

**BioLineRx Ltd.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JUNE 30, 2010

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## BioLineRx Ltd.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

	<u>December 31,</u> <u>2009</u>	<u>June 30,</u> <u>2010</u>	<u>Convenience translation into USD (Note 1b)</u> <u>June 30,</u> <u>2010</u>
	<u>NIS in thousands</u>	<u>In thousands</u>	<u>In thousands</u>
<b>Assets</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	105,890	88,489	22,836
Prepaid expenses	1,094	1,102	284
Trade accounts receivable	37,750	-	-
Other receivables	2,313	9,637	2,487
Total current assets	<u>147,047</u>	<u>99,228</u>	<u>25,607</u>
<b>NON-CURRENT ASSETS</b>			
Restricted deposits	3,704	3,719	960
Long-term prepaid expenses	1,150	1,146	296
Property and equipment, net	4,175	4,696	1,212
Intangible assets, net	3,042	1,473	380
Asset in respect of retirement benefit obligations	49	49	12
Total non-current assets	<u>12,120</u>	<u>11,083</u>	<u>2,860</u>
<b>Total assets</b>	<u>159,167</u>	<u>110,311</u>	<u>28,467</u>
<b>Liabilities and equity</b>			
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term loan	-	307	79
Accounts payable and accruals:			
Trade	6,452	3,615	933
OCS	14,005	17,460	4,506
Licensors	10,570	1,628	420
Other	10,203	9,216	2,378
Total current liabilities	<u>41,230</u>	<u>32,226</u>	<u>8,316</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term loan, less current maturities	-	589	152
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
Total liabilities	<u>41,230</u>	<u>32,815</u>	<u>8,468</u>
<b>EQUITY</b>			
Ordinary shares	1,235	1,235	319
Warrants	6,549	6,529	1,685
Share premium	412,513	412,533	106,460
Capital reserve	22,963	26,146	6,747
Accumulated deficit	(325,323)	(368,947)	(95,212)
Total equity	<u>117,937</u>	<u>77,496</u>	<u>19,999</u>
<b>Total liabilities and equity</b>	<u>159,167</u>	<u>110,311</u>	<u>28,467</u>

The accompanying notes are an integral part of these condensed financial statements.

**BioLineRx Ltd.**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE LOSS  
(UNAUDITED)

	Six months ended June 30,		Convenience translation into USD (Note 1b)
	2009	2010	Six months ended June 30, 2010
	NIS in thousands		In thousands
<b>SALES AND MARKETING EXPENSES</b>	(1,447)	(2,184)	(564)
<b>RESEARCH AND DEVELOPMENT EXPENSES, NET</b>	(49,850)	(37,032)	(9,557)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	(4,307)	(6,224)	(1,606)
<b>OPERATING LOSS</b>	(55,634)	(45,440)	(11,727)
<b>FINANCIAL INCOME</b>	3,799	2,878	743
<b>FINANCIAL EXPENSES</b>	(1,739)	(1,062)	(274)
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>(53,574)</u>	<u>(43,624)</u>	<u>(11,258)</u>
	<b>NIS</b>		<b>USD</b>
<b>LOSS PER ORDINARY SHARE - BASIC AND DILUTED</b>	<u>(0.68)</u>	<u>(0.35)</u>	<u>(0.09)</u>

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**BioLineRx Ltd.**  
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY  
(UNAUDITED)

	Ordinary shares	Warrants	Share premium	Capital reserve	Accumulated deficit	Total
	NIS in thousands					
<b>BALANCE AT JANUARY 1, 2009</b>	625	947	307,658	32,961	(263,805)	78,386
<b>CHANGES FOR SIX MONTHS ENDING JUNE 30, 2009:</b>						
Share based compensation	-	-	-	1,379	-	1,379
Exercise of warrants	*	*	3	-	-	3
Expiration of warrants	-	(947)	947	-	-	-
Employee stock options exercised	29	-	12,996	(12,911)	-	114
Issuance of share capital	141	-	15,544	-	-	15,685
Comprehensive loss for the period	-	-	-	-	(53,574)	(53,574)
<b>BALANCE AT JUNE 30, 2009</b>	795	-,	337,148	21,429	(317,379)	41,993
	Ordinary shares	Warrants	Share premium	Capital Reserve	Accumulated deficit	Total
	NIS in thousands					
<b>BALANCE AT JANUARY 1, 2010</b>	1,235	6,549	412,513	22,963	(325,323)	117,937
<b>CHANGES FOR SIX MONTHS ENDING JUNE 30, 2010:</b>						
Share based compensation	-	-	-	3,183	-	3,183
Employee stock options exercised	*	(20)	20	-	-	-
Comprehensive loss for the period	-	-	-	-	(43,624)	(43,624)
<b>BALANCE AT JUNE 30, 2010</b>	1,235	6,529	412,533	26,146	(368,947)	77,496
	Ordinary shares	Warrants	Share premium	Capital Reserve	Accumulated deficit	Total
	Convenience translation into USD in thousands (Note 1b)					
<b>BALANCE AT JANUARY 1, 2010</b>	319	1,690	106,455	5,926	(83,954)	30,436
<b>CHANGES FOR SIX MONTHS ENDING JUNE 30, 2010:</b>						
Share based compensation	-	-	-	821	-	821
Employee stock options exercised	*	(5)	5	-	-	-
Comprehensive loss for the period	-	-	-	-	(11,258)	(11,258)
<b>BALANCE AT JUNE 30, 2010</b>	319	1,685	106,460	6,747	(95,212)	19,999

\* Less than NIS 1,000

**The accompanying notes are an integral part of these condensed financial statements.**

## BioLineRx Ltd.

### CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENTS (UNAUDITED)

	Six months ended June 30,		Convenience translation into USD (Note 1b)
			Six months ended June 30,
	2009	2010	2010
	NIS in thousands		In thousands
<b>CASH FLOWS - OPERATING ACTIVITIES</b>			
Comprehensive loss for the period	(53,574)	(43,624)	(11,258)
Adjustments required to reflect net cash used in operating activities (see appendix below)	(13,620)	24,938	6,435
Net cash used in operating activities	<u>(67,194)</u>	<u>(18,686)</u>	<u>(4,823)</u>
<b>CASH FLOWS - INVESTING ACTIVITIES</b>			
Proceeds from sale of financial assets at fair value through profit or loss	30,837	-	-
Proceeds from sale of financial assets at fair value through profit or loss - restricted	3,767	-	-
Investment in restricted deposits	(3,219)	-	-
Purchase of property and equipment	(25)	(1,282)	(331)
Purchase of intangible assets	(251)	(87)	(22)
Net cash provided by (used in) investing activities	<u>31,109</u>	<u>(1,369)</u>	<u>(353)</u>
<b>CASH FLOWS - FINANCING ACTIVITIES</b>			
Issuance of share capital and warrants, net of issuance expenses	15,685	-	-
Proceeds from exercise of warrants	3	-	-
Proceeds from exercise of employee stock options	114	-	-
Proceeds from borrowings	-	1,020	263
Repayments of borrowings	-	(124)	(32)
Net cash provided by financing activities	<u>15,802</u>	<u>896</u>	<u>231</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(20,283)	(19,159)	(4,945)
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>	60,379	105,890	27,327
<b>EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>	1,920	1,758	454
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>42,016</u>	<u>88,489</u>	<u>22,836</u>

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

**BioLineRx Ltd.**

## APPENDIX TO CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENTS

(UNAUDITED)

	<b>Six months ended June 30,</b>		<b>Convenience translation into USD (Note 1b)</b>
	<b>2009</b>	<b>2010</b>	<b>Six months ended June 30, 2010</b>
	<b>NIS in thousands</b>		<b>In thousands</b>
<b>Adjustments required to reflect net cash used in operating activities:</b>			
<b>Income and expenses not involving cash flows:</b>			
Depreciation and amortization	855	867	224
Impairment of intangible assets	148	1,550	400
Retirement benefit obligations			
Long-term prepaid expenses	40	4	1
Exchange differences on cash and cash equivalents	(1,920)	(1,758)	(454)
Gain on fair value adjustments to financial assets at fair value through profit or loss	(98)		
Share-based compensation	1,379	3,183	821
Interest and exchange differences on restricted deposits	(20)	(15)	(4)
	<u>384</u>	<u>3,831</u>	<u>988</u>
<b>Changes in operating asset and liability items:</b>			
Increase in trade accounts receivable and other receivables	429	30,418	7,850
Increase in accounts payable and accruals	(14,433)	(9,311)	(2,403)
	<u>(14,004)</u>	<u>21,107</u>	<u>5,447</u>
	<u>(13,620)</u>	<u>24,938</u>	<u>6,435</u>
<b>Supplementary information on interest received in cash</b>	<u>351</u>	<u>416</u>	<u>107</u>

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

## **BIOLINERX LTD.**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

#### **NOTE 1 – GENERAL INFORMATION**

##### **a. General**

BioLineRx Ltd. (the “Company”) was incorporated and commenced operations in April 2003.

Since incorporation, the Company has been engaged, both independently and through its consolidated entities (collectively, the “Group”), in the development of therapeutics, from early-stage development to advanced clinical trials, for a wide range of medical needs.

In December 2004, the Company registered a limited partnership, BioLine Innovations Jerusalem L.P. (the “Partnership”), which commenced operations on January 1, 2005. The Company holds a 99% interest in the Partnership, with the remaining 1% held by a wholly owned subsidiary of the Company, BioLine Innovations Ltd. The Partnership was established to operate an industrial research and development center in an incubator located in Jerusalem under an agreement with the State of Israel.

In February 2007, the Company listed its securities on the Tel Aviv Stock Exchange (TASE) and they have been traded on the TASE since that time.

In January 2008, the Company established a wholly owned subsidiary, BioLineRx USA Inc., which serves as the Group’s business development arm in the United States.

The Company has been engaged in drug development since its incorporation. The Company has not yet generated profits from its activities and cannot determine with reasonable certainty if and when the Company will become profitable.

##### **b. Convenience translation into US dollars (“dollars” or “USD”)**

For the convenience of the reader, the reported New Israeli Shekel (“NIS”) amounts as of June 30, 2010 have been translated into dollars, at the representative rate of exchange on June 30, 2010 (USD 1 = NIS 3.875). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

#### **NOTE 2 – BASIS OF PREPARATION**

The Group’s condensed consolidated interim financial statements as of June 30, 2010 and for the six months then ended (hereinafter – the interim financial statements) have been prepared in accordance with International Accounting Standard No. 34, “Interim Financial Reporting” (hereinafter – IAS 34). These interim financial statements, which are unaudited, do not include all disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements as of December 31, 2009 and for the year then ended and their accompanying notes, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the entire fiscal year or for any other interim period.



## **BIOLINERX LTD.**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and calculation methods applied in the preparation of the interim financial statements are consistent with those applied in the preparation of the annual financial statements as of December 31, 2009 and for the year then ended.

#### **NOTE 4 – INTANGIBLE ASSETS**

The Group wrote off intangible assets in the aggregate amount of NIS 1,500,000 during the six months ending June 30, 2010, relating to two projects (BL-4060 and BL-5020) which were terminated.

#### **NOTE 5 – EQUITY**

- a. In January 2010, the Company granted to employees a total of 752,100 options exercisable into Ordinary Shares. The exercise prices of the options range from NIS 4.83 to NIS 5.02. They vest over a four-year period.
- b. In February and March 2010, the Company granted to employees and to members of its Scientific Advisory Board a total of 4,020,300 options exercisable into Ordinary Shares. The exercise price of the options is NIS 4.03. They vest over a four-year period and expire five years from the date of grant.
- c. During the six months ended June 30, 2010, a total of 3,401 employee options were exercised.

#### **NOTE 6 – RESEARCH AND DEVELOPMENT**

Research and development expenses are reflected net of research grants received from an interested (related) party of the Company, pursuant to a research funding arrangement for early development stage projects, as follows:

	<b>Six months ended June 30,</b>	
	<b>2009</b>	<b>2010</b>
	<b>NIS in thousands</b>	
Grants received from an interested party, offset against research and development expenses	<u>816</u>	<u>881</u>

## **BIOLINERX LTD.**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

#### **NOTE 7 – OUT-LICENSING AGREEMENT WITH CYPRESS BIOSCIENCE INC.**

In June 2010, the Group entered into an exclusive, royalty-bearing out-licensing agreement with Cypress Bioscience, Inc. in United States, Canada and Mexico (the "territories"), with regard to BL-1020, a therapeutic candidate for the treatment of schizophrenia. Under the agreement, Cypress Bioscience is obligated to use commercially reasonable efforts to develop, obtain regulatory approval for, and to commercialize BL-1020 in the territories, and will bear all subsequent costs involved in the continued development of the product, the conduct and funding of its commercialization, and the prosecution and maintenance of patents in the territories.

The effectiveness of the agreement was subject to the consent of the Office of the Chief Scientist of Israeli Ministry of Industry, Trade and Labor ("OCS"), which was received in August 2010 - see Note 8.

The total potential payments from the agreement to the Group, not including royalties, are up to USD 365,000,000, as follows: (1) upfront fee of USD 30,000,000, held in escrow until effectiveness of the agreement; (2) up to USD 250,000,000 in connection with the achievement of certain performance-based milestones; (3) up to USD 85,000,000 upon the achievement of certain sales-based milestones.

With regard to the first performance-based milestone of USD 10,000,000, Cypress is entitled to pay up to half of the amount as an investment in the Company's Ordinary Shares.

In addition to the above payments, the Group is also entitled under the agreement to royalties ranging from 12% to 18% of net sales of BL-1020 in the territories.

The Group retained the rights to BL-1020 for the rest of the world outside of the territories. In addition, pursuant to the agreement, the Group has the right to use all preclinical, clinical and other similar data generated by or on behalf of Cypress Bioscience, including its regulatory filings, subject to future reimbursement of 50% of expenses (as defined) incurred by Cypress Bioscience in generating such data and other information.

The Group is required to pay 22.5% of all consideration received under the agreement to the licensors of BL-1020. In addition, the Group will be obligated to repay grants received from the OCS regarding the BL-1020 project, in accordance with the Israeli R&D Law and as agreed with the OCS.

Although the transaction with Cypress closed in August 2010, as of June 30, 2010, the Group believed that it was more likely than not that it would be required to repay the grants received from the OCS regarding this project. This determination was made in light of the Group's progress in developing BL-1020 to the out-licensing stage with a third party, and the advanced status of negotiations with such third party. Accordingly, as of June 30, 2010, the Group recorded a liability to the OCS for the full amount of the grants received in respect of the project, in the total amount of USD 4,500,000.

#### **NOTE 8 – EVENT SUBSEQUENT TO THE BALANCE SHEET DATE**

In August 2010, the out-licensing transaction with Cypress Bioscience became effective, following receipt of OCS consent to the transaction. Accordingly, the USD 30,000,000 upfront payment was released to the Group from escrow.