

KAMADA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2016

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CONSOLIDATED BALANCE SHEETS

| | As of March 31, | | As of |
|--|-------------------|-------------------|-------------------|
| | 2016 | 2015 | December 31, |
| | Unaudited | | 2015 |
| | | | Audited |
| | In thousands | | |
| <u>Current Assets</u> | | | |
| Cash and cash equivalents | \$ 11,605 | \$ 13,011 | \$ 5,047 |
| Short-term investments | 23,921 | 36,693 | 23,259 |
| Trade receivables | 12,042 | 8,863 | 23,071 |
| Other accounts receivables | 5,922 | 2,954 | 2,881 |
| Inventories | 31,605 | 27,435 | 26,336 |
| | <u>85,095</u> | <u>88,956</u> | <u>80,594</u> |
| Property, plant and equipment, net | 21,465 | 21,523 | 21,309 |
| Other long-term assets | 81 | 110 | 89 |
| | <u>21,546</u> | <u>21,633</u> | <u>21,398</u> |
| | <u>106,641</u> | <u>110,589</u> | <u>101,992</u> |
| <u>Current Liabilities</u> | | | |
| Current maturities of convertible debentures , bank loans and capital lease | 191 | 7,411 | 37 |
| Trade payables | 18,298 | 13,376 | 16,917 |
| Other accounts payables | 4,350 | 3,493 | 4,064 |
| Deferred revenues | 4,525 | 2,799 | 1,921 |
| | <u>27,364</u> | <u>27,079</u> | <u>22,939</u> |
| <u>Non-Current Liabilities</u> | | | |
| Long term loans and capital lease | 716 | - | 151 |
| Employee benefit liabilities, net | 652 | 739 | 787 |
| Deferred revenues | 7,038 | 6,958 | 5,608 |
| | <u>8,406</u> | <u>7,697</u> | <u>6,546</u> |
| <u>Equity</u> | | | |
| Share capital | 9,320 | 9,227 | 9,320 |
| Share premium | 162,531 | 158,893 | 162,238 |
| Conversion option in convertible debentures | - | 1,147 | - |
| Capital reserve due to translation to presentation currency | (3,490) | (3,490) | (3,490) |
| Capital reserve from hedges | 210 | (265) | (1) |
| Capital reserve from available for sale financial assets | 144 | 128 | 73 |
| Capital reserve from share-based payments | 9,245 | 9,009 | 9,157 |
| Capital reserve from employee benefits | (59) | (81) | (59) |
| Accumulated deficit | (107,030) | (98,755) | (104,731) |
| | <u>70,871</u> | <u>75,813</u> | <u>72,507</u> |
| | <u>\$ 106,641</u> | <u>\$ 110,589</u> | <u>\$ 101,992</u> |

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

Consolidated Statements of Comprehensive Income

| | As of March 31, | | Year ended |
|---|-----------------|------------|-------------|
| | 2016 | 2015 | December 31 |
| | Unaudited | | Audited |
| | In thousands | | |
| Revenues from proprietary products | \$ 11,120 | \$ 3,173 | \$ 42,952 |
| Revenues from distribution | 3,677 | 5,757 | 26,954 |
| Total revenues | 14,797 | 8,930 | 69,906 |
| Cost of revenues from proprietary products | 6,931 | 3,295 | 30,468 |
| Cost of revenues from distribution | 3,089 | 5,243 | 23,640 |
| Total cost of revenues | 10,020 | 8,538 | 54,108 |
| Gross profit | 4,777 | 392 | 15,798 |
| Research and development expenses | 4,107 | 3,643 | 16,530 |
| Selling and marketing expenses | 835 | 799 | 3,652 |
| General and administrative expenses | 1,813 | 1,700 | 7,040 |
| Operating loss | (1,978) | (5,750) | (11,424) |
| Financial income | 165 | 186 | 463 |
| Income (expense) in respect of currency exchange and translation differences and derivatives instruments, net | (149) | 513 | 625 |
| Financial expense | (37) | (243) | (934) |
| Loss before taxes on income | (1,999) | (5,294) | (11,270) |
| Taxes on income | 300 | - | - |
| Loss | (2,299) | (5,294) | (11,270) |
| Other Comprehensive loss: | | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | | |
| Gain on available for sale financial assets | 71 | 118 | 63 |
| Profit (loss) on cash flow hedges | 245 | (221) | 71 |
| Net amounts transferred to the statement of profit or loss for cash flow hedges | (34) | 72 | 44 |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | |
| Actuarial gain from defined benefit plans | - | - | 22 |
| Total comprehensive loss | \$ (2,017) | \$ (5,325) | \$ (11,070) |
| <u>Loss per share attributable to equity holders of the Company:</u> | | | |
| Basic loss per share | \$ (0.06) | \$ (0.15) | \$ (0.31) |
| Diluted loss per share | \$ (0.06) | \$ (0.15) | \$ (0.31) |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share Capital | Share premium | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity | |
|--|-----------------|-------------------|--|---|---|---|---|--|---------------------|---------------|
| Unaudited | | | | | | | | | | |
| In thousands | | | | | | | | | | |
| <u>Balance as of January 1, 2016 (audited)</u> | \$ 9,320 | \$ 162,238 | \$ 73 | \$(3,490) | \$ (1) | \$ 9,157 | \$ (59) | \$(104,731) | \$ 72,507 | |
| Loss | - | - | - | - | - | - | - | (2,299) | (2,299) | |
| Other comprehensive income | - | - | 71 | - | 211 | - | - | - | 282 | |
| Total comprehensive income (loss) | - | - | 71 | - | 211 | - | - | (2,299) | (2,017) | |
| Forfeiture of options | - | 293 | - | - | - | (293) | - | - | - | |
| Cost of share-based payment | - | - | - | - | - | 381 | - | - | 381 | |
| Balance as of March 31, 2016 | <u>\$ 9,320</u> | <u>\$ 162,531</u> | <u>\$ 144</u> | <u>\$ (3,490)</u> | <u>\$ 210</u> | <u>\$ 9,245</u> | <u>\$ (59)</u> | <u>\$ (107,030)</u> | <u>70,871</u> | |
| | Share Capital | Share premium | Conversion option in convertible debentures | Capital reserve from available for sale financial assets | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
| Unaudited | | | | | | | | | | |
| In thousands | | | | | | | | | | |
| <u>Balance as of January 1, 2015 (audited)</u> | \$ 9,208 | \$ 158,417 | \$ 1,147 | \$ 10 | \$(3,490) | \$ (116) | \$ 8,783 | \$ (81) | \$(93,461) | \$ 80,417 |
| Loss | - | - | - | - | - | - | - | - | (5,294) | (5,294) |
| Other comprehensive income (loss) | - | - | - | 118 | - | (149) | - | - | - | (31) |
| Total comprehensive income (loss) | - | - | - | 118 | - | (149) | - | - | (5,294) | (5,325) |
| Exercise of options into shares | 19 | 476 | - | - | - | - | (279) | - | - | 216 |
| Cost of share-based payment | - | - | - | - | - | - | 505 | - | - | 505 |
| Balance as of March 31, 2015 | <u>\$ 9,227</u> | <u>\$ 158,893</u> | <u>\$ 1,147</u> | <u>\$ 128</u> | <u>\$ (3,490)</u> | <u>\$ (265)</u> | <u>\$ 9,009</u> | <u>\$ (81)</u> | <u>\$ (98,755)</u> | <u>75,813</u> |

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | re capital | Share premium | Conversion option in convertible debentures | Available for sale reserve | Capital reserve due to translation to presentation currency | Capital reserve from hedges | Capital reserve from share-based payments | Capital reserve from employee benefits | Accumulated deficit | Total equity |
|---|-----------------|-------------------|---|----------------------------|---|-----------------------------|---|--|---------------------|------------------|
| Audited | | | | | | | | | | |
| In thousands | | | | | | | | | | |
| Balance as of December 31, 2014 | \$ 9,208 | \$ 158,417 | \$1,147 | \$10 | \$ (3,490) | \$ (116) | \$ 8,783 | \$ (81) | \$ (93,461) | \$ 80,417 |
| Net loss | - | - | - | - | - | - | - | - | (11,270) | (11,270) |
| Other comprehensive income | - | - | - | 63 | - | 115 | - | 22 | - | 200 |
| Total comprehensive income (loss) | - | - | - | 63 | - | 115 | - | 22 | (11,270) | (11,070) |
| Exercise of options into shares | 112 | 2,674 | - | - | - | - | (1,533) | - | - | 1,253 |
| Expiration of conversion option on convertible debentures | - | 1,147 | (1,147) | - | - | - | - | - | - | - |
| Cost of share-based payment | - | - | - | - | - | - | 1,907 | - | - | 1,907 |
| | | | | | | | | | \$ | |
| Balance as of December 31, 2015 | <u>\$ 9,320</u> | <u>\$ 162,238</u> | <u>\$ -</u> | <u>\$ 73</u> | <u>\$ (3,490)</u> | <u>\$ (1)</u> | <u>\$ 9,157</u> | <u>\$ (59)</u> | <u>(104,731)</u> | <u>\$ 72,507</u> |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months period Ended March, 31 | | Year Ended December 31, |
|--|--|-------------------|----------------------------|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| | In thousands | | |
| <u>Cash Flows from Operating Activities</u> | | | |
| Loss | \$ (2,299) | \$ (5,294) | \$ (11,270) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | |
| Adjustments to the profit or loss items: | | | |
| Depreciation and amortization | 831 | 771 | 3,227 |
| Finance expenses (income), net | 21 | (447) | (154) |
| Cost of share-based payment | 381 | 505 | 1,907 |
| Taxes on income | 300 | - | - |
| Loss from sale of property and equipment | 10 | - | - |
| Change in employee benefit liabilities, net | (135) | 17 | 87 |
| | <u>1,408</u> | <u>846</u> | <u>5,067</u> |
| Changes in asset and liability items: | | | |
| Decrease (increase) in trade receivables | 14,259 | 8,418 | (5,604) |
| Decrease (increase) in other accounts receivables | (758) | *(613) | 118 |
| Increase in inventories | (5,269) | (2,012) | (913) |
| Increase (decrease) in deferred expenses | (470) | 71 | (565) |
| Increase (decrease) in trade payables | 1,070 | (2,572) | 887 |
| Increase (decrease) in other accounts payables | 287 | (659) | 94 |
| Decrease in deferred revenues | (966) | (177) | (2,405) |
| | <u>8,153</u> | <u>2,456</u> | <u>(8,388)</u> |
| Cash paid and received during the period for: | | | |
| Interest paid | (2) | (121) | (484) |
| Interest received | 286 | 350 | 1,143 |
| Taxes paid | (3) | (29) | (47) |
| | <u>281</u> | <u>200</u> | <u>612</u> |
| Net cash provided by (used in) operating activities | <u>\$ 7,543</u> | <u>\$ (1,792)</u> | <u>\$ (13,979)</u> |

*Reclassification

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months period Ended | | Year Ended |
|---|----------------------------------|------------------|---------------------|
| | March, 31 | | December 31, |
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| | In thousands | | |
| <u>Cash Flows from Investing Activities</u> | | | |
| Proceeds from sale of (investment in) short term investments, net | \$ (616) | \$ 425 | \$ 13,971 |
| Purchase of property and equipment | (926) | (509) | (2,718) |
| Proceeds from sale of property and equipment | 21 | - | - |
| Net cash provided by (used in) investing activities | <u>(1,521)</u> | <u>(84)</u> | <u>11,253</u> |
| <u>Cash Flows from Financing Activities</u> | | | |
| Exercise of warrants and options into shares | - | *216 | 1,254 |
| Receipt of long-term loans | 630 | - | 197 |
| Repayment of long-term loans | (11) | - | (9) |
| Repayment of convertible debentures | - | - | (7,797) |
| Net cash provided by (used in) financing activities | <u>619</u> | <u>216</u> | <u>(6,355)</u> |
| <u>Exchange differences on balances of cash and cash equivalent</u> | (83) | *125 | (418) |
| <u>Increase (decrease) in cash and cash equivalents</u> | 6,558 | (1,535) | (9,499) |
| <u>Cash and cash equivalents at the beginning of the year</u> | 5,047 | 14,546 | 14,546 |
| <u>Cash and cash equivalents at the end of the period</u> | <u>\$ 11,605</u> | <u>\$ 13,011</u> | <u>\$ 5,047</u> |
| <u>Significant non-cash transactions</u> | | | |
| Purchase of property and equipment through capital lease | <u>\$ 84</u> | <u>\$ -</u> | <u>\$ -</u> |

*Reclassification

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1:- General

These Financial Statements have been prepared in a condensed format as of March 31, 2016 and for the three 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, 2015 and for the year then ended and the accompanying notes ("annual consolidated financial statements").

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".

Note 3:- Operating Segments

a. General:

The company has two operating segments, as follows:

- | | |
|----------------------|---|
| Proprietary Products | - Medicine development, manufacture and sale of plasma-derived therapeutics products. |
| Distribution | - Distribution of drugs in Israel manufacture by other companies for clinical uses, most of which are produced from plasma or its derivatives products. |

b. Reporting on operating segments:

| | Proprietary Products | Distribution | Total |
|---|---------------------------------|---------------------|-------------------|
| | In thousands | | |
| | Unaudited | | |
| <u>Three months period ended March 31, 2016</u> | | | |
| Revenues | \$ 11,120 | \$ 3,677 | \$ 14,797 |
| Gross profit | \$ 4,189 | \$ 588 | 4,777 |
| Unallocated corporate expenses | | | (6,755) |
| Finance expenses, net | | | (21) |
| Loss before taxes on income | | | <u>\$ (1,999)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3:- Operating Segments (Cont.)

| | Proprietary Products | Distribution | Total |
|---|---------------------------------|---------------------|-------------------|
| | In thousands | | |
| | Unaudited | | |
| <u>Three months period Ended March 31, 2015</u> | | | |
| Revenues | <u>\$ 3,173</u> | <u>\$ 5,757</u> | <u>\$ 8,930</u> |
| Gross profit (loss) | <u>\$ (122)</u> | <u>\$ 514</u> | 392 |
| Unallocated corporate expenses | | | (6,142) |
| Finance expenses, net | | | <u>456</u> |
| Loss before taxes on income | | | <u>\$ (5,294)</u> |

| | Proprietary Products | Distribution | Total |
|-------------------------------------|---------------------------------|---------------------|--------------------|
| | In thousands | | |
| | Unaudited | | |
| <u>Year Ended December 31, 2015</u> | | | |
| Revenues | <u>\$ 42,952</u> | <u>\$ 26,954</u> | <u>\$ 69,906</u> |
| Gross profit | <u>\$ 12,484</u> | <u>\$ 3,314</u> | \$ 15,798 |
| Unallocated corporate expenses | | | (27,222) |
| Finance expenses, net | | | <u>154</u> |
| Loss before taxes on income | | | <u>\$ (11,270)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4:- Financial Instruments

a. Classification of financial instruments by fair value hierarchyFinancial assets (liabilities) measured at fair value

| | Level 1 | Level 2 |
|---|-----------------|------------------|
| | In thousands | |
| <u>March 31, 2016</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 73 | \$ - |
| Mutual funds | 380 | - |
| Debt securities (corporate and government) | 964 | - |
| | <u>1,417</u> | |
| Derivatives instruments | | 146 |
| Available for sale debt securities (corporate and government) | \$ - | \$ 22,504 |
| | <u>\$ 1,417</u> | <u>\$ 22,650</u> |
| <u>March 31, 2015</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 583 | - |
| Mutual funds | 1,314 | - |
| Exchange traded notes | 35 | - |
| Debt securities (corporate and government) | \$ 6,685 | \$ - |
| | <u>8,617</u> | - |
| Derivatives instruments | \$ - | \$ (183) |
| Available for sale debt securities (corporate and government) | \$ - | \$ 28,076 |
| | <u>\$ 8,617</u> | <u>\$ 27,893</u> |
| <u>December 31, 2015</u> | | |
| Marketable securities at fair value through profit or loss: | | |
| Equity shares | \$ 67 | \$ - |
| Mutual funds | 365 | - |
| Debt securities (corporate and government) | 993 | - |
| | <u>1,425</u> | - |
| Derivatives instruments | - | 34 |
| Available for sale debt securities (corporate and government) | - | 21,834 |
| | <u>\$ 1,425</u> | <u>\$ 21,868</u> |

- b. During the three months ended on March 31, 2016 there were no transfers due to the fair value measurement of any financial instrument from Level 1 to Level 2, and furthermore, there were no transfers to or from Level 3 due to the fair value measurement of any financial instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5:- Significant event during the period

- a. Commencing January 1, 2016, the Israeli regular tax rate was reduced from 26.5% to 25%.
- b. The Company recorded deferred revenue as a result of achieving certain regulatory and sales milestones under the strategic agreements with Chiesi Farmaceutici S.p.A. and Baxalta Incorporated. This deferred revenue will be recognized during the term of the strategic agreements. After the reporting date the Company received the payments for those milestones.

Note 6:- Subsequent Events

1. On May 8, 2016 the Company's Board of Directors approved the grant, for no consideration, of 263,900 options to employees exercisable into ordinary shares. The fair value of the options was estimated at \$507 thousands.
