an exemption from tax during the first two years (by development areas) and reduced tax rates of 10%-25% for a period of five to eight years during the remaining benefit period (according to the rate of foreign investment).

NOTE 16 - TAXES ON INCOME (CONTINUED):

If the plan was approved after April 1, 2005, an additional condition for benefits under the alternative track is that a "minimum qualifying investment" has been made. This relates to an investment in productive assets, such as machinery and equipment (and vis à vis hotels-also buildings), that must be made within three years. The minimum qualifying investment required for a plant is NIS 300,000. Regarding any plant expansion, the minimum qualifying investment required is NIS 300,000 or an amount equal to "qualifying rate" of the value of productive assets, whichever is higher. Productive assets will also include productive assets that serve the enterprise but are not owned by the enterprise.

The "qualifying rate" of the value of productive assets is calculated as follows:

<u>Part Of The Value Of Productive Assets, Before The Expansion (NIS Million)</u>	<u>Rate Of New Investment Required, Expressed As A Percentage Of The Value Of Productive Assets</u>
Up to 140	12%
140-500	7%
In excess of 500	5%

Qualifying income for tax benefits under the alternative track is defined as the taxable income of a company that complied with certain conditions, as set out by the Law (beneficiary company), that was earned from an industrial enterprise or a hotel. The Law sets out the sources of income that qualify for tax benefits under the alternative track, vis-à-vis an industrial plant and vis-à-vis a hotel. Said income from an industrial plant includes, inter alia, income from the production of software products, and their development, and income from industrial research and development for a foreign resident (who was approved as such by the Head of the Industrial Research and Development Administration).

A plan for an expansion of the Company's plant received "beneficiary enterprise" status, under the alternative benefits track. Accordingly, income earned from the beneficiary plant will be subject to said terms.

The benefit entitlement period starts from the first year that the approved enterprise first earned taxable income, on condition that 14 years have not elapsed from the year in which the approval was given, and 12 years from the year that the plant was originally started. For expansion plans under Amendment 60 of the Law, the benefit entitlement period starts from the "year of choice", or from the year when the Company first earned taxable income, the latter of the two, on condition that 12 years have not elapsed from the first day of the "year of choice", and vis à vis a plan to setup companies in Development Area "A" - 14 years from the first day of the "year of choice."

If dividends will be distributed from tax-exempt income, as stated above, the Company will be liable for tax at the rate that would have been imposed on income from its approved enterprise in the year that it earned said income, as if it did not choose the alternative track (tax rate of 25%). The Company's policy is not to distribute dividends from said income.

A basic condition for benefits under this track is that the enterprise contributes to the economic strength of the State, and that it is competitive with local production ("competitive enterprise"). In order to comply with this condition, the Law sets out various requirements regarding an industrial enterprise and regarding a hotel.

NOTE 16 - TAXES ON INCOME (CONTINUED):Amendment to the Law For Encouragement Of Capital Investments, 5719-1959 ("Law"):

During December 2010, the Israel Knesset passed its Economic Policy Law for 2011 and 2012 (Legislative Amendments), 5771-2011, which set out, inter alia, amendments to the Law for Encouragement of Capital Investment, 5719-1959 ("Law"). The Amendment became effective on January 1, 2011. The Amendment changes the benefits tracks available under the Law, and imposes a uniform tax rate on all preferred income of a company. From the 2011 tax year, a company is allowed to choose (without any possibility to reverse its choice), if to fall under the Amendment, and from said tax year (the year of choice), said company will be taxed under the amended tax rates. The tax rates under the Amendment are as follows: 2011 and 2012 -15% (in Development Area "A"-10%), 2013 and 2014 - 12.5% (in Development Area "A"-7%), and from 2015 onwards - 12% (in Development Area "A"-6%).

The Company is currently considering the effect of the Amendment to the Law for Encouragement of Capital Investments on its financial position, and as at financial statement publication date, believes that it will not choose to accept the new Amendment. This opinion may change in the future.

B. APPLICABLE TAX RATES:

Israeli corporate tax rates are as follows: 2008 – 27%, 2009 - 26%, and 2010 - 25%. Tax at the reduced rate of 25% will be binding on capital gains generated after January 1, 2003, in lieu of ordinary tax rates. During July 2009, the Israel Knesset approved the Economic Efficiency Law (Legislative Amendments to Implement the 2009-2010 Economic Plan), 5769-2009, which set out, inter alia, a gradual reduction of corporate tax and "real" capital gains tax, starting from 2011, to the following tax rates: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

These changes did not have any material effect on the Company's financial position.

C. TAX ASSESSMENTS:

The Company has received assessments that are considered final, up to and including the 2006 tax year.

D. LOSSES CARRIED FORWARD FOR TAX PURPOSES AND OTHER TEMPORARY DIFFERENCES:

The Company has losses for tax purposes that can be carried forward to future tax years, of \$14 million, as at December 31, 2010.

The subsidiary has losses for tax purposes that can be carried forward to future tax years, of \$12 thousands, as at December 31, 2010.

No deferred tax asset in respect of these carry forward losses has been included, in the absence of any expectation of their use in the near future.

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES:

A. The Company leases office space and vehicles, under operating leases. Future rental payments that cannot be canceled as at December 31, 2010 are as follows:

	<u>\$ Thousands</u>
2011	592
2012	553
2013	<u>408</u>
	<u><u>1,553</u></u>

B. The Company received, from the State of Israel and from the Israel-U.S. Binational Industrial Research And Development Fund (Bird), participation grants for research and development, and accordingly undertook to pay royalties of 5% on sales generated by research and development financed by said, up to 150% of the grants that were received. Grants received up to December 31, 2010 totaled \$ 349 thousand. Royalty payments have not yet been made.

NOTE 18 – EQUITY:A. SHARE CAPITAL:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Authorized</u>	<u>Issue and Paid</u>	<u>Authorized</u>	<u>Issue and Paid</u>
	<u>Number of Shares</u>			
Ordinary shares, NIS 0.01 par value each	<u>300,000,000</u>	<u>30,262,522</u>	<u>300,000,000</u>	<u>29,446,257</u>

B. CHANGES IN SHARE CAPITAL:

Share Capital Issued and Paid:

	<u>Number of Shares</u>
<u>Balance as at January 1, 2009</u>	24,287,433
Conversion of options to shares	<u>5,158,824</u>
<u>Balance, 31.12.2009</u>	29,446,257
Conversion of options to shares	<u>816,265</u>
<u>Balance as at December 31, 2010</u>	<u><u>30,262,522</u></u>

C. SHARE RIGHTS:

1. Voting rights at the general meeting, rights to dividends, rights upon liquidation, and the right to appoint directors.

2. Trading on the Tel Aviv Stock Exchange.

NOTE 18 - EQUITY:D. CAPITAL MANAGEMENT:

The Company's objectives in managing capital are as follows:

To maintain its ability to ensure the continuity of the business, and thus to generate a return to equity holders, investors and other interested parties.

The Company manages its capital structure and makes adjustments following changes in economic conditions and the risk-nature of its operations. In order to maintain or to adjust the necessary capital structure, the Company takes various steps, such as raising funds by capital issues.

E. CAPITAL ISSUES:

1. On June 13, 2007, the Company completed a public offering of shares and traded options on the Tel Aviv Stock Exchange.

2. On April 29, 2008, the Company signed an investment agreement with a venture capital fund ("fund" or investor"). Pursuant to the investment agreement, in May 2008, the fund invested \$ 2 million in the Company. Furthermore, and pursuant to the investment agreement, on May 14, 2008 the Company issued 1,107,700 Ordinary shares, NIS 0.01 par value each, at NIS 6.5 per share, and 651,584 Series 2 Options, convertible up to May 31 2011, into 651,584 Ordinary shares, at an exercise price of NIS 11.05 per share, linked to the Consumer Price Index of April 2007, in accordance with conditions outlined in the Company's May 30, 2007 prospectus. As a result of the share and option issue, the investor became an interested party of the Company, further to his holdings of 5.34% of the Company's issued share capital. In addition, the Company has been granted a put option, at an exercise price of NIS 4.5 per share, up to a total amount of shares equivalent to \$ 2 million on the exercise date. Exercise of the put option, in whole or in part, may be executed by the Company by May 31, 2010. As at report date, the investor ceased to be an interested party of the Company on the basis of his shareholdings.

Consideration received was attributed by the Company as follows: put options of \$ 476 thousand (NIS 1,648 thousand) according to a valuation report, options of \$ 357 thousand (NIS 1,239 thousand) according to their value on the Stock Exchange on grant day, and share capital and share premium of \$2,164 thousand (NIS 7,501 thousand). Put options that the Company received and call options that the Company granted were recorded under assets and liabilities, respectively, and are revalued on a regular basis through the statement of comprehensive income. Issue expenses totaled \$ 31 thousand (NIS 108 thousand).

3. On August 27, 2008, the Company signed an investment agreement and a collaboration agreement with Monsanto. See note 3 to the financial statements.

4. On May 31, 2009, 99.6 % of the Series 1 Options were exercised, against consideration of \$8.8 million. On exercise date, the Company charged the market value of the Series 1 Options - \$2.6 million - to equity.

5. During May 2009 various investors converted 137,025 options into 137,025 Ordinary shares, NIS 0.01 par value each, against a consideration of \$236 thousand.

6. During 2010, all Series 2 Options were exercised. See note 13 to the financial statements.

NOTE 19 - SHARE-BASED PAYMENTS:A. EXPENSES RECOGNIZED IN THE FINANCIAL STATEMENTS:

The expense recognized in the Company's financial statements for services provided by employees and service-providers is as follows:

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ Thousands</u>		
Share-based payment plans settled by equity instruments	<u>2,562</u>	<u>1,043</u>	<u>668</u>

Share-based payment transactions that were granted by the Company to its employees, as follows:

B. SHARE-BASED PAYMENT PLAN FOR EMPLOYEES AND SERVICE-PROVIDERS:

1. Under the Company's 2002 option plan ("2002 Plan") the Company may grant options to its directors and consultants. Each option granted subject to the 2002 Plan may be converted within 10 years from the grant date, or until expiry (as defined by the Plan) whichever is earlier. The Plan will expire on December 31, 2012.

2. During December 2003, an additional option plan was approved ("2003 Plan"). According to the 2003 Plan, the Company may grant options to Company directors and employees. Each option granted subject to the 2003 Plan may be converted within 10 years from the grant date, or until expiry (as defined by the Plan) whichever is earlier. The 2003 Plan is pursuant to Section 102 - capital gain track through a trustee.

The vesting period of the options is four years, unless otherwise provided by the specific grant. Each option may be converted into 1 Ordinary share, NIS 0.01, par value each. Options that were forfeited or not exercised before their expiry, can be re-granted in the future.

On May 18, 2008, the Company's board of directors approved a private placement of 260,000 options (non-registered) that are convertible into 260,000 Ordinary shares. The options will vest over a period of 4 years, and carry an exercise premium of NIS 4.3308 per share. The fair value of the options was estimated on grant date on the basis of the Binominal model. The overall value of options granted is \$ 185 thousand. The options were issued on May 27, 2008, and will expire 10 years after grant date.

On July 6, 2008, the Company's board of directors approved a private placement of 277,000 options (non-registered) that are convertible into 277,000 Ordinary shares. The options will be granted to new employees, directors and consultants. Of the 277,000 options, on July 21, 2008, and September 2, 2008, the Company granted 235,000 options (non-registered), convertible into 235,000 Ordinary shares, to some employees and consultants. The fair value of the options granted on grant date, was calculated on the basis of the Binominal model. The overall value of options granted is \$ 262 thousand. The options will expire 10 years after grant date.

On March 4, 2009, the Company's board of directors approved a private placement to company employees of 332,500 options (non-registered) convertible into 332,500 Ordinary shares. The options were granted on March 12, 2009, will vest over a period of 4 years, and carry an exercise price of NIS 7.78 per share. The value of the options on grant date was \$ 359 thousand, with the value being calculated on the basis of the Binominal model, using a range of non-risk interest rates of 1.12% to 6.86%. The options will expire 10 years after grant date.

NOTE 19 - SHARE-BASED PAYMENTS (CONTINUED):

On August 12, 2009, the Company's board of directors approved a grant of 862,500 options (non-registered) available for conversion into 862,500 Ordinary shares, to company employees. Of said grant, 562,500 options (non-registered) were granted on August 25, 2009. These options will vest over a period of 4 years, and carry an exercise premium of NIS 12.67 per share. The value of the options on grant date was \$ 1,132 thousand, with the value being calculated using the Binominal model, using a range of non-risk interest rates of 1.93% to 9.64%. The options will expire 10 years after grant date.

On February 4, 2010, the Company's board of directors approved a grant of 50,000 options (non-registered) available for conversion into 50,000 Ordinary shares, to a company consultant. The exercise premium is NIS 15.75 per share. The options' vesting period is subject to a certain future event, as agreed between the parties. The options were granted on April 11, 2010. On October 12, 2010, the Company terminated its understanding with the consultant, and as a result, the 50,000 options that the consultant received expired.

On June 2, 2010, the Company's board of directors approved a grant to company employees and officeholders (except for directors and the Company's CEO), of 2,322,300 options (non-registered), available for conversion into 2,322,300 Ordinary shares, on the basis of a formal offer of securities to employees. The options were granted on June 20, 2010, will vest over a period of four years and carry an exercise premium of NIS 14.33 per share. The value of the options as at grant date was \$ 3.3 million. Value was calculated on the basis of the Binomial model using a range of non-risk interest rates of 2.17% to 7.04%, a share price of NIS 14.64, a dividend yield of 0%, and expected fluctuations in share price of 47.31% to 76.52%.

On November 17, 2010, the Company's board of directors approved a grant to company employees of 152,000 options (non-registered), available for conversion into 152,500 Ordinary shares, on the basis of a formal offer of securities to employees. The options were granted on November 17, 2010. The options will vest over a period of four years and carry an exercise premium of NIS 18.745 per share. The value of the options as at grant date was \$ 262 thousand. Value was calculated on the basis of the Binomial model using a range of non-risk interest rates of 2.47% to 6.26%, a share price of NIS 18.09, a dividend yield of 0%, and expected fluctuations in share price of 40.89% to 73.88%.

C. OPTIONS TO INTERESTED PARTIES AND DIRECTORS:

On July 6, 2008, the Company's board of directors approved a grant of 277,000 options (non-registered) convertible into 277,000 Ordinary shares, NIS 0.01 par value each. The options will be granted to new employees, directors and consultants. On July 21, 2008, the Company allocated 30,000 options (non-registered) of said 277,000 options, convertible into 30,000 Ordinary shares, to company directors. The fair value of the options on grant date, was calculated on the basis of the Binominal model. The fair value of the grant was \$ 29 thousand.

On August 13, 2008, the Company's board of directors approved a private placement of 30,000 options (non-registered), convertible into Ordinary shares to Compugen (an interested party of the company) in lieu of options to a consultant, who is an employee of Compugen, in respect of services rendered to the Company. The option exercise price will be equal to the average closing price of the Company's shares on the Tel Aviv Stock Exchange during the 15 trading day period preceding the option grant date. 10,000 options will be available for conversion immediately upon grant. The balance of options will vest in equal tranches over a period of 16 quarters, starting June 11, 2008. The options may be exercised over a period of 10 years from the date of actual grant. The fair value of the options was estimated on grant date on the basis of the Binominal model. The overall value of options granted was \$ 25 thousand. Following the resignation of Dr. Eli Zangbil from the Company's board of directors, said options expired.

On January 4, 2009, the Company's general meeting of shareholders approved a grant of 30,000 options (non-registered) convertible into 30,000 Ordinary shares to directors. Following general meeting approval, the options were issued on January 6, 2009. The options will vest over a period of four years. Exercise price is NIS 6.08 per share. The options were valued at \$ 30 thousand. The value of the options was calculated on the basis of the Binominal model, using a range of non-risk interest rates of 1.84% to 7.07%. The options will expire 10 years after grant date.

NOTE 19 - SHARE-BASED PAYMENTS (CONTINUED):

On August 12, 2009, the Company's board of directors approved a grant of 862,500 options (non-registered) convertible into 862,500 Ordinary shares, to employees and a private placement of 300,000 options (non-registered) convertible into 300,000 Ordinary shares, to the Company's CEO. The options were granted on August 25, 2009. Said options will vest over a period of four years and carry an exercise premium of NIS 12.67 per share. The options were valued at \$ 593 thousand, as at grant date. The value of the options was calculated on the basis of the Binominal model, using a range of non-risk interest rates of 1.93% to 9.64%. The options will expire 10 years after grant date.

On February 4, 2010 and on March 24, 2010, the Company's board of directors, and the general meeting of the Company shareholders, approved, respectively, an allocation of 45,000 options, (non-registered), convertible into 45,000 Ordinary shares, to directors. Said options will vest over a period of four years and carry an exercise premium ranging from NIS 9.97 to NIS 12.78 per share. The options will expire 10 years after grant date. The options were issued on April 11, 2010, and were valued at \$ 107 thousand, as at grant date. Value was calculated on the basis of the Binomial model using a range of non-risk interest rates of 2.21% to 7.14%, a share price of NIS 18.01, a dividend yield of 0%, and expected fluctuations in share price of 51.63% to 76.28%.

On June 2, 2010, the Company's board of directors approved a significant private placement to the Company's CEO and president of 400,000 options (non-registered), convertible into 400,000 Ordinary shares. The options were granted on June 20, 2010. The options will vest over a period of four years and carry an exercise premium of NIS 14.33 per share. The options will expire 10 years after their grant. The value of the options as at grant date was \$ 591 thousand. Value was calculated on the basis of the Binomial model using a range of non-risk interest rates of 2.17% to 7.04%, a share price of NIS 14.64, a dividend yield of 0%, and expected fluctuations in share price of 47.31% to 76.52%.

On August 8, 2010, the Company's board of directors approved an allocation to sitting directors of 35,000 options (non-registered), available for conversion into 35,000 Ordinary shares. On August 8, 2010, the Company's audit committee and board of directors approved a directors' options program, for external directors, and on this basis, approved a grant of 20,000 options (non-registered), available for conversion into 20,000 Ordinary shares. The options were issued on September 19, 2010, will vest over a period of four years and carry exercise premiums ranging from NIS 14.01 to NIS 16.93 per share. The options will expire 10 years after initial grant, and their value on grant date was \$113 thousand. Value was calculated on the basis of the Binomial model, using a range of non-risk interest rates of 2.4% to 6.33%, a share price of NIS 17.8, a dividend yield of 0%, and expected fluctuations in share price of 42.52% to 75.33%.

D. OPTIONS EXERCISED:

During 2009, employees and service providers converted 1,135,907 non-registered options into 1,135,907 Ordinary shares, NIS 0.01 par value each, against a consideration of \$ 424 thousand.

During 2010, employees and service providers converted 565,879 non-registered options into 565,879 Ordinary shares, NIS 0.01 par value each, against a consideration of \$ 458 thousand.

NOTE 19 - SHARE-BASED PAYMENTS (CONTINUED):E. CHANGES DURING THE YEAR:

Share options, their weighted average exercise prices, and changes made in option plans for employees, consultants, interested parties and directors, were as follows:

	<u>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>Number of</u>	<u>Weighted</u>	<u>Number of</u>	<u>Weighted</u>	<u>Number of</u>	<u>Weighted</u>
	<u>Options</u>	<u>Average</u>	<u>Options</u>	<u>Average</u>	<u>Options</u>	<u>Average</u>
		<u>Exercise</u>		<u>Exercise</u>		<u>Exercise</u>
		<u>Prices (\$)</u>		<u>Prices (\$)</u>		<u>Prices (\$)</u>
Options on shares, beginning of year	3,784,517	1.56	3,732,504	0.66	3,616,775	0.56
Options on shares, granted during the year	3,024,800	4.1	1,225,000	2.95	555,000	1.5
Options on shares, exercised during the year	(565,879)	0.81	(1,002,362)	0.31	(275,688)	0.22
Options on shares, forfeited during the year	(216,834)	3.05	(170,625)	1.071	(163,583)	0.74
Options on shares, end of the year	<u>6,026,604</u>	<u>2.09</u>	<u>3,784,517</u>	<u>1.56</u>	<u>3,732,504</u>	<u>0.66</u>
Options on shares, available for exercise, end of year	<u>2,489,735</u>	<u>1.69</u>	<u>1,956,544</u>	<u>0.87</u>	<u>2,157,555</u>	<u>0.48</u>

F. The weighted average expected lifespan of options on shares outstanding as at December 31, 2010 is 5.66 years (December 31, 2009 – 7.26 years).

G. The weighted average fair value of options on shares that were granted during 2010 was NIS 6.74 (\$ 1.81) (December 31, 2009 - NIS 7.74 (\$2.05)).

H. MEASUREMENT OF THE FAIR VALUE OF OPTIONS SETTLED BY EQUITY INSTRUMENTS:

The Company uses the Binominal model to measure the fair value of options that are settled by equity instruments. The measurement is made when the options that are granted are settled by equity instruments.

If the options were granted to service providers, the fair value measurement of fair value is recalculated upon receipt of the service.

NOTE 19 - SHARE-BASED PAYMENTS (CONTINUED):

Share data used for measuring the fair value of options for the years ended December 31, 2010, 2009, and 2008, was as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend return	-	-	-
Expected share price fluctuations (%)	41-76	73-87	44-80
Non-risk interest rate (%)	2.17-7.14	2.06-6.88	4.29-7.13
Expected option lifespan (years)	3.95	4.41	5.041
Weighted average share price (NIS /\$)	14.55/4.09	11.18/2.84	5.88/1.64

Expected option lifespan is based on the Company's historical data, which does not necessarily reflect future exercise patterns of the options on shares.

Expected share price fluctuations reflect the assumption that the historical fluctuations of the share price are a good indication of any future expected trend.

NOTE 20 - ADDITIONAL DETAILS - STATEMENT OF COMPREHENSIVE INCOME:A. COST OF REVENUE:

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ Thousands</u>		
Salaries and benefits	3,188	2,668	965
Share-based payments	785	352	-
Sub-contractors and consultants	419	563	215
Various raw materials	681	457	161
Depreciation	284	322	-
Patents and other items	140	216	-
Rentals and maintenance	314	384	73
	<u>5,811</u>	<u>4,962</u>	<u>1,414</u>

B. RESEARCH AND DEVELOPMENT EXPENSES:

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ Thousands</u>		
Salaries and benefits	2,535	1,342	2,065
Share-based payments	784	235	315
Materials and subcontractors	944	148	121
Plant growth and greenhouse maintenance	204	109	177
Rentals and office maintenance	369	174	231
Patents	180	300	240
Depreciation	663	322	370
Consultation	279	105	219
Other items	129	61	90
Participation by the Chief Scientist and other parties	(543)	(227)	250
	<u>5,544</u>	<u>2,569</u>	<u>4,078</u>

NOTE 20 - ADDITIONAL DETAILS - STATEMENT OF COMPREHENSIVE INCOME (CONTINUED):C. BUSINESS DEVELOPMENT EXPENSES:

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
Salaries and benefits	556	405	406
Share-based payments	307	78	102
Foreign travel	40	74	72
Consultation	131	163	305
Other items	28	19	37
	<u>1,062</u>	<u>739</u>	<u>922</u>

D. MANAGEMENT AND GENERAL EXPENSES:

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
Salaries and benefits	845	584	447
Share-based payments	686	380	245
Hospitality	82	110	86
Consultation	62	93	88
Office maintenance and insurance	107	83	54
Professional services	231	172	176
Other items	56	35	64
	<u>2,069</u>	<u>1,457</u>	<u>1,160</u>

E. FINANCING INCOME AND EXPENSES:Financing Income:

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
Income from exchange rate differences	386	681	-
Net change in the fair value of financial assets, through profit and loss	159	52	68
Interest income - bank deposits	179	669	381
	<u>724</u>	<u>1,402</u>	<u>449</u>

NOTE 20 - ADDITIONAL DETAILS - STATEMENT OF COMPREHENSIVE INCOME (CONTINUED):Financing Expenses:

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
Financial expenses-capital leases	-	8	9
Bank charges, commissions	10	46	9
Expenses in respect of changes in foreign currency exchange rates	-	-	55
	<u>10</u>	<u>54</u>	<u>73</u>

NOTE 21 - LOSS PER SHARE:A. DETAILS OF SHARES AND LOSS USED FOR CALCULATING LOSS PER SHARE:

	Year Ended December 31,					
	2010		2009		2008	
	Number of Shares	Loss \$ Thousands	Number of Shares	Loss \$ Thousands	Number of Shares	Loss \$ Thousands
Number of shares and loss used for calculating basic loss per share	<u>29,649,405</u>	<u>6,970</u>	<u>27,323,934</u>	<u>3,409</u>	<u>21,487,032</u>	<u>4,808</u>

B. In calculating the diluted loss per share, convertible securities (potentially dilutive Ordinary shares) as noted below, were not included as their inclusion would have reduced any basic loss per share from continuing operations (anti-dilutive effect): 10,327,802 options.

NOTE 22 - TRANSACTIONS WITH INTERESTED AND RELATED PARTIES:A. BENEFITS TO INTERESTED AND RELATED PARTIES:

	Year Ended December 31,		
	2010	2009	2008
	\$ Thousands		
Remuneration to directors who are not employed by the Company or on its behalf	<u>59</u>	<u>37</u>	<u>37</u>
<u>Number of people that received salary and benefits</u>			
Directors not employed by the Company	<u>3</u>	<u>2</u>	<u>2</u>

NOTE 22 - TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONTINUED):B. BENEFITS TO KEY MANAGERIAL PERSONNEL:

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ Thousands</u>		
Short term benefits	3,190	2,293	2,860
Share-based payments	<u>1,248</u>	<u>405</u>	<u>178</u>
	<u>4,438</u>	<u>2,698</u>	<u>3,038</u>

NOTE 23 - EVENTS AFTER REPORT DATE:

On January 10, 2011, the Company received \$12 million from Bayer, as consideration against the issue of 1,726,619 Ordinary shares to Bayer, in accordance with an investment agreement that was signed during December 2010.

Note 24 - Separate FiNancial InforMation:

The Company did not provide separate financial information with its 2010 periodic report, as required by Regulation 9C because of the immateriality of any additional information that would be provided to an investor as a result of adding this information, based on the following reasoning:

- A. The consolidated company is fully owned by Evogene Ltd., and is inactive.
- B. The volume of assets, liabilities and share of comprehensive loss of the consolidated company is immaterial vis-à-vis the assets, liabilities, and comprehensive loss of the Company itself;
- C. More than 99% of all cash flows are generated by the Company itself.