

EVOGENE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2011

UNAUDITED (\*)

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*(\*) This report is a translation of Evogene Ltd.'s Hebrew-language financial statements. 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' REVIEW REPORT TO THE SHAREHOLDERS OF EVOGENE LTD.****Introduction**

We have reviewed the attached financial information of Evogene Ltd. and its subsidiary ("Group"), which includes the condensed consolidated statements of financial position as of March 31, 2011, and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for said interim period, in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and are also responsible for the preparation of financial information for said interim period in accordance with Chapter D of Securities Regulations (Periodic and Immediate Reports), 5730-1930. Our responsibility is to express a conclusion on the financial information for said interim period based on our review.

**Scope of Review**

We conducted our review in accordance with Review Standard 1 issued by the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Prepared by the Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than of an audit conducted in accordance with Israeli generally accepted auditing standards, and accordingly does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review nothing has come to our attention that causes us to believe that the above noted financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to that noted above, based on our review, nothing has come to our attention that causes us to believe that the above noted financial information is not prepared, in all material respects, in accordance with provisions of Chapter D of Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Tel-Aviv, Israel  
May 16, 2011

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

**EVOGENE LTD.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>March 31,</u>		<u>December</u>
	<u>2011</u>	<u>2010</u>	<u>31,</u>
	<u>Unaudited</u>		<u>2010</u>
	<u>\$ Thousands</u>		<u>Audited</u>
<u>Current Assets:</u>			
Cash and cash equivalents	12,919	32,231	10,120
Short term investments	37,771	5,558	25,729
Trade receivables	1,292	528	2,142
Receivables	653	410	553
	<u>52,635</u>	<u>38,727</u>	<u>38,544</u>
<u>Noncurrent Assets</u>			
Prepayments	37	28	37
Property, plant and equipment	4,333	3,553	4,120
Financial derivatives	-	3	-
Intangible assets	160	206	171
	<u>4,530</u>	<u>3,790</u>	<u>4,328</u>
	<u>57,165</u>	<u>42,517</u>	<u>42,872</u>
<u>Current Liabilities</u>			
Trade payables	584	998	1,054
Liabilities in respect of grants from the Chief Scientist	487	343	400
Deferred revenue	4,176	3,925	3,718
Options	6,463	-	9,199
Other payables	1,514	1,142	1,949
	<u>13,224</u>	<u>6,408</u>	<u>16,320</u>
<u>Non-current Liabilities</u>			
Liabilities in respect of grants from the Chief Scientist	3,399	3,277	3,499
Deferred revenue	7,909	8,966	6,313
Options	-	7,870	-
Employee benefit liabilities	9	9	9
	<u>11,317</u>	<u>20,122</u>	<u>9,821</u>
<u>Equity</u>			
Share capital	89	80	82
Share premium	63,433	47,173	49,248
Put option	(4,433)	(4,433)	(4,433)
Reserve - transaction with a controlling shareholder	1,156	1,156	1,156
Capital reserve – share based payment	5,366	2,894	4,782
Accumulated Deficit	(32,987)	(30,883)	(34,104)
	<u>32,624</u>	<u>15,987</u>	<u>16,731</u>
	<u>57,165</u>	<u>42,517</u>	<u>42,872</u>

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

<u>May 16, 2011</u>			
<b>Date Of Financial Statements Approval</b>	<b>Martin Gerstel, Chairman of the Board of Directors</b>	<b>Ofer Haviv, President and Chief Executive Officer</b>	<b>Dorit Kreiner, Director of Finance</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three Months Ended March 31,</b>		<b>Year Ended December 31,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>\$ Thousands</b>		
	<b>(Except For Net Income (Loss) Per Share)</b>		
Revenues	3,387	2,685	12,563
Cost of revenue	<u>1,710</u>	<u>1,310</u>	<u>5,811</u>
Gross profit	1,677	1,375	6,752
Research and development expenses	1,226	939	5,544
Business development expenses	272	200	1,062
Management and general expenses	<u>578</u>	<u>417</u>	<u>2,069</u>
Operating loss	(399)	(181)	(1,923)
Other expenses	-	(54)	(54)
Financing income	595	169	724
Financing expenses	(42)	(15)	(10)
Net financing income (expense) - revaluation of options	1,038	(3,574)	(5,393)
Financing expenses – net revaluation of liabilities to the Chief Scientist	<u>(75)</u>	<u>(94)</u>	<u>(314)</u>
Net income (loss)	<u>1,117</u>	<u>(3,749)</u>	<u>(6,970)</u>
Total comprehensive income (loss)	<u>1,117</u>	<u>(3,749)</u>	<u>(6,970)</u>
Net income (loss) per share (in \$)	<u>0.038</u>	<u>(0.14)</u>	<u>(0.24)</u>
Net diluted income (loss) per share (in \$)	<u>0.035</u>	<u>(0.14)</u>	<u>(0.24)</u>

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

**EVOGENE LTD.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Put option</u>	<u>Reserve - Transaction With A Controlling Shareholder</u>	<u>Reserve – Share Based Payment</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Unaudited</u>						
	<u>\$ Thousands</u>						
Balance, January 1, 2011 (audited)	82	49,248	(4,433)	1,156	4,782	(34,104)	16,731
Total comprehensive gain	-	-	-	-	-	1,117	1,117
Shares issued	5	9,577	-	-	-	-	9,582
Options exercised	2	4,608	-	-	(81)	-	4,529
Cost of share-based payments	-	-	-	-	665	-	665
<u>Balance, March 31, 2011 (unaudited)</u>	<u>89</u>	<u>63,433</u>	<u>(4,433)</u>	<u>1,156</u>	<u>5,366</u>	<u>(32,987)</u>	<u>32,624</u>

  

	<u>Share capital</u>	<u>Share premium</u>	<u>Put Option</u>	<u>Reserve - Transaction With A Controlling Shareholder</u>	<u>Reserve – Share Based Payment</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Unaudited</u>						
	<u>\$ Thousands</u>						
Balance, January 1, 2010 (audited)	80	47,130	(4,433)	1,156	2,540	(27,134)	19,339
Total comprehensive loss	-	-	-	-	-	(3,749)	(3,749)
Options exercised	* -	43	-	-	(16)	-	27
Cost of share-based payments	-	-	-	-	370	-	370
<u>Balance, March 31, 2010 (unaudited)</u>	<u>80</u>	<u>47,173</u>	<u>(4,433)</u>	<u>1,156</u>	<u>2,894</u>	<u>(30,883)</u>	<u>15,987</u>

\* Less than \$ 1 thousand.

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

**EVOGENE LTD.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Put option</u>	<u>Reserve - Transaction With A Controlling Shareholder</u>	<u>Reserve – Share Based Payment</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Audited</u>						
	\$ Thousands						
<u>Balance, January 1, 2010</u>	80	47,130	(4,433)	1,156	2,540	(27,134)	19,339
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, December 31, 2010</u>	<u>82</u>	<u>49,248</u>	<u>(4,433)</u>	<u>1,156</u>	<u>4,782</u>	<u>(34,104)</u>	<u>16,731</u>

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

**EVOGENE LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended</b>		<b>Year Ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>\$ Thousands</b>		
<u>Cash flows from operating activities</u>			
Net income (loss)	1,117	(3,749)	(6,970)
Adjustments to reconcile loss to net cash used in operating activities:			
Reconciliation of income and expense items:			
Depreciation and amortization	279	208	943
Cost of share-based payments	665	370	2,562
Net financing expenses (income)	(1,516)	3,514	4,993
Loss on disposal of property, plant and equipment	-	54	54
	<u>(572)</u>	<u>4,146</u>	<u>8,552</u>
Changes in asset and liability items			
Decrease (increase) in trade receivables	850	30	(1,584)
Increase in accounts receivable	(100)	(65)	(208)
Increase in prepayments	-	(3)	(12)
Increase (decrease) in trade payables	(600)	141	24
Increase (decrease) in other payables	(435)	143	950
Increase (decrease) in deferred revenue	2,054	(919)	(3,779)
	<u>1,769</u>	<u>(673)</u>	<u>(4,609)</u>
Cash received during the period for:			
Interest received	74	57	187
Net cash provided by (used in) operating activities	<u>2,388</u>	<u>(219)</u>	<u>(2,840)</u>
<u>Cash flows from investing activities</u>			
Acquisition of property, plant and equipment	(351)	(305)	(1,403)
Proceeds on sale of securities measured at fair value through profit and loss	-	621	8,596
Purchase of securities measured at fair value through profit and loss	(11,116)	(1,148)	(24,261)
Redemption (deposit) - net bank deposits	(711)	7,071	2,571
Net cash provided by (used in) investing activities	<u>(12,178)</u>	<u>6,239</u>	<u>(14,497)</u>

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

**EVOGENE LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended</b>		<b>Year Ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>\$ Thousands</b>		
<u>Cash flows from financing activities</u>			
Shares issued, net	9,582	-	2
Options exercised	2,831	27	1,311
Assumption of liabilities in respect of grants from Chief Scientist	170	86	320
Repayment of liabilities - grants from the Chief Scientist	<u>(212)</u>	<u>(137)</u>	<u>(280)</u>
Net cash provided by (used in) financing activities	<u>12,371</u>	<u>(24)</u>	<u>1,353</u>
<u>Exchange rate differences - cash and cash equivalent balances</u>	<u>218</u>	<u>20</u>	<u>(111)</u>
<u>Increase (decrease) in cash and cash equivalents</u>	2,799	6,016	(16,095)
<u>Cash and cash equivalents, beginning of the period</u>	<u>10,120</u>	<u>26,215</u>	<u>26,215</u>
<u>Cash and cash equivalents, end of the period</u>	<u><u>12,919</u></u>	<u><u>32,231</u></u>	<u><u>10,120</u></u>
<u>Significant non-cash activities</u>			
Acquisition of property, plant and equipment, against credit	<u>130</u>	<u>182</u>	<u>355</u>

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

**VOGENE LTD.**  
**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**NOTE 1 - GENERAL:**

A. Evogene Ltd. ("Company") is a biotech company that is engaged in research and development in the field of improved plants. The Company focuses on the development of technology to identify gene sequences (D.N.A. sequences that are responsible for producing proteins; hereafter – genes) and other D.N.A. sequences in plants (hereafter – D.N.A. sequences), which are likely to improve one or more of the plant's traits (hereafter – the target plant and the target trait). These improvements are accomplished through introducing the genes into the target plant, or by natural crossbreeding by cultivation, and accordingly, the seeds obtained carry the target trait. In addition, the Company is involved in the characterization and breeding of designated non-edible crops that are likely to be used in the future for the production of oil for the biodiesel industry.

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

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

B. These financial statements were prepared on a condensed basis as of March 31, 2011 and for the three-month period then ended ("consolidated interim financial statements"). These statements should be read together with the Company's annual financial statements as of December 31, 2010 and for the year then ended, and the notes attached thereto ("annual financial statements").

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

**Format For Preparing The Interim Consolidated Financial Statements:**

The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed by International Accounting Standard 34, "Interim Financial Reporting" and in accordance with disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The significant accounting policies and calculations used in preparing the interim financial statements are consistent with those used in preparing the annual financial statements, except for that stated below.

**IAS – Related Party Disclosures:**

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of relationships with a related party, and to prevent any inconsistencies in the use of this definition. In addition, companies related to a government are afforded, under the amendment, partial relief from disclosing transactions with the government and with other companies related to a government. The amendment is adopted retrospectively, starting January 1, 2011.

**IAS 34 – Interim Financial Reporting:**

The amendment to IAS 34 provides additional disclosure requirements for interim financial statements, vis à vis when it is reasonable to believe, that certain circumstances will affect the fair value of financial instruments and their classifications, transfers of financial instruments between the various levels of the fair value hierarchy, and changes in the classification of financial assets.

The amendment is adopted retrospectively, starting January 1, 2011. Adoption of the standard did not have any effect on the financial statements.

**NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD:**

**Commitments:**

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).

**NOTE 3 - SIGNIFICANT EVENTS DURING THE REPORT PERIOD (CONTINUED):**

1. According to the investment agreement, Bayer invested \$ 12 million, and on the basis of the investment agreement, on January 10, 2011, the Company issued, upon closing, 1,726,619 Ordinary shares, NIS 0.01 par value each. With closing of the investment agreement, and as long as Bayer's percentage shareholding 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.

2. Upon signing the investment agreement, a collaboration agreement was also signed for €15.4 million (equivalent to \$21 million). In addition, Bayer undertook to pay the Company milestone payments, totaling millions of Euros, subject to completion of various stages in the development of improved wheat varieties, which include the project sequences and/or which were developed using the project sequences, by Bayer, and, for a certain period from the beginning of commercialization of all improved wheat varieties as stated, royalties on future revenue from the sale of seeds of the improved wheat varieties, and the issue of licenses on project sequences to third parties.

Under the agreement, the Company issued Bayer an exclusive license, unlimited in time, for use of project sequences for the purposes of research, development and commercialization of improved wheat varieties. The Company will have exclusive rights to the intellectual property that will be developed under the project in respect of project sequences, subject to a license issued to Bayer under the contract, as noted above.

3. As the investment agreement, and the agreement to provide research and development services and the provision of a right to gene licenses, were signed on the same day, the two agreements were treated as a multiple hybrid contract. Share capital and premium were recorded at the market share price on closing date. The net balance of the two agreements was attributed to deferred income from research and development efforts. The consideration received in respect of the investment agreement was attributed as follows: share capital and premium - \$9,582 thousand, based on the share price on the Tel Aviv Stock Exchange, on closing date, and deferred income of \$2,394 thousand.

**Series 2 Options Exercise:**

During the report period, 778,556 Series 2 options were converted, against a consideration of \$2,728 thousand.

**Options Exercised - By Company Employees and Service Providers:**

During the report period, employees and service providers converted 175,092 options (non-registered) into 175,092 Ordinary shares, NIS 0.01 par value each, against a consideration of \$103 thousand.

**NOTE 4 - EVENTS AFTER REPORT DATE:**

**Series 2 Options Exercise**

During the April 1- May 4, 2011 period, 293,531 Series 2 Options were converted, against a consideration of \$1.1 million.

On May 16, 2011, the Board of Directors approved a private issue to Company employees of 255,000 options (non-traded) available for conversion into 255,000 Ordinary shares of the company. These options will vest over a period of four years and the exercise premium will be determined on the basis of on an average of 15 trading days from the date of grant. The options will expire 10 years after grant date. The actual allocation has not yet been made.

**NOTE 5 - SEPARATE FINANCIAL INFORMATION**

The Company did not provide separate financial information in its interim financial statements for March 31, 2011, 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.