

Evogene Ltd.

Consolidated Financial Statements
as of September 30, 2013





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Auditors' report on review to the shareholders of Evogene Ltd.

Introduction

We have reviewed the accompanying financial information of Evogene Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of September 30, 2013 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent 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 an audit conducted in accordance with generally accepted auditing standards in Israel and consequently 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 accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel

October 24, 2013

**KOST FORER GABBAY &
KASIERER**
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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	As of September 30,		As of December 31,
	2013	2012	2012
	Unaudited		Audited
CURRENT ASSETS:			
Cash and cash equivalents	\$ 16,655	\$ 20,913	\$ 24,262
Marketable securities	31,684	30,260	30,868
Short-term bank deposits	-	2,700	-
Trade receivables	1,836	1,502	1,542
Other receivables	1,744	439	650
	51,919	55,814	57,322
LONG-TERM ASSETS:			
Long term deposits	31	38	43
Plant, property and equipment, net	7,294	7,597	7,401
Other investment	365	-	-
Intangible assets, net	56	100	89
	7,746	7,735	7,533
	\$ 59,665	\$ 63,549	\$ 64,855
CURRENT LIABILITIES:			
Trade payables	\$ 1,461	\$ 1,052	\$ 1,416
Liabilities in respect of grants from the Chief Scientist	520	470	733
Deferred revenues and other advances	3,566	4,347	4,211
Other payables	2,945	1,891	3,139
	8,492	7,760	9,499
LONG-TERM LIABILITIES:			
Liabilities in respect of grants from the Chief Scientist	2,869	2,879	2,918
Deferred revenues and other advances	1,877	5,013	4,168
Severance pay liability, net	19	9	11
	4,765	7,901	7,097
SHAREHOLDERS' EQUITY:			
Ordinary shares	103	101	102
Share premium	93,555	89,611	90,746
Put option	(7,764)	(7,764)	(7,764)
Capital reserve - transaction with a former controlling shareholder	1,156	1,156	1,156
Accumulated deficit	(40,642)	(35,216)	(35,981)
	46,408	47,888	48,259
	\$ 59,665	\$ 63,549	\$ 64,855

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**U.S. dollars in thousands (except share and per share data)**

	For the Nine Months ended September 30		For the Three Months ended September 30		For the Year ended December 31
	2013	2012	2013	2012	2012
	Unaudited		Unaudited		Audited
Revenues	13,168	12,254	4,234	3,967	17,072
Cost of revenues	<u>7,271</u>	<u>6,903</u>	<u>2,583</u>	<u>2,420</u>	<u>9,552</u>
Gross profit	<u>5,897</u>	<u>5,351</u>	<u>1,651</u>	<u>1,547</u>	<u>7,520</u>
Research and development, net	7,638	5,158	2,972	1,850	7,252
Business development	906	860	374	316	1,159
General and administrative	2,111	1,539	863	470	2,268
Other Income	<u>(81)</u>	<u>-</u>	<u>(30)</u>	<u>-</u>	<u>(33)</u>
Total operating expenses	<u>10,574</u>	<u>7,557</u>	<u>4,179</u>	<u>2,636</u>	<u>10,646</u>
Operating loss	(4,677)	(2,206)	(2,528)	(1,089)	(3,126)
Financing income	944	824	168	314	972
Financing expenses	(824)	(140)	87	(83)	(89)
Financial Expenses for Revaluation of Liabilities to the Scientist, Net	<u>(104)</u>	<u>(161)</u>	<u>(26)</u>	<u>(142)</u>	<u>(205)</u>
Loss before taxes on income	(4,661)	(1,683)	(2,299)	(1,000)	(2,448)
Taxes on income	<u>-</u>	<u>(74)</u>	<u>-</u>	<u>(22)</u>	<u>(74)</u>
Comprehensive net loss	<u>(4,661)</u>	<u>(1,757)</u>	<u>(2,299)</u>	<u>(1,022)</u>	<u>(2,522)</u>
Basic and diluted net loss per share	<u>(0.12)</u>	<u>(0.05)</u>	<u>(0.06)</u>	<u>(0.03)</u>	<u>(0.07)</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Put Option</u>	<u>Capital reserve - transaction with a former controlling shareholder</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Unaudited</u>					
Balance as of January 1, 2013 (audited)	\$ 102	\$ 90,746	\$ (7,764)	\$ 1,156	\$ (35,981)	\$ 48,259
Total comprehensive loss	-	-	-	-	(4,661)	(4,661)
Exercise of options	1	1,211	-	-	-	1,212
Share-based compensation	-	1,598	-	-	-	1,598
Balance as of September 30, 2013	<u>\$ 103</u>	<u>\$ 93,555</u>	<u>\$ (7,764)</u>	<u>\$ 1,156</u>	<u>\$ (40,642)</u>	<u>\$ 46,408</u>

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Put Option</u>	<u>Capital reserve - transaction with a former controlling shareholder</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Unaudited</u>					
Balance as of January 1, 2012 (audited)	\$ 100	\$88,056	\$ (7,764)	\$ 1,156	\$ (33,459)	\$ 48,089
Total comprehensive loss	-	-	-	-	(1,757)	(1,757)
Exercise of options	1	631	-	-	-	632
Share-based compensation	-	924	-	-	-	924
Balance as of September 30, 2012	<u>\$ 101</u>	<u>\$ 89,611</u>	<u>\$ (7,764)</u>	<u>\$ 1,156</u>	<u>\$ (35,216)</u>	<u>\$ 47,888</u>

*) Represent amount lower than \$1

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Nine months ended		Year Ended
	September 30		December 31
	2013	2012	2012
	Unaudited		Audited
<u>Cash Flows from Operating Activities</u>			
Loss for the period	(4,661)	(1,757)	(2,522)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	1,512	1,350	1,835
Share-based compensation	1,598	924	1,173
Net financing income	(16)	(523)	(678)
Taxes on income	-	74	74
Gain on disposal of property, plant and equipment			(33)
	<u>3,094</u>	<u>1,825</u>	<u>2,371</u>
Changes in asset and liability items:			
Increase in trade receivables	(272)	(699)	(742)
Decrease (increase) in other receivables	(43)	537	336
Decrease in trade payables	(277)	(77)	231
Decrease in other payables	(194)	(169)	974
Decrease in deferred revenues and other advances	(3,266)	(2,350)	(3,331)
Increase in severance pay liability, net	8	-	-
Increase in liabilities in respect of grants from the Chief Scientist	-	(90)	
	<u>(4,044)</u>	<u>(2,848)</u>	<u>(2,532)</u>
Cash received (paid) during the period for:			
Interest received	839	866	869
Taxes paid (withheld by customers)	-	(74)	(74)
Net cash used in operating activities	<u>(4,772)</u>	<u>(1,988)</u>	<u>(1,888)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended		Year Ended
	September 30		December 31
	2013	2012	2012
	Unaudited		Audited
<u>Cash Flows from Investing Activities</u>			
Purchase of property, plant and equipment	(1,336)	(2,685)	(2,963)
Proceeds from disposal of property, plant and equipment	-	-	34
Proceeds from sale of marketable securities	16,691	10,249	15,697
Purchase of marketable securities	(18,155)	(6,031)	(11,935)
Proceeds from bank deposits, net	-	14,952	17,652
Net cash provided by (used in) investing activities	<u>(2,800)</u>	<u>16,485</u>	<u>18,485</u>
<u>Cash Flows from Financing Activities</u>			
Proceeds from exercise of options	1,212	632	1,519
Proceeds from the Chief Scientist grants	147	227	484
Repayment of the Chief Scientist grants	(513)	(893)	(892)
Issuance expenses	<u>(820)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>26</u>	<u>(34)</u>	<u>1,111</u>
Exchange rate differences - cash and cash equivalent balances	<u>(61)</u>	<u>(15)</u>	<u>89</u>
Increase (decrease) in cash and cash equivalents	<u>(7,607)</u>	<u>14,448</u>	<u>17,797</u>
Cash and cash equivalents, beginning of the period	<u>24,262</u>	<u>6,465</u>	<u>6,465</u>
Cash and cash equivalents, end of the period	<u><u>16,655</u></u>	<u><u>20,913</u></u>	<u><u>\$ 24,262</u></u>
<u>Significant non-cash transactions</u>			
Acquisition of property, plant and equipment in credit	<u>137</u>	<u>99</u>	<u>\$ 101</u>
Other investment	<u>365</u>	<u>-</u>	<u>\$ -</u>
Issuance expenses	<u>264</u>	<u>-</u>	<u>-</u>

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

NOTE 1:- GENERAL

- a. These Financial Statements have been prepared in a condensed format as of September 30, 2013 and for the nine months then ended ("interim consolidated financial statements").

These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2012 and for the year then ended and the accompanying notes ("annual consolidated financial statements") as issued on November 19, 2013.

NOTE 2: – SIGNIFICANT ACCOUNTING POLICIES

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

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

- b. New standards, interpretations and corrections first applied by the Company:

The accounting policies applied in preparing the interim consolidated financial statements consistent to those applied in the preparation of the annual consolidated financial statements, except for the following:

IAS 39 - Financial Assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

1. This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument may be designated as a financial asset / liability at fair value through profit or loss only upon initial recognition

2. Available-for-sale financial assets:

Available-for-sale financial assets are (non-derivative) financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for interest and exchange rate differences that relate to debt instruments, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in profit or loss. Revenues from dividends from investments in equity instruments are recognized when the right to receive the dividends is established.

IAS 19 (Revised) - Employee Benefits

In June 2011, the IASB issued IAS 19 (Revised) to be applied from January 1, 2013 which included a number of amendments to the accounting for defined benefit plans.

The adoption of IAS 19 (Revised) did not have a material effect on the Company's financial statements.

IFRS 13 - Fair value measurement

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The new disclosures are to be applied prospectively beginning on January 1, 2013, and they do not apply to comparative figures.

The adoption of IFRS 13 did not have a material effect on the Company's financial statements.

NOTE 3:- SIGNIFICANT EVENTS DURING THE PERIOD

- a. On May 29, 2013, the Company signed a cooperation agreement with Beijing Dabeinong Technology Co. ("DBN"), a leading Chinese company in the field of development and commercialization of rice seeds and other agricultural products. According to the agreement the Company will receive payments based on milestones stated in the agreement. In addition, the Company shall receive sales based royalties based on the terms stated in the agreement.
- b. On September 22, 2013, the Company announced a three year extension of its research collaboration with Syngenta Biotechnology, Inc. ("Syngenta") until 2017. The collaboration was established in mid-2009 to identify plant genes providing resistance to Soybean Cyst Nematode. Under the extended collaboration, the Company will utilize broader discovery strategies to provide Syngenta with additional candidate genes acting under new modes of action to achieve nematode resistance. Under both the original agreement and the extension, the Company is entitled to receive research payments, success-based milestone payments and future sales based royalty payments based on the terms stated in the agreement.
- c. During the nine months ended September 30, 2013 430,289 options were exercised by employees into 430,289 ordinary shares of NIS 0.01 par value each for a total consideration of \$1,212.
- d. On July 17, 2013, the board of directors of the Company approved an issuance to its officers and employees of 2,000,000 options exercisable into 2,000,000 ordinary shares of the Company, NIS 0.01 par value each, for an exercise price of NIS 22.14 per share. The estimated fair value of the options at their grant date using binomial model was approximately \$3,825. The main assumptions used by the Company in determining the fair value were: dividend yield, 0%; expected volatility of the share price, 26.37-60.13%; risk free interest rate, 1.14-6.34%; and share price of NIS 21.81.

On July 17, 2013, the board of directors of the Company approved an issuance to its directors of 25,000 options exercisable into 25,000 ordinary shares of the Company, NIS 0.01 par value each, for an exercise price of NIS 21.234 per share. The estimated fair value of the options at their grant date using binomial model was approximately \$66. The main assumptions used by the Company in determining the fair value were: dividend yield, 0%; expected volatility of the share price, 25.83-59.01%; risk free interest rate, 1.27-5.89%; and share price of NIS 23.56.

On September 22, 2013, the board of directors approved an issuance to the Company's President and Chief Executive Officer of 430,000 options exercisable into 430,000 Ordinary shares of the Company, NIS 0.01 par value each, for an exercise price of NIS 24.09 per share. The current estimate of the fair value of these options using the binomial model is approximately \$1,090. The main assumptions used by the Company in determining the fair value were: dividend yield, 0%; expected volatility of the shares price, 26.70-58.51%; risk free interest rate, 1.22-6.25%; and share price of NIS 25.16. The grant is subject to the approval by the Company's shareholders on October 30, 2013, at a general shareholders meeting.

NOTE 3:- SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

- e. On July 30, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5%, cancelling the lowering of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas) and, in certain cases, increasing the tax rates on dividends within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. Other changes introduced by the Amended Budget Law include taxing revaluation gains effective from August 1, 2013. The provisions that set forth changes to the taxation of revaluation gains, however, will only become effective once regulations that define "non-corporate taxable retained earnings" are issued as well as regulations that set forth provisions for avoiding double taxation of assets outside of Israel. As of the date of publication of these interim financial statements, no such regulations have been issued.

The change in tax rates did not have a material effect on the Company's financial statements.

NOTE 4: – OPERATING SEGMENTS

- a. General:

Commencing January 1, 2012, the Company operates in two segments. The segments were determined on the basis of information considered by the Chief Operating Decision-Maker ("CODM") for purposes of decision-making on the allocation of resources and evaluation of performance. The following Company's segments are engaged in business activities for which they earn revenues and incur expenses, their results are reviewed by the CODM and discrete financial information is available:

- | | |
|-----------------|---|
| Evogene segment | - Services for the development of gene sequence technology (D.N.A. sequences responsible for the production of proteins – "genes") and other D.N.A. sequences in plants ("D.N.A. sequences"). |
| Evofuel segment | - Services for the development of improved species of the castor oil plant, which may serve as a source for extracting oil for the bio diesel fuel industry. |

Segments performance (segment income (loss)) is determined based on operating income (loss) reported in the financial statements. The results of a segment reported to the CODM include items attributed directly to a segment, as well as other items, which are indirectly attributed using reasonable assumptions.

NOTE 4: – OPERATING SEGMENTS (Cont.)

b. The following table presents our revenues and operating loss by segments:

	<u>Evogene</u>	<u>Evofuel</u> <u>Unaudited</u>	<u>Total</u>
For the nine months period ended September 30, 2013			
Revenues	\$ 13,168	\$ -	\$ 13,168
Operating loss	\$ (3,767)	\$ (910)	\$ (4,677)
Net financing income			16
Loss before taxes on income			\$ (4,661)
	<u>Evogene</u>	<u>Evofuel</u> <u>Unaudited</u>	<u>Total</u>
For the nine months period ended September 30, 2012			
Revenues	\$ 12,254	\$ -	\$ 12,254
Operating loss	\$ (1,437)	\$ (762)	\$ (2,199)
Net financing income			516
Loss before taxes on income			\$ (1,683)

c. Major customers:

Revenues from major customers each of whom amounts to 10% or more, of total revenues:

	Nine months ended	
	September 30	
	<u>2013</u>	<u>2012</u>
Customer A (shareholder)	65%	74%
Customer B (shareholder)	32%	25%

NOTE 5: - OTHER INVESTMENT

On February 4, 2013, the Company signed an agreement with private Israeli company, according to which the Company undertook to provide the private Israeli company with rights to use its greenhouses and facilities, including support for the private Israeli company's development process for the following consideration:

- a. 15% of the private Israeli company's shares on an outstanding basis. The shares are subject to reverse vesting over a period of 36 months.
- b. The Company also was granted with anti-dilution option up to an aggregate investment of \$4,000 in the private Israeli company.
- c. A three years access to the system being developed by the private Israeli company including an option to purchase the system for \$200 which is exercisable over the term of the agreement.

The Company recorded as other investment the total value of the above three elements of the consideration amounting to \$365, which was determined based on a third party valuation. The total consideration of \$365 was deferred and will be recognized over a period of 36 months. The investment in the private Israeli company will be accounted for as an available for sale investment under the provisions of IAS 39 and accordingly changes in fair value will be recorded in other comprehensive income (loss). Gains or losses from changes in fair value of the anti-dilution option and the option to purchase the system will be recorded in profit or loss. The three elements are financial assets classified as level 3 in the fair value hierarchy in IFRS 13.
