



**NOTICE OF
SPECIAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON JANUARY 12, 2017**

To the shareholders and ADS holders of Can-Fite BioPharma Ltd.:

Notice is hereby given that a Special Meeting of Shareholders will be held on Thursday, January 12, 2017, at 4.00 p.m. Israel time at our offices, 10 Bareket Street, Petach Tikva, Israel.

The agenda of the special meeting will be to approve a renewed version of the Company's Compensation Policy, in accordance with the requirements of the Israeli Companies Law 5759-1999, for a period of three years.

Only shareholders and holders of American Depositary Shares at the close of business on December 12, 2016 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. You are cordially invited to attend the special meeting in person.

If you are unable to attend the special meeting in person, you are requested to complete, date and sign the enclosed proxy and to return it promptly in the pre-addressed envelope provided. Shareholders who attend the special meeting may revoke their proxies and vote their shares in person.

Beneficial owners who hold ordinary shares through members of the Tel Aviv Stock Exchange, or the TASE, may either vote their shares in person at the special meeting by presenting a certificate signed by the TASE Clearing House member through which the shares or are held, which complies with the Israel Companies Regulations (Proof of Ownership for Voting in General Meetings)-2000 as proof of ownership of the shares on the record date, or send such certificate along with a duly executed proxy (in the form filed by us on MAGNA, the distribution site of the Israeli Securities Authority, at www.magna.isa.gov.il), to us at 10 Bareket Street, Kiryat Matalon, PO Box 7537, Petach Tikva, 4951778, Israel Attention: Chief Financial Officer.

By Order of the Board of Directors

Ilan Cohen
Chairman of the Board
December 7, 2016



10 Bareket Street, Kiryat Matalon
PO Box 7537
Petach Tikva 4951778
Israel

PROXY STATEMENT

**FOR SPECIAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON JANUARY 12, 2017**

This Proxy Statement is furnished to our holders of ordinary shares, par value NIS 0.25 per share, including holders of our ordinary shares that are represented by American Depository Shares, or ADSs, to be held on Thursday, January 12, 2017 at our offices, 10 Bareket Street, Petach Tikva, Israel, or at any adjournments thereof. The Special General Meeting of Shareholders shall be held at 4.00 p.m., Israel time, on such day or at any adjournments thereof.

Throughout this Proxy Statement, we use terms such as “Can-Fite”, “we”, “us”, “our” and the “Company” to refer to Can-Fite Bio Pharma Ltd. and terms such as “you” and “your” to refer to our shareholders and ADS holders.

Agenda Items

The agenda of the special meeting will be to approve a renewed version of the Company’s Compensation Policy, in accordance with the requirements of the Israeli Companies Law 5759-1999 (the “Companies Law”), for a period of three years.

We currently are unaware of any other matters that may be raised at the special meeting. Should any other matters be properly raised at the special meeting, the persons designated as proxies shall vote according to their own judgment on those matters.

Board Recommendation

Our board of directors unanimously recommends that you vote “FOR” the proposal.

Who Can Vote

Only shareholders and ADS holders at the close of business on December 12, 2016, shall be entitled to receive notice of and to vote at the special meeting.

How You Can Vote

You can vote your ordinary shares by attending the special meeting. If you do not plan to attend the special meeting, the method of voting will differ for shares held as a record holder, shares held in “street name” (through a Tel Aviv Stock Exchange, or TASE, member) and shares underlying ADSs that you hold. Record holders of shares will receive proxy cards. Holders of shares in “street name” through a TASE member will also vote via a proxy card, but through a different procedure (as described below). Holders of ADSs (whether registered in their name or in “street name”) will receive voting instruction cards in order to instruct their banks, brokers or other nominees on how to vote.

Shareholders Holders of Record

If you are a shareholder holder of record, you can submit your vote by completing, signing and submitting an applicable proxy card, which has been published at www.magna.isa.gov.il and www.maya.tase.co.il and which will be accessible at the "Investor Information" portion of our website, as described below under "Shareholder Meetings".

Please follow the instructions on the applicable proxy card.

Shareholders Holding in "Street Name," Through the TASE

If you hold ordinary shares in "street name," that is, through a bank, broker or other nominee that is admitted as a member of the TASE, your shares will only be voted if you provide instructions to the bank, broker or other nominee as to how to vote, or if you attend the special meeting in person.

If voting by mail, you must sign and date an applicable proxy card in the form filed by us on MAGNA on or around December 7, 2016 and attach to it a certificate signed by the TASE Clearing House member through which the shares are held, which complies with the Israel Companies Regulations (Proof of Ownership for Voting in General Meetings)-2000 as proof of ownership of the shares, as applicable, on the record date, and return the applicable proxy card, along with the proof of ownership certificate, to us, as described in the instructions available on MAGNA.

If you choose to attend the special meeting (where ballots will be provided), you must bring the proof of ownership certificate from the TASE's Clearing House member through which the shares are held, indicating that you were the beneficial owner of the shares, as applicable, on the record date.

Holders of ADSs

Under the terms of the Deposit Agreement between the Company, The Bank of New York Mellon, as depositary, or BNY Mellon, and the holders of our ADSs, BNY Mellon shall endeavor (insofar as is practicable) to vote or cause to be voted the number of shares represented by ADSs in accordance with the instructions provided by the holders of ADSs to BNY Mellon. For ADSs that are held in "street name", through a bank, broker or other nominee, the voting process will be based on the underlying beneficial holder of the ADSs directing the bank, broker or other nominee to arrange for BNY Mellon to vote the ordinary shares represented by the ADSs in accordance with the beneficial holder's voting instructions. If no instructions are received by BNY Mellon from any holder of ADSs (whether held directly by a beneficial holder or in "street name") with respect to any of the shares represented by the ADSs on or before the date established by BNY Mellon for such purpose, BNY Mellon shall not vote or attempt to vote the shares represented by such ADSs.

Multiple Record Holders or Accounts

You may receive more than one set of voting materials, including multiple copies of this document and multiple proxy cards or voting instruction cards. For example, shareholders who hold ADSs in more than one brokerage account will receive a separate voting instruction card for each brokerage account in which ADSs are held. Shareholders of record whose shares are registered in more than one name will receive more than one proxy card. You should complete, sign, date and return each proxy card and voting instruction card you receive.

Our board of directors urges you to vote your shares so that they will be counted at the special meeting or at any postponements or adjournments of the special meeting.

Solicitation of Proxies

By appointing "proxies", shareholders and ADS holders may vote at the special meeting whether or not they attend. If a properly executed proxy in the attached form is received by us at least 48 hours prior to the special meeting (and received by BNY Mellon no later than the date indicated on the voting instruction card, in the case of ADS holders), all of the shares represented by the proxy shall be voted as indicated on the form or, if no preference is noted, shall be voted in favor of the matter described above, and in such manner as the holder of the proxy may determine with respect to any other business as may come before the special meeting or any adjournment thereof. Shareholders and ADS holders may revoke their proxies at any time before the deadline for receipt of proxies by filing with us (in the case of holders of ordinary shares) or with BNY Mellon (in the case of holders of ADSs), a written notice of revocation or duly executed proxy bearing a later date.

Proxies are being distributed to shareholders and ADS holders on or about December 12, 2016. Certain officers, directors, employees, and agents of ours, none of whom will receive additional compensation therefor, may solicit proxies by telephone, emails, or other personal contact. We will bear the cost for the solicitation of the proxies, including postage, printing, and handling, and will reimburse the reasonable expenses of brokerage firms and others for forwarding material to beneficial owners of shares and ADSs.

To the extent you would like to submit a position statement with respect to the proposal described in this proxy statement pursuant to the Companies Law, you may do so by delivery of appropriate notice to the our offices (Attention: Chief Financial Officer) located at 10 Bareket Street, Kiryat Matalon, PO Box 7537, Petach Tikva 4951778, Israel, not later than ten days before the special meeting (i.e., January 2, 2017). Response of the Board to the position statement may submitted not later than five days after the deadline for sending the position statement (i.e., January 6, 2017).

Quorum

At the close of business on December 5, 2017, we had outstanding 27,709,901 ordinary shares, of which 17,304,197 were represented by ADSs. The foregoing number of outstanding ordinary shares excludes 446,827 ordinary shares that are held in treasury and have no voting rights. Each ordinary share (including ordinary shares represented by ADSs) outstanding as of the close of business on the record date is entitled to one vote upon each of the matters to be voted on at the annual meeting.

Under our articles of association, the annual meeting will be properly convened if at least two shareholders attend the meeting in person or sign and return proxies, provided that they hold shares representing at least 25% of our voting power. If such quorum is not present within half an hour from the time scheduled for the meeting, the meeting will be adjourned for one week (to the same day, time and place), or to later date if so specified in the notice of the meeting. At the reconvened meeting, if there is no quorum within half an hour from the time scheduled for the meeting, any number of our shareholders present in person or by proxy shall constitute a lawful quorum.

Vote Required for the Proposal

The affirmative vote of holders of at least a majority of the ordinary shares, including those represented by ADSs, voted in person or by proxy at the special meeting on the matter presented for passage provided that either: (i) the shares voting in favor of such resolution include at least a majority of the shares voted by shareholders or ADS holders who are neither (a) "controlling shareholders" nor (b) having a "personal interest" in the resolution; or (ii) the total number of shares voted against the resolution by the disinterested shareholders described in clause (i) does not exceed 2% of the Company's outstanding voting power.

Under the Companies Law, (1) the term "controlling shareholder" means a shareholder having the ability to direct the activities of a company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint the majority of the directors of the company or its chief executive officer; and (2) a "personal interest" of a shareholder (i) includes a personal interest of any members of the shareholder's family (or spouses thereof) or a personal interest of a company with respect to which the shareholder (or such family member) serves as a director or the CEO, owns at least 5% of the shares or has the right to appoint a director or the CEO but (ii) excludes an interest arising solely from the ownership of our ordinary shares. As of the date hereof, we have no controlling shareholder within the meaning of the Companies Law. However, our directors and officers are deemed to have a "personal interest" in this matter.

The Companies Law requires that each shareholder voting on the proposed resolution indicate whether or not the shareholder has a personal interest in the proposed resolution. Otherwise, the shareholder is not eligible to vote on this proposal. **As such, in the proxy card attached to the proxy statement you will be asked to indicate whether you have a personal interest. If any shareholder casting a vote in connection hereto does not notify us whether or not they have a personal interest, their vote will be disqualified.**

If you provide specific instructions (mark boxes) with regard to the proposal, your shares will be voted as you instruct.

If you are a shareholder of record and do not return your proxy card, your shares will not be voted. If you hold shares (or ADSs representing shares) beneficially in street name, your shares will also not be voted at the meeting if you do not return your proxy card or voting instruction card to instruct your broker or BNY Mellon how to vote. A broker (and BNY Mellon) may only vote in accordance with instructions from a beneficial owner of shares or ADSs.

Availability of Proxy Materials

Copies of the applicable proxy card and voting instruction card, the Notice of the Special General Meeting and this Proxy Statement are available at the “Investor Information” portion of our website, www.canfite.com. The contents of that website are not a part of this Proxy Statement.

Reporting Requirements

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, applicable to foreign private issuers. We fulfill these requirements by filing reports with the Securities and Exchange Commission, or Commission. Our filings with the Commission may be inspected without charge at the Commission’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the Commission at 1-800-SEC-0330. Our filings are also available to the public on the Commission’s website at <http://www.sec.gov>.

As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements. The circulation of this notice and proxy statement should not be taken as an admission that we are subject to the proxy rules under the Exchange Act.

ADOPTION OF RENEWED COMPENSATION POLICY

Background

The Companies Law requires all public Israeli companies, including companies whose shares are only listed outside of Israel, to adopt a written compensation policy, which sets forth their policy regarding the terms of office and employment of office holders, including compensation, equity awards, severance and other benefits, as well as indemnification undertakings and exemption from liability.

The compensation policy must be approved by the board of directors, after considering the recommendations of the compensation committee of the Company. The compensation policy must also be approved by the shareholders of the Company as prescribed in the Companies Law.

The compensation policy—or an amended version thereof— must be approved once again by the compensation committee, board of directors and shareholders every three years following the last adoption thereof.

Our existing compensation policy was approved by our shareholders on January 6, 2014. In accordance with the requirements of the Companies Law, our compensation committee reviewed and adopted a renewed written compensation policy for our executives, which sets forth our policy regarding the terms of office and employment of office holders as prescribed under the Companies Law. A copy of the proposed renewed Can-Fite Compensation Policy is attached as [Annex A](#) to the proxy statement. Our board of directors subsequently approved the renewed policy and recommended that it be adopted by the shareholders.

Proposed Resolution

It is proposed that at the special meeting the following resolution be adopted:

“RESOLVED, that the Can-Fite Compensation Policy in the renewed form attached as [Annex A](#) to the Proxy Statement, dated December 6, 2016, with respect to the special meeting, be, and hereby is, approved in all respects.”

Board Recommendation

Our board of directors recommends a vote FOR the foregoing proposal.

OTHER BUSINESS

Other than as set forth above, as of the mailing of this Proxy Statement, management knows of no business to be transacted at the special meeting, but, if any other matters are properly presented at the special meeting, the persons named in the enclosed form of proxy will vote upon such matters in accordance with their best judgment.

By Order of the Board of Directors

Ilan Cohen
Chairman of the Board
Dated: December 7, 2016

Can-fite Biopharma Ltd.
(hereinafter: "the Company")
COMPENSATION POLICY
TO OFFICERS

Date of approval of General Meeting: _____ 2016

Date of last update: _____

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1. **Definitions**

"The Stock Exchange"	The Tel Aviv Stock Exchange Ltd.;
"The Companies Law"	The Companies Law, 5759 – 1999;
"Officer"	Chief Executive Officer, Chief Operating Officer, Deputy Chief Executive Officer, Assistant Chief Executive Officer, everyone fulfilling such a position in the Company even with a different title, and a Director or Manager answering directly to the Chief Executive Officer;
"Amendment 20"	The Companies Law (Amendment No. 20), 5773-2012;
"Tenure and Employment"	Tenure and employment of an Officer, including giving exemption, insurance, indemnity undertaking or indemnity according to an indemnity permit, retirement grant, and every benefit, other payment or undertaking for such a payment, given due to such service or employment;
"Compensation Regulations"	The Companies Regulations (Rules Regarding Compensation and Expenses to an External Director), 5760-2000;

2. **Object of the Compensation Policy and its implementation**

- 2.1 Pursuant to the provisions of Amendment 20, the Company is required to determine a compensation policy for its present and future serving Officers (hereinafter: "**the Policy**" or "**the Compensation Policy**"). In the Committee meetings of 4 July 2016, 1 September 2016, 6 October 2016, and 3 November 2016 the Committee approved the compensation and on ____ November 2016 the Company's Board of Directors approved the detailed Policy set forth in this document below.
- 2.2 This document is intended to define and detail the Company's Policy relating to the compensation of present and future serving Officers. Determining the Policy, its publication and presentation for approval of the General Meeting, in accordance with the provisions of the Companies Law, is intended to increase the level of transparency regarding everything connected with the compensation of the Company's Officers and improve the ability of the Company's shareholders to express their opinions and influence the Compensation Policy of Officers serving in the Company.

- 2.3 In addition, the Policy has been adapted to the Company's targets and its long-term work plan and is intended to assist with the following goals:
- 2.3.1 The Company's ability to retain and recruit senior executives and able people to lead the Company to significant achievements and to cope with the challenges facing it;
 - 2.3.2 The creation of a work environment with incentives which will encourage, among its Officers, motivation to realize the Company's targets in both the short and long terms, all in accordance with the Company's business plan, and all this while taking reasonable risks according to the risks policy decided, from time to time, by the Company's Board of Directors;
 - 2.3.3 Creating a suitable balance between the various compensation components when determining the tenure and employment of Officers in the Company.
 - 2.3.4 Maintaining and strengthening the trust of shareholders and potential investors in the Company.
- 2.4 Implementation of the Policy is as from the date of its approval by the General Meeting of the Company's shareholders, with the required majority in accordance with the Provisions of Section 267a(b) of the Companies Law, until the end of (3) three years from the said date of approval by the General Meeting. The aforesaid does not derogate from the obligation of the Compensation Committee and Board of Directors to examine the need to update the Compensation Policy from time to time, in accordance with the Company's needs.
- 2.5 The Compensation Policy will apply to Officers presently serving in the Company and Officers who will serve the Company in the future.

3. Guiding principles for examining and determining the terms of tenure and employment of Officers

- 3.1 When examining the terms tenure and employment of Officers in the Company, the Compensation Committee and Board of Directors will examine their education, abilities, expertise, professional experience and achievements of the Officer or the candidate to be an Officer in the Company, whichever relevant. In addition, the Compensation Committee and Board of Directors will examine the knowledge and understanding of the Officer (or the candidate to serve as an Officer in the Company) with the Company and his knowledge and understanding of the market and environment in which it operates.
- 3.2 Without derogating from the aforesaid, the following parameters will be examined:

- 3.2.1 The position he serves in the Company or the position that he will serve in the Company, the fields of responsibility and extent of his position;
 - 3.2.2 The expected contribution of the Officer to promote the Company's targets and business in the long-term;
 - 3.2.3 Previous payroll agreements signed with the Officer;
 - 3.2.4 The mix of compensation taking into account considerations of managing risks in the Company and the Company's long-term targets;
 - 3.2.5 The Company's financial position and results of its operations;
 - 3.2.6 The relationship between the Officer's compensation and the average salary and median salaries of the other employees in the Company (including contractor employees employed by the Company, should there be any, as defined in Section 3 of Part A of the First Addendum A of the Companies Law). The Compensation Committee and Board of Directors believe that in order to maintain good working relationships within the Company it is important to maintain reasonable and fair salary differences between the Company's management level (from the level of Vice President and above) and the other employees in it. However, it is important to compensate and encourage the Company's management in order to increase the Company's profits, its success and achieve its business targets. As required by law, the Compensation Committee and Board of Directors examined that the ratio between the service and employment conditions of each one of the officers and the mean and median cost of employing the rest of the Company's employees. At the time of formulating this policy and its approval, the ratio between the employment cost of Officers and the average and median compensation cost in the Company is: at the VP level 1.64 times the average salary in the Company, which presently stands at NIS 30,184 thousand, and 1.82 times the Company's median salary cost, which presently stands at NIS 27,169 thousand; and at the Company's CEO level 2.64 times the average salary in the Company, and 2.93 times the cost of the Company's median salary.
- 3.3 The comparison to the average market salary – if necessary, at the discretion of the Compensation Committee, a comparison will be made to the average salary in the relevant market for similar roles in similar companies when determining the officers' compensation, as applicable. For the purpose of the comparison, if made, companies will be selected based on whether it is possible to collect reliable and complete information regarding the officers' salary, and which meet the maximum possible number of the following criteria:

- 3.3.1 Companies which are engaged in the Company's fields of operations or in fields as similar as possible;
- 3.3.2 Companies traded on the Stock Exchange which have a similar market value to that of the Company;
- 3.3.3 Companies traded in the same index on the Stock Exchange in which the Company is traded on the date of making the comparison;
- 3.3.4 Companies with similar financial data to the Company's financial data, such as annual profit/loss, annual gross profits, shareholders' equity, the level of research and development expenses;
- 3.3.5 Companies which employ a similar number of employees to those of the Company.

Regarding this clause: "**Similar**" a deviation of 50%, above or below, in all the comparative criteria for the relevant data of the Company will also be taken into account.

- 3.4 Pursuant to legal easements, an immaterial change in the terms of an officer's tenure in the Company who is not serving as a director or CEO will be approved by the Company CEO and will not require the Compensation Committee's approval. For the purposes of this paragraph, "material" means over 5% of the fixed components of the compensation per annum in terms of the employer's cost.
- 3.5 If, pursuant to the provisions of the law, in relation to officers who are not controlling shareholders or their relatives, it is permitted to apply easements regarding the terms of their tenure and employment, this Compensation Policy will be deemed as including the said easements, as of the date they come into effect, subject to the approval of the Company's Compensation Committee.
- 3.6 An officer in the Company can be employed as an employee or alternatively provide the Company with services via a company they own, provided that the total expenses of the Company for the said employment or service provision do not exceed the sum approved by the Company's Compensation Committee and Board of Directors. For the purposes of this paragraph, "service provider" shall be defined as a provider of services in a personal capacity or via a company (or other corporation) in which the officer holds more than 25% of the controlling interest or is a part of the controlling core in that company (or other corporation).

4. Structure of the compensation package

- 4.1 The terms of tenure and employment of an Officer include the following:

- 4.1.1 Fixed compensation;
- 4.1.2 Benefits and conditions related to the fixed compensation;
- 4.1.3 Performance dependent compensation (bonus);
- 4.1.4 Capital compensation (compensation through options or other securities of the Company);
- 4.1.5 Terms of retirement;
- 4.1.6 Exemption, insurance and indemnity.

4.2 The compensation package will be determined and adjusted to the Officer according to the function that he fulfills / will fulfill and will include the following components:

<u>Position/Group</u>	<u>Fixed compensation</u>	<u>Benefits and related terms</u>	<u>Bonus</u>	<u>Capital compensation</u>	<u>Retirement conditions</u>	<u>Exemption, insurance and indemnity</u>
Active Chairman of the Board of Directors	+	-	-	+	-	+
Member of the Board of Directors	+	-	-	+	-	+
CEO	+	+	+	+	+	+
VP or anyone reporting directly to the CEO	+	+	+	+	+	+

4.3 To ensure congruence between all the compensation components, the maximum ratio range between the total compensation package components for a given year for Company officers is presented in the following table:

<u>Grade</u>	<u>Basic Salary</u>	<u>Social Benefits and Related Terms¹</u>	<u>Variable Compensation Related¹</u>	<u>Variable Compensation Equity¹</u>
Active Chairman of the Board of Directors	100%	50%	25%	75%
Member of the Board of Directors	100%	0%	25%	150%
CEO	100%	50%	50%	75%
VP**	100%	50%	45%	75%

5. Fixed compensation

5.1 Fixed compensation summary table for officers

<u>Grade</u>	<u>Maximum Gross Fixed Compensation</u>
Active Chairman of the Board of Directors*	Up to a maximum of 50,000 NIS per month
Member of the Board of Directors	Up to the maximum, the maximum fixed amounts are stipulated in the Companies Regulations (Rules Regarding Compensation and Expenses for an External Director), 2000.
CEO**	Up to a maximum of 150,000 NIS per month
VP**	Up to a maximum of 80,000 NIS per month

¹ The rates are in relation to the basic salary.

*An active chairman is the chairman of the board of directors whose FTE is no less than 40% of a full-time position (100%). The maximum fixed compensation for an active chairman as stated in the table shall not be subject to his actual FTE in the Company.

**The amounts stipulated are for a full-time position (100%).

5.2 **Active Chairman of the Board of Directors**

An active chairman of the Board of Directors will be entitled to fixed compensation as specified in paragraph 5.1 above. If necessary, at the Compensation Committee's discretion, a comparison will be made to the average salary in the relevant market for a similar role in similar companies when determining the compensation for the Chairman of the Board of Directors, as applicable. It should be clarified, however, that the Chairman of the Board of Directors will be entitled to different fixed compensation from other Board of Director members serving in the Company only when he is serving as an 'active Chairman of the Board of Directors', i.e. where his areas of responsibility and role are also in ongoing work in the Company, such as meetings with investors, active involvement in the daily life of the Company etc. and all in accordance with an employment / services agreement that the Company signed/will sign therewith.

5.3 **Members of the Board of Directors**

5.3.1 Members of the Board of Directors will be entitled to fixed compensation in accordance with that set forth in the Compensation Regulations and in accordance with the level of shareholders' equity of the Company, as defined in the Compensation Regulations (as will be in force from time to time). To avoid doubt, the Company will be entitled to pay higher compensation to an expert director (as defined in the Compensation Regulations).

5.3.2 It should be mentioned that should a Director in the Company also be an employee in it, or provide services to it, in any position whatsoever, whatever his title, he will not be entitled to compensation for participating in meetings of the Company's Board of Directors. For the purposes of this paragraph, a director for whom there is doubt regarding whether he is a service provider for the Company or not, he will declare before the Compensation Committee members, as per their request, that he is not a service provider in a personal capacity and also does not provide services via a company that he controls or holds more than 25% of the issued capital. For the purposes of this paragraph "service provider" shall be defined as a provider of services in a personal capacity or via a company (or other corporation) in which the director holds more than 25% of the controlling interest or is a part of the controlling core in that company (or other corporation).

5.3.3 The Directors who are related or connected to a controlling shareholder in the Company will not be entitled to any compensation whatsoever for serving as directors in the Company.

5.4 **The CEO, VP or anyone reporting directly to the CEO**

5.4.1 For the purpose of this clause "CEO", "VP" or "a manager reporting directly to the CEO", jointly will hereinafter be called: "**Manager**" or "**Managers**", whichever relevant.

5.4.2 The amount of fixed compensation of Managers will be determined, inter alia, in accordance with the provisions of clauses 3.1 and 3.2 above, and it shall not exceed the sum specified in the table in paragraph 5.1 above.

5.4.3 In addition, if required, at the Compensation Committee's discretion, a comparison will be made to the average salary, as specified in paragraph 3.3 above.

6. **Benefits and related terms to fixed compensation**

All the benefits and related terms detailed below are the maximum benefits and terms.

<u>Benefit / related terms</u>	<u>CEO</u>	<u>VP or a manager reporting directly to the CEO</u>
Vehicle	Yes, in the value of a vehicle of up to 200,000 NIS according to the income tax tables	Yes, in the value of a vehicle of up to 150,000 NIS according to the income tax tables
Grossing up the value of the vehicle	Yes	Yes
Mobile telephone	Yes	Yes
Grossing up the value of mobile telephone	Yes	Yes
Vacation days	22	22
Accumulating vacation days	Yes, for 2 years	Yes, for 2 years
Vacation allowance days		As per the law
Further study fund (employer 7.5% provision); employee 2.5%)		Yes
Pensionary insurance in accordance with the law		Yes
Reimbursement of expenses in the role	Yes, against receipts	Yes, against receipts
Other (newspapers, internet at home, etc.)	Internet + newspaper	Internet + newspaper
Period of non-competition	Up to 12 months	Up to 12 months

7. **Performance dependent compensation (bonus)**

Granting bonuses to officers and an active chairman of the board of directors is intended to provide officers and the active chairman of the board of directors with incentives to achieve targets and objects which contribute in the long-term to achieve the Company's business targets and strategic plans, as determined from time to time by the Company's Board of Directors. The Company's success creates an identity of interests with the officers serving in it, as its success is also their success.

The Company's Board of Directors, after receiving recommendations from the Compensation Committee may determine, every year, a bonus plan for the Company's officers and active chairman of the board of directors, which will be based on the annual budget approved by the Board of Directors and all as set forth below:

- 7.1 Every payment to be paid to an officer in accordance with the bonus plan will not be considered as part of the fixed compensation and will not be a basis for calculating entitlement or accumulation of any right/ rights.
- 7.2 The bonus plan will be approved specifically for every officer or active chairman of the board of directors, and the Company's management may decide not include this or that officer or the active chairman of the board of directors in the bonus plan.
- 7.3 An officer/ active chairman of the board of directors will be entitled to a bonus provided that he worked in the Company (or for an active chairman of the board of directors that he has served in his role) for a minimum period of 12 months prior to the date of granting the bonus.
- 7.4 The maximum bonus for meeting all the targets set forth below will be calculated according to the salary of December of the year for which the bonus is given, when:
 - 7.4.1 CEO – up to 6 monthly salaries;
 - 7.4.2 An active chairman of the board of directors – up to 6 monthly salaries;
 - 7.4.3 Vice President – up to 3 monthly salaries .
- 7.5 **The bonus plan for officers (excluding CEO and the active chairman of the board of directors)** will be based on targets which will be determined by the Compensation Committee and Board of Directors in advance each year, as detailed below:
 - 7.5.1 **All-inclusive Company target:** The bonus is based on an index, i.e.: meeting the Company's expenses target, raising capital, meeting the drug development plan, business development, achieving regulatory milestones, commencing new clinical applications. The all-inclusive Company financial target will include at least one and not more than three of the criteria detailed above.

The weight given to the all-inclusive Company target will be between 30% - 50% of the total bonus.

- 7.5.2 **Personal measured targets:** These targets will be determined for each officer personally by the CEO (for officers at the level of vice president) and will be based on measurable parameters in the field of the professional responsibility of every officer in the Company. The personal measurable targets will include up to three personal targets. The Company's CEO will not have personal defined targets and the bonus for him will be calculated on the basis of the overall Company financial target and on the basis of the discretion of the person to whom he reports.
- 7.5.3 **Discretion of the Manager:** The evaluation of the performance of officers at the level of vice president will be done by the Company's CEO. The evaluation of performance of every officer, will relate to his contribution to the Company during the year for which the bonus is paid, separately from the financial bonuses and the personal bonuses. The weight given to the discretion of the manager will not exceed 20% of the total bonus.

Notwithstanding paragraph 7.5 above, the Compensation Committee and the Company Board of Directors may authorize the granting of a grant that shall not exceed the maximum grant as specified in paragraph 7.4.3 above to an officer who is subordinate to the CEO, according to criteria which are not measurable pursuant to the provisions of the First Appendix A of the Companies Law.

- 7.6 The grants plan for the CEO shall be target-based, to be determined by the Compensation Committee and Board of Directors every year, as outlined below:
 - 7.6.1 All-inclusive company target as specified in paragraph 7.5.1 above. The weight given to the all-inclusive company target will be between 0% - 100% of the grant amount.
 - 7.6.2 Manager discretion (according to unmeasurable criteria): CEO performance evaluation will be done by the Compensation Committee and the Board of Directors. The weight given to manager discretion shall not exceed 20% of the grant amount.
- 7.7 The grants plan for an active chairman of the board of directors shall be based on personal targets and measurable company targets, which will be determined by the Compensation Committee and Board of Directors in advance every year, and will depend on compliance with the aforementioned targets. The grant will be presented for the approval by a regular majority in a meeting.

- 7.8 The Company's Compensation Committee and Board of Directors will determine the weight of each of the criteria in the total Company target and the personal measurable targets (as applicable), at their discretion, provided that a minimum level of meeting the targets will not be less than 70% of the total targets in order to receive some amount of the bonus.
- 7.9 The Company's Compensation Committee and Board of Directors have the full authority to reduce payment of the bonus, or not to pay it at all, if they found that the financial position of the Company will be significantly harmed or it is not able to make such a payment.
- 7.10 One-time bonus
The Company's Board of Directors, with the recommendation of the Compensation Committee will be entitled to grant a one-time bonus to an officer for a significant event or events in the Company which are not included in the targets as specified in paragraph 7.5 above. The amount of the one-time bonus will not exceed (3) times the amount of the fixed compensation (monthly). In the event of a change in control in the Company, directors in the Company will be entitled to receive a one-time bonus up to the fixed annual compensation amount of the directors.
- 7.11 Should it become clear that after payment of the annual bonus or the one-time bonus, whichever relevant, that the calculation of the bonus is carried out based on data in which it became clear were incorrect as a result of an error in good faith and were restated in the Company's financial statements during a period of three periodic consecutive financial statements after the date of payment of the grant, the officers will reimburse the Company the part of the bonus paid to them, which was based, as mentioned, on incorrect data, and this within six (6) months from the date of publication of the restated financial statements. The amount to be repaid by the officers will be linked to the consumer price index as from the date of publication of the restated statements until the date of actual repayment.
- 7.12 The Board of Directors may, after approval is received from the Compensation Committee, convert the annual bonus to which an officer is entitled into shares or options, provided that their financial value is the same as the value of the annual bonus.
- 7.13 The total annual bonus and the one-time bonus in this section 7 shall not exceed 9 salaries for the CEO and 6 salaries for the VP.

8. **Capital compensation**

As part of the terms of tenure and employment of officers in the Company, the Company combines in its compensation package a capital compensation component. A component of this type is an incentive for the officers, by their participation in the profits and economic success of the Company. In addition, this compensation contributes to increasing the officer's identification with the Company, so that the officer will remain in it and see it as his future. The capital compensation creates a certain inspiration among the officers, who aspire to be part of the Company's success and receive part of its profits. The capital compensation component also enables the Company to employ skilled people while spreading the salary burden so that it limits the cash flow burden on the Company. The capital compensation component, while reducing the burden of expenses, enables the Company to free investments and take risks, which are defined by the Company's Board of Directors by entering into additional and new projects.

From recognizing the advantages of the capital compensation component as part of the total salary package to officers in the Company, the Company may combine in the compensation package of officers in it with a capital compensation component, all in accordance with the following:

- 8.1 The options allotted to officers will be allotted in accordance with the Company's options plan approved by its Board of Directors on 28 November 2013 , or according to an option plan which will be approved by the Company's Board of Directors from time to time, in accordance with, as far as possible the provisions of Section 102 of the Income Tax Ordinance (New Version) 5721-1961, and will not be listed for trading on the Stock Exchange.
- 8.2 The value of the options, on their issue date, according to the Black & Scholes formula or according to the binomial model will not exceed 75% of the total fixed annual compensation of an officer (at the level of VP or CEO). Regarding directors, the value of the options, according to the Black & Scholes formula or according to the binomial model, will not exceed 2 average salaries of officers in the Company, who are not directors.
- 8.3 The exercise price of the options will be determined in accordance with the average price of the Company's share during the period between three (3) to thirty (30) days of trading prior to the date of approval of granting the options by the Board of Directors, as decided by the Board of Directors.
- 8.4 The vesting periods of the options to be granted to the officers will not be less than four years, where the vesting will be a quarterly vesting so that at the end of every quarter, and in the event as stated of a four year vesting period 1/16 of the options allotted to the officers will vest. It is hereby clarified that the vesting period will apply as long as the officer works for the Company. The options' vesting period will be identical for all officers.

- 8.5 In the event that the employee/employer relations will end or the engagement between the officer and Company has ended, the date of expiry of the options that vested will not exceed a period between three months and six months from the date of the end of the employee/employer relations or the end of the engagement, whichever relevant. The Company's Board of Directors, after receiving the recommendation of the Compensation Committee, will have the discretion whether to extend this period, provided that this extended period will not exceed one year.
- 8.6 The Company's Board of Directors will have the discretion whether to accelerate the vesting of the options allotted to officers in the Company, on the occurrence of the following events:
- 8.6.1 Acquisition of control in the Company by a third party;
 - 8.6.2 The merger of the Company, within the meaning of this term in the Companies Law.
 - 8.6.3 Sale or providing an exclusive license on most of the Company's intellectual property.

9. Signing Bonus

- 9.1 The Company may, in circumstances to be approved by the Compensation Committee and the Company Board of Directors as exceptional circumstances, offer a signing bonus to a new officer in the Company.
- 9.2 The total signing bonus shall not exceed a sum of 3 monthly salaries gross as to be determined for the relevant officer. The Company may determine that the officer will be required to repay all or part of the signing bonus allotted thereto to the Company if the officer does not complete the minimum term of service in the Company.

10. Conditions for terminating employment

In the event of dismissal of an officer by the Company (not due to "grounds" as defined in the employment/services agreement signed / which will be signed with the officer) or in the event of resignation of the officer in the Company in circumstances which require severance pay in accordance with the Law, in addition to the severance pay that the Company is obligated to pay to the officer by Law, the Company may, with the approval of the Compensation Committee and the Board of Directors, also pay the officer the following payments:

10.1 Prior notice

- 10.1.1 The period of prior notice for every officer will be determined by the Compensation Committee and the Company's Board of Directors, prior to signing the employment agreement with the officer.

10.1.2 During the prior notice period the officer will be required to continue to fulfill his function unless the Company's Board of Directors decides to release him from that obligation. In such a case the officer will be entitled to continue to receive all the terms of tenure and employment without any change.

10.1.3 Payment for the prior notice period will not exceed the following:

CEO	Up to 6 salaries
Vice President	Up to 3 salaries

10.1.4 The salary to be paid during the period of prior notice will be calculated according to the last salary (and according to the fixed compensation only, i.e., not including bonuses paid to the officer) but including related social benefits paid to the officer prior to the date of dismissal / resignation, in such a situation that entitles payment of severance pay.

10.2 Retirement grant

10.2.1 The Compensation Committee and the Company's Board of Directors will be entitled to approve payment of a retirement grant to officers in the Company on the date of their retirement, provided that the total retirement grant will not exceed the following:

Worked in the Company over 10 years	Worked in the Company between 5-10 years	Worked in the Company between 1 – 5 years	Worked in the Company up to 1 year	Position
Up to 12 salaries	Up to 6 salaries	Up to 4 salaries	Up to 1 salary	CEO
Up to 10 salaries	Up to 6 salaries	Up to 4 salaries	Up to 1 salary	Vice President
Up to 12 salaries	Up to 6 salaries	Up to 4 salaries	Up to 1 salary	Active Chairman

10.2.2 In the event of a change of control (as this term is defined below), the retirement grant specified in the table above can increase up to 50%, but no less than three salaries. For the purposes of this paragraph “a change of control” shall include all events of selling control in the Company to a third party, a merger of the Company with another, or selling most or all of the Company’s assets.

10.2.3 In the framework of the decision whether to grant a one-time retirement grant, as mentioned above, the Compensation Committee and Board of Directors will examine, on the basis on the recommendation of the Chairman of the Board of Directors (in the case of a CEO) or the Company's CEO (in the case of a Vice President) the extent of the officer's contribution to the Company and to promote the targets that it set for itself, with the emphasis on specific activities and projects that he managed or was responsible for, the level of meeting the personal targets set for him, if any were set, and the level of meeting the targets defined in the Company's budget.

10.2.4 The retirement grant will be paid on the date of termination of employee / employer relations, and will be paid on the basis of the last salary (and according to the fixed compensation only, i.e., not including bonuses paid to the officer) paid to the officer prior to the date of his dismissal / resignation in such a situation that entitles payment of severance pay.

10.3 The Board of Directors may, after receiving confirmation from the Compensation Committee, convert the grants as specified in paragraphs 10.2 and 10.3 into Company shares, provided their financial value is equal to the value of the converted grants.

11. Exemption, indemnity and insurance

The officers in the Company will be entitled to receive from the Company a letter of exemption and indemnity, whose terms will be according to the provisions of the companies law and to be included in the officers insurance cover that the Company will purchase, and all in accordance with the wording, the conditions and extent approved, from time to time, by the Company's organs in accordance with the Law.