

Orgenesis Inc.
Form 10-Q
October 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended August 31, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission file number: 000-54329

ORGENESIS INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or
organization)

98-0583166

(I.R.S. Employer Identification No.)

20271 Goldenrod Lane
Germantown, MD 20876

(Address of principal executive offices) (zip code)

(480) 659-6404

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Emerging Growth Company ☐

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒.

As of October 12, 2018, there were 15,570,973 shares of registrant's common stock outstanding.

ORGENESIS INC.
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2018 AND 2017

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PART I UNAUDITED FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

ORGENESIS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(U.S. Dollars in Thousands)
(Unaudited)

	August 31, 2018	November 30, 2017
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,741	\$ 3,519
Restricted Cash	396	-
Accounts receivable, net	4,154	1,336
Prepaid expenses and other receivables	1,437	841
Receivables from related party	-	691
Grants receivable	267	183
Inventory	1,659	725
Total current assets	24,654	7,295
NON-CURRENT ASSETS:		
Bank deposits	91	-
Call option derivative	-	339
Investments in associates, net	-	1,321
Property and equipment, net	11,056	5,104
Intangible assets, net	17,576	15,051
Goodwill	15,632	10,684
Other assets	287	78
Total non-current assets	44,642	32,577
TOTAL ASSETS	\$ 69,296	\$ 39,872

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

ORGENESIS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Cont d)
(U.S. Dollars in Thousands)
(Unaudited)

	August 31, 2018	November 30, 2017
Liabilities and equity		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,962	\$ 3,914
Accrued expenses and other payables	811	1,435
Employees and related payables	2,312	2,961
Related parties	177	116
Advance payments on account of grant	2,619	1,719
Short-term loans and current maturities of long-term loans	661	378
Deferred income	4,863	3,611
Current maturities of convertible loans	358	2,780
Other	190	-
TOTAL CURRENT LIABILITIES	14,953	16,914
LONG-TERM LIABILITIES:		
Loans payable	\$ 1,800	\$ 2,118
Convertible loans	-	2,415
Retirement benefits obligation	430	6
Deferred taxes	2,979	690
Other	524	-
TOTAL LONG-TERM LIABILITIES	5,733	5,229
TOTAL LIABILITIES	20,686	22,143
COMMITMENTS		
REDEEMABLE NON-CONTROLLING INTEREST	18,646	3,606
EQUITY:		
Common stock of \$0.0001 par value, 145,833,334 shares authorized, 13,620,262 and 9,872,659 shares issued and outstanding as of August 31, 2018 and November 30, 2017, respectively	1	1
Additional paid-in capital	80,889	55,334
Receipts on account of shares to be allotted	5,490	1,483
Accumulated other comprehensive income	660	1,425
Accumulated deficit	(57,415)	(44,120)
Equity attributable to Orgenesis Inc.	29,625	14,123
Non-controlling interests	339	-
TOTAL EQUITY	29,964	14,123
TOTAL LIABILITIES AND EQUITY	\$ 69,296	\$ 39,872

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

ORGENESIS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(U.S. Dollars in thousands, except share and loss per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
REVENUES	\$ 6,230	\$ 2,562	\$ 12,853	\$ 6,712
COST OF REVENUES	3,381	1,867	7,220	4,900
GROSS PROFIT	2,849	695	5,633	1,812
RESEARCH AND DEVELOPMENT EXPENSES, net	1,902	500	3,456	1,906
AMORTIZATION OF INTANGIBLE ASSETS	505	423	1,386	1,201
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,008	3,184	10,675	7,887
OTHER INCOME, net	(2,921)	-	(3,237)	-
OPERATING LOSS	645	3,412	6,647	9,182
FINANCIAL EXPENSES (INCOME), net	1,070	(45)	3,164	2,534
SHARE IN LOSSES OF ASSOCIATED COMPANY	202	152	732	348
LOSS BEFORE INCOME TAXES	1,917	3,519	10,543	12,064
TAX EXPENSES	2,353	421	1,680	493
NET LOSS	\$ 4,270	\$ 3,940	\$ 12,223	\$ 12,557
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (INCLUDING REDEEMABLE)	800	-	1,072	-
NET LOSS ATTRIBUTABLE TO THE COMPANY	\$ 5,070	\$ 3,940	\$ 13,295	\$ 12,557
LOSS PER SHARE:				
Basic	\$ (0.35)	\$ (0.38)	\$ (1.04)	\$ (1.32)
Diluted	\$ (0.35)	\$ (0.40)	\$ (1.04)	\$ (1.34)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF BASIC AND DILUTED LOSS PER SHARE:				
Basic	14,355,430	10,279,180	12,774,802	9,477,211
Diluted	14,355,430	10,385,499	12,774,802	9,503,253

**OTHER COMPREHENSIVE
LOSS:**

Net Loss	\$	4,270	\$	3,940	\$	12,223	\$	12,557
Other Comprehensive (income)								
loss Translation adjustment		416		(1,430)		765		(2,419)
Comprehensive loss		4,686		2,510		12,988		10,138
Net income attributed to non-controlling interests (including redeemable)		800				1,072		

COMPREHENSIVE LOSS**ATTRIBUTED TO ORGENESIS**

INC.	\$	5,486	\$	2,510	\$	14,060	\$	10,138
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The accompanying notes are an integral part of these condensed consolidated financial statements.

ORGENESIS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(U.S. Dollars in thousands, except share amounts)
(Unaudited)

Common Stock

	Number	Par Value	Additional Paid-in Capital	Receipts on Account of Share to be Allotted	Accumulated Other Comprehensive Loss	Accumulated Deficit	Equity Attributable to Orgenesis Inc.	C
Balance at December 1, 2016	9,508,068	\$ 1	\$ 45,454	\$ -	(1,205)\$	(31,753)\$	12,497	\$
Changes during the nine months ended August 31, 2017:								
Stock-based compensation to employees and directors			1,156				1,156	
Stock-based compensation to service providers	79,167	*	1,824				1,824	
Issuance of warrants and beneficial conversion feature of convertible loans			2,550				2,550	
Issuance of shares and receipts on account of shares and warrants to be allotted and cancelation of contingent shares	244,743	*	3,383	852			4,235	
Comprehensive income (loss) for the period					2,419	(12,557)	(10,138)	
Balance at August 31, 2017	9,831,978	\$ 1	\$ 54,367	\$ 852	\$ 1,214	(44,310)\$	12,124	\$
	9,872,659	1	55,334	1,483	1,425	(44,120)	14,123	

**Balance at
December 1,
2017**

**Changes during
the nine months
ended August
31, 2018:**

Stock-based compensation to employees and directors			1,416			1,416
Stock-based compensation to service providers and restricted shares granted to service providers	195,000	*	1,568			1,568
Issuance of warrants and beneficial conversion feature of convertible loans	1,341,134	*	7,330			7,330
Issuance of shares and receipts on account of shares to be allotted related to acquisition of Atvio and CureCell	83,965	*	600	1,853		2,453
Issuance of shares and receipts on account of shares to be allotted	1,990,858	*	13,466	2,154		15,620
Beneficial conversion feature of convertible loans and warrants issued			323			323
Issuance of shares due to exercise of warrants	136,646	*	852			852
				(765)	(13,295)	(14,060)
Comprehensive income (loss) for						

the period

Balance at							
August 31, 2018	13,620,262 \$	1 \$	80,889 \$	5,490 \$	660 \$	(57,415)\$	29,625 \$

* represent an amount lower than \$ 1 thousand

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

ORGENESIS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars in thousands)
(Unaudited)

	Nine Months Ended	
	August 31, 2018	August 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (12,223)	\$ (12,557)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,984	2,817
Share in losses of associated company	732	348
Depreciation and amortization expenses	1,833	1,874
Net gain on remeasurement of previously equity interest in Atvio and CureCell to acquisition date fair value	(4,509)	-
Change in fair value of warrants and embedded derivatives	11	(230)
Change in fair value of convertible bonds	-	(157)
Interest expenses accrued on loans and convertible loans (including amortization of beneficial conversion feature)	2,856	818
Changes in operating assets and liabilities, net of business combination:		
Increase in accounts receivable	(2,818)	(682)
Decrease in related parties, net	(379)	-
Increase in inventory	(848)	(484)
Increase (decrease) in other assets	65	(1)
Increase in prepaid expenses and other accounts receivable	(148)	(818)
Decrease in accounts payable	(1,723)	(1,230)
Increase (decrease) in accrued expenses and other payables	(686)	192
Increase (decrease) in employee and related payables	(820)	554
Increase in deferred income	705	3,268
Increase in advance payments and receivables on account of grant, net	815	2,358
Increase in deferred taxes	1,680	494
Net cash used in operating activities	(12,473)	(3,436)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,430)	(639)
Disposals of property and equipment	-	31
Acquisition of CureCell , net of cash acquired (See note 4)	58	-
Acquisition of Atvio , net of cash acquired (See note 4)	245	-
Investments in long term deposit	(92)	-
Investments in associate	-	(835)
Net cash used in investing activities	(4,219)	(1,443)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term line of credit	-	(21)
Proceeds from issuance of shares and warrants (net of transaction costs)	12,666	4,307
Proceeds from issuance of convertible loans (net of transaction costs)	720	4,932

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Repayment of convertible loans and convertible bonds	(177)	(3,766)
Proceeds from receipts on account of shares to be allotted	3,626	-
Increase in redeemable non-controlling interests	14,007	-
Repayment of short and long-term debt	(331)	(1,102)
Net cash provided by financing activities	30,511	4,350
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,819	(529)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(201)	400
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,519	891
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,137	\$ 762

SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES

Conversion of loans and bonds (including accrued interest) to common stock and warrants	\$ 7,511	\$ 106
Classification of loan receivable into services to be received from CureCell	\$ 813	\$ -

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

ORGENESIS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended August 31, 2018 and 2017

NOTE 1 - GENERAL AND BASIS OF PRESENTATION

a. General

Orgenesis Inc., a Nevada corporation (Orgenesis or the Company), is a service and research company in the field of the regenerative medicine industry with a focus on cell therapy development and manufacturing for advanced medicinal products. In addition, the Company is focused on developing novel and proprietary cell therapy trans-differentiation technologies for the treatment of diabetes. The consolidated financial statements include the accounts of Orgenesis Inc. and its subsidiaries, including those of the Masthercell Global group, a contract development and manufacturing organization, or CDMO, specializing in cell therapy development and manufacturing for advanced medicinal products in the USA, Belgium, Korea and Israel (See Note 4 for explanation that during the third fiscal quarter that the Company gained control of Atvio and CureCell); Orgenesis SPRL (the Belgian Subsidiary), a Belgian-based subsidiary which is engaged in development and manufacturing activities together with clinical development studies in Europe; Orgenesis Maryland Inc. (the U.S. Subsidiary), a Maryland corporation; and Orgenesis Ltd., an Israeli corporation, (the Israeli Subsidiary).

The Company's goal is to industrialize cell therapy for fast, safe and cost-effective production in order to provide rapid therapies for any market around the world through a world-wide network of CDMO joint venture partners. The Company's trans-differentiation technologies for treating diabetes, which will be referred to as the cellular therapy (CT) business, is based on a technology licensed by Tel Hashomer Medical Research (THM) to the Israeli Subsidiary that demonstrates the capacity to induce a shift in the developmental fate of cells from the liver and trans-differentiating (converting) them into pancreatic beta cell-like insulin-producing cells.

As used in this report and unless otherwise indicated, the term Company refers to Orgenesis Inc. and its subsidiaries (Subsidiaries). Unless otherwise specified, all amounts are expressed in United States Dollars.

On November 16, 2017, the Company implemented a reverse stock split of its outstanding shares of common stock at a ratio of 1-for-12 shares. The reverse stock split has been reflected in these condensed consolidated financial statements.

On March 13, 2018, the Company's common stock began to be listed and traded on the Nasdaq Capital Market under the symbol ORGS.

Consolidation of CDMO Entities and Strategic Funding

On June 28, 2018, the Company, Masthercell Global Inc. (a newly formed Delaware subsidiary of Orgenesis Inc being the Company that holds the Company's CDMO business (Masthercell Global)), Great Point Partners, LLC, a manager of private equity funds focused on growing small to medium sized health care companies (Great Point), and certain of Great Point's affiliates, entered into a series of definitive strategic agreements intended to finance, strengthen and expand Orgenesis' CDMO business. In connection therewith, the Company, Masthercell Global and GPP-II Masthercell, LLC, a Delaware limited liability company (GPP-II) and an affiliate of Great Point entered into Stock Purchase agreement (the SPA) pursuant to which GPP-II purchased 378,000 shares of newly designated Series A Preferred Stock of Masthercell Global (the Masthercell Global Preferred Stock), representing 37.8% of the issued and outstanding share capital of Masthercell Global, for cash consideration to be paid into Masthercell Global of up to \$25 million, of which \$13.2 million is subject to certain contingencies described below (the Consideration). Orgenesis holds 622,000 shares of Masthercell Global's Common Stock, representing 62.2% of the issued and outstanding equity share capital of Masthercell Global. An initial cash payment of \$11.8 million of the Consideration was remitted at closing by GPP-II to Masthercell Global. \$1.5 Million of the initial capital contributed to Masthercell Global was used

to reimburse the Investors for their fees and expenses incurred in conjunction with this transaction. The \$1.5 million will reflect the entire fee payable under this transaction (net payment of \$10.3 million). The follow up payment will be in the amount of \$6,600,000 to be made in each of years 2018 and 2019 (the Future Payments), or an aggregate of \$13.2 million, if (a) Masthercell Global achieves specified EBITDA and revenues targets during each of these years, and (b) the Orgenesis shareholders approve on or before December 31, 2019 certain provisions of the Stockholders Agreement entered into by these parties. None of the future Consideration amounts, if any, will result in an increase in GPP-II's equity holdings in Masthercell Global beyond the 378,000 shares of Series A Preferred Stock issued to GPP-II at closing. Notwithstanding the foregoing, GPP-II may, in its sole discretion, elect to pay all or a portion of the future Consideration amounts even if the financial targets described above have not been achieved and the Orgenesis Stockholder Approval has not been obtained.

In connection with the entry into the SPA described above, each of the Company, Masthercell Global and GPP-II entered into the Masthercell Global Inc. Stockholders Agreement (the Stockholders Agreement) providing for certain restrictions on the disposition of Masthercell Global securities, the provisions of certain options and rights with respect to the management and operations of Masthercell Global, certain rights to GPP-II (including, without limitation, a tag along right, drag along right and certain protective provisions). After the earlier of the second anniversary of the closing or certain enumerated circumstances, GPP-II is entitled to effectuate a spinoff of Masthercell Global and the Masthercell Global Subsidiaries (the Spinoff). The Spinoff is required to reflect a market value determined by one of the top ten independent accounting firms in the U.S. selected by GPP, provided that under certain conditions, such market valuation shall reflect a valuation of Masthercell Global and the Masthercell Global Subsidiaries of at least \$50 million. In addition, upon certain enumerated events described below, GPP-II is entitled, at its option, to put to the Company (or, at Company's discretion, to Masthercell Global if Masthercell Global shall then have the funds available to consummate the transaction) its shares in Masthercell Global or, alternatively, purchase from the Company its share capital in Masthercell Global at a purchase price equal to the fair market value of such equity holdings provided that the purchase price shall not be greater than three times the price per share of Masthercell Global Preferred Stock paid by GPP-II and shall not be less than the price per share of Masthercell Global Preferred Stock paid by GPP-II. GPP-II may exercise its put or call option upon the occurrence of any of the following: (i) there is an Activist Shareholder of the Company; (ii) the Chief Executive Officer and/or Chairman of the board of directors of the Company resigns or is replaced, removed, or terminated for any reason prior to June 28, 2023; (iii) there is a Change of Control event of the Company; or (iv) the industry expert director appointed to the board of directors of Masthercell Global is removed or replaced (or a new such director is appointed) without the prior written consent of GPP-II. For the purposes of the foregoing, the following definitions shall apply: (A) Activist Shareholder shall mean any Person who acquires shares of capital stock of the Company who either: (x) acquires more than a majority of the voting power of the Company, (y) actively takes over and controls a majority of the board of directors of the Company, or (z) is required to file a Schedule 13D with respect to such Person's ownership of the Company and has described a plan, proposal or intent to take action with respect to exerting significant pressure on the management of or directors of, the Company; and (B) Change of Control shall mean any of: (a) the acquisition, directly or indirectly (in a single transaction or a series of related transactions) by a Person or group of Persons of either (I) a majority of the common stock of the Company (whether by merger, consolidation, stock purchase, tender offer, reorganization, recapitalization or otherwise), or (II) all or substantially all of the assets of the Company and its Subsidiaries (but only if such transaction includes the transfer of Securities held by the Company), (b) if any four (4) of the directors of the Company as of June 28, 2018 are removed or replaced or for any other reason cease to serve as directors of the Company, (c) the filing of a petition in bankruptcy or the commencement of any proceedings under bankruptcy laws by or against the Company, provided that such filing or commencement shall be deemed a Change of Control immediately if filed or commenced by the Company or after sixty (60) days if such filing is initiated by a creditor of the Company and is not dismissed; (d) insolvency of the Company that is not cured by the Company within thirty (30) days; (e) the appointment of a receiver for the Company, provided that such appointment shall constitute an Change of Control immediately if the appointment was consented to by the Company or after sixty (60) days if not consented to by the Company and such appointment is not terminated; or (f) or dissolution of the Company.

The Stockholders Agreement further provides that GPP-II is entitled, at any time, to convert its share capital in Masthercell Global for the Company's common stock in an amount equal to the lesser of (a)(i) the fair market value of GPP-II's shares of Masthercell Global Preferred Stock to be exchanged, divided by (ii) the average closing price per share of Orgenesis Common Stock during the thirty (30) day period ending on the date that GPP-II provides the exchange notice (the Exchange Price) and (b)(i) the fair market value of GPP-II's shares of Masthercell Global Preferred Stock to be exchanged assuming a value of Masthercell Global equal to three and a half (3.5) times the revenue of Masthercell Global during the last twelve (12) complete calendar months immediately prior to the exchange divided by (ii) the Exchange Price; provided, that in no event will (A) the Exchange Price be less than a price per share that would result in Orgenesis having an enterprise value of less than \$250,000,000 and (B) the maximum number of shares of Orgenesis Common Stock to be issued shall not exceed 2,704,247 shares of outstanding Orgenesis Common Stock (representing approximately 19.99% of then outstanding Orgenesis Common Stock), unless Orgenesis obtains shareholder approval for the issuance of such greater amount of shares of Orgenesis

Common Stock in accordance with the rules and regulations of the Nasdaq Stock Market.

Great Point and Masthercell Global entered into an advisory services agreement pursuant to which Great Point is to provide management services to Masthercell Global for which Great Point will be compensated at an annual base compensation equal to the greater of (i) \$250,000 per each 12 month period or (ii) 5% of the EBITDA for such 12 month period, payable in arrears in quarterly installments; provided, that these payments will (A) begin to accrue immediately, but shall not be paid in cash to Great Point until such time as Masthercell Global generates EBITDA of at least \$2,000,000 for any 12 month period or the sale of or change in control of Masthercell Global, and (B) shall not exceed an aggregate annual amount of \$500,000. Such compensation accrues but is not owed to Great Point until the earlier of (i) Masthercell Global generating EBITDA of at least \$2 million for any 12 months period following the date of the agreement or (ii) a Sale of the Company or Change of Control of the Company (as both terms are defined therein).

GPP Securities, LLC, a Delaware limited liability company and an affiliate of Great Point and Masthercell Global entered into a transaction services agreement pursuant to which GPP Securities, LLC is to provide certain brokerage services to Masthercell Global for which GPP Securities LLC will be entitled to a certain Exit Fee and Transaction Fee (as both terms are defined in the agreement), such fees not to be less than 2 percent of the applicable transaction value.

The Company accounted for the investment made by GPP as a redeemable non-controlling interest due to the embedded redemption feature whose settlement is not at the Company discretion.

Corporate Reorganization

Contemporaneous with the execution of the SPA and the Stockholders' Agreement, Orgenesis and Masthercell Global entered into a Contribution, Assignment and Assumption Agreement pursuant to which Orgenesis contributed to Masthercell Global assets relating to the CDMO Business (as defined below), including the CDMO subsidiaries (the Corporate Reorganization). For further details see Note 4. Together with MaSTherCell S.A., Atvio and CureCell are directly held subsidiaries under Masthercell Global (collectively, the Masthercell Global Subsidiaries).

Masthercell Global, through the Masthercell Global Subsidiaries, will be engaged in the business of providing manufacturing and development services to third parties related to cell therapy products, and the creation and development of technology, and optimizations in connection with such manufacturing and development services for third parties (the CDMO Business). Under the terms of the Stockholders' Agreement, Orgenesis has agreed that so long as it owns equity in Masthercell Global and for two years thereafter it will not engage in the CDMO Business, except through Masthercell Global (but may continue to engage in its other areas of business). In addition, except for certain limited circumstances, each of Orgenesis and GPP-II agreed in the Stockholders' Agreement to not recruit or solicit or hire any officer or employee of Masthercell Global that was or is involved in the CDMO Business.

b. Liquidity

As of August 31, 2018, the Company accumulated losses of approximately \$57.4 million. Although the Company is showing positive revenue and gross profit trends in its CDMO business, the Company expects to incur further losses in the CT business.

To date, the Company has been funding operations primarily from the proceeds from private placements of the Company's convertible debt and equity securities and from revenues generated by MaSTherCell S.A. From December 1, 2017 through August 31, 2018, the Company received, through MaSTherCell S.A., proceeds of approximately \$11.5 million in revenues and accounts receivable from customers, and \$16.5 million from the private placement to accredited investors of the Company's equity and equity linked securities and convertible loans and exercise of warrants, out of which \$8.1 million are from the institutional investor with whom the Company entered into definitive agreements in January 2017 for the private placement of units (see also Note 7(a)). In addition, from September 1, 2018 through October 12, 2018, the Company raised \$3.4 million from the private placement referred to above of unsubscribed units under such investor's subscription agreement, and proceeds of approximately \$2.9 million in

accounts receivable from customers of MaSTherCell S.A. See also Note 12.

c. Basis of Presentation

These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position as of August 31, 2018, and the consolidated statements of comprehensive loss for the three and nine months ended August 31, 2018 and 2017, and the changes in equity and cash flows for the nine-month period ended August 31, 2018 and 2017. The interim results are not necessarily indicative of the results to be expected for the year ending November 30, 2018. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended November 30, 2017.

d. Collaboration and Joint Venture Agreements

Mircod Limited

On June 19, 2018, the Company and Mircod Limited, a company formed under the laws of Cyprus (Mircod) entered into a Collaboration and License Agreement (the Collaboration Agreement) for the research, development and commercialization of potential key technologies related to biological sensing for the Company's clinical development and manufacturing projects (the Development Project). Within 45 days of the execution of the Collaboration Agreement, the parties are to approve a written project development plan outlining each party's responsibilities with respect to the Development Project, and the Company will be funding the projected development costs as outlined in the development plan. Under the terms of the Collaboration Agreement, the Company remitted to Mircod an upfront payment of \$50,000.

Under the Collaboration Agreement, all results of such collaboration (Project Results) shall be jointly owned by Mircod and the Company. The Company was granted an exclusive, worldwide sub licensable license under Mircod's right in such Project Results to use and commercialize Project Results in consideration for a royalty of 5% of Net Sales (as defined in the Collaboration Agreement) of products incorporating Project Results.

Subject to completion of the Development Project, Mircod and the Company are to negotiate and enter into a manufacturing and supply agreement under which Mircod is to manufacture and supply products incorporating the Project Results and, at the Company's request, to provide support and maintenance service for such products. If for whatever reason the parties fail to enter into such manufacturing and supply agreement within 90 days of the completion of the Development Project or if Mircod is unable to perform such services, the Company is entitled to manufacture the products, in which event Mircod will be entitled to a payment of \$80,000 and royalties on Net Sales are to increase to 8% of Net Sales.

HekaBio K.K

On July 10, 2018, the Company and HekaBio K.K. (HB), a corporation organized under the laws of Japan entered into a Joint Venture Agreement (the JVA) pursuant to which the parties will collaborate in the clinical development and commercialization of regeneration and cell and gene therapeutic products (hereinafter the Products) in Japan (the Project). The parties intend to pursue the joint venture through a newly established Japanese company (hereinafter the JV Company) which the Company by itself, or together with a designee, will hold a 49% participating interest therein, with the remaining 51% participating interest being held by HB. HB will fund, at its sole expense, all costs associated with obtaining the requisite regulatory approvals for conducting clinical trials, as well as performing all clinical and other testing required for market authorization of the Products in Japan.

Under the JVA, each party may invest up to \$10 million, which may take the form of a loan, if required, as determined by the steering committee. The terms of such investment, if any, will be on terms mutually agreeable to the parties, provided that the minimum pre-money valuation for any such investment shall not be less than \$10 million. Additionally, HB was granted an option to affect an equity investment in the Company of up to \$15 million within the next 12 months on mutually agreeable terms. If such investment is in fact consummated, the Company agreed to invest in the JV Company by way of a convertible loan an amount to HB's pro-rata participating interest in the JV Company, which initially will be at 51%. Such loan may then be converted by the Company into share capital of the JV company at an agreed upon formula for determining JV Company valuation which in no event shall be less than \$10 million. Under the JVA, the Company can require HB to sell to the Company its participating (including equity) interest in the JV Company in consideration for the issuance of the Company's common stock based on an agreed upon formula for determining JV Company valuation which in no event shall be less than \$10 million.

In addition, under the JVA, the Company shall grant the JV Company an exclusive license to certain intellectual property of the Company as may be required for the JV Company to develop and commercialize the Products in Japan. In consideration of such license, the JV Company shall pay the Company, in addition to other payments, royalties at the rate of 10% of the JV Company's net sales of Products.

It was further agreed that the JV Company shall grant the Company (and its affiliates) a non-exclusive, worldwide (other than Japan), royalty-free and fully paid-up license to use and practice, for any purpose, new inventions, discoveries and intellectual property rights that are generated by and/or on behalf of HB and/or the JV Company in connection with the Project.

All matters pertaining to such license rights shall be governed under a separate license agreement to be entered by and between the Company and the JV Company.

As of August 31, 2018, no activity had begun in the said JV and no investments were made therein.

Image Securities Ltd.

On July 11, 2018, the Company and Image Securities Ltd., a corporation with its registered office in Grand Cayman, Grand Cayman Islands (the "India Partner") entered into a Joint Venture Agreement (the "India JVA") pursuant to which the parties will collaborate in the development and/or marketing, clinical development and commercialization of cell therapy products in India (the "Cell Therapy Products"). The India Partner will collaborate with a network of healthcare facilities and a healthcare infrastructure as well as financial partners to advance the development and commercialization of the cell therapy products.

The India JVA becomes effective upon the consummation of an equity investment by the India partner in the Company of \$5 million within 15 days of the execution of the India JVA through the purchase of units of Orgenesis securities at a per unit purchase price payable into the Company of \$6.24, with each unit comprised of one share of the Company and three-year warrant for the acquisition of an additional common share at a per share exercise price of \$6.24. Subject to the consummation of such equity investment in the Company, the Company is to advance to the JV Company a convertible loan in the amount of \$5 million. The loan is convertible into equity capital of the JV Company at an agreed upon formula for determining JV Company valuation. The investment in the Company by the India Partner would be the consummation of the previously disclosed private placement subscription agreement entered into in December 2016 between the Company and an affiliate of the India Partner pursuant to which the closing of such subscription agreement was by the terms thereof delayed until terms comprising the India JV were mutually agreed to.

Under the India JVA, the India Partner agreed to invest in the JV \$10 million within 12 months of the incorporation of the JV Company. If for whatever reason such investment is not made by the India Partner within such time, then Orgenesis is authorized to convert its above-referenced loan into 50% of the equity capital of the JV Company on a

fully diluted basis, provided that if the pre-money valuation of the JV Company is then independently determined to be less than \$5 million, then such conversion to be effected in the basis of such valuation.

As of August 31, 2018, no activity had begun in the said JV and no investments were made therein.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except as noted below regarding the adoption of new accounting pronouncements.

Recently Issued Accounting Pronouncements- adopted by the Company

1) In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force) (ASU 2016-18), which requires entities to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods (including interim periods within those annual reporting periods) beginning after December 15, 2017. The Company adopted this standard as of beginning of 2018. The Company did not have restricted cash in the previously presented period. Therefore, there is no impact for the new adoption on previously reported periods.

2) In July 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)", ("ASU 2017-11"). This update was issued to address complexities in accounting for certain equity-linked financial instruments containing down round features. The amendment changes the classification analysis of these financial instruments (or embedded features) so that equity classification is no longer precluded. The amendments in ASU 2017-11 are effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company elected to early adopt the standard effective September 1, 2017, retrospectively. Following is the result of the adoption on the Company's condensed consolidated financial statements previously reported:

Shareholders' Equity

	August 31, 2017		
	As reported Previously	Impact of adoption In thousands	As revised
Additional paid-in capital	\$ 50,518	\$ 3,849	\$ 54,367
Accumulated deficit	\$ (41,345)	\$ (2,965)	\$ (44,310)
Total equity	\$ 11,251	\$ 873	\$ 12,124

Statement of Comprehensive Loss

Nine months ended August 31, 2017				Three months ended August 31, 2017			
As reported Previously	Impact of adoption	As revised		As reported Previously	Impact of adoption	As revised	
In thousands							
Financial expenses (income),	\$ 1,488	\$ 1,046	\$ 2,534	\$ (2,032)	\$ 1,987	\$ (45)	

net												
Loss												
before												
income												
taxes	\$	11,018	\$	1,046	\$	12,064	\$	1,532	\$	1,987	\$	3,519
Net loss	\$	11,511	\$	1,046	\$	12,557	\$	1,953	\$	1,987	\$	3,940

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NOTE 3 - SEGMENT INFORMATION

The Chief Executive Officer ("CEO") is the Company's chief operating decision-maker ("CODM").

Based on the Company's organizational structure, its business activities and information reviewed by the CODM for the purposes of allocating resources and assessing performance, management has determined that there are two operating segments.

CDMO

The CDMO activity is comprised of a specialization in cell therapy development for advanced therapeutic products and is comprised of two types of services to its customers: (i) process and assay development services and (ii) cGMP contract manufacturing services. The CDMO activities include the operations of Masthercell Global since the Corporate Reorganization (which includes the operations of CureCell and Atvio from the same date) and MaSTherCell prior to the Corporate Reorganization. As of the date of acquisition of CureCell and Atvio their activity is included in this segment.

CT Business

The CT Business activity is based on our technology that demonstrates the capacity to induce a shift in the developmental fate of cells from the liver and differentiating (converting) them into pancreatic beta cell-like insulin producing cells for patients with Type 1 Diabetes. This segment is comprised of all entities aside from Masthercell Global, CureCell and Atvio.

The CODM does not review assets by segment, therefore the measure of assets has not been disclosed for each segment.

Segment data for the nine months ended August 31, 2018 is as follows:

	CDMO	CT	Corporate and Eliminations (in thousands)	Consolidated
Revenues from external customers	\$ 15,807	\$ 83	\$ (3,037)	\$ 12,853*
Cost of revenues	(7,826)	-	927	(6,899)
Segment gross profit (loss)	7,981	83	(2,110)	5,954
Research and development expenses, net	(245)	(4,764)	2,110	(2,899)
Operating expenses	(3,895)	(4,448)		(8,343)
Other income	228	-		228
Segment operating profit (loss)	4,069	(9,129)	-	(5,060)
Adjustments to presentation of segment				
Adjusted EBIT				
Depreciation and amortization	(1,807)	(7)		
Segment performance	2,262	(9,136)		

* The Company's revenues consist of: \$9,493 from services and \$3,360 from goods sold.

Reconciliation of segment performance to loss for the nine months ended August 31, 2018:

	Nine months Ended August 31, 2018 in thousands
Segment performance	(6,874)
Stock-based compensation	(2,782)
Financial expenses, net	(3,164)
Net gain on remeasurement of previously equity interest in Atvio and CureCell to acquisition date fair value	4,509
Transaction expenses related to GPP agreement	(1,500)
Share in losses of associated companies	(732)
Loss before income tax	\$ (10,543)

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Segment data for the three months ended August 31, 2018 is as follows:

	CDMO	CT	Corporate and Eliminations (in thousands)	Consolidated
Revenues from external customers	\$ 8,092	\$ 83	\$ (1,945)	\$ 6,230*
Cost of revenues	(3,908)	-	539	(3,369)
Segment gross profit (loss)	4,184	83	(1,406)	2,861
Research and development expenses, net	(245)	(2,898)	1,406	(1,737)
Operating expenses	(1,712)	(1,453)		(3,165)
Other expenses	(88)	-		(88)
Segment operating profit (loss)	2,139	(4,268)	-	(2,129)
Adjustments to presentation of segment				
Adjusted EBIT				
Depreciation and amortization	(567)	(3)		
Segment performance	1,572	(4,271)		

* The Company's revenues consist of: \$4,473 from services and \$1,757 from goods sold.

Reconciliation of segment performance to loss for the three months ended August 31, 2018:

	Three Months Ended August 31, 2018 in thousands
Segment performance	(2,699)
Stock-based compensation	(955)
Financial expenses, net	(1,070)
Share in losses of associated companies	(202)
Net gain on remeasurement of previously equity interest in Atvio and CureCell to acquisition date fair value	4,509
Transaction expenses related to GPP agreement	(1,500)
Loss before income tax	\$ (1,917)

Segment data for the nine months ended August 31, 2017 is as follows:

	CDMO	CT	Corporate and Eliminations (in thousands)	Consolidated
Revenues from external customers	\$ 7,705	\$ -	\$ (993)	\$ 6,712
Cost of revenues	(4,358)		403	(3,955)
Segment gross profit (loss)	3,347		(590)	2,757
Research and development expenses, net		(1,932)	590	(1,342)
Operating expenses	(916)	(6,060)		(6,976)
Segment operating profit (loss)	2,431	(7,992)	-	(5,561)
Adjustments to presentation of segment				
Adjusted EBIT				
Depreciation and amortization expenses	(2,145)	(7)		
Segment Performance	286	(7,999)		
Reconciliation of segment performance to loss for the nine months ended August 31, 2017:				

**Nine Months
Ended
August 31,
2017
in thousands**

Segment performance	(7,713)
Stock-based compensation	(1,469)
Financial expenses, net	(2,534)
Share in losses of associated companies	(348)
Loss before income tax	(12,064)

Segment data for the three months ended August 31, 2017 is as follows:

	CDMO	CT	Corporate and Eliminations (in thousands)	Consolidated
Net revenues from external customers	\$ 2,956		(394)	2,562
Cost of revenues	(1,439)		95	(1,344)
Segment gross profit (loss)	1,517		(299)	1,218
Research and development expenses, net		(688)	299	(389)
Operating expenses	(1,641)	(1,272)		(2,913)
Segment operating profit (loss)	(124)	(1,960)	-	(2,084)
Adjustments to presentation of segment				
Adjusted EBIT				
Depreciation and amortization expense	(945)			
Segment Performance	(1,069)	(1,960)		

Reconciliation of segment performance to loss for the three months ended August 31, 2017:

	Three Months Ended August 31, 2017 in thousands
Segment performance	(3,029)
Stock-based compensation	(383)
Financial expenses, net	45
Share in losses of associated companies	(152)
Loss before income tax	(3,519)
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Geographic, Product and Customer Information

Substantially all the Company's revenues and long-lived assets are in Belgium and South Korea. Net revenues from single customers from the CDMO segment that exceed 10% of total net revenues are:

	Nine Months Ended		Three Months Ended	
	August 31,	August 31,	August 31,	August 31,
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(in thousands)			
Customer A \$	2,339	\$ 852	\$ -	\$ 2,813
Customer B \$	3,922	\$ -	\$ 1,651	\$ -
Customer C \$	3,109	\$ 809	\$ 956	\$ 1,904
Customer D \$	-	\$ 679	\$ -	\$ 1,637
Customer E \$	-	\$ -	\$ 1,100	\$ -
Customer F \$	-	\$ -	\$ 784	\$ -

NOTE 4 EXERCISE OF CALL OPTIONS OF CURECELL AND ATVIO*Description of the Transactions*

Contemporaneous with the execution of the SPA and the Masthercell Global Stockholders Agreement (as described above), the Company and Masthercell Global entered into a Contribution, Assignment and Assumption Agreement pursuant to which Company contributed to Masthercell Global the Orgenesis' assets relating to the CDMO business, including the CDMO subsidiaries. In furtherance thereof, Masthercell Global, as Orgenesis' assignee, acquired all of the issued and outstanding share capital of Atvio, the Company's Israel based CDMO partner since August 2016, and 94.2% of the share capital of CureCell, the Company's Korea based CDMO partner since March 2016. Orgenesis exercised the "call option" to which it was entitled under the joint venture agreements with each of these entities to purchase from the former shareholders their equity holding. The consideration for the outstanding share equity in each of Atvio and CureCell consisted solely of Company Common Stock. In respect of the acquisition of Atvio, the Company issued to the former Atvio shareholders an aggregate of 83,964 shares of Company Common Stock. In respect of the acquisition of CureCell, the Company will issue according to valuation to the former CureCell shareholders an aggregate of 202,846 shares of Company Common Stock. Together with MaSTherCell S.A., Atvio and CureCell are directly held subsidiaries under Masthercell Global.

CureCell and Atvio are customer-oriented CDMO companies specializing in cell therapy development for advanced medicinal products.

The exercise of the call options of CureCell and Atvio, pursuant to which the Company obtained effective control over such entities, was accounted for as a business combination. The results of operations of CureCell and Atvio have been included in the Company's condensed consolidated statements of operations starting from June 28, 2018, the date on which the Company obtained effective control of CureCell and Atvio. The revenues from operations of CureCell and Atvio for the period from June 28, 2018, the acquisition date, to August 31, 2018 was approximately \$784 thousands and \$41 thousands, respectively.

Fair Value of Consideration Transferred

The Company accounted for the exercise of the call options of CureCell and Atvio as a business combination under the acquisition method of accounting.

The following table summarizes the provisional allocation of purchase price to the fair values of the assets acquired and liabilities assumed as of the transaction date:

<u>CureCell</u>	
Total assets acquired:	
Cash and cash equivalents	\$ 58
Property and equipment, net	1,104
Inventory	148
Other assets	300
Other Intangible assets (a)	3,933
Goodwill (b)	3,950
Total assets	9,493
Total liabilities assumed:	
Deferred income from the company and others	1,945
Deferred tax	80
Fair value of convertible loan from the company	892
Non-controlling interests	299
Other liabilities	1,487
Total liabilities	4,703
Total consideration transferred	\$ 4,790
Fair value according of shares issued	
	1,853
Acquisition date fair value of previously held equity interest	2,937
Total consideration transferred	\$ 4,790

(a) The allocation of the purchase price to the net assets acquired and liabilities assumed resulted in the recognition of other intangible assets which comprised of: Customer Relationships of \$859 and Know How of \$3,074. These other intangible assets have a useful life of 10 and 12 years, respectively. The useful life of the other intangible assets for amortization purposes was determined considering the period of expected cash flows generated by the assets used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors, including legal, regulatory, contractual, competitive, economic or other factors that may limit the useful life of intangible assets.

The fair value of the Know How was estimated using a relief of royalties approach. Under this method, the fair value of the Know How is equal to the royalty fee that the owner of the Know How could profit from if he was to license the Know How out.

Customer Relationships were estimated using a discounted cash flow method with the application of the multi-period excess earnings method. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows attributable only to the subject intangible asset after deducting contributory asset charges. An income and expenses forecast were built based upon specific intangible asset revenue and expense estimates.

(b) The primary items that generate goodwill include the value of the synergies between the acquired company and the Company and the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

Atvio

The total consideration of Atvio of \$890 thousand was attributed mainly to goodwill.

The Company's purchase price allocation for both companies are preliminary. The fair values of acquired assets and liabilities may be further adjusted as additional information becomes available during the measurement period.

Additional information may become available subsequently and may result in changes in the values allocated to various assets and liabilities includes, but is not limited to, any changes in the values allocated to tangible and identified intangible assets acquired and liabilities assumed during the measurement period and may result in material adjustments to goodwill.

NOTE 5 CONVERTIBLE LOAN AGREEMENTS

(a) During the nine months ended August 31, 2018, the Company entered into several unsecured convertible loan agreements with accredited or offshore investors for an aggregate amount of \$720 thousand. The loans bear an annual interest rate of 6% and mature in six months or two years from the closing date, unless earlier converted subject to the terms defined in the agreements.

The loans provide that the entire principal amount and accrued interest convert into a Unit, consisting of one share of Common Stock and one three-year warrant exercisable into an additional share of common stock at a per share exercise price of \$6.24. In addition, the Company issued to certain investors 40,064 three-year warrants to purchase up to an additional one share of the Company's Common Stock at a per share exercise price of \$6.24.

Since the closing price of the Company's publicly traded stock is greater than the effective conversion price on the closing date, the conversion feature is considered "beneficial" to the holders and equal to \$193 thousand. The difference is treated as issued equity and reduces the carrying value of the host debt; the discount is accreted as deemed interest on the debt. The transaction costs for were approximately \$89 thousand, out of which \$31 thousand are stock-based compensation due to issuance of warrants (See also Note 8(c)). Through August 31, 2018, all convertible loans were converted. See additional information in Note 5b.

(b) During the nine months ended August 31, 2018, holders of approximately \$7.7 million in principal and accrued interest of convertible loans converted these outstanding amounts, into units of the Company's securities at a deemed per unit conversion price of \$6.24, with each unit comprised of: (i) one share of the Company's Common Stock and (ii) one warrant, exercisable for a period of three years from the date of conversion, for an additional share of Common Stock, at a per share exercise price of \$6.24. As a result of these conversions, the holders are entitled to 1,240,972 shares of Common Stock and three-year warrants for an additional 1,240,972 shares of common stock at a per share exercise price of \$6.24.

The Company allocated the converted amounts based on the fair value of the warrants and the shares. The table below presents the converted amounts of the proceeds as of the closing date:

	Proceeds allocation (in thousands)
Warrants component	\$ 3,037
Shares component	4,706
Total	\$ 7,743

The fair value of these warrants determined using a Black-Scholes model based on the following assumptions:

	Nine Months Ended August 31, 2018
Value of one common share	\$7.61 - \$13.85
Dividend yield	0%
Expected stock price volatility	94.12%-90.6%
Risk free interest rate	2.43%-2.29%
Expected term (years)	3

These loans had beneficial conversion features ("BCF"). Therefore, the Company recognized the unamortized BCF as of the conversion date as interest expenses.

(c) During the nine months ended August 31, 2018, holders of approximately \$805 thousand in principal and accrued interest of a convertible loans outstanding from November 2014 and December 2016 converted their outstanding amounts, into shares of the Company's common stock at a deemed conversion price of \$4.80 and \$6.24 per share. As a result of this conversion, the Company issued 137,765 shares of common stock.

These loans had beneficial conversion features ("BCF"). Therefore, the Company recognized the unamortized BCF as of the conversion date as interest expenses.

(d) In March 2018, a former Israel-based consultant exercised warrants issued in November 2016 to purchase shares of the Company's Common Stock. A related party of such consultant submitted at the same time notice of its intention to convert into shares of the Company's common stock the principal amount and accrued interest of approximately \$396 thousand outstanding under a loan originally advanced to the Company in November 2016. The exercise price of the warrants and conversion price were fixed at \$0.52 per share (pre-reverse stock split implemented by the Company in November 2017). There is a significant disagreement between the Company and these two entities as to the number of shares of Common Stock issuable to these entities, and they contend that the number of shares of Common Stock issuable to them should not consider the reverse stock split. The Company rejects these contentions in their entirety and, based on the advice of specially retained counsel, believes that these claims are without legal merit and not made in good faith. The Company intends to vigorously defend its interests and pursue other avenues of legal address. Through its counsel, the Company has advised these entities that unless they withdraw their request within a specified period, the Company will cancel the above referenced agreements and these parties' right to receive any shares of the Company's Common Stock. In April 2018, the Company withdrew the agreements and deposited the principal amount and accrued interest of the loan in an escrow account presented as restricted cash in the balance sheet as of August 31, 2018.

NOTE 6 COMMITMENTS

"MSA" with Adva Biotechnology Ltd.

On January 28, 2018, the Company and Adva Biotechnology Ltd. (Adva), entered into a Master Services Agreement (MSA), under which the Company and/or its affiliates are to provide certain services relating to development of products to Adva, as may be agreed between the parties from time to time. Under the MSA, the Company undertook to provide Adva with in kind funding in the form of materials and services having an aggregate value of \$749,900 at the Company's own cost in accordance with a project schedule and related mutually acceptable project budget. The Company entered into agreement with Atvio Biotech Ltd, its Israeli-based joint venture, to fulfill its obligations pursuant this MSA. As of August 31, 2018, the Company incurred a total expense of \$282 thousand.

In consideration for and subject to the fulfillment by the Company of such in-kind funding commitment, Adva agreed that upon completion of the development of the products, the Company and/or its affiliates and Adva shall enter into a supply agreement pursuant to which for a period of eight (8) years following execution of such supply agreement, the Company and/or its affiliates (as applicable) is entitled (on a non-exclusive basis) to purchase the products from Adva at a specified discount pricing from their then standard pricing. The Company and/or its affiliates were also granted a non-exclusive worldwide right to distribute such products, directly or through any of their respective contract development and manufacturing organization (CDMO) service centers during such term. The MSA shall remain in effect for 10 years unless earlier terminated in accordance with its terms.

Grants

On December 18, 2017, MaSTherCell S.A. (MaSTherCell), as coordinator of the Icone project with a consortium of private and public searchers, received the approval of a new grant from the Walloon Region with a direct financial support of Euro 1 million (\$1.2 million) in a program for development of iPS-derived Cortical Neurons. The program started in 2017 for a 4-year period until 2021. After two years, project partners will decide to continue the program

upon pre-defined scientific milestone achievements. During the nine months ended August 31, 2018, MaSTherCell received an advance payment of Euro 0.6 million (\$0.7 million).

NOTE 7 EQUITY*Financings*

a) In January 2017, the Company entered into definitive agreements with an institutional investor for the private placement of 2,564,115 units of the Company's securities for aggregate subscription proceeds to the Company of \$16 million at \$6.24 price per unit. Each unit is comprised of one share of the Company's Common Stock and a warrant, exercisable over a three-years period from the date of issuance, to purchase one additional share of Common Stock at a per share exercise price of \$6.24. The subscription proceeds were payable on a periodic basis through September 2018. The Company subsequently agreed to delay the payments until October 15, 2018. Each periodic payment of subscription proceeds will be evidenced by the Company's standard securities subscription agreement.

In July 2018, the Company entered into definitive agreements with assignees of the aforementioned institutional investor whereby these assignees remitted \$4.6 million in respect of the units available under the original subscription agreement that have not been subscribed for, entitling such investors to 702,307 units, with each unit being comprised of (i) one share of the Company's common stock and (ii) one three-year warrant to purchase up to an additional one share of the Company's common stock at a per share exercise price of \$6.24.

During the nine months ended August 31, 2018 the investor and the assignees remitted to the Company \$8,065 thousand, and the Company issued 1,263,204 shares of the Company's Common Stock and three-year warrants to purchase up to an additional 1,263,204 shares of the Company's Common Stock at a per share exercise price of \$6.24.

The Company allocated the proceeds based on the fair value of the warrants and the shares. The table below presents the allocation of the proceeds as of the closing date:

	Proceeds Allocation (in thousands)
Warrants component	\$ 2,923
Shares component	5,142
Total	\$ 8,065

The fair value of these warrants determined using a Black-Scholes Model based on the following assumptions:

	Nine Months Ended August 31, 2018
Value of one common share	\$6.5-\$14.68
Dividend yield	0%
Expected stock price volatility	90.6%-93.8%
Risk free interest rate	1.99%-2.73%
Expected term (years)	3

The transaction costs were approximately \$328 thousand, out of which \$121 thousand are stock-based compensation due to issuance of warrants and shares. See also 8(c).

As of August 31, 2018, the Company has received a total of \$12.6 million out of the committed \$16 million subscription proceeds.

b) During the nine months ended August 31, 2018, the Company entered into definitive agreements with accredited and other qualified investors relating to a private placement of 1,237,642 units. Each unit is comprised of (i) one share of the Company's common stock and (ii) three-year warrant to purchase up to an additional one share of the Company's Common Stock at a per share exercise price of \$6.24, for aggregate proceeds to the Company of approximately \$7.7 million.

The Company allocated the proceeds based on the fair value of the warrants and the shares. The table below presents the allocation of the proceeds as of the closing date:

Proceeds Allocation (in thousands)	
Warrants component	\$ 2,813
Shares component	4,910
Total	\$ 7,723

The transaction costs were approximately \$349 thousand, out of which \$125 thousand are stock-based compensation due to issuance of warrants. See also 8(c).

NOTE 8 STOCK BASED COMPENSATION

a. Options Granted to employees

Below is a table summarizing the terms of options granted to employees during the nine months ended August 31, 2018:

	No. of options granted	Exercise price	Vesting period	Fair Value at grant (in thousands)	Expiration period
Employee	50,000	\$ 4.42	Quarterly over a period of 1 year	\$ 163	10 years
Employees	30,500	\$ 8.91	Quarterly over a period of 2 years	\$ 192	10 years
Employee	250,000	\$ 8.36	Semi-annual over a period of 1 year	\$ 1,488	10 years
MaSTherCell's employees	70,300	\$ 8.43	Quarterly over a period of 2 years	\$ 464	10 years
MaSTherCell's employees	123,550	\$ 8.43	Quarterly over a period of 4 years	\$ 925	10 years

The fair value of these option grants is based on the following assumptions:

	Nine Months Ended August 31, 2018
Value of one common share	\$4.42 - \$8.85

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Dividend yield	0%
Expected stock price volatility	97%-91%
Risk free interest rate	2.96%-2.11%
Expected term (years)	5-7

b. Options Granted to non-employees

Below is a table summarizing all the options granted to consultants and service providers during the nine months ended August 31, 2018:

	No. of options granted	Exercise price	Vesting period	Fair value at grant (in thousands)	Expiration period
Non-employee	5,200	4.42	Over six months	\$ 36	10 years
Non-employee	13,725	\$ 4.42,8.34	Immediately	\$ 82	10 years
Non-employee	8,333	\$ 8.43	Annual over a period of 5 year	\$ 57	10 years

The fair value of these option grants is based on the following assumptions:

	Nine Months Ended August 31, 2018
Value of one common share	\$8.3,\$4.42
Dividend yield	0%
Expected stock price volatility	91%-98%
Risk free interest rate	\$2.33-\$2.83
Expected term (years)	4.5-10

c. Shares and Warrants Granted to non-employees

- 1) During the nine months ended August 31, 2018, the Company granted to several consultants 50,938 warrants with each exercisable at \$6.24 to \$15.41 per share for three years as a success fee with respect to the issuance of the convertible loans and part of the private placement. The fair value of those warrants as of the date of grant using the Black-Scholes valuation model was \$248 thousand.
- 2) In December 2017, the Company entered into investor relations services, marketing and related services agreement. Under the terms of the agreement, the Company agreed to grant the consultant 100,000 shares of restricted common stock, out of which the first 25,000 shares will vest after 30 days from the signing date, and 75,000 shares are to vest monthly over 15 months commencing February 2018. As of August 31, 2018, 60,000 shares were vested. The fair value of the shares as of the date of grant was \$738 thousand.
- 3) In December 2017, the Company entered into an investor relations services, marketing and related services agreement. Under the terms of the agreement, the Company agreed to grant the consultant 95,000 shares of restricted common stock, of which the first 25,000 shares will vest after 30 days from the signing date, and 70,000 shares are to vest monthly over 14 months commencing February 2018. As of August 31, 2018, 60,000 shares were vested. The fair value of the shares as of the date of grant was \$701 thousand.
- 4) In January 2018, the Company entered into a consulting agreement with a financial advisor for a period of one year. Under the terms of the agreement, the consultant was entitled to receive \$60 thousand and 19,000 units of the Company securities. Each unit is comprised of (i) one share of the Company's common stock and (ii) a three-year warrant to purchase up to an additional one share of the Company's Common Stock at a per share exercise price of \$6.24. The fair value of the units as of the date of grant was \$171 thousand, out of which \$62 thousand reflect the fair value of the warrants using the Black-Scholes valuation model. In July 2018, the board approved an additional issuance of 6,629 shares and three-year warrants to purchase up to 6,629 shares of the Company's Common Stock at a per share exercise price of \$6.24. The fair value of the units as of the date of grant was \$88 thousand.
- 5) During the nine months ended August 31, 2018, investors exercised 136,646 warrants into 136,646 shares of the Company's Common Stock, for aggregate proceeds of \$853 thousand.
- 6) On July 6, 2018, the Compensation Committee approved the issuance of 13,558 warrants to two consultants to purchase 13,558 shares of Common Stock, exercisable at a per share exercise price of \$11.19.

NOTE 9 LOSS PER SHARE

The following table sets forth the calculation of basic and diluted loss per share for the period indicated:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2018	2017	2018	2017
	(in thousands, except per share data)			
Basic:				
Loss for the period	\$ 5,070	\$ 3,940	\$ 13,295	\$ 12,557
Weighted average number of common shares outstanding	14,355,430	10,279,180	12,774,802	9,477,211
Loss per common share	\$ (0.35)	\$ (0.38)	\$ (1.04)	\$ (1.32)
Diluted:				
Loss for the period	\$ 5,070	\$ 3,940	\$ 13,295	\$ 12,557
Changes in fair value of embedded derivative and interest expense on convertible loans	-	238	-	137
Loss for the period	\$ 5,070	\$ 4,178	\$ 13,295	\$ 12,694
Weighted average number of shares used in the computation of basic and diluted loss per share				
	14,355,430	10,279,180	12,774,802	9,477,211
Number of dilutive shares related to convertible loans	-	106,319	-	26,042
Weighted average number of common shares outstanding				
	14,355,430	10,385,499	12,774,802	9,503,253
Loss per common share	\$ (0.35)	\$ (0.40)	\$ (1.04)	\$ (1.34)
Diluted loss per share does not include 7,919,874 shares underlying outstanding options and warrants and 201,557 shares upon conversion of convertible notes for the nine months ended August 31, 2018, because the effect of their inclusion in the computation would be anti-dilutive.				

Diluted loss per share does not include 4,375,856 shares underlying outstanding options and warrants and 2,462,598 shares upon conversion of convertible notes for the three and nine months ended August 31, 2017, because the effect of their inclusion in the computation would be anti-dilutive.

NOTE 10 - FAIR VALUE PRESENTATION

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on 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. The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible, and considers credit risk in its assessment of fair value.

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As of August 31, 2018, and November 30, 2017, the Company's assets and liabilities that are measured at fair value and classified as level 3 fair value are as follows (in thousands):

	August 31, 2018	November 30, 2017
	<u>Level 3</u>	<u>Level 3</u>
Embedded derivatives convertible loans*(1)	\$ -	\$ 37
Call/Put option derivatives	\$ -	