

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

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2007

OR

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

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-51310

XTL BIOPHARMACEUTICALS LTD.

(Exact name of registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

711 Executive Blvd., Suite Q  
Valley Cottage, NY 10989

(Address of principal executive offices)

Ron Bentsur  
Chief Executive Officer  
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Valley Cottage, NY 10989  
Tel: (845) 267-0707  
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

American Depositary Shares, each representing  
ten Ordinary Shares, par value NIS 0.02  
(Title of Class)

The NASDAQ Capital Market  
(Name of each exchange on which registered)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

21,955,831 American Depositary Shares                      292,654,785 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐    No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐    No ☒

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☒ U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other

If “Other” has been check in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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XTL BIOPHARMACEUTICALS LTD.  
ANNUAL REPORT ON FORM 20-F

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This annual report on Form 20-F contains trademarks and trade names of XTL Biopharmaceuticals Ltd., including our name and logo.

## **SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Certain matters discussed in this report, including matters discussed under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are intended to identify such forward-looking statements. Our actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation, those discussed under “Item 3. Key Information-Risk Factors,” “Item 4.- Information on the Company,” “Item 5. Operating and Financial Review and Prospects,” and elsewhere in this report, as well as factors which may be identified from time to time in our other filings with the Securities and Exchange Commission, or the SEC, or in the documents where such forward-looking statements appear. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

The forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Except as required by law, we assume no responsibility for updating any forward-looking statements.

PART I

*Unless the context requires otherwise, references in this report to “XTL,” “we,” “us” and “our” refer to XTL Biopharmaceuticals Ltd. and our wholly-owned subsidiaries, XTL Biopharmaceuticals, Inc. and XTL Development, Inc. We have prepared our consolidated financial statements in United States, or US, dollars and in accordance with US generally accepted accounting principles, or US GAAP. All references herein to "dollars" or "\$" are to US dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.*

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

Selected Financial Data

The table below presents selected statement of operations and balance sheet data for the fiscal years ended and as of December 31, 2007, 2006, 2005, 2004 and 2003. We have derived the selected financial data for the fiscal years ended December 31, 2007, 2006, and 2005, and as of December 31, 2007 and 2006, from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with US GAAP. We have derived the selected financial data for fiscal years ended December 31, 2004 and 2003 and as of December 31, 2005, 2004 and 2003, from audited financial statements not appearing in this report, which have been prepared in accordance with US GAAP. You should read the selected financial data in conjunction with “Item 5. Operating and Financial Review and Prospects,” “Item 8. Financial Information” and “Item 18. Financial Statements.”

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	\$ —	\$ —	\$ 2,743	\$ 3,269	\$ —
License	907	454	454	185	—
	<u>907</u>	<u>454</u>	<u>3,197</u>	<u>3,454</u>	<u>—</u>
Cost of Revenues					
Reimbursed out-of-pocket expenses	—	—	2,743	3,269	—
License (with respect to royalties)	110	54	54	32	—
	<u>110</u>	<u>54</u>	<u>2,797</u>	<u>3,301</u>	<u>—</u>
Gross Margin	<u>797</u>	<u>400</u>	<u>400</u>	<u>153</u>	<u>—</u>
Research and development					
Research and development costs	18,998	10,229	7,313	11,985	14,022
Less participations	56	—	—	—	3,229
	<u>18,942</u>	<u>10,229</u>	<u>7,313</u>	<u>11,985</u>	<u>10,793</u>
In-process research and development	—	—	1,783	—	—
General and administrative	5,582	5,576	5,457	4,134	3,105
Business development costs	<u>2,008</u>	<u>641</u>	<u>227</u>	<u>810</u>	<u>664</u>
Operating loss	(25,735)	(16,046)	(14,380)	(16,776)	(14,562)
Other income (expense)					
Financial and other income, net	590	1,141	443	352	352
Income taxes	<u>206</u>	<u>(227)</u>	<u>(78)</u>	<u>(49)</u>	<u>(78)</u>
Loss for the period	<u>\$ (24,939)</u>	<u>\$ (15,132)</u>	<u>\$ (14,015)</u>	<u>\$ (16,473)</u>	<u>\$ (14,288)</u>
Loss per ordinary share					
Basic and diluted	\$ (0.11)	\$ (0.08)	\$ (0.08)	\$ (0.12)	\$ (0.13)
Weighted average shares outstanding	228,492,818	201,737,295	170,123,003	134,731,766	111,712,916

	As of December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents, bank deposits and trading and marketable securities	\$ 12,977	\$ 25,347	\$ 13,360	\$ 22,924	\$ 22,262
Working capital	8,532	22,694	11,385	20,240	19,967
Total assets	14,127	26,900	15,151	25,624	24,853
Long-term obligations	194	738	1,493	2,489	1,244
Total shareholders' equity	8,564	22,760	11,252	19,602	20,608

## Risk Factors

*Before you invest in our ordinary shares or American Depositary Receipts representing American Depositary Shares, which we refer to in this report as ADRs, you should understand the high degree of risk involved. You should carefully consider the risks described below and other information in this report, including our financial statements and related notes included elsewhere in this report, before you decide to purchase our ordinary shares or ADRs. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our ordinary shares or ADRs could decline and you could lose part or all of your investment.*

### Risks Related to Our Business

***We have incurred substantial operating losses since our inception. We expect to continue to incur losses in the future and may never become profitable.***

You should consider our prospects in light of the risks and difficulties frequently encountered by development stage companies. We have incurred operating losses since our inception and expect to continue to incur operating losses for the foreseeable future. As of December 31, 2007, we had an accumulated deficit of approximately \$139.9 million. We have not yet commercialized any of our drug candidates or technologies and cannot be sure we will ever be able to do so. Even if we commercialize one or more of our drug candidates or technologies, we may not become profitable. Our ability to achieve profitability depends on a number of factors, including our ability to complete our development efforts, obtain regulatory approval for our drug candidates and technologies and successfully commercialize them.

***If we are unable to successfully complete our clinical trial programs for our drug candidates, or if such clinical trials take longer to complete than we project, our ability to execute our current business strategy will be adversely affected.***

Whether or not and how quickly we complete clinical trials is dependent in part upon the rate at which we are able to engage clinical trial sites and, thereafter, the rate of enrollment of patients, and the rate at which we are able to collect, clean, lock and analyze the clinical trial database. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study, the existence of competitive clinical trials, and whether existing or new drugs are approved for the indication we are studying. We are aware that other companies are planning clinical trials that will seek to enroll patients with the same diseases as we are studying. In addition, the multi-national nature of our studies adds another level of complexity and risk as the successful completion of those studies is subject to events affecting countries outside the United States. If we experience delays in identifying and contracting with sites and/or in patient enrollment in our clinical trial programs, we may incur additional costs and delays in our development programs, and may not be able to complete our clinical trials on a cost-effective or timely basis.

***If third parties on which we rely for clinical trials do not perform as contractually required or as we expect, we may not be able to obtain regulatory approval for or commercialize our products.***

We depend on independent clinical investigators, contract research organizations and other third-party service providers to conduct the clinical trials of our drug candidates and technologies and expect to continue to do so. We rely heavily on these parties for successful execution of our clinical trials, but we do not control many aspects of their activities. Nonetheless, we are responsible for confirming that each of our clinical trials is conducted in accordance with the general investigational plan and protocol. Our reliance on these third parties that we do not control does not relieve us of our responsibility to comply with the regulations and standards of the US Food and Drug Administration, or the FDA, relating to good clinical practices. Third parties may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or the applicable trial's plans and protocols. The failure of these third parties to carry out their obligations could delay or prevent the development, approval and commercialization of our products or result in enforcement action against us.

***If the clinical data related to our drug candidates and technologies do not confirm positive early clinical data or preclinical data, our corporate strategy and financial results will be adversely impacted.***

Our drug candidates and technologies are either in preclinical or clinical stages. Specifically, our lead product candidate, Bicifadine, is in a Phase 2b clinical trial for diabetic neuropathic pain and the Diversity Oriented Synthesis, or DOS, program has not yet been tested in humans. In order for our candidates to proceed to later stage clinical testing, they must show positive clinical or preclinical data. While Bicifadine has shown promising preclinical data and has also shown promising clinical data in the treatment of acute pain prior to it being in-licensed to us, preliminary results of pre-clinical or clinical tests do not necessarily predict the final results, and promising results in pre-clinical or early clinical testing might not be obtained in later clinical trials. Drug candidates in the later stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. Any negative results from future tests may prevent us from proceeding to later stage clinical testing which would materially impact our corporate strategy and our financial results may be adversely impacted.

***We have limited experience in conducting and managing clinical trials necessary to obtain regulatory approvals. If our drug candidates and technologies do not receive the necessary regulatory approvals, we will be unable to commercialize our products.***

We have not received, and may never receive, regulatory approval for commercial sale for any of our products. We currently do not have any drug candidates or technologies pending approval with the FDA or with regulatory authorities of other countries. We will need to conduct significant additional research and human testing before we can apply for product approval with the FDA or with regulatory authorities of other countries. Pre-clinical testing and clinical development are long, expensive and uncertain processes. Satisfaction of regulatory requirements typically depends on the nature, complexity and novelty of the product and requires the expenditure of substantial resources. Regulators may not interpret data obtained from pre-clinical and clinical tests of our drug candidates and technologies the same way that we do, which could delay, limit or prevent our receipt of regulatory approval. It may take us many years to complete the testing of our drug candidates and technologies, and failure can occur at any stage of this process. Negative or inconclusive results or medical events during a clinical trial could cause us to delay or terminate our development efforts.

Clinical trials also have a high risk of failure. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in clinical trials, even after achieving promising results in earlier trials. If we experience delays in the testing or approval process, or if we need to perform more or larger clinical trials than originally planned, our financial results and the commercial prospects for our drug candidates and technologies may be materially impaired. In addition, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval in the US and abroad and, accordingly, may encounter unforeseen problems and delays in the approval process.

Even if regulatory approval is obtained, our products and their manufacture will be subject to continual review, and there can be no assurance that such approval will not be subsequently withdrawn or restricted. Changes in applicable legislation or regulatory policies, or discovery of problems with the products or their manufacture, may result in the imposition of regulatory restrictions, including withdrawal of the product from the market, or result in increased costs to us.

***Because some of our proprietary drug candidates and technologies are licensed to us by third parties, termination of these license agreements could prevent us from developing our drug candidates.***

We do not own all of our drug candidates and technologies. We have licensed the rights, patent or otherwise, to our drug candidates from third parties. Specifically, we have licensed Bicifadine from Dov Pharmaceutical, Inc., or DOV, who in turn licensed it from Wyeth Pharmaceuticals, Inc., or Wyeth, and we have licensed DOS from VivoQuest, Inc. These license agreements require us to meet development or financing milestones and impose development and commercialization due diligence requirements on us. In addition, under these agreements, we must pay royalties on sales of products resulting from licensed drugs and technologies and pay the patent filing, prosecution and maintenance costs related to the licenses. While we have the right to defend patent rights related to our licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent rights, we will be obligated to cover all of the expenses associated with that effort. If we do not meet our obligations in a timely manner or if we otherwise breach the terms of our agreements, our licensors could terminate the agreements, and we would lose the rights to our drug candidates and technologies. From time to time, in the ordinary course of business, we may have disagreements with our licensors or collaborators regarding the terms of our agreements or ownership of proprietary rights, which could lead to delays in the research, development, collaboration and commercialization of our drug candidates or could require or result in litigation or arbitration, which could be time-consuming and expensive. For a further discussion on our license agreements, the patent rights related to those licenses, and the expiration dates of those patent rights, see “Item 4. Information on the Company - Business Overview - Intellectual Property and Patents” and “Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations,” below. In addition, see “- Risks Related to Our Intellectual Property - If DOV declares bankruptcy, they may choose to repudiate their license agreement with Wyeth which could prevent us from pursuing the development of Bicifadine, and would have a material adverse impact on our financial condition,” below regarding potential issues related to the use of patents owned by third-parties.

***If we do not establish or maintain drug development and marketing arrangements with third parties, we may be unable to commercialize our drug candidates and technologies into products.***

We are an emerging company and do not possess all of the capabilities to fully commercialize our drug candidates and technologies on our own. From time to time, we may need to contract with third parties to:

- assist us in developing, testing and obtaining regulatory approval for some of our compounds and technologies;



- manufacture our drug candidates; and
- market and distribute our products.

For example, on March 20, 2008, we announced that we had out-licensed the DOS program to Presidio Pharmaceuticals, Inc, or Presidio. Under the terms of the license agreement, Presidio becomes responsible for the development and commercialization activities and costs related to the DOS program.

We can provide no assurance that we will be able to successfully enter into agreements with such third-parties on terms that are acceptable to us. If we are unable to successfully contract with third parties for these services when needed, or if existing arrangements for these services are terminated, whether or not through our actions, or if such third parties do not fully perform under these arrangements, we may have to delay, scale back or end one or more of our drug development programs or seek to develop or commercialize our drug candidates and technologies independently, which could result in delays. Further, such failure could result in the termination of license rights to one or more of our drug candidates and technologies. Moreover, if these development or marketing agreements take the form of a partnership or strategic alliance, such arrangements may provide our collaborators with significant discretion in determining the efforts and resources that they will apply to the development and commercialization of our products. Accordingly, to the extent that we rely on third parties to research, develop or commercialize our products, we are unable to control whether such products will be scientifically or commercially successful.

***If our products fail to achieve market acceptance, we will never record meaningful revenues.***

Even if our products are approved for sale, they may not be commercially successful in the marketplace. Market acceptance of our product candidates will depend on a number of factors, including:

- perceptions by members of the health care community, including physicians, of the safety and efficacy of our products;
- the rates of adoption of our products by medical practitioners and the target populations for our products;
- the potential advantages that our products offer over existing treatment methods or other products that may be developed;
- the cost-effectiveness of our products relative to competing products;
- the availability of government or third-party payor reimbursement for our products;
- the side effects or unfavorable publicity concerning our products or similar products; and
- the effectiveness of our sales, marketing and distribution efforts.

Because we expect sales of our products to generate substantially all of our revenues in the long-term, the failure of our products to find market acceptance would harm our business and could require us to seek additional financing or other sources of revenue.

***If the third parties upon whom we rely to manufacture our products do not successfully manufacture our products, our business will be harmed.***

We do not currently have the ability to manufacture the compounds that we need to conduct our clinical trials and, therefore, rely upon, and intend to continue to rely upon, certain manufacturers to produce and supply our drug candidates for use in clinical trials and for future sales. See “Item 4. Information on the Company - Business Overview - Supply and Manufacturing,” below. In order to commercialize our products, such products will need to be manufactured in commercial quantities while adhering to all regulatory and other local requirements, all at an acceptable cost. We may not be able to enter into future third-party contract manufacturing agreements on acceptable terms, if at all.

We believe that our agreement with DOV provides us with access to sufficient inventory to satisfy the clinical supply needs for our ongoing Phase 2b trial for Bicifadine and the open label safety extension study. If our contract manufacturers or other third parties, such as DOV, fail to deliver our product candidates for clinical use on a timely basis, with sufficient quality, and at commercially reasonable prices, and we fail to find replacement manufacturers, we may be required to delay or suspend clinical trials or otherwise discontinue development and production of our drug candidates.

Our contract manufacturers are required to produce our clinical drug candidates under strict compliance with current good manufacturing practices, or cGMP, in order to meet acceptable regulatory standards for our clinical trials. If such standards change, the ability of contract manufacturers to produce our drug candidates on the schedule we require for our clinical trials may be affected. In addition, contract manufacturers may not perform their obligations under their agreements with us or may discontinue their business before the time required by us to successfully produce and market our drug candidates. Any difficulties or delays in our contractors’ manufacturing and supply of drug candidates could increase our costs, cause us to lose revenue or make us postpone or cancel clinical trials.

In addition, our contract manufacturers will be subject to ongoing periodic, unannounced inspections by the FDA and corresponding foreign or local governmental agencies to ensure strict compliance with, among other things, cGMP, in addition to other governmental regulations and corresponding foreign standards. We will not have control over, other than by contract, third-party manufacturers' compliance with these regulations and standards. No assurance can be given that our third-party manufacturers will comply with these regulations or other regulatory requirements now or in the future.

In the event that we are unable to obtain or retain third-party manufacturers, we will not be able to commercialize our products as planned. If third-party manufacturers fail to deliver the required quantities of our products on a timely basis and at commercially reasonable prices, our ability to develop and deliver products on a timely and competitive basis may be adversely impacted and our business, financial condition or results of operations will be materially harmed.

***If our competitors develop and market products that are less expensive, more effective or safer than our products, our commercial opportunities may be reduced or eliminated.***

The pharmaceutical industry is highly competitive. Our commercial opportunities may be reduced or eliminated if our competitors develop and market products that are less expensive, more effective or safer than our products. Other companies have drug candidates in various stages of pre-clinical or clinical development to treat diseases for which we are also seeking to discover and develop drug candidates. For a discussion of these competitors and their drug candidates, see "Item 4. Information on the Company - Business Overview - Competition," below. Some of these potential competing drugs are already commercialized or are further advanced in development than our drug candidates and may be commercialized earlier. Even if we are successful in developing safe, effective drugs, our products may not compete successfully with products produced by our competitors, who may be able to more effectively market their drugs.

Our competitors include pharmaceutical companies and biotechnology companies, as well as universities and public and private research institutions. In addition, companies that are active in different but related fields represent substantial competition for us. Many of our competitors have significantly greater capital resources, larger research and development staffs and facilities and greater experience in drug development, regulation, manufacturing and marketing than we do. These organizations also compete with us to recruit qualified personnel, attract partners for joint ventures or other collaborations, and license technologies that are competitive with ours. As a result, our competitors may be able to more easily develop products that could render our technologies or our drug candidates obsolete or noncompetitive.

***If we lose our key personnel or are unable to attract and retain additional personnel, our business could be harmed.***

As of February 29, 2008, we had 17 full-time employees. To successfully develop our drug candidates and technologies, we must be able to attract and retain highly skilled personnel. The retention of their services cannot be guaranteed. In particular, if we lose the services of Michael S. Weiss, our Chairman, or Ron Bentsur, our Chief Executive Officer, our ability to continue to execute on our business plan could be materially impaired. Our agreement with Mr. Weiss provides that he may terminate his agreement with us upon 30 days' prior written notice if (i) he is not re-elected as Chairman of our Board, (ii) his fees for service as Chairman are reduced by more than 10%, (iii) we breach any material term of his agreement, or (iv) there is a change of control or reorganization of our company. Our agreement with Mr. Bentsur provides that he may terminate his agreement with us upon 30 days' prior written notice if (i) he is no longer the highest ranking member of our company's management team, (ii) his annual base salary is reduced by more than 10% (except where we have made similar reductions in the base salary of senior management throughout our company), (iii) we breach any material term of his agreement, or (iv) there is a change of control or reorganization of our company. We do not maintain a key man life insurance policy covering either Mr. Weiss or Mr. Bentsur.

***Any acquisitions or in-licensing transactions we make may dilute your equity or require a significant amount of our available cash and may not be scientifically or commercially successful.***

As part of our business strategy, we may effect acquisitions or in-licensing transactions to obtain additional businesses, products, technologies, capabilities and personnel. If we complete one or more such transactions in which the consideration includes our ordinary shares or other securities, your equity in us may be significantly diluted. If we complete one or more such transactions in which the consideration includes cash, we may be required to use a substantial portion of our available cash.

Acquisitions and in-licensing transactions also involve a number of operational risks, including:

- difficulty and expense of assimilating the operations, technology or personnel of the business;
- our inability to attract and retain management, key personnel and other employees necessary to conduct the business;

- our inability to maintain relationships with key third parties, such as alliance partners, associated with the business;
- exposure to legal claims for activities of the business prior to the acquisition;
- the diversion of our management’s attention from our core business; and
- the potential impairment of substantial goodwill and write-off of in-process research and development costs, adversely affecting our reported results of operations.

In addition, the basis for completing the acquisition or in-licensing could prove to be unsuccessful as the drugs or processes involved could fail to be scientifically or commercially viable. In addition, we may be required to pay third parties substantial transaction fees, in the form of cash or ordinary shares, in connection with such transactions.

If any of these risks occur, it could have an adverse effect on both the business we acquire or in-license and our existing operations.

***We face product liability risks and may not be able to obtain adequate insurance.***

The use of our drug candidates and technologies in clinical trials, and the sale of any approved products, exposes us to liability claims. Although we are not aware of any historical or anticipated product liability claims against us, if we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to cease clinical trials of our drug candidates and technologies or limit commercialization of any approved products.

We believe that we have obtained sufficient product liability insurance coverage for our clinical trials. We intend to expand our insurance coverage to include the commercial sale of any approved products if marketing approval is obtained; however, insurance coverage is becoming increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost. We may not be able to obtain additional insurance coverage that will be adequate to cover product liability risks that may arise. Regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for a product;
- injury to our reputation;
- inability to continue to develop a drug candidate or technology;
- withdrawal of clinical trial volunteers; and
- loss of revenues.

Consequently, a product liability claim or product recall may result in material losses.

**Risks Related to Our Financial Condition**

***Our current cash, cash equivalents and bank deposits may not be adequate to support our operations for the length of time that we have estimated. If we are unable to obtain additional funds on terms favorable to us, or at all, we may not be able to continue our operations.***

We expect to use, rather than generate, funds from operations for the foreseeable future. We currently have an average projected burn rate of approximately \$1.0 million to \$1.5 million per month in 2008, depending upon the extent to which we are able to enroll subjects in our clinical trials. Based on our current business plan, we believe that our cash, cash equivalents and bank deposits as of December 31, 2007 and the upfront payment by Presidio related to the out-licensing of the DOS program provide us with sufficient resources to fund our operations for approximately the next 12 months; however, the actual amount of funds that we will need will be determined by many factors, some of which are beyond our control. These factors include:

- the progress of our development activities, specifically, the timing of completion and results from our clinical trials for Bicifadine;
- the progress of our research activities;

- the number and scope of our development programs;
- our ability to establish and maintain current and new licensing or acquisition arrangements;
- our ability to achieve our milestones under our licensing arrangements;
- the costs involved in enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

We may seek additional capital through a combination of public and private equity offerings, debt financings and collaborative, strategic alliance and licensing arrangements. We have made no determination at this time as to the amount, method or timing of any such financing. Such additional financing may not be available when we need it. If we are unable to obtain additional funds on terms favorable to us or at all, we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our technology. If we raise additional funds by selling ordinary shares or other securities, the ownership interests of our shareholders will be diluted. If we need to raise additional funds through the sale or license of our drug candidates or technology, we may be unable to do so on terms favorable to us.

***We are likely to be subject to taxation in the US, which could significantly increase our tax liability in the US for which we may not be able to apply the net losses accumulated in Israel.***

We currently have a “permanent establishment” in the United States, or US, which began in 2005, due to the residency of the Chairman of our Board of Directors and our Chief Executive Officer in the US, as well as other less significant contacts that we have with the US. As a result, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. If this is the case, we may not be able to utilize any of the accumulated Israeli loss carryforwards reflected on our balance sheet as of December 31, 2007 since these losses were not attributable to the US permanent establishment. However, we would be able to utilize losses attributable to the US permanent establishment to offset such US taxable income. As of December 31, 2007, we estimate that these US net operating loss carryforwards are approximately \$22.4 million. These losses can be carried forward to offset future US taxable income and will begin to expire in 2025. US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations.

#### **Risks Related to Our Intellectual Property**

***If we are unable to adequately protect our intellectual property, third parties may be able to use our technology, which could adversely affect our ability to compete in the market.***

Our commercial success will depend in part on our ability and the ability of our licensors to obtain and maintain patent protection on our drug products and technologies and successfully defend these patents and technologies against third-party challenges. As part of our business strategy, our policy is to actively file patent applications in the US and internationally to cover methods of use, new chemical compounds, pharmaceutical compositions and dosing of the compounds and composition and improvements in each of these. See “Item 4. Information on the Company - Business Overview - Intellectual Property and Patents,” below regarding our patent position with regard to our product candidates. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before we commercialize any of our products, any related patent may expire or remain in existence for only a short period following commercialization, thus reducing any advantage of the patent.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, the patents we use may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. The patents we use may be challenged or invalidated or may fail to provide us with any competitive advantage.

Generally, patent applications in the US are maintained in secrecy for a period of 18 months or more. Since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we are not certain that we were the first to make the inventions covered by each of our pending patent applications or that we were the first to file those patent applications. We cannot predict the breadth of claims allowed in biotechnology and pharmaceutical patents, or their enforceability. Third parties or competitors may challenge or circumvent our patents or patent applications, if issued. If our competitors prepare and file patent applications in the US that claim compounds or technology also claimed by us, we may choose to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in substantial cost, even if the eventual outcome is favorable to us. While we have the right to defend patent rights related to the licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent rights, we will be obligated to cover all of the expenses associated with that effort.

We also rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable. Trade secrets are difficult to protect. While we require our employees, collaborators and consultants to enter into confidentiality agreements, this may not be sufficient to adequately protect our trade secrets or other proprietary information. In addition, we share ownership and publication rights to data relating to some of our drug candidates and technologies with our research collaborators and scientific advisors. If we cannot maintain the confidentiality of this information, our ability to receive patent protection or protect our proprietary information will be at risk.

Specifically, we plan to pursue patent protection in the US and in certain foreign countries relating to our development and commercialization of Bicifadine. Bicifadine and its acid addition salts, including Bicifadine HCl, are disclosed in US Pat. Nos. 4,231,935, issued November 4, 1980, and 4,196,120, issued April 1, 1980, now expired. Currently, we are the exclusive licensee of one issued patent and multiple patent applications filed by DOV relating to Bicifadine. See “Item 4. Information on the Company - Business Overview - Intellectual Property and Patents.” However, we cannot guarantee the scope of protection of any issued patents, or that such patents will survive a validity or enforceability challenge, or that any pending patent applications will issue as patents.

Under the terms of the license agreements between DOV and Wyeth and between DOV and us relating to Bicifadine, Wyeth has retained limited rights in the Wyeth patent rights, certain DOV patent rights, and know-how to make and develop Bicifadine for the “treatment or amelioration of vasomotor symptoms caused by or occurring in relation to or in connection with menopause or other female hormonal fluctuations” (“the Wyeth Retained Field”). Under the terms of the DOV/Wyeth agreement, Wyeth can only develop Bicifadine for use in the Wyeth Retained Field in collaboration with DOV, and under the license agreement between DOV and XTL, DOV will not conduct research or development with Wyeth for the use of Bicifadine in the Wyeth Retained Field.

Certain of the Wyeth patent rights and DOV patent rights may claim overlapping subject matter which may result in the declaration of an interference proceeding before the United States Patent and Trademark Office (USPTO). If an interference is declared, Wyeth and DOV have agreed to meet and attempt to amicably resolve such interference with the goal of having a US patent issue to the assignee of the first inventor of the invention claimed by such conflicting claims. In the event of an interference, we cannot predict whether Wyeth and DOV will be able to reach agreement, or, if not, which party would prevail in such a proceeding.

In addition to patent protection, we may utilize certain regulatory marketing exclusivities for our drug candidates, including New Drug Product Exclusivity as provided by the Federal Food, Drug, and Cosmetic Act under section 505(c)(3)(E) and 505(j)(5)(F). Exclusivity provides the holder of an approved new drug application limited protection from new competition in the marketplace for the innovation represented by its approved drug product. This limited protection precludes approval of certain 505(b)(2) applications or certain abbreviated new drug applications (ANDAs) for prescribed periods of time. Some exclusivity provisions also provide protection from competition by delaying the submission of 505(b)(2) applications and ANDAs for certain periods of time. Exclusivity is available for new chemical entities (NCEs), which by definition are innovative, and for significant changes in already approved drug products, such as a new use.

***If DOV declares bankruptcy, they may choose to repudiate their license agreement with Wyeth which could prevent us from pursuing the development of Bicifadine, and would have a material adverse impact on our financial condition.***

In January 2007, we entered into a license agreement with DOV covering certain patent rights associated with the drug candidate Bicifadine. Some of the patent rights covered by that agreement are in turn under license to DOV by Wyeth. On January 4, 2008, DOV notified investors that it had reduced its workforce in order to conserve cash and to direct substantially all of its resources towards completion of a clinical trial expected to be completed in the fourth quarter of 2008. DOV further noted that it continues to actively seek additional capital and to reduce expenses. DOV also noted that it will have sufficient liquidity to operate through August 2008, although there can be no assurance that this will be the case. If DOV is unable to obtain additional capital, it may be forced to declare bankruptcy. If DOV were to declare bankruptcy, under the relevant bankruptcy laws DOV could refuse to abide by the terms of its license agreement with Wyeth and can repudiate the agreement thereby putting DOV’s rights, and as a result our rights, to some of the patents covering Bicifadine in question. While we can and will take action in any DOV bankruptcy to protect our rights under our agreement with DOV, we cannot control any action of DOV with regard to their agreements with Wyeth. We have undertaken to enter into a standby license agreement with Wyeth which would become effective if DOV in any way repudiated their agreement with Wyeth. While we believe this will reduce the risk described above, there can be no assurance we will be able to successfully complete an agreement with Wyeth on terms satisfactory to us.

***Litigation or third-party claims of intellectual property infringement could require us to spend substantial time and money defending such claims and adversely affect our ability to develop and commercialize our products.***

Third parties may assert that we are using their proprietary technology without authorization. In addition, third parties may have or obtain patents in the future and claim that our products infringe their patents. If we are required to defend against patent suits brought by third parties, or if we sue third parties to protect our patent rights, we may be required to pay substantial litigation costs, and our management’s attention may be diverted from operating our business. In addition, any legal action against our licensors or us that seeks damages or an injunction of our commercial activities relating to the affected products could subject us to monetary liability and require our licensors or us to obtain a license to continue to use the affected technologies. We cannot predict whether our licensors or we would prevail in any of these types of actions or that any required license would be made available on commercially acceptable terms, if at all. In addition, any legal action against us that seeks damages or an injunction relating to the affected activities could subject us to monetary liability and/or require us to discontinue the affected technologies or obtain a license to continue use thereof.

In addition, there can be no assurance that our patents or patent applications or those licensed to us will not become involved in opposition or revocation proceedings instituted by third parties. If such proceedings were initiated against one or more of our patents, or those licensed to us, the defense of such rights could involve substantial costs and the outcome could not be predicted.

Competitors or potential competitors may have filed applications for, may have been granted patents for, or may obtain additional patents and proprietary rights that may relate to compounds or technologies competitive with ours. If patents are granted to other parties that contain claims having a scope that is interpreted to cover any of our products (including the manufacture thereof), there can be no assurance that we will be able to obtain licenses to such patents at reasonable cost, if at all, or be able to develop or obtain alternative technology.

**Risks Related to Our Ordinary Shares and ADRs**

***Our ADRs are traded in small volumes, limiting your ability to sell your ADRs that represent ordinary shares at a desirable price, if at all.***

The trading volume of our ADRs has historically been low. Even if the trading volume of our ADRs increases, we can give no assurance that it will be maintained or will result in a desirable stock price. As a result of this low trading volume, it may be difficult to identify buyers to whom you can sell your ADRs in desirable volume and you may be unable to sell your ADRs at an established market price, at a price that is favorable to you, or at all. A low volume market also limits your ability to sell large blocks of our ADRs at a desirable or stable price at any one time. You should be prepared to own our ordinary shares and ADRs indefinitely.

***Our stock price can be volatile, which increases the risk of litigation and may result in a significant decline in the value of your investment.***

The trading price of the ADRs representing our ordinary shares is likely to be highly volatile and subject to wide fluctuations in price in response to various factors, many of which are beyond our control. These factors include:

- developments concerning our drug candidates;
- announcements of technological innovations by us or our competitors;
- introductions or announcements of new products by us or our competitors;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- actual or anticipated variations in interim operating results;
- expiration or termination of licenses, research contracts or other collaboration agreements;

- conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;
- changes in the market valuations of similar companies; and
- additions or departures of key personnel.

In addition, equity markets in general, and the market for biotechnology and life sciences companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. These broad market and industry factors may materially affect the market price of our ordinary shares or ADRs, regardless of our development and operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs to defend such claims and divert management's attention and resources even if we prevail in the litigation, all of which could seriously harm our business.

***Future issuances or sales of our ordinary shares could depress the market for our ordinary shares and ADRs.***

Future issuances of a substantial number of our ordinary shares, or the perception by the market that those issuances could occur, could cause the market price of our ordinary shares or ADRs to decline or could make it more difficult for us to raise funds through the sale of equity in the future. We believe that our cash, cash equivalents and bank deposits as of December 31, 2007 and the upfront payment by Presidio provide us with sufficient resources to fund our operations for approximately the next 12 months; however, prior to the end of that period it will be necessary for us to return to the capital markets through the sale of ADRs or ordinary shares.

Also, if we make one or more significant acquisitions in which the consideration includes ordinary shares or other securities, your portion of shareholders' equity in us may be significantly diluted. For example, pursuant to a license agreement with DOV, XTL Development licensed the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor. Under the agreement, XTL Development, upon achievement of certain milestones, will make payments of up to \$126.5 million to DOV over the life of the license. We may elect to issue up to an additional \$121.5 million in ordinary shares to DOV in lieu of cash for such milestone payments. In addition, XTL Development committed to pay a third party a transaction advisory fee in the form of stock appreciation rights in an amount equivalent to 3% of our then fully diluted ordinary shares at the close of the transaction, which were locked up through January 15, 2008, and an additional 7% of our then fully diluted ordinary shares at the close of the transaction, which vest following the first to occur of successful Phase 3 clinical trial results or the acquisition of our company. Payment of the stock appreciation rights by us can be satisfied, at our discretion, in cash and/or by issuance of our ordinary shares. Pursuant to a license agreement with VivoQuest, Inc., or VivoQuest, a privately held biotechnology company based in the US, we licensed (in all fields of use) certain intellectual property and technology related to VivoQuest's HCV program. Pursuant to the license agreement, we may elect to issue up to an additional \$34.6 million in ordinary shares to VivoQuest in lieu of cash upon achievement of certain milestones. In the future, we may enter into additional arrangements with other third-parties permitting us to issue ordinary shares in lieu of certain cash payments.

In addition, as of February 29, 2008, our principal stockholders beneficially own, in the aggregate, approximately 23.0% of our ordinary shares. If some or all of them should decide to sell a substantial number of their holdings, it could have a material adverse effect on the market for our ADRs or ordinary shares.

***Concentration of ownership of our ordinary shares among our principal stockholders may prevent new investors from influencing significant corporate decisions.***

As of February 29, 2008, our principal stockholders (including their affiliates) beneficially owned, in the aggregate, approximately 23.0% of our outstanding ordinary shares. As a result, these persons, acting together, may have the ability to significantly influence the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons, acting together, may have the ability to effectively control our management and affairs. Accordingly, this concentration of ownership may depress the market price of our ADRs or ordinary shares.

***Our ordinary shares and ADRs trade on more than one market, and this may result in price variations.***

ADRs representing our ordinary shares are quoted on the NASDAQ Capital Market and our ordinary shares are traded on the Tel Aviv Stock Exchange. Trading in our securities on these markets is made in different currencies and at different times, including as a result of different time zones, different trading days and different public holidays in the US and Israel. Consequently, the effective trading prices of our shares on these two markets may differ. Any decrease in the trading price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

***Holders of our ordinary shares or ADRs who are US residents may be required to pay additional income taxes.***

There is a risk that we will be classified as a passive foreign investment company (“PFIC”) for certain tax years. If we are classified as a PFIC, a US holder of our ordinary shares or ADRs representing our ordinary shares will be subject to special federal income tax rules that determine the amount of federal income tax imposed on income derived with respect to the PFIC shares. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income in a tax year is at least 50%. The risk that we will be classified as a PFIC arises because cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income and the relative values of passive and non-passive assets, including goodwill. A determination as to a corporation’s status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable year ended December 31, 2005. However, we believe that we were a PFIC for the taxable years ended December 31, 2006 and 2007. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2008 taxable year and possibly in subsequent years.

In view of the complexity of the issues regarding our treatment as a PFIC, US shareholders are urged to consult their own tax advisors for guidance as to our status as a PFIC. For further discussion of tax consequences of being a PFIC, see US Federal Income Tax Considerations - Tax Consequences If We Are A Passive Foreign Investment Company,” below.

***Provisions of Israeli corporate law may delay, prevent or affect a potential acquisition of all or a significant portion of our shares or assets and therefore depress the price of our ordinary shares.***

We are incorporated in the State of Israel. Israeli corporate law regulates acquisitions of shares through tender offers. It requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. The provisions of Israeli law may delay or prevent an acquisition, or make it less desirable to a potential acquirer and therefore depress the price of our shares. Further, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser’s shareholdings would entitle the purchaser to over 45% of the shares in the company, unless there is a shareholder with 45% or more of the shares in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received the approval of the company’s shareholders; (2) was from a 25% or greater shareholder of the company which resulted in the purchaser becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under Israeli corporate law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange or which the shares are traded, either:

- there is a limitation on acquisition of any level of control of the company; or
- the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

Finally, in general, Israeli tax law treats specified acquisitions less favorably than does US tax law. See “Item 10. Additional Information - Taxation - Israeli Tax Considerations,” below.

***Our ADR holders are not shareholders and do not have shareholder rights.***

The Bank of New York, as depositary, executes and delivers our ADRs on our behalf. Each ADR is a certificate evidencing a specific number of ADSs. Our ADR holders will not be treated as shareholders and do not have the rights of shareholders. The depositary will be the holder of the shares underlying our ADRs. Holders of our ADRs will have ADR holder rights. A deposit agreement among us, the depositary and our ADR holders, and the beneficial owners of ADRs, sets out ADR holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADRs. Our shareholders have shareholder rights. Israeli law and our Articles of Association, or Articles, govern shareholder rights. Our ADR holders do not have the same voting rights as our shareholders. Shareholders are entitled to our notices of general meetings and to attend and vote at our general meetings of shareholders. At a general meeting, every shareholder present (in person or by proxy, attorney or representative) and entitled to vote has one vote on a show of hands. Every shareholder present (in person or by proxy, attorney or representative) and entitled to vote has one vote per fully paid ordinary share on a poll. This is subject to any other rights or restrictions which may be attached to any shares. Our ADR holders may instruct the depositary to vote the ordinary shares underlying their ADRs, but only if we ask the depositary to ask for their instructions. If we do not ask the depositary to ask for the instructions, our ADR holders are not entitled to receive our notices of general meeting or instruct the depositary how to vote. Our ADR holders will not be entitled to attend and vote at a general meeting unless they withdraw the ordinary shares from the depositary. However, our ADR holders may not know about the meeting enough in advance to withdraw the ordinary shares. If we ask for our ADR holders’ instructions, the depositary will notify our ADR holders of the upcoming vote and arrange to deliver our voting materials and form of notice to them. The depositary will try, as far as practical, subject to the provisions of the deposit agreement, to vote the shares as our ADR holders instruct. The depositary will not vote or attempt to exercise the right to vote other than in accordance with the instructions of the ADR holders. We cannot assure our ADR holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their shares. In addition, there may be other circumstances in which our ADR holders may not be able to exercise voting rights.



Our ADR holders do not have the same rights to receive dividends or other distributions as our shareholders. Subject to any special rights or restrictions attached to a share, the directors may determine that a dividend will be payable on a share and fix the amount, the time for payment and the method for payment (although we have never declared or paid any cash dividends on our ordinary stock and we do not anticipate paying any cash dividends in the foreseeable future). Dividends may be paid on shares of one class but not another and at different rates for different classes. Dividends and other distributions payable to our shareholders with respect to our ordinary shares generally will be payable directly to them. Any dividends or distributions payable with respect to ordinary shares will be paid to the depositary, which has agreed to pay to our ADR holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. Our ADR holders will receive these distributions in proportion to the number of shares their ADRs represent. In addition, there may be certain circumstances in which the depositary may not pay to our ADR holders amounts distributed by us as a dividend or distribution. See the risk factor “- There are circumstances where it may be unlawful or impractical to make distributions to the holders of our ADRs,” below.

***There are circumstances where it may be unlawful or impractical to make distributions to the holders of our ADRs.***

The deposit agreement with the depositary allows the depositary to distribute foreign currency only to those ADR holders to whom it is possible to do so. If a distribution is payable by us in New Israeli Shekels, the depositary will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, our ADR holders may lose some of the value of the distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. This means that our ADR holders may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for the depositary to make such distributions available to them.

**Risks Relating to Operations in Israel**

***Conditions in the Middle East and in Israel may harm our operations.***

Certain of our facilities and some of our clinical sites and suppliers are located in Israel. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest, military conflicts and terrorist actions. There has been a significant increase in violence since September 2000, which has continued with varying levels of severity through to the present. This state of hostility has caused security and economic problems for Israel. To date, we do not believe that the political and security situation has had a material adverse impact on our business, but we cannot give any assurance that this will continue to be the case. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital.

Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to an economic boycott. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business.

***Our results of operations may be adversely affected by inflation and foreign currency fluctuations.***

We generate all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. While a substantial amount of our operating expenses are in US dollars (approximately 95% in 2007), we incur a portion of our expenses in New Israeli Shekels and in certain other local currencies. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may in the future enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel.

***It may be difficult to enforce a US judgment against us, our officers or our directors or to assert US securities law claims in Israel.***

Service of process upon us, since we are incorporated in Israel, and upon our directors and officers and our Israeli auditors, some of whom reside outside the US, may be difficult to obtain within the US. In addition, because substantially all of our assets and some of our directors and officers are located outside the US, any judgment obtained in the US against us or any of our directors and officers may not be collectible within the US. There is a doubt as to the enforceability of civil liabilities under the Securities Act or the Exchange Act pursuant to original actions instituted in Israel. Subject to particular time limitations and provided certain conditions are met, executory judgments of a US court for monetary damages in civil matters may be enforced by an Israeli court. For more information regarding the enforceability of civil liabilities against us, our directors and our executive officers, see “Item 10. Additional Information - Memorandum and Articles of Association - Enforceability of Civil Liabilities,” below.

**ITEM 4. INFORMATION ON THE COMPANY**

**History and Development of XTL**

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment of diabetic neuropathic pain and hepatitis C.

Our lead compound is Bicifadine, a serotonin and norepineprine reuptake inhibitor that we are developing for the treatment of diabetic neuropathic pain, a chronic condition resulting from damage to peripheral nerves. We in-licensed Bicifadine from DOV in January 2007, and in September 2007, we initiated a Phase 2b clinical trial with Bicifadine for the treatment of diabetic neuropathic pain.

Our second program is the Diversity Oriented Synthesis, or DOS, program, which is focused on the development of novel pre-clinical hepatitis C small molecule inhibitors. On March 20, 2008, we announced that we had out-licensed the DOS program to Presidio.

Our legal and commercial name is XTL Biopharmaceuticals Ltd. We were established as a private company limited by shares under the laws of the State of Israel on March 9, 1993, under the name Xenograft Technologies Ltd. We re-registered as a public company on June 7, 1993, in Israel, and changed our name to XTL Biopharmaceuticals Ltd. on July 3, 1995. We commenced operations to use and commercialize technology developed at the Weizmann Institute, in Rehovot, Israel. Until 1999, our therapeutic focus was on the development of human monoclonal antibodies to treat viral, autoimmune and oncological diseases. Our first therapeutic programs focused on antibodies against the hepatitis B virus, interferon -  $\gamma$  and the hepatitis C virus.

During 2007, our legacy hepatitis C clinical programs, XTL-6865 and XTL-2125, were terminated, and in July 2007, Cubist Pharmaceuticals terminated their license agreement with us for HepeX-B for the treatment of hepatitis B. On December 31, 2007, the Yeda Research and Development Company Ltd. (“Yeda”), the commercial arm of the Weizmann Institute, and XTL mutually terminated our research and license agreement dated April 7, 1993, as amended, and subject to certain closing conditions which were completed in March 2008, all rights in and to the licensed technology and patents reverted to Yeda.

Our ADRs are quoted on the NASDAQ Capital Market under the symbol “XTLB.” Our ordinary shares are traded on the Tel Aviv Stock Exchange under the symbol “XTL.” We operate under the laws of the State of Israel, under the Israeli Companies Act, and in the US, the Securities Act, the Exchange Act and the regulations of the NASDAQ Capital Market.

Our principal offices are located at 711 Executive Blvd., Suite Q, Valley Cottage, NY 10989, and our telephone number is (845) 267-0707. The principal offices of XTL Biopharmaceuticals, Inc., our wholly-owned US subsidiary and agent for service of process in the US, are located at 711 Executive Blvd., Suite Q, Valley Cottage, NY 10989, and its telephone number is (845) 267-0707. Our primary internet address is [www.xtlbio.com](http://www.xtlbio.com). None of the information on our website is incorporated by reference into this annual report.

On November 20, 2007, we completed a private placement of 72,485,020 ordinary shares (equivalent to 7,248,502 ADRs) at \$0.135 per ordinary share (equivalent to \$1.35 per ADR). Total proceeds to us from this private placement were approximately \$8.8 million, net of offering expenses of approximately \$1.0 million. In addition, on March 22, 2006, we completed a private placement of 46,666,670 ordinary shares (equivalent to 4,666,667 ADRs) at \$0.60 per share (\$6.00 per ADR), together with warrants for the purchase of an aggregate of 23,333,335 ordinary shares (equivalent to 2,333,333.5 ADRs) at an exercise price of \$0.875 (\$8.75 per ADR). Total proceeds to us from this private placement were approximately \$24.4 million, net of offering expenses of approximately \$3.6 million. The private placement closed on May 25, 2006. Since inception, we have raised net proceeds of approximately \$137.5 million to fund our activities, including the net proceeds from our 2007 and 2006 private placements.

For the years ended December 31, 2007, 2006, and 2005 our capital expenditures were \$65,000, \$21,000 and \$38,000, respectively. During 2007, we completed the disposition of certain unused assets (primarily lab equipment) which were held for sale during 2007, with \$308,000 in proceeds from disposals of property and equipment in 2007. There were no material divestitures during the years ended December 31, 2006 and 2005.

In March 2008, we signed an agreement to out-license our DOS program to Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program. In accordance with the terms of the license agreement, we received a \$4 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional \$104 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party.

In January 2007, XTL Development, Inc., or XTL Development, our wholly-owned subsidiary, signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor. XTL Development is developing Bicifadine for the treatment of diabetic neuropathic pain, a chronic condition resulting from damage to peripheral nerves. In accordance with the terms of the license agreement, XTL Development made an initial up-front license payment of \$7.5 million in cash. In addition, XTL Development will make milestone payments of up to \$126.5 million over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of \$5 million in cash, due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine. In connection with the license agreement, XTL Development committed to pay a transaction advisory fee to certain third party intermediaries. The transaction advisory fee was structured in the form of stock appreciation rights (“SARs”) in the amount equivalent to (i) 3% of our fully diluted ordinary shares at the close of the transaction (representing 8,299,723 ordinary shares), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of our fully diluted ordinary shares at the close of the transaction (representing 19,366,019 ordinary shares), vesting following the first to occur of successful Phase 3 clinical trial results or the acquisition of our company. Payment of the SARs by XTL Development can be satisfied, at our discretion, in cash and/or by issuance of our registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share of our company on the exercise date exceeds the \$0.34 grant price for such SAR (fair market value equals (i) the greater of the closing price of an ADR on the exercise date, divided by ten, or (ii) the preceding five day ADR closing price average, divided by ten). The SARs expire on January 15, 2017. In the event of the termination of the license agreement, any unvested SARs will expire.

**Business Overview**

***Introduction***

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment of diabetic neuropathic pain and hepatitis C.

Our lead compound is Bicifadine. We are developing Bicifadine for the treatment of diabetic neuropathic pain, a chronic condition resulting from damage to peripheral nerves. In September 2007, we initiated a Phase 2b trial that is aimed at demonstrating the efficacy of Bicifadine in diabetic neuropathic pain. Bicifadine is a serotonin and norepinephrine reuptake inhibitor, or SNRI. Compared to the currently approved SNRI’s, Bicifadine has a unique ratio of serotonin versus norepinephrine reuptake inhibition, which is weighted toward norepinephrine reuptake inhibition, thereby providing a strong scientific rationale for testing Bicifadine for the treatment neuropathic pain indications. Prior to it being in-licensed, Bicifadine was extensively tested in more than 15 clinical trials involving over 3,000 patients, and has been shown to be safe and generally well tolerated. Bicifadine was evaluated in various acute pain indications, including two large, randomized clinical trials (n=750 and n=540) in patients suffering from acute post dental surgery pain, where Bicifadine demonstrated statistically significant efficacy. Bicifadine was also studied in chronic lower back pain studies, where it did not demonstrate statistically meaningful improvement in pain scores. Given the heterogeneity of the patient population, the diversity of sources of pain, and the significant psychological component, chronic lower back pain is considered a highly challenging pain model. XTL believes that a positive statistical and clinical benefit can be shown by assessing the drug’s effect in a more homogenous and well-studied model such as diabetic neuropathic pain in which other SNRIs have been shown to be effective.

Our second program is the Diversity Oriented Synthesis, or DOS, program, which is focused on the development of novel pre-clinical hepatitis C small molecule inhibitors. Compounds developed to date inhibit HCV replication in a pre-clinical cell-based assay with potencies comparable to clinical stage drugs. On March 20, 2008, we announced that we had out-licensed the DOS program to Presidio.

To date, we have not received approval for the sale of any of our drug candidates in any market and, therefore, have not generated any commercial revenues from the sales of our drug candidates. Moreover, preliminary results of our pre-clinical or clinical tests do not necessarily predict the final results, and acceptable results in early preclinical or clinical testing might not be obtained in later clinical trials. Drug candidates in the later stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing.

***Our Strategy***

Under our current strategy, we plan to:

- complete our Phase 2b program for Bicifadine for the treatment of diabetic neuropathic pain;
- advance the development of Bicifadine towards approval in diabetic neuropathic pain and possibly in other related indications either alone or with a corporate partner; and
- seek to in-license or acquire additional candidates.

*Products Under Development*

**Bicifadine**

*Market Opportunity*

We intend to develop Bicifadine for the treatment of neuropathic pain - a chronic condition resulting from damage to peripheral nerves. According to Datamonitor, there are over 15 million people suffering from neuropathic pain in the United States alone. With limited treatment options available, neuropathic pain represents a significant unmet medical need. According to Datamonitor, the global market for neuropathic pain drugs is expected to grow from \$3.6 billion in 2006 to over \$7 billion by 2016.

In September 2007, we initiated a Phase 2b clinical trial for the treatment of diabetic neuropathic pain. Diabetic neuropathic pain is a chronic pain condition resulting from damage to nerves in patients with diabetes. Diabetic neuropathic pain, which manifests itself primarily in the feet, can often be debilitating thus preventing patients from carrying out their normal day-to-day activities. In the US, it is estimated that approximately 4.5 million patients with diabetes suffer from diabetic neuropathic pain. Diabetic neuropathic pain is the largest segment in the rapidly growing market for neuropathic pain drugs. Only two oral drugs have been approved to date by the FDA for the treatment of diabetic neuropathic pain (Eli Lilly’s Cymbalta®, an SNRI, and Pfizer’s Lyrica®); however, the response rates to these drugs are limited. Consequently, millions of patients remain without adequate treatment options and seek new drugs that could provide better relief for their chronic pain.

As the treatment paradigm in neuropathic pain involves switching patients among drugs (both within the same drug class, as well as among drug classes), in order to find the specific drug to which the patient responds best, Bicifadine should offer a unique alternative to patients who do not adequately respond to the currently approved drugs. Furthermore, if clinical trials demonstrate that Bicifadine has an advantage over the currently approved drugs in overall efficacy rates, safety profile, or onset of action, it has the potential to become a first-line treatment for diabetic neuropathic pain.

*Scientific Background*

Bicifadine is a serotonin and norepinephrine reuptake inhibitor. Serotonin and Norepinephrine Reuptake Inhibitors (SNRI’s) are drugs that increase the levels of serotonin and norepinephrine in the brain, thus blocking pain signals. SNRI is a proven drug class in diabetic neuropathic pain as well as Major Depressive Disorder. One SNRI (Eli Lilly’s Cymbalta®) is already approved for the treatment of diabetic neuropathic pain, while a second SNRI (Wyeth’s Effexor®) has demonstrated efficacy in treatment of diabetic neuropathic pain in large, randomized and placebo-controlled studies. Both Cymbalta® and Effexor® are also approved for depression. A third SNRI (Cypress’ Milnacipran®) recently demonstrated efficacy in a Phase 3 trial in a related neuropathic pain indication (fibromyalgia), providing further evidence of the efficacy of the SNRI class in neuropathic pain.

Activity on norepinephrine reuptake is thought to be necessary for anti-depressants to be effective in neuropathic pain. Compared to the currently approved SNRI’s, Bicifadine has a unique ratio of serotonin versus norepinephrine reuptake inhibition, which is weighted toward norepinephrine reuptake inhibition, providing a strong scientific rationale for using Bicifadine for the treatment neuropathic pain indications.

*Clinical Data*

Four Phase 1 clinical trials and 14 Phase 2 clinical trials involving more than 1,000 patients have been conducted with an immediate release, or IR, formulation of Bicifadine for the treatment of acute pain. In five exploratory double-blind, placebo-controlled Phase 2 clinical trials of the IR formulation, Bicifadine demonstrated a statistically significant reduction in pain versus placebo, in some cases with an outcome suggesting it might be comparable to or better than positive controls such as codeine. In addition to these trials with the IR formulation, eight Phase 1 clinical trials using the sustained release, or SR, formulation of Bicifadine have been conducted. SR is a formulation that generally permits less frequent daily dosing and improves tolerability. We intend to use the SR formulation in future clinical development and for commercial use of Bicifadine.

In two additional larger (n=750 and n=540) single-dose, double-blind, placebo-controlled clinical trials with Bicifadine in the treatment of moderate to severe post-surgical acute dental pain, Bicifadine produced a highly statistically significant, dose-related reduction in pain compared to placebo, and which was comparable to a positive control arm (codeine or Tramadol). Both trials demonstrated Bicifadine to be safe and generally well-tolerated without producing any serious adverse events.

In a Phase 3 double-blind, placebo-controlled, clinical trial (n=325) with Bicifadine in the treatment of moderate to severe acute pain following bunionectomy surgery, statistically significant increases in analgesia were measured as early as 30 minutes after administration and these effects were sustained for the balance of the eight-hour measurement period. In this study, Bicifadine was safe and generally well-tolerated. The complete assessment of the analgesic action of Bicifadine under repeat dosing conditions could not be fully elucidated due to the high level of “rescue” analgesic medication used in both the placebo and active drug groups.

Due to the highly competitive nature of the market for acute pain drugs, and the FDA requirement to complete two repeat-dosing clinical trials in two different acute pain indications, no further studies in acute pain are planned.

Bicifadine has been further evaluated in three Phase 3 trials in chronic lower back pain, or CLBP. The primary efficacy endpoint in these trials was the change in pain severity rating score between baseline and the end of dosing. In these trials, Bicifadine was safe and generally well tolerated, but did not show a statistically significant effect relative to placebo on the primary endpoint of the study at any of the doses tested.

We believe that the failure of Bicifadine in the CLBP trials was a result of the inherent heterogeneity of the studied patient population (i.e. the varying causes of CLBP pain), uncontrolled physical activities in what is largely an activity-dependent pain indication, and a high placebo response.

We believe that by re-directing the development of Bicifadine away from the novel indications in acute and chronic pain toward a proven area of efficacy of SNRI's in the treatment of neuropathic pain, Bicifadine could be successfully developed for neuropathic pain, possibly offering a differentiated efficacy and safety profile based on the drug's emphasis on norepinephrine reuptake inhibition.

*Development Status*

The Phase 2b trial that was initiated in September 2007 is aimed at demonstrating the efficacy of Bicifadine in diabetic neuropathic pain, using a study design that is similar to the successful registration trials of Cymbalta®, a member of the SNRI class that is approved for this indication, and other approved agents for neuropathic pain.

The Phase 2b study is a randomized, double-blind, placebo-controlled study comparing 200mg 3x/day (tid) and 400mg 3x/day (tid) of Bicifadine versus placebo, with a 1:1:1 randomization between the three arms, in patients with diabetic neuropathic pain. The Phase 2b study is designed to enroll approximately 336 patients. Approximately 45 clinical centers in the United States, Europe, Israel and India are participating in the study. Following randomization, all patients enter a two week titration period to allow them to gradually escalate up to their target treatment dose. This is then followed by a twelve week steady-state treatment period at the target treatment dose. The primary endpoint of the study is to compare the efficacy of each of the two active doses of Bicifadine (200mg tid and 400mg tid) versus placebo in reduction of pain associated with diabetic neuropathy, at baseline (at the time of randomization) versus week 14 (week twelve of the steady-state phase). Pain will be measured based on a 24-hour pain rating using the eleven point Pain Intensity Numeric Rating Scale (formerly referred to as the LIKERT scale).

In addition, in January 2008, we initiated an open-label variable-dose trial assessing the safety of Bicifadine in patients with diabetic neuropathic pain (the "open label study"). Eligible patients for the open label study will have completed all study visits of the Phase 2b clinical trial. Subjects who satisfy all inclusion and exclusion criteria will be titrated to a dosage of 600 mg/day (200 mg tid). Depending upon efficacy and tolerability the dosage can be progressively increased to 1200 mg/day (400 mg tid). The dosage can be altered throughout the trial but may not go below 600 mg/day (200 tid) or above 1200 mg/day (400 tid). The open label study is designed to enroll approximately 240 patients.

**DOS**

*Market Opportunity*

We have been developing the DOS program for the treatment of hepatitis C. Chronic hepatitis C is a serious life-threatening disease which affects around 170 to 200 million people worldwide, according to a Datamonitor report from April 2005. We estimate that between eight to 10 million of these people reside in the US, Europe and Japan. According to the BioSeeker Group, 20% to 30% of chronic hepatitis patients will eventually develop progressive liver disease that may lead to decomposition of the liver or hepatocellular carcinoma (liver cancer). According to the National Digestive Diseases Information Clearing House, each year 10,000 to 12,000 people die from HCV in the US alone. The Centers for Disease Control, or CDC, predicts, that by the end of this decade, the number of deaths due to HCV in the US will surpass the number of deaths due to AIDS.

According to the PharmaDD, the worldwide market for the treatment of chronic HCV in 2005 was estimated at \$3 billion and consists entirely of Interferon-based treatments. Interferon alpha was first approved for use against chronic hepatitis C in 1991. At present, the optimal regimen appears to be a 24 or 48 week course of the combination of Pegylated-Interferon and Ribavirin. In studies done at the St. Louis University School of Medicine, a 24 week course of this combination therapy yields a sustained response rate of approximately 40% to 45% in patients with genotype 1 (the most prevalent genotype in the western world according to the CDC) and a better sustained response with a 48 week course.

Given the limited efficacy of the present standard of care and significant side effects associated with it, there is a clear need for novel treatments for Hepatitis C.

*Development Status*

DOS is a pre-clinical program focused on the development of novel hepatitis C small molecule inhibitors. DOS applies proprietary, fully synthetic chemistry methodologies to rapidly synthesize and diversify complex chemical compounds such as natural products. Compounds in each family inhibited HCV replication in a pre-clinical cell-based assay with potencies against the most prevalent HCV genotypes comparable or superior to clinical stage drugs. They also retained their potency against isolates that are resistant to clinical stage drugs. In March 2008, we signed an agreement to out-license our DOS program to Presidio. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program.

We gained access to the DOS program through a license and asset purchase agreement with VivoQuest that was completed in September 2005. Under this agreement, we licensed lead HCV molecules, a proprietary compound library and medicinal chemistry technologies. The DOS small molecule chemistry technology developed at VivoQuest was used to create these molecules. See “Item 10. Additional Information -Material Contracts.”

*Intellectual Property and Patents*

**General**

Patents and other proprietary rights are very important to the development of our business. We will be able to protect our proprietary technologies from unauthorized use by third parties only to the extent that our proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. It is our intention to seek and maintain patent and trade secret protection for our drug candidates and our proprietary technologies. As part of our business strategy, our policy is to actively file patent applications in the US and internationally to cover methods of use, new chemical compounds, pharmaceutical compositions and dosing of the compounds and compositions and improvements in each of these. We also rely on trade secret information, technical know-how, innovation and agreements with third parties to continuously expand and protect our competitive position. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before we commercialize any of our products, any related patent may expire or remain in existence for only a short period following commercialization, thus reducing any commercial advantage or financial value attributable to the patent.

Generally, patent applications in the US are maintained in secrecy for a period of 18 months or more. Since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we are not certain that we were the first to make the inventions covered by each of our pending patent applications or that we were the first to file those patent applications. The patent positions of biotechnology and pharmaceutical companies are highly uncertain and involve complex legal and factual questions. Therefore, we cannot predict the breadth of claims allowed in biotechnology and pharmaceutical patents, or their enforceability. To date, there has been no consistent policy regarding the breadth of claims allowed in biotechnology patents. Third parties or competitors may challenge or circumvent our patents or patent applications, if issued. Granted patents can be challenged and ruled invalid at any time, therefore the grant of a patent is not of itself sufficient to demonstrate our entitlement to a proprietary right. The disallowance of a claim or invalidation of a patent in any one territory can have adverse commercial consequences in other territories.

If our competitors prepare and file patent applications in the US that claim technology also claimed by us, we may choose to participate in interference proceedings declared by the US Patent and Trademark Office to determine priority of invention, which could result in substantial cost, even if the eventual outcome is favorable to us. While we have the right to defend patent rights related to our licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent rights, we will be obligated to cover all of the expenses associated with that effort.

If a patent is issued to a third party containing one or more preclusive or conflicting claims, and those claims are ultimately determined to be valid and enforceable, we may be required to obtain a license under such patent or to develop or obtain alternative technology. In the event of a litigation involving a third party claim, an adverse outcome in the litigation could subject us to significant liabilities to such third party, require us to seek a license for the disputed rights from such third party, and/or require us to cease use of the technology. Further, our breach of an existing license or failure to obtain a license to technology required to commercialize our products may seriously harm our business. We also may need to commence litigation to enforce any patents issued to us or to determine the scope, validity and/or enforceability of third-party proprietary rights. Litigation would involve substantial costs.

**Bicifadine**

There are currently several patent families filed by DOV relating to Bicifadine: (i) methods and compositions containing Bicifadine for the treatment and prevention of hyperthermia; (ii) solid compositions containing the polymorph Form B of Bicifadine as characterized by certain infrared peaks and a distinct x-ray powder diffraction (XPRD) profile, and methods of treating pain in mammals using the same; (iii) methods and compositions employing a therapeutically effective amount of Bicifadine for preventing and treating a condition or symptom of acute pain, chronic pain, and/or a neuropathic disorder in mammalian subjects; (iv) methods and compositions containing Bicifadine HCl to prevent or treat neuropathic disorders in mammals, including, but not limited to, diabetic neuropathy; (v) methods and compositions containing Bicifadine for the prevention and treatment of lower urinary tract disorders; (vi) methods of making Bicifadine; (vii) methods and compositions for preventing or treating chronic pain comprising Bicifadine in combination with a non-steroidal anti-inflammatory drug (NSAID).

Of these eight patent families, there is one issued patent, U.S. Patent No. 7,094,799, generally directed to solid compositions containing the polymorph Form B of Bicifadine and “substantially free” of polymorph Form A. Pending patent applications filed by DOV in 2006 include:

- A patent application directed to sustained release formulations of Bicifadine.
- A patent application directed to the use of Bicifadine for treating a disability or reducing a functional impairment associated with acute pain, chronic pain, and/or neuropathic disorders.
- A patent application directed to the use of Bicifadine for preventing and treating neuropathic disorders, including, but not limited to, diabetic neuropathy, diabetic peripheral neuropathy, and neuropathy associated with alcoholism, sciatica, multiple sclerosis, spinal cord injury, chronic low back pain, HIV, cancer, etc.

In addition, there is one issued patent to Wyeth directed to a method of treating an addictive, compulsive disorder caused by alcohol or cocaine abuse using Bicifadine HCl. There are also three pending US applications filed by Wyeth in 2005 directed to methods for treating neuropathic disorders or conditions. At least one of these patent applications covers the use of Bicifadine in the treatment of neuropathic pain.

Under the license agreement with DOV, we have exclusive worldwide rights to the above patents and patent applications for all therapeutic uses, with the exception of the the Wyeth Retained Field. Under the terms of the DOV/Wyeth agreement, Wyeth can only develop Bicifadine for use in the Wyeth Retained Field in collaboration with DOV, and under the license agreement between DOV and XTL Development, DOV will not conduct research or development with Wyeth for the use of Bicifadine in the Wyeth Retained Field. See “Item 3. Key Information-Risk Factors-Risks Related to Our Intellectual Property.”

**DOS**

The lead molecules that are included in the VivoQuest license are covered by two issued patents and four patent applications. The patent applications describe both the structure of the compounds and their use for treating HCV infection. The two issued VivoQuest patents will expire in 2023. Additional patent applications, if issued, will expire in 2023, 2024 and 2025. We have also filed additional patent applications that cover the lead compounds discovered since the licensing of the DOS from VivoQuest. These additional patent applications, if issued, will expire in 2026 and 2027. Based on the provisions of the Patent Term Extension Act, we currently believe that we would qualify for certain patent term extensions.

We believe that Presidio will have sufficient time to commercially utilize the inventions from our small molecule development program directed to the treatment and prevention of hepatitis C infection.

**Other Intellectual Property Rights**

We depend upon trademarks, trade secrets, know-how and continuing technological advances to develop and maintain our competitive position. To maintain the confidentiality of trade secrets and proprietary information, we require our employees, scientific advisors, consultants and collaborators, upon commencement of a relationship with us, to execute confidentiality agreements and, in the case of parties other than our research and development collaborators, to agree to assign their inventions to us. These agreements are designed to protect our proprietary information and to grant us ownership of technologies that are developed in connection with their relationship with us. These agreements may not, however, provide protection for our trade secrets in the event of unauthorized disclosure of such information.



***Licensing Agreements and Collaborations***

We have formed strategic alliances with a number of companies for the production and commercialization of our drug candidates. Our current key strategic alliances are discussed below. See “Item 5. Operating and Financial Review and Prospects - Obligations and Commitments” which describes contingent milestone payments we have undertaken to make to certain licensors over the life of the licenses described below.

**Bicifadine License**

In January 2007, XTL Development signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor. XTL Development intends to develop Bicifadine for the treatment of diabetic neuropathic pain, a chronic condition resulting from damage to peripheral nerves. In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of \$7.5 million in cash. In addition, XTL Development will make milestone payments of up to \$126.5 million over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of \$5 million in cash, due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of the product.

**VivoQuest License**

In August 2005, we entered into a license agreement with VivoQuest covering a proprietary compound library, including certain HCV compounds. Under the terms of the license agreement, we have exclusive worldwide rights to VivoQuest’s intellectual property and technology in all fields of use. To date we have made approximately \$0.9 million in license payments to VivoQuest under the license agreement. The license agreement also provides for additional milestone payments triggered by certain regulatory and sales targets. These additional milestone payments total \$34.6 million, \$25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments to VivoQuest on product sales.

**Presidio License**

In March 2008, we signed an agreement to out-license our DOS program to Presidio. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program. In accordance with the terms of the license agreement, we received a \$4 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional \$104 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party.

***Competition***

Competition in the pharmaceutical and biotechnology industries is intense. Our competitors include pharmaceutical companies and biotechnology companies, as well as universities and public and private research institutions. In addition, companies that are active in different but related fields represent substantial competition for us. Many of our competitors have significantly greater capital resources, larger research and development staffs and facilities and greater experience in drug development, regulation, manufacturing and marketing than we do. These organizations also compete with us to recruit qualified personnel, attract partners for joint ventures or other collaborations, and license technologies that are competitive with ours. To compete successfully in this industry we must identify novel and unique drugs or methods of treatment and then complete the development of those drugs as treatments in advance of our competitors.

The drugs that we are attempting to develop will have to compete with existing therapies. In addition, a large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. Other companies have products or drug candidates in various stages of pre-clinical or clinical development to treat diseases for which we are also seeking to discover and develop drug candidates. Some of these potential competing drugs are further advanced in development than our drug candidates and may be commercialized earlier.

**Competing Products for Treatment of Neuropathic Pain**

Three oral drugs have been approved by the FDA for the treatment of neuropathic pain: Gabapentin® (developed by Pfizer Inc.) which is approved for the treatment of post herpetic neuralgia; Pregabalin® (developed by Pfizer Inc.) which is approved for post herpetic neuralgia and diabetic neuropathic pain; and Cymbalta® (developed by Eli Lilly and Company) which is approved for diabetic neuropathic pain.

Several other drugs are in late-stage clinical trials for the treatment of neuropathic pain: Milnacipran® (developed by Cypress Bioscience Inc.) is presently in Phase 3 clinical trials for the treatment of fibromyalgia, and desvenlafaxin (developed by Wyeth Pharmaceuticals Inc.) is presently in Phase 3 clinical trials for the treatment of neuropathic pain. Wyeth has also filed a new drug application, or NDA, with the FDA, seeking approval of desvenlafaxin in depression.

Several additional companies are developing drugs for neuropathic pain including: Vernalis plc, Endo Pharmaceuticals Inc., GlaxoSmithKline plc, Avanir Pharmaceuticals, and UCB.

**Competing Products for Treatment of Chronic Hepatitis C**

We believe that a certain number of the drugs that are currently under development will become available in the future for the treatment of hepatitis C. At present, the only approved therapies for treatment of chronic HCV are Interferon-based. There are multiple drugs presently under development for the treatment of HCV, most of which are in the pre-clinical or early stage of clinical development. These compounds are being developed by both established pharmaceutical companies, as well as by biotech companies. Examples of such companies are: Anadys Pharmaceuticals, Inc., F. Hoffman-LaRoche & Co., Intercell AG, Schering-Plough Corporation, Gilead Sciences, Inc., Idenix Pharmaceuticals, Inc., InterMune, Inc., Pharmasset, Ltd., Vertex Pharmaceuticals Incorporated and Viropharma Incorporated. Many of these companies and organizations, either alone or with their collaborative partners, have substantially greater financial, technical and human resources than we do.

***Supply and Manufacturing***

We currently have no manufacturing capabilities and do not intend to establish any such capabilities.

**Bicifadine**

As part of our license agreement with DOV, we have the right to purchase certain inventories of Bicifadine that have been produced for DOV. We believe that the present Bicifadine inventories owned by DOV will be adequate to satisfy our current clinical supply needs. For further late stage trials, we intend to utilize DOV’s existing Bicifadine inventory so long as it meets the relevant specifications and quality control requirements. In the event that the inventory does not meet the proper specifications, or if DOV should fail to provide us with adequate supplies of the inventory, then we will contract with a manufacturer to supply us with our additional clinical needs. For commercial supply of Bicifadine, we intend to contract with the drug’s existing manufacturers or other drug manufacturers to produce drug supply in sufficient quantity for launch and commercialization. See “Item 3. Key Information-Risk Factors-Risks Related to Our Intellectual Property.”

**DOS**

Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program.

**General**

At the time of commercial sale, to the extent possible and commercially practicable, we plan to engage a back-up supplier for each of our product candidates. Until such time, we expect that we will rely on a single contract manufacturer to produce each of our product candidates under cGMP regulations. Our third-party manufacturers have a limited numbers of facilities in which our product candidates can be produced and will have limited experience in manufacturing our product candidates in quantities sufficient for conducting clinical trials or for commercialization. Our third-party manufacturers will have other clients and may have other priorities that could affect our contractor’s ability to perform the work satisfactorily and/or on a timely basis. Both of these occurrences would be beyond our control. We anticipate that we will similarly rely on contract manufacturers for our future proprietary product candidates.

We expect to similarly rely on contract manufacturing relationships for any products that we may in-license or acquire in the future. However, there can be no assurance that we will be able to successfully contract with such manufacturers on terms acceptable to us, or at all.

Contract manufacturers are subject to ongoing periodic inspections by the FDA, the US Drug Enforcement Agency and corresponding state and local agencies to ensure strict compliance with cGMP and other state and federal regulations. We do not have control over third-party manufacturers’ compliance with these regulations and standards, other than through contractual obligations.

If we need to change manufacturers, the FDA and corresponding foreign regulatory agencies must approve these new manufacturers in advance, which will involve testing and additional inspections to ensure compliance with FDA regulations and standards and may require significant lead times and delay. Furthermore, switching manufacturers may be difficult because the number of potential manufacturers is limited. It may be difficult or impossible for us to find a replacement manufacturer quickly or on terms acceptable to us, or at all.

***Government and Industry Regulation***

Numerous governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies, impose substantial regulations upon the clinical development, manufacture and marketing of our drug candidates and technologies, as well as our ongoing research and development activities. None of our drug candidates have been approved for sale in any market in which we have marketing rights. Before marketing in the US, any drug that we develop must undergo rigorous pre-clinical testing and clinical trials and an extensive regulatory approval process implemented by the FDA, under the Federal Food, Drug and Cosmetic Act of 1938, as amended. The FDA regulates, among other things, the pre-clinical and clinical testing, safety, efficacy, approval, manufacturing, record keeping, adverse event reporting, packaging, labeling, storage, advertising, promotion, export, sale and distribution of biopharmaceutical products.

The regulatory review and approval process is lengthy, expensive and uncertain. We are required to submit extensive pre-clinical and clinical data and supporting information to the FDA for each indication or use to establish a drug candidate’s safety and efficacy before we can secure FDA approval. The approval process takes many years, requires the expenditure of substantial resources and may involve ongoing requirements for post-marketing studies or surveillance. Before commencing clinical trials in humans, we must submit an IND to the FDA containing, among other things, pre-clinical data, chemistry, manufacturing and control information, and an investigative plan. Our submission of an IND may not result in FDA authorization to commence a clinical trial.

The FDA may permit expedited development, evaluation, and marketing of new therapies intended to treat persons with serious or life-threatening conditions for which there is an unmet medical need under its fast track drug development programs. A sponsor can apply for fast track designation at the time of submission of an IND, or at any time prior to receiving marketing approval of the NDA. To receive fast track designation, an applicant must demonstrate that the drug:

- is intended to treat a serious or life-threatening condition;
- is intended to treat a serious aspect of the condition; and
- has the potential to address unmet medical needs, and this potential is being evaluated in the planned drug development program.

Clinical testing must meet requirements for institutional review board oversight, informed consent and good clinical practices, and must be conducted pursuant to an IND, unless exempted.

For purposes of NDA approval, clinical trials are typically conducted in the following sequential phases:

- *Phase 1:* The drug is administered to a small group of humans, either healthy volunteers or patients, to test for safety, dosage tolerance, absorption, metabolism, excretion, and clinical pharmacology.
- *Phase 2:* Studies are conducted on a larger number of patients to assess the efficacy of the product, to ascertain dose tolerance and the optimal dose range, and to gather additional data relating to safety and potential adverse events.
- *Phase 3:* Studies establish safety and efficacy in an expanded patient population.
- *Phase 4:* The FDA may require Phase 4 post-marketing studies to find out more about the drug’s long-term risks, benefits, and optimal use, or to test the drug in different populations, such as children.

The length of time necessary to complete clinical trials varies significantly and may be difficult to predict. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. Additional factors that can cause delay or termination of our clinical trials, or that may increase the costs of these trials, include:

- slow patient enrollment due to the nature of the clinical trial plan, the proximity of patients to clinical sites, the eligibility criteria for participation in the study or other factors;
- inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials or delays in approvals from a study site’s review board;
- longer treatment time required to demonstrate efficacy or determine the appropriate product dose;
- insufficient supply of the drug candidates;
- adverse medical events or side effects in treated patients; and
- ineffectiveness of the drug candidates.

In addition, the FDA may place a clinical trial on hold or terminate it if it concludes that subjects are being exposed to an unacceptable health risk. Any drug is likely to produce some toxicity or undesirable side effects when administered at sufficiently high doses and/or for a sufficiently long period of time. Unacceptable toxicity or side effects may occur at any dose level at any time in the course of studies designed to identify unacceptable effects of a drug candidate, known as toxicological studies, or clinical trials of drug candidates. The appearance of any unacceptable toxicity or side effect could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our drug candidates and could ultimately prevent approval by the FDA or foreign regulatory authorities for any or all targeted indications.

Before receiving FDA approval to market a product, we must demonstrate that the product is safe and effective for its intended use by submitting to the FDA an NDA containing the pre-clinical and clinical data that have been accumulated, together with chemistry and manufacturing and controls specifications and information, and proposed labeling, among other things. The FDA may refuse to accept an NDA for filing if certain content criteria are not met and, even after accepting an NDA, the FDA may often require additional information, including clinical data, before approval of marketing a product.

As part of the approval process, the FDA must inspect and approve each manufacturing facility. Among the conditions of approval is the requirement that a manufacturer's quality control and manufacturing procedures conform to cGMP. Manufacturers must expend time, money and effort to ensure compliance with cGMP, and the FDA conducts periodic inspections to certify compliance. It may be difficult for our manufacturers or us to comply with the applicable cGMP and other FDA regulatory requirements. If we or our contract manufacturers fail to comply, then the FDA will not allow us to market products that have been affected by the failure.

If the FDA grants approval, the approval will be limited to those disease states, conditions and patient populations for which the product is safe and effective, as demonstrated through clinical studies. Further, a product may be marketed only in those dosage forms and for those indications approved in the NDA. Certain changes to an approved NDA, including, with certain exceptions, any changes to labeling, require approval of a supplemental application before the drug may be marketed as changed. Any products that we manufacture or distribute pursuant to FDA approvals are subject to continuing regulation by the FDA, including compliance with cGMP and the reporting of adverse experiences with the drugs. The nature of marketing claims that the FDA will permit us to make in the labeling and advertising of our products will be limited to those specified in an FDA approval, and the advertising of our products will be subject to comprehensive regulation by the FDA. Claims exceeding those that are approved will constitute a violation of the Federal Food, Drug, and Cosmetic Act. Violations of the Federal Food, Drug, and Cosmetic Act or regulatory requirements at any time during the product development process, approval process, or after approval may result in agency enforcement actions, including withdrawal of approval, recall, seizure of products, injunctions, fines and/or civil or criminal penalties. Any agency enforcement action could have a material adverse effect on our business.

Should we wish to market our products outside the US, we must receive marketing authorization from the appropriate foreign regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, companies are typically required to apply for foreign marketing authorizations at a national level. However, within the EU, registration procedures are available to companies wishing to market a product in more than one EU member state. Typically, if the regulatory authority is satisfied that a company has presented adequate evidence of safety, quality and efficacy, then the regulatory authority will grant a marketing authorization. This foreign regulatory approval process, however, involves risks similar or identical to the risks associated with FDA approval discussed above, and therefore we cannot guarantee that we will be able to obtain the appropriate marketing authorization for any product in any particular country. Our current development strategy calls for us to seek marketing authorization for our drug candidates outside the United States.

Failure to comply with applicable federal, state and foreign laws and regulations would likely have a material adverse effect on our business. In addition, federal, state and foreign laws and regulations regarding the manufacture and sale of new drugs are subject to future changes. We cannot predict the likelihood, nature, effect or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the US or abroad.

**Organizational structure**

Our wholly-owned subsidiaries, XTL Biopharmaceuticals, Inc. and XTL Development, Inc., are each incorporated in Delaware and each has its principal place of business in Valley Cottage, New York.

**Property, Plants and Equipment**

We lease an aggregate of approximately 414 square meters in Rehovot, Israel, expiring in April 2009. We also lease approximately 3,000 square meters of office and laboratory facilities in Valley Cottage, New York, expiring in November 2009. We have an option to renew our lease agreement in Valley Cottage.

We anticipate that these facilities will be sufficient for our needs for the foreseeable future. To our knowledge, there are no environmental issues that affect our use of the properties that we lease.

There are no encumbrances on our rights in these leased properties or on any of the equipment that we own. However, to secure the lease agreements in Israel, we provided a bank guarantee in the amount of approximately \$64,000, linked to the Israeli Consumer Price Index. As of December 31, 2007, the guarantee is secured by pledge on a restricted deposit amounting to \$61,000, which is included in the balance sheet as a restricted deposit.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors discussed in “Item 3. Key Information-Risk Factors” and “Item 4. Information on the Company.” See also the “Special Cautionary Notice Regarding Forward-Looking Statements” set forth above.

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the related notes, prepared in accordance with US GAAP for the years ended December 31, 2007, 2006 and 2005, and as of December 31, 2007 and 2006, contained in “Item 18. Financial Statements” and with any other selected financial data included elsewhere in this annual report.

***Selected Financial Data***

The table below presents selected statement of operations and balance sheet data for the fiscal years ended and as of December 31, 2007, 2006, 2005, 2004 and 2003. We have derived the selected financial data for the fiscal years ended December 31, 2007, 2006, and 2005, and as of December 31, 2007 and 2006, from our audited consolidated financial statements, included elsewhere in this annual report and prepared in accordance with US GAAP. We have derived the selected financial data for fiscal years ended December 31, 2004 and 2003 and as of December 31, 2005, 2004 and 2003, from audited financial statements not appearing in this annual report, which have been prepared in accordance with US GAAP. You should read the selected financial data in conjunction with “Item 5. Operating and Financial Review and Prospects,” “Item 8. Financial Information” and “Item 18. Financial Statements,” including the related notes.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	\$ —	\$ —	\$ 2,743	\$ 3,269	\$ —
License	907	454	454	185	—
	907	454	3,197	3,454	—
Cost of Revenues					
Reimbursed out-of-pocket expenses	—	—	2,743	3,269	—
License (with respect to royalties)	110	54	54	32	—
	110	54	2,797	3,301	—
Gross Margin	797	400	400	153	—
Research and development					
Research and development costs	18,998	10,229	7,313	11,985	14,022
Less participations	56	—	—	—	3,229
	18,942	10,229	7,313	11,985	10,793
In-process research and development	—	—	1,783	—	—
General and administrative	5,582	5,576	5,457	4,134	3,105
Business development costs	2,008	641	227	810	664
Operating loss	(25,735)	(16,046)	(14,380)	(16,776)	(14,562)
Other income (expense)					
Financial and other income, net	590	1,141	443	352	352
Income taxes	206	(227)	(78)	(49)	(78)
Loss for the period	\$ (24,939)	\$ (15,132)	\$ (14,015)	\$ (16,473)	\$ (14,288)
Loss per ordinary share					
Basic and diluted	\$ (0.11)	\$ (0.08)	\$ (0.08)	\$ (0.12)	\$ (0.13)
Weighted average shares outstanding	228,492,818	201,737,295	170,123,003	134,731,766	111,712,916

	As of December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents, bank deposits and trading and marketable securities	\$ 12,977	\$ 25,347	\$ 13,360	\$ 22,924	\$ 22,262
Working capital	8,532	22,694	11,385	20,240	19,967
Total assets	14,127	26,900	15,151	25,624	24,853
Long-term obligations	194	738	1,493	2,489	1,244
Total shareholders' equity	8,564	22,760	11,252	19,602	20,608

**Overview**

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment of diabetic neuropathic pain and hepatitis C. To date, we have not received approval for the sale of any of our drug candidates in any market and, therefore, have not generated any commercial revenues from the sales of our drug candidates.

We were established as a corporation under the laws of the State of Israel in 1993, and commenced operations to use and commercialize technology developed at the Weizmann Institute, in Rehovot, Israel. Since commencing operations, our activities have been primarily devoted to developing our technologies and drug candidates, acquiring pre-clinical and clinical-stage compounds, raising capital, purchasing assets for our facilities, and recruiting personnel. We are a development stage company and have had no product sales to date. Our major sources of working capital have been proceeds from various private placements of equity securities, option and warrant exercises, from our initial public offering and from our placing and open offer transaction.

We have incurred negative cash flow from operations each year since our inception and we anticipate incurring negative cash flows from operating activities for the foreseeable future. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials and potential in-licensing and acquisition opportunities.

Our revenues have consisted of license fees and reimbursed out of pocket expenses from Cubist. We recognized the license fee revenues from our agreement with Cubist for HepeX-B ratably over the expected life of the arrangement; un-amortized amounts were recorded as deferred revenues. We also recognized revenue related to reimbursed out of pocket expenses at the time that we provided development services to Cubist. In July 2007, Cubist terminated the license agreement with us. See “Item 4. Information on the Company - History and Development of XTL.”

Our cost of revenues consisted of costs associated with the Cubist program for HepeX-B which consisted primarily of salaries and related personnel costs, fees paid to consultants and other third-parties for clinical and laboratory development, facilities-related and other expenses relating to the design, development, testing, and enhancement of our former product candidate out-licensed to Cubist. In addition, we recognized license fee expenses associated with our agreement with Yeda proportional to our license fee agreement with Cubist, with unamortized amounts recorded as deferred expenses. On December 31, 2007, we mutually terminated the research and license agreement with Yeda. See “Item 4. Information on the Company - History and Development of XTL.”

Our research and development costs consist primarily of salaries and related personnel costs, fees paid to consultants and other third-parties for clinical and laboratory development, license and milestone fees, facilities-related and other expenses relating to the design, development, testing, and enhancement of our product candidates. We expense our research and development costs as they are incurred.

Our historical participations consist primarily of grants received from the Israeli government in support of our legacy research and development activities, which are no longer being developed by us. These grants are recognized as a reduction of expense as the related costs are incurred. See “- Research and Development, Patents and Licenses - Israeli Government Research and Development Grants,” below.

Our general and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees, director fees and other corporate expenses, including investor relations, and facilities related expenses. We expense our general and administrative expenses as they are incurred.

Our business development costs consist primarily of salaries and related expenses for business development personnel, travel, professional fees and transaction advisory fees to third party intermediaries. Our business development activities are related to partnering activities for our drug programs, seeking new development collaborations and in-licensing opportunities. We expense our business development expenses as they are incurred. The transaction advisory fee in the form of a SAR will be revalued, based on the then current fair value, at each subsequent reporting date, until payment of the stock appreciation rights have been satisfied.

Our results of operations include non-cash compensation expense as a result of the grants of stock options. Compensation expense for awards of options granted to employees and directors represents the fair value of the award recorded over the respective vesting periods of the individual stock options. The expense is included in the respective categories of expense in the statement of operations. We experienced a significant increase in non-cash compensation in the fiscal year ended December 31, 2005, and continue to expect to incur significant non-cash compensation as a result of adopting Statement of Financial Accounting Standards, or SFAS, No. 123, “Share Based Payment,” or SFAS 123R, on January 1, 2005.

For awards of options and warrants to consultants and other third-parties, compensation expense is determined at the “measurement date.” The expense is recognized over the vesting period for the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. We record compensation expense based on the fair value of the award at the reporting date. Unvested options are revalued at every reporting period and amortized over the vesting period in order to determine the compensation expense.

Our ongoing clinical trials will be lengthy and expensive. Even if these trials show that our drug candidates are effective in treating certain indications, there is no guarantee that we will be able to record commercial sales of any of our product candidates in the near future. In addition, we expect losses to continue as we continue to fund development of our drug candidates. As we continue our development efforts, we may enter into additional third-party collaborative agreements and may incur additional expenses, such as licensing fees and milestone payments. As a result, our periodical results may fluctuate and a period-by-period comparison of our operating results may not be a meaningful indication of our future performance.

**Results of Operations**

***Years Ended December 31, 2007 and 2006***

*Revenues.* Revenues for the year ended December 31, 2007, increased by \$453,000 to \$907,000, as compared to revenues of \$454,000 for the year ended December 31, 2006. The increase in revenues for the year ended December 31, 2007, was due to the recognition of unamortized deferred revenue upon termination of the HepeX-B license by Cubist in July 2007. We currently expect to record license revenue as a result of the license agreement signed with Presidio in March 2008 (see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company”).

*Cost of Revenues.* Cost of revenues for the year ended December 31, 2007, increased by \$56,000 to \$110,000, as compared to cost of revenues of \$54,000, for the year ended December 31, 2006. The increase in cost of revenues was due to the recognition of unamortized license fees that were recorded as deferred expenses upon termination of the HepeX-B license by Cubist in July 2007.

*Research and Development Costs.* Research and development costs net of participations increased by \$8,713,000 to \$18,942,000 for the year ended December 31, 2007, as compared to \$10,229,000 for the year ended December 31, 2006. The increase in research and development costs was due primarily to an increase of \$13,476,000 in expenses related to our Bicifadine clinical program (including the \$7.5 million initial upfront license fee to DOV) (see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company”), offset by a decrease of \$4,166,000 in expenses related to our legacy programs XTL-6865 and XTL-2125, that were terminated in 2007, and also due to a \$597,000 decrease in expenses associated with our preclinical DOS program.



We expect our overall research and development expenses to decrease in 2008 due to reduced costs associated with our DOS program, which we out-licensed in March 2008, offset by increased costs associated with our Bicifadine clinical program. Specifically, excluding the impact of the \$7.5 million initial upfront license fee paid in 2007, we expect our Bicifadine clinical program expenses to increase in 2008 due to the Phase 2b trial initiated in September 2007 (including any milestone payments that may become due upon completion of this study payable in cash or ordinary shares at our discretion) and also due to the open label study initiated in January 2008. As a result of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs related to the DOS program. See also “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company.” In addition, in January 2008, we terminated seven employees in the DOS program and recorded a severance charge of approximately \$100,000.

*General and Administrative Expenses.* General and administrative expenses increased by \$6,000 to \$5,582,000 for the year ended December 31, 2007, as compared to expenses of \$5,576,000 for the year ended December 31, 2006. The increase in general and administrative expenses was due primarily to an increase in legal and patent related expenses as well as Sarbanes-Oxley compliance costs, offset by a decrease of \$208,000 in non-cash compensation costs related to option grants. Excluding non-cash compensation costs, we expect a modest decline in our level of our general and administrative costs during 2008.

*Business Development Costs.* Business development costs increased by \$1,367,000 to \$2,008,000 for the year ended December 31, 2007, as compared to expenses of \$641,000 for the year ended December 31, 2006. The increase in business developments costs was due primarily to \$1,560,000 in transaction advisory fees in the form of stock appreciation rights associated with the in-licensing of Bicifadine offset by reduced legal and due diligence expenses in 2007 as compared to 2006. The transaction advisory fee in the form of a SAR will be revalued, based on the then current fair value, at each subsequent reporting date, until payment of the stock appreciation rights have been satisfied (see “Item 10. Additional Information - Material Contracts” and “Item 4. Information on the Company”).

*Financial and Other Income.* Financial and other income for the year ended December 31, 2007, decreased by \$551,000 to \$590,000, as compared to financial and other income of \$1,141,000 for the year ended December 31, 2006. The decrease in financial and other income was due primarily to a lower level of invested funds when compared to the comparable period last year.

*Income Taxes.* Income tax expense decreased by \$433,000 to a negative expense, or income, of \$206,000 for the year ended December 31, 2007, as compared to expenses of \$227,000 for year ended December 31, 2006. For the year ended December 31, 2007, the US consolidated tax group consisting of XTL Biopharmaceuticals, Inc. and XTL Development incurred net operating losses. The group will file a carryback claim for those losses to the years ended December 31, 2006 and December 31, 2005 in order to receive a refund for US federal income taxes paid for those years. Our income tax expense (income) is attributable to taxable income (losses) from the continuing operations of our subsidiaries in the US. This income is eliminated upon consolidation of our financial statements.

#### ***Years Ended December 31, 2006 and 2005***

*Revenues.* Revenues for the year ended December 31, 2006, decreased by \$2,743,000 to \$454,000, as compared to revenues of \$3,197,000 for the year ended December 31, 2005. The decrease in revenues for the year ended December 31, 2006, was due to the absence of reimbursed out of pocket expenses from Cubist, pursuant to our agreement with Cubist, under which we transferred full responsibility for completing the development of HepeX-B to Cubist.

*Cost of Revenues.* Cost of revenues for the year ended December 31, 2006, decreased by \$2,743,000 to \$54,000, as compared to cost of revenues of \$2,797,000, for the year ended December 31, 2005. The decrease in cost of revenues was due to the absence of development expenses for HepeX-B that were incurred pursuant to our licensing agreement with Cubist, as described above.

*Research and Development Costs.* Research and development costs increased by \$2,916,000 to \$10,229,000 for the year ended December 31, 2006, as compared to \$7,313,000 for the year ended December 31, 2005. The increase in research and development costs was due primarily to an increase of \$3,413,000 in expenses related to the inclusion of a full year of DOS which was acquired from VivoQuest in September 2005 (see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company”), offset by a decrease of approximately \$66,000 and \$431,000 in expenses related to the XTL-6865 and XTL-2125 development and clinical programs, respectively. The decreased expenses associated with our clinical programs were due to the benefit in 2006 of cost reductions associated with our 2005 restructuring (see “2005 Restructuring,” below).

*In-Process Research and Development.* We did not record a charge for the year ended December 31, 2006. For the year ended December 31, 2005, we incurred a charge of \$1,783,000 for the estimate of the portion of the VivoQuest transaction purchase price allocated to in-process research and development.

*General and Administrative Expenses.* General and administrative expenses increased by \$119,000 to \$5,576,000 for the year ended December 31, 2006, as compared to expenses of \$5,457,000 for the year ended December 31, 2005. The increase in general and administrative expenses was due primarily to increased expenses associated with the hiring of our Chief Executive Officer in 2006 and with being a US public company, offset by a decrease of \$649,000 in non-cash compensation costs, related to option grants. In 2005 a market capitalization-based milestone, associated with certain grants made to our Chairman and to one of our non-executive directors in 2005 (see “Item 6. Directors, Senior Management and Employees - Employment Agreements”) was achieved; in 2006, no such milestone was achieved, resulting in a decrease in non-cash compensation expense in 2006 as compared to 2005.

*Business Development Costs.* Business development costs increased by approximately \$414,000 to \$641,000 for the year ended December 31, 2006, as compared to expenses of \$227,000 for the year ended December 31, 2005. The increase in business developments costs was due primarily to increased expenses associated with our acquisition and in-licensing program, which included legal and due diligence expenses associated with the recent in-licensing of Bicifadine.

*Financial and Other Income.* Financial and other income for the year ended December 31, 2006, increased by \$698,000 to \$1,141,000, as compared to financial income of \$443,000 for the year ended December 31, 2005. The increase in financial and other income was due primarily to a higher level of invested funds due to the completion of the private placement that closed in May 2006, as well as due to the general increase in short-term market interest rates when compared to the comparable period last year.

*Income Taxes.* Income tax expense increased by \$149,000 to \$227,000 for the year ended December 31, 2006, as compared to expenses of \$78,000 for year ended December 31, 2005. Our income tax expense is attributable to taxable income from the continuing operations of our subsidiary in the US. This income is eliminated upon consolidation of our financial statements.

### **2005 Restructuring**

In 2005, we implemented a restructuring plan designed to focus our resources on the development of our then lead programs, which we refer to as the 2005 Restructuring, with the goal of moving those programs through to clinical proof of concept. The 2005 Restructuring included a 32 person reduction in our workforce, 31 of whom were in research and development and one of whom was in general and administrative. As part of the 2005 Restructuring, we took a charge in 2005 of \$168,000, relating to employee dismissal costs, \$163,000 of which was included in research and development costs and \$5,000 of which was included in general and administrative expenses. The 2005 Restructuring was completed in early 2006, with the \$168,000 of dismissal costs paid as of December 31, 2006. In December 2005, as a result of the 2005 Restructuring, and in accordance with the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” or SFAS 144, we reviewed the carrying value of certain lab equipment assets, and recorded an impairment charge in research and development costs in an amount of \$26,000 in 2005.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities and related disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the applicable period. Actual results may differ from these estimates under different assumptions or conditions.

We define critical accounting policies as those that are reflective of significant judgments and uncertainties and which may potentially result in materially different results under different assumptions and conditions. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. These estimates are subject to an inherent degree of uncertainty. Our critical accounting policies include the following:

*Stock Compensation.* We have granted options to employees, directors and consultants, as well as warrants to other third parties. SFAS No. 123R “Share - Based Payment,” or SFAS 123R, addresses the accounting for share-based payment transactions in which a company obtains employee services in exchange for (a) equity instruments of a company or (b) liabilities that are based on the fair value of a company’s equity instruments or that may be settled by the issuance of such equity instruments.

The fair value of stock options granted with service conditions was determined using the Black-Scholes valuation model. Such value is recognized as an expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123R. The fair value of stock options granted with market conditions was determined using a Monte Carlo Simulation method. Such value is recognized as an expense using the accelerated method under SFAS 123R.

We account for equity instruments issued to third party service providers (non-employees) in accordance with the fair value method prescribed by SFAS 123R, and the provisions of Emerging Issues Task Force Issue No 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services,” or EITF 96-18. Until the vesting date is reached, the total amount of compensation expense remains uncertain. We record option compensation based on the fair value of the options at the reporting date. Unvested options are then revalued, or the compensation is recalculated based on the then current fair value, at each subsequent reporting date and are amortized over the vesting period in order to determine the compensation expense. This may result in a change to the amount previously recorded in respect of the option grant, and additional expense or a negative expense may be recorded in subsequent periods based on changes in the assumptions used to calculate fair value, until the measurement date is reached and the compensation expense is finalized.

The estimation of stock awards that will ultimately vest requires significant judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period those estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates.

*Accruals for Clinical Research Organization and Clinical Site Costs.* We make estimates of costs incurred to date in relation to external clinical research organizations, or CROs, and clinical site costs. We analyze the progress of clinical trials, including levels of patient enrollment, invoices received and contracted costs when evaluating the adequacy of the amount expensed and the related prepaid asset and accrued liability. Significant judgments and estimates must be made and used in determining the accrued balance in any accounting period. With respect to clinical site costs, the financial terms of these agreements are subject to negotiation and vary from contract to contract. Payments under these contracts may be uneven, and depend on factors such as the achievement of certain events, the successful accrual of patients, the completion of portions of the clinical trial or similar conditions. The objective of our policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical site costs are recognized based on our estimate of the degree of completion of the event or events specified in the specific clinical study or trial contract.

*Impairment.* Pursuant to SFAS 144, long-lived assets, including certain intangible assets, to be held and used by an entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under SFAS 144, if the sum of the estimated future cash flows (undiscounted and without interest charges) of the long-lived assets held and used is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values. Assets “held for sale” are reported at the lower of their carrying amount or fair value less estimated costs to sell.

*Accounting Related to the Valuation of In-Process Research and Development.* In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” or SFAS 142, we recorded a charge of \$1,783,000 in 2005 for the amount allocated to in-process research and development in the VivoQuest transaction. In-process research and development costs represent the relative fair value of purchased in-process research and development costs that, as of the transaction date, have not reached technological feasibility and have no proven alternative future use. As VivoQuest is a development stage enterprise that had not yet commenced its planned principal operations, we accounted for the transaction as an acquisition of assets pursuant to the provisions of SFAS 142. Accordingly, the purchase price was allocated to the individual assets acquired, based on their relative fair values, and no goodwill was recorded.

The fair value of the in-process research and development acquired was estimated by management with the assistance of an independent third-party appraiser, using the “income approach.” In the income approach, fair value is dependent on the present value of future economic benefits to be derived from ownership of an asset. Central to this approach is an analysis of the earnings potential represented by an asset and of the underlying risks associated with obtaining those earnings. Fair value is calculated by discounting future net cash flows available for distribution to their present value at a rate of return, which reflects the time value of money and business risk. In order to apply this approach, the expected cash flow approach was used. Expected cash flow is measured as the sum of the average, or mean, probability-weighted amounts in a range of estimated cash flows. The expected cash flow approach focuses on the amount and timing of estimated cash flows and their relative probability of occurrence under different scenarios. The probability weighted expected cash flow estimates are discounted to their present value using the risk free rate of return, since the business risk is incorporated in adjusting the projected cash flows to the probabilities for each scenario. The valuation was based on information that was available to us as of the transaction date and the expectations and assumptions deemed reasonable by our management. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected.

**Recently Issued Accounting Standards**

*SFAS No. 141 (revised 2007), “Business Combinations,” or SFAS 141R.* In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No 141. SFAS 141R changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer’s income tax valuation allowance and income tax uncertainties. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years (January 1, 2009, for us). Early application is prohibited.

*SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51,” or SFAS 160.* In December 2007, the FASB issued SFAS No. 160, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years (including interim periods within those fiscal years) beginning on or after December 15, 2008 (January 1, 2009, for us). Earlier adoption is prohibited. The statement shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. As of December 31, 2007, our consolidated financial statements did not include any minority interests.

*EITF Issue No. 07-1, “Accounting for Collaborative Arrangements,” or EITF 07-1.* In December 2007, the FASB ratified EITF 07-1, which defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009, for us). EITF 07-1 shall be applied using a modified version of retrospective transition for those arrangements in place at the effective date. Companies are required to report the effects of applying EITF-07-1 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects the change retrospectively. We are currently assessing the impact that EITF 07-1 may have on our results of operations and financial position.

*EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received to Be Used in Future Research and Development Activities,” or EITF 07-3.* In June 2007, the EITF reached a consensus on EITF 07-3, which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. The provisions of EITF 07-3 will be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years (January 1, 2008, for us). Early application is prohibited. The provisions of EITF 07-3 are applicable for new contracts entered into on or after the effective date.

*SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115,” or SFAS 159.* In February 2007, the FASB issued SFAS 159, which is expected to expand the use of fair value accounting, but does not affect existing standards which require certain assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may choose, at its initial application or at other specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (January 1, 2008, for us). Were we to elect the fair value option for our existing assets and liabilities, the effect as of the adoption date, shall be reported as a cumulative-effect adjustment to the opening balance of comprehensive loss.

*SFAS No. 157, "Fair Value Measurements," or SFAS 157.* In September 2006, the FASB issued SFAS No. 157, which provides guidance for using fair value to measure assets and liabilities. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for us), and interim periods within those fiscal years. Subsequent to the issuance of SFAS 157, the FASB issued FSP No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," or FSP 157-1, and FSP No. 157-2 "Effective Date of FASB Statement No. 157," or FSP 157-2. FSP 157-1 excludes, in certain circumstances, SFAS No. 13 "Accounting for Leases" and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under statement 13 from the provision of SFAS 157. FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 defers the effective date of SFAS 157 for such instruments to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years (January 1, 2009, for us). We do not expect the adoption of SFAS 157 to have a material impact on its results of operations and financial position.

**Impact of Inflation and Currency Fluctuations**

We generate all of our revenues and hold most of our cash, cash equivalents and bank deposits in US dollars. While a substantial amount of our operating expenses are in US dollars, we incur a portion of our expenses in New Israeli Shekels. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel. To date, our business has not been materially adversely affected by changes in the US dollar exchange rate or by effects of inflation in Israel.

**Governmental Economic, Fiscal, Monetary or Political Policies that Materially Affected or Could Materially Affect Our Operations**

Israeli companies are generally subject to income tax at the corporate tax rate of 29% in 2007 (31% in 2006), which will be reduced as follows: 2008 - 27%, 2009-26%, 2010 and after - 25%. However, we had been granted "approved enterprise" status under the Israeli Law for Encouragement of Capital Investments, 1959. Subject to compliance with applicable requirements, the portion of our undistributed profits derived from the approved enterprise program was to be tax-exempt for a period of two years commencing in the first year in which we generated taxable income and was to be subject, for a period of five to eight years, to a reduced corporate tax of between 10% and 25%, depending on the percentage of non-Israeli investors holding our ordinary shares. In order to receive these benefits, we were required to fulfill the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investment in approved enterprise. During 2007, we disposed of certain unused assets (primarily lab equipment) in the Israeli facility. As a result of this disposition, we have failed to comply with these conditions. As of the date hereof, we have not received any benefits from approved enterprise, nor do we expect to in the future.

As of December 31, 2007, XTL Biopharmaceuticals Ltd. did not have any taxable income. As of December 31, 2007, our net operating loss carryforwards for Israeli tax purposes amounted to approximately \$145.0 million. Under Israeli law, these net-operating losses may be carried forward indefinitely and offset against future taxable income, including capital gains from the sale of assets used in the business, with no expiration date.

We currently have a "permanent establishment" in the US which began in 2005, due to the residency of the Chairman of our Board of Directors and our Chief Executive Officer in the US, as well as other less significant contacts that we have with the US. As a result, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. If this is the case, we may not be able to utilize any of the accumulated Israeli loss carryforwards reflected on our balance sheet as of December 31, 2007 since these losses were not attributable to the US permanent establishment. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualify for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit foreign taxes against our US tax liability in connection with income attributable to our US permanent establishment and subject to US and foreign income tax. At present, we do not earn any taxable income for US tax purposes. If we eventually earn taxable income attributable to our US permanent establishment, we would be able to utilize accumulated loss carryforwards to offset such income only to the extent these carryforwards were attributable to its US permanent establishment. As of December 31, 2007, we estimate that these US net operating loss carryforwards are approximately \$22.4 million. These losses can be carried forward to offset future US taxable income and will begin to expire in 2025.

**Liquidity and Capital Resources**

We have financed our operations from inception primarily through various private placement transactions, our initial public offering, a placing and open offer transaction, and option and warrant exercises. As of December 31, 2007, we had received net proceeds of approximately \$76.4 million from various private placement transactions, including the November 2007 private placement, net proceeds of \$45.7 million from our initial public offering, net proceeds of \$15.4 million from the 2004 placing and open offer transaction, and proceeds of \$2.1 million from the exercise of options and warrants.

As of December 31, 2007, we had \$13.0 million in cash, cash equivalents, and short-term bank deposits, a decrease of \$12.3 million from December 31, 2006. Cash used in operating activities for the year ended December 31, 2007, was \$21.4 million, as compared to \$12.6 million for the year ended December 31, 2006. This increase in cash used in operating activities was due primarily to increased expenditures associated with the execution of our business plan as well as the \$7.5 million initial upfront license fee for Bicifadine. For the year ended December 31, 2007, the net cash provided by investing activities of \$10.6 million, as compared to net cash used in investing activities of \$20.8 million for the year ended December 31, 2006, was primarily the result of the maturity of short-term bank deposits. For the year ended December 31, 2007, net cash provided by financing activities of \$8.8 million, as compared to \$24.5 million for the year ended December 31, 2006, was the result of our \$8.8 million private placement that closed in November 2007.

Our cash and cash equivalents, as of December 31, 2007, were invested in highly liquid investments such as cash and short-term bank deposits. As of December 31, 2007, we are unaware of any known trends or any known demands, commitments, events, or uncertainties that will, or that are reasonably likely to, result in a material increase or decrease in our required liquidity. We expect that our liquidity needs during 2008 will continue to be funded from existing cash, cash equivalents, and short-term bank deposits.

We believe that our cash, cash equivalents and bank deposits as of December 31, 2007 and the upfront payment by Presidio will be sufficient to enable us to meet our planned operating needs and capital expenditures for approximately the next 12 months. We do believe, however, that we will likely seek additional capital during the next 12 months through public or private equity offerings, debt financings and/or collaborative, strategic alliance and licensing arrangements. We have made no determination at this time as to the amount, method or timing of any such financing. Such additional financing may not be available when we need it.

Our forecast of the period of time through which our cash, cash equivalents and short-term investments will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties. The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the timing of expenses associated with product development and manufacturing of the proprietary drug candidates within our portfolio and those that may be in-licensed, partnered or acquired, and specifically, the timing of completion and results from our clinical trials for Bicifadine;
- our ability to achieve our milestones under licensing arrangements;
- the timing of the in-licensing, partnering and acquisition of new product opportunities; and
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights.

We have based our estimate on assumptions that may prove to be inaccurate. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing may be obtained through strategic relationships, public or private sales of our equity or debt securities, and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time, and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If we raise funds by selling additional shares of our ordinary shares or other securities convertible into shares of our ordinary shares, the ownership interest of our existing shareholders will be diluted. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit our operations, and our business, financial condition and results of operations would be materially harmed. See “Item 3. Key Information - Risk Factors - Risks Related to Our Financial Condition.”

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Obligations and Commitments

As of December 31, 2007, we had known contractual obligations, commitments and contingencies of \$6,744,000. Of this amount, \$5,754,000 relates to research and development agreements, of which \$5,747,000 is due within the next year, with the remaining balance due as per the schedule below. The additional \$990,000 relates to our operating lease obligations, of which \$527,000 is due within the next year, with the remaining balance due as per the schedule below.

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Research & development agreements	\$ 5,754,000	\$ 5,747,000	\$ 7,000	\$ —	\$ —
Operating leases	990,000	527,000	463,000	—	—
Total	\$ 6,744,000	\$ 6,274,000	\$ 470,000	\$ —	\$ —

Additionally, we have undertaken to make contingent milestone payments to certain licensors of up to approximately \$161.1 million over the life of the licenses, of which approximately \$140.0 million will be due upon or following regulatory approval of the drugs. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of \$5 million in cash, which would due upon or after regulatory approval. We are also obligated to make royalty payments on future product sales net sales. See “Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations” above.

In addition, XTL Development committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. The transaction advisory fee was structured in the form of SARs in the amount equivalent to (i) 3% of our fully diluted ordinary shares at the close of the transaction (representing 8,299,723 ordinary shares), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of our fully diluted ordinary shares at the close of the transaction (representing 19,366,019 ordinary shares), vesting following the first to occur of successful Phase 3 clinical trial results or the acquisition of our company. Payment of the SARs by XTL Development can be satisfied, at our discretion, in cash and/or by issuance of our registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share of our company on the exercise date exceeds the \$0.34 grant price for such SAR (fair market value equals (i) the greater of the closing price of an ADR on the exercise date, divided by ten, or (ii) the preceding five day ADR closing price average, divided by ten). The SARs expire on January 15, 2017. In the event of the termination of the license agreement, any unvested SARs will expire. See “Item 10. Additional Information - Material Contracts.”

We also had a commitment to make contingent payments to the Office of the Chief Scientist, or OCS, of up to approximately \$17.4 million, all of which is due from royalties of approximately 3%-5% from proceeds from net sales of products in the research and development of which the Israeli government participated in by way of grants. On December 31, 2007, we and Yeda mutually terminated the Research and License agreement dated April 7, 1993, as amended. As of December 31, 2007, and subject to certain closing conditions which were completed in March 2008, all rights in and to the licensed technology and patents reverted to Yeda. Under the terms of the mutual termination agreement with Yeda, as the assignee of the rights under any program funded by the OCS, Yeda shall be obligated to pay any royalties relating to the sale of any products under such programs from December 31, 2007.

Research and Development, Patents and Licenses

Research and development costs consist primarily of salaries and related personnel costs, fees paid to consultants and other third-parties for clinical and laboratory development, license and milestone fees, and facilities-related and other expenses relating to the design, development, testing, and enhancement of product candidates.

The information below provides estimates regarding the costs associated with the completion of the current development phase and our current estimated range of the time that will be necessary to complete that development phase for Bicifadine. We also have provided information with respect to our other drug candidates. We also direct your attention to the risk factors which could significantly affect our ability to meet these cost and time estimates found in this report in Item 3 under the heading “Risk Factors-Risks Related to our Business.”

Bicifadine is currently undergoing a Phase 2b study and an open label safety trial. We estimate that the cost to complete the Phase 2b study and the open label trial will be approximately \$12 million. We believe that the Phase 2b study will be completed in the fourth quarter of 2008 and that the open label trial will be completed in late 2009. Our estimates regarding the expected completion of these studies are based on patient enrollment, and the potential need for increases in the number of patients included, among other factors. Due to the nature of clinical studies and our inability to predict the results of such studies, we cannot estimate when such clinical development will end, and it is equally difficult to project the cost to complete such development.

The DOS program is currently in preclinical development. The timing and results of pre-clinical studies are highly unpredictable. Due to the nature of pre-clinical studies and our inability to predict the results of such studies, we cannot estimate when such pre-clinical development will end. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program.

The following table sets forth the research and development costs for our current and legacy clinical-stage projects, our pre-clinical activities, and all other research and development programs for the periods presented. Whether or not and how quickly we complete development of our clinical stage projects is dependent on a variety of factors, including the rate at which we are able to engage clinical trial sites and the rate of enrollment of patients. As such, the costs associated with the development of our drug candidates may change significantly.

For a further discussion of factors that may affect our research and development, see “Item 3. Risk Factors - Risks Related to Our Business,” and “Item 4. Information on the Company - Business Overview - Products Under Development” above.



	Years ended December 31,			Cumulative, as of December 31, 2007
	2007	2006	2005	
<b>Bicifadine</b> (includes \$7.5 million initial upfront license fee)	\$ 13,476,000	\$ —	\$ —	\$ 13,476,000
<b>DOS</b>	4,056,000	4,653,000	1,240,000	9,949,000
<b>Legacy programs</b>				
<b>XTL-2125</b>				
Research and development costs	753,000	2,936,000	3,367,000	13,054,000
Less participations	—	—	—	(168,000)
	<u>753,000</u>	<u>2,936,000</u>	<u>3,367,000</u>	<u>12,886,000</u>
<b>XTL-6865</b>				
Research and development costs	713,000	2,640,000	2,706,000	24,972,000
Less participations	(56,000)	—	—	(2,596,000)
	<u>657,000</u>	<u>2,640,000</u>	<u>2,706,000</u>	<u>22,376,000</u>
<b>HepeX-B<sup>1</sup></b>				
Research and development costs	—	—	2,743,000	26,985,000
Less participations	—	—	(2,743,000)	(10,173,000)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,812,000</u>
<b>Other research and development programs<sup>2</sup></b>				
Research and development costs	—	—	—	29,693,000
Less participations	—	—	—	(4,081,000)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,612,000</u>
<b>Total legacy programs</b>	<u>1,410,000</u>	<u>5,576,000</u>	<u>6,073,000</u>	<u>77,686,000</u>
<b>Total Research and development</b>				
Research and development costs	18,998,000	10,229,000	10,056,000	118,129,000
Less participations	(56,000)	—	(2,743,000)	(17,018,000)
	<u>18,942,000</u>	<u>10,229,000</u>	<u>7,313,000</u>	<u>101,111,000</u>

<sup>1</sup> Includes \$6,012,000 in development costs for HepeX-B incurred from June 2004, the date we out-licensed HepeX-B to Cubist, for which we were subsequently reimbursed by Cubist pursuant to our license agreement. The amount was classified in revenues and cost of revenues in our statement of operations.

<sup>2</sup> Other research and development programs includes early stage discovery research activities that ceased in 2003.

**Trend Information**

Please see “Item 5. Operating and Financial Review and Prospects” and “Item 4. Information on the Company” for trend information.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following sets forth information with respect to our directors and executive officers as of February 29, 2008. Except as noted, the business address for each of the following is 711 Executive Blvd., Suite Q, Valley Cottage, NY 10989, USA.

Name	Age	Position
Michael S. Weiss	42	Chairman of the Board of Directors
William J. Kennedy, Ph.D	63	Non Executive Director
Ido Seltenreich <sup>(1)</sup>	36	Non Executive and External Director
Vered Shany, D.M.D <sup>(1)</sup>	43	Non Executive and External Director
Ben Zion Weiner, Ph.D <sup>(1)</sup>	63	Non Executive Director
Ron Bentsur	42	Chief Executive Officer
Bill Kessler <sup>(1)</sup>	42	Director of Finance

<sup>(1)</sup> Business address is Kiryat Weizmann Science Park, Building 3, POB 370, Rehovot 76100, Israel.

Michael S. Weiss has served as a director of our company since November 2004, and was appointed interim Chairman of the Board in March 2005 and Chairman of the Board in August 2005. Mr. Weiss is currently the Chairman and CEO of Keryx Biopharmaceuticals, Inc. (NASDAQ: KERX). Prior to that, from 1999-2002, Mr. Weiss served as CEO and Chairman, and later as the Executive Chairman, of ACCESS Oncology, Inc. a private biotechnology company subsequently acquired by Keryx. Prior to that, Mr. Weiss served as Senior Managing Director of Paramount Capital, Inc., a broker-dealer registered with the National Association of Securities Dealers. From 1991-1993, Mr. Weiss was an attorney at Cravath, Swaine & Moore. Mr. Weiss received his B.A., magna cum laude from State University of New York at Albany and was awarded a Juris Doctorate degree from Columbia University Law School.

William J. Kennedy has served as a director of our company since February 2005. Dr. Kennedy retired as Vice President, Drug Regulatory Affairs, for Zeneca Pharmaceuticals Group in October 1999, and since that time has served as a regulatory consultant to the pharmaceutical industry. Prior to joining Zeneca Pharmaceuticals in 1986, Dr. Kennedy worked in regulatory affairs at G.D. Searle & Co., Kalipharma Inc., Berlex Laboratories, Inc. and Pfizer Pharmaceuticals, Inc. Dr. Kennedy earned a B.S. from Siena College, a M.A. from Clark University and a Ph.D in Pharmacology from SUNY, Buffalo. Prior to joining the industry in 1977, he was an Associate Research Professor at Yale University conducting research in Molecular Biology and Recombinant DNA.

Ido Seltenreich has served as a director of our company since August 2005. Mr. Seltenreich is currently the financial representative in Bulgaria, of Cinema City International N.V., or CCI, (Polish Stock Exchange - CCIINT) and of OCIF Investment & Development LTD (TASE - OCIF). Prior to that, from October 1999 to September 2006, Mr. Seltenreich was the representative of CCI in the Czech Republic, for which he had served as the Managing and Financing Director. From July 2003 to August 2005, Mr. Seltenreich also served as a member of the Board of Directors of an intragroup company of CCI, a development company that operated in the Bulgarian market. Prior to that, from 1996-1999, Mr. Seltenreich worked at Luboshits Kasirer, a member of Ernst & Young. Mr. Seltenreich received his B.A. in economics and accounting from Haifa University and has an Israeli CPA license.

Vered Shany has served as a director of our company since August 2005. Since September 2006, Dr. Shany has served as the founder, Chairman and CEO of Lotus Bio Inc., a private medical diagnostics company. Since March 2002, Dr. Shany has managed Tashik Consultants, providing strategic consulting and corporate analysis for Israeli and international corporations and investment management in life sciences companies. Previously, Dr. Shany served as managing director of Up-Tech Ventures Ltd, a subsidiary of the Africa-Israel Investments Group from May 2000 to March 2002, as a member of the Board of Directors of the Weizmann Science Park Incubator from May 2000 to March 2002, and as vice president of marketing for Arad Technological Incubator from 1995 to 1999. Dr. Shany is currently an external director of Capital Point Ltd., since August 2006, and in Simigon Ltd., since September 2006. Dr. Shany served as an external director in Lahak Mutual Funds of Bank Hapoalim, from October 2000 to September 2006, and in SFKT - Shrem Fudim Kellner Technologies, from September 2000 to September 2006. Dr. Shany holds an M.A. in business administration from Heriot - Watt University, Edinburgh Business School, and she completed her D.M.D., Doctor of Medical Dentistry, and her B.Med.Sc, from Hebrew University of Jerusalem.

Ben Zion Weiner has served as a director of our company since February 2005. Dr. Weiner has been with Teva Pharmaceutical Industries Ltd. since 1975, after a Post Doctorate fellowship at Schering-Plough in the U.S. He received his Ph.D in Chemistry from the Hebrew University of Jerusalem. In January 2006, Dr. Weiner joined the Office of the CEO and assumed the role of Chief R&D Officer at Teva. Dr. Weiner served as Group Vice President—Global Products from April 2002 until January 2006, responsible for Global Generic Research and Development, Global Innovative Research and Development and innovative products marketing. Dr. Weiner is a member of Teva's Core Management Committee. He was granted twice the Rothschild Prize for Innovation/Export, in 1989 for the development of alpha D3 for Dialysis and Osteoporosis and in 1999 for the development of Copaxone® for Multiple Sclerosis.

Ron Bentsur has served as our Chief Executive Officer since January 2006. From June 2003 until January 2006, Mr. Bentsur served as Vice President, Finance and Investor Relations of Keryx Biopharmaceuticals, Inc. From October 2000 to June 2003, Mr. Bentsur served as Director of Investor Relations at Keryx. From July 1998 to October 2000, he served as Director of Technology Investment Banking at Leumi Underwriters, where he was responsible for all technology/biotechnology private placement and advisory transactions. From June 1994 to July 1998, Mr. Bentsur worked as an investment banker at ING Barings Furman Selz in New York City. Mr. Bentsur holds a B.A. in Economics and Business Administration with distinction from the Hebrew University of Jerusalem, Israel and an M.B.A., Magna Cum Laude, from New York University's Stern Graduate School of Business.

Bill Kessler has served as our Director of Finance since January 2006 and as our principal finance and accounting officer since July 2006. Mr. Kessler has over 15 years of corporate and Wall Street experience, working with publicly-traded and private companies in Israel and the United States. During 2005, Mr. Kessler served as a consultant to our company, where he spearheaded the process of listing XTL for trading on NASDAQ. From October 2003 until December 2005, Mr. Kessler served as a financial consultant to Keryx, and from April 2001 until September 2003, Mr. Kessler served as the controller of Keryx. From 1996-2000, Mr. Kessler served as Chief Financial Officer for TICI Software Systems Ltd., an Israeli based software development and consulting company. From 1990-1993, Mr. Kessler worked as a research analyst at Wertheim Schroder & Co., covering media and entertainment companies. Mr. Kessler holds a B.A., Magna Cum Laude, from Yeshiva University, and an M.B.A., from Columbia University.

**Employment Agreements**

We have an employment agreement dated as of January 3, 2006, with Ron Bentsur, Chief Executive Officer. Mr. Bentsur is currently entitled to an annual base salary of \$250,000. He is entitled to receive discretionary bonus payments of up to 100% of his annual base salary on achievement of certain milestones recommended by the Remuneration Committee and set by our Board of Directors. In January 2008, our Board of Directors granted options to Mr. Bentsur to purchase a total of 2,500,000 ordinary shares at an exercise price equal to \$0.315 per share (equal to the closing price of our ADRs on the NASDAQ Stock Market on the date of grant divided by ten). These options vest over a four-year period, with 25% having vested on grant date, and with the remainder vesting equally on each of the one-, two- and three-year anniversaries of the issuance of the options. The options are exercisable for a period of ten years from the date of issuance, and were granted under the Share Option Plan 2001. In March 2006, Mr. Bentsur was also granted options to purchase a total of 7,000,000 ordinary shares at an exercise price equal to \$0.774 per share (the closing price of our ADRs on the NASDAQ Stock Market on January 2, 2006, divided by ten). These options are exercisable for a period of ten years from the date of issuance, and granted under the same terms and conditions as the 2001 Share Option Plan (see “- Share Ownership - Share Option Plans” below) and the specific terms of any option agreement entered into with Mr. Bentsur. Of these, 2,333,334 options shall vest as follows: 777,782 options on the one-year anniversary of the issuance of the options and 194,444 options at the end of each quarter thereafter for the following two years. The balance of options shall vest upon achievement of certain milestones (2,333,333 upon the achievement of \$350 million market capitalization or \$75 million in working capital, as set out in the agreement and 2,333,333 upon the achievement of \$550 million market capitalization or \$125 million in working capital, as set out in the agreement). We may terminate the agreement without cause (as defined in the agreement) on 30 days’ prior notice to Mr. Bentsur, and immediately and without prior notice for cause. Mr. Bentsur may terminate the agreement with good reason (as defined in the agreement) on 30 days’ prior notice to us. In addition, in the event of a merger, acquisition or other change of control or in the event that we terminate Mr. Bentsur, either without cause or as a result of his death or disability, or Mr. Bentsur terminates his agreement for good reason, any outstanding but unvested options granted to Mr. Bentsur under the agreement will immediately vest and the period during which he may exercise such options shall be the earlier of two years from the effective date of his termination or ten years from the date he commenced employment. Additionally, our Board of Directors shall have the discretion to accelerate all or a portion of Mr. Bentsur’s options at any time. If we choose to terminate the agreement for cause, Mr. Bentsur will not be owed any benefits, with the exception of any unpaid remuneration that would have accrued up to his date of termination.

We have an employment agreement dated February 10, 2006, and effective as of January 1, 2006, with Bill Kessler, our Director of Finance. Mr. Kessler is currently entitled to an annual base salary of \$135,000. He is entitled to receive bonus payments at the discretion of the Chief Executive Officer and as set by our Board of Directors. Mr. Kessler shall also be entitled to receive one or more grants of options to purchase our ordinary shares, on terms and conditions set by our Board of Directors. Mr. Kessler is also entitled to receive benefits comprised of managers' insurance (pension and disability insurance), a continuing education plan, and the use of a company car. There is a non-compete clause surviving one year after termination of employment, preventing Mr. Kessler from competing directly with us. The employment agreement may be terminated by either party on three months prior written notice. In January 2008, our Board of Directors granted options to Mr. Kessler to purchase a total of 500,000 ordinary shares at an exercise price equal to \$0.315 per share (equal to the closing price of our ADRs on the NASDAQ Stock Market on the date of grant divided by ten). These options vest over a four-year period, with 25% having vested on grant date, and with the remainder vesting equally on each of the one-, two- and three-year anniversaries of the issuance of the options. The options are exercisable for a period of ten years from the date of issuance, and were granted under the Share Option Plan 2001. In June 2006, our Board of Directors granted options to Mr. Kessler to purchase a total of 500,000 ordinary shares at an exercise price equal to \$0.60 per share (the price of our ADRs in the private placement that we completed on March 22, 2006 and which closed on May 25, 2006, divided by ten, which was above the market price of our ADRs on the NASDAQ Stock Market on such date divided by ten). These options vest over a four-year period and are exercisable for a period of ten years from the date of issuance, and were granted under the Share Option Plan 2001.

We have an agreement dated August 1, 2005, with Michael S. Weiss, our non-Executive Chairman of the Board of Directors. Mr. Weiss is entitled to annual remuneration of \$150,000. He was granted options to purchase a total of 9,250,000 ordinary shares at an exercise price equal to \$0.354 per share (which was below the market price of our ordinary shares on the date of grant) (the “Original Options”). These Original Options were exercisable for a period of five years from the date of issuance, and were granted under the same terms and conditions as our 2001 Share Option Plan. The Original Options vest upon achievement of certain market capitalization based milestones (1/3 upon the achievement of \$150 million market capitalization, as set out in the agreement, 1/3 upon the achievement of \$250 million market capitalization, as set out in the agreement, and 1/3 upon the achievement of \$350 million market capitalization, as set out in the agreement). In December 2007, we canceled the Original Options, and granted Mr. Weiss 9,250,000 options (the “New Options”) on the exact same terms and conditions as the Original Options (including the remainder of the exercise period of the Original Options), with the exception of the exercise price, which is equal to \$0.36 per option (a price greater than the closing price on the date of grant of the New Options). As of December 31, 2007, 3,083,333 options that were granted to Mr. Weiss are vested. We may terminate the agreement without cause (as defined in the agreement) on 30 days’ prior notice to Mr. Weiss, and immediately and without prior notice for cause. Mr. Weiss may terminate the agreement with good reason (as defined in the agreement) on 30 days prior notice to us. In the event that the agreement is terminated without cause (in our case) or with good reason (in the case of Mr. Weiss), any outstanding but unvested options granted to Mr. Weiss under the agreement will immediately vest and the period during which he may exercise such options will be extended. If we choose to terminate the agreement for cause, Mr. Weiss will not be owed any benefits, with the exception of any unpaid remuneration that would have accrued through his date of termination.

We have three types of service agreements with our non-executive directors, other than our agreement with our non-Executive Chairman. The first type, entered into with Ben Zion Weiner on August 1, 2005, provides for a grant of 2,000,000 options having an exercise price equal to \$0.354 per share (which was below the market price of our ordinary shares on the date of grant), exercisable for a period of five years and vesting upon achievement of certain market capitalization based milestones. As of December 31, 2006, 666,667 options that were granted to Mr. Weiner are vested. The second type of director service agreement, entered into with William Kennedy on August 1, 2005, provides for a grant of 60,000 options having an exercise price equal \$0.853 (equal to the average price per share, as derived from the Daily Official List of the London Stock Exchange, in the three days preceding the date of such grant), vesting over the three years from the date of grant. In addition, the second type of director service agreement provides for three annual grants of 20,000 options each, at an exercise price equivalent to the then current closing price of our ADRs on the NASDAQ Stock Market (subject to the ordinary share-ADR ratio). The third type, entered into with Ido Seltenreich and Vered Shany, on August 1, 2005, respectively, does not provide for option grants, and has a term of 36 months, unless terminated by the director upon two months’ written notice to us. Each of the three types of director service agreements provides for an annual salary of \$20,000, payments of \$2,000 for attendance at each board meeting, \$500 for attendance at each committee meeting, \$500 for attendance at a board meeting held by teleconference, reimbursement of reasonable out-of-pocket expenses, and termination by the director on two months’ written notice to us.

**Compensation**

The aggregate compensation paid by us and by our wholly-owned subsidiary to all persons who served as directors or officers for the year 2007 (seven persons) was approximately \$0.9 million. This amount includes payments made for social security, pension, disability insurance and health insurance premiums of approximately \$0.1 million, as well as bonus accruals, payments made in lieu of statutory severance, payments for continuing education plans, payments made for the redemption of accrued vacation, and amounts expended by us for automobiles made available to our officers.

During 2007, we granted a total of 20,000 options to William Kennedy, our non-executive director, which are exercisable at \$0.204 per ordinary share (the closing price of our ADRs on the NASDAQ Stock Market on the date of grant divided by ten), and expire ten years after date of grant (see “- Employment Agreements above”).

In March 2006, after obtaining the approval of the Audit Committee, the Board of Directors approved grants of a total of 9,898,719 options to our non-executive Chairman and 750,000 options to one of our non-executive directors, Ben Zion Weiner. These options are exercisable at an exercise price of \$0.713 per share (the volume weighted average price per share of the ADRs on the NASDAQ Stock Market during the thirty trading days prior to the Board of Directors’ approval divided by ten). The options vest as follows: (i) 1/3 of such options vest over three years, of which amounts, 1/3 vest and become exercisable upon the first anniversary of the issuance of the options and the remainder vest and become exercisable on a quarterly basis; (ii) 1/3 of such options vest and become exercisable upon our achieving a total market capitalization on a fully diluted basis of more than \$350 million; and (iii) 1/3 of such options vest upon our achieving a total market capitalization on a fully diluted basis of more than \$550 million. The options can be exercised for a period of ten years. The grant of such options is conditional upon approval of the shareholders at a duly convened shareholder meeting. During 2007 and 2006, we did not seek shareholder approval, so the options had not been granted as of the date hereof.

All members of our Board of Directors who are not our employees are reimbursed for their expenses for each meeting attended. Our directors who are not external directors as defined by the Israeli Companies Act are eligible to receive share options under our share option plans. Non-executive directors do not receive any remuneration from us other than their fees for services as members of the board, additional fees if they serve on committees of the board and expense reimbursement.

In accordance with the requirements of Israeli Law, we determine our directors’ compensation in the following manner:

- first, our audit committee reviews the proposal for compensation;
- second, provided that the audit committee approves the proposed compensation, the proposal is then submitted to our Board of Directors for review, except that a director who is the beneficiary of the proposed compensation does not participate in any discussion or voting with respect to such proposal; and
- finally, if our Board of Directors approves the proposal, it must then submit its recommendation to our shareholders, which is usually done in connection with our shareholders’ general meeting.

The approval of a majority of the shareholders voting at a duly convened shareholders meeting is required to implement any such compensation proposal.

**Board practices**

*Election of Directors and Terms of Office*

Our Board of Directors currently consists of five members, including our non-executive Chairman. Other than our two external directors, our directors are elected by an ordinary resolution at the annual general meeting of our shareholders. The nomination of our directors is proposed by a nomination committee of our Board of Directors, whose proposal is then approved by the board. The current members of the nomination committee are William Kennedy, (chairman of the nomination committee), Ido Seltenreich and Vered Shany. Our board, following receipt of a proposal of the nomination committee, has the authority to add additional directors up to the maximum number of 12 directors allowed under our Articles. Such directors appointed by the board serve until the next annual general meeting of the shareholders. Unless they resign before the end of their term or are removed in accordance with our Articles, all of our directors, other than our external directors, will serve as directors until our next annual general meeting of shareholders. In October 2007, at the annual general meeting of our shareholders, Michael Weiss, Ben Zion Weiner and William Kennedy were re-elected to serve as directors of our company. Ido Seltenreich and Vered Shany were elected to serve as external directors of our company at the annual general meeting that took place in August 2005. Ido Seltenreich and Vered Shany are serving as external directors pursuant to the provisions of the Israeli Companies Law for a three-year term ending in August 2008, as more fully described below. After this date, their term of service may be renewed for an additional three-year term.

None of our directors or officers have any family relationship with any other director or officer.

None of our directors are entitled to receive any severance or similar benefits upon termination of his or her service, except for our chairman, as more fully described above in “ - Employment Agreements” above.

Our Articles permit us to maintain directors and officers’ liability insurance and to indemnify our directors and officers for actions performed on behalf of us, subject to specified limitations. We maintain a directors and officers insurance policy which covers the liability of our directors and officers as allowed under Israeli Companies Law.

***External and Independent Directors***

The Israeli Companies Law requires Israeli companies with shares that have been offered to the public either in or outside of Israel to appoint two external directors. No person may be appointed as an external director if that person or that person’s relative, partner, employer or any entity under the person’s control, has or had, on or within the two years preceding the date of that person's appointment to serve as an external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, other than service as an officer for a period of not more than three months, during which the company first offered shares to the public.

No person may serve as an external director if that person’s position or business activities create, or may create, a conflict of interest with that person's responsibilities as an external director or may otherwise interfere with his/her ability to serve as an external director. If, at the time external directors are to be appointed, all current members of the Board of Directors are of the same gender, then at least one external director must be of the other gender. A director in one company shall not be appointed as an external director in another company if at that time a director of the other company serves as an external director in the first company. In addition, no person may be appointed as an external director if he/she is a member or employee of the Israeli Security Authority, and also not if he/she is a member of the Board of Directors or an employee of a stock exchange in Israel.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders voted at the meeting, vote in favor of election of the director, with abstaining votes not being counted in this vote; or
- the total number of shares held by non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for an additional three-year term. An external director may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if such external director ceases to meet the statutory qualifications for their appointment or violates his or her duty of loyalty to the company. At least one external director must serve on every committee that is empowered to exercise one of the functions of the Board of Directors.

An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

Ido Selteneich and Vered Shany serve as external directors pursuant to the provisions of the Israeli Companies Law. They both serve on our audit committee, our nomination committee and our compensation committee.

Subject to certain exceptions, issuers that list on NASDAQ must have boards of directors including a majority of independent directors, as such term is defined by NASDAQ. We are in compliance with the independence requirements of both the SEC and NASDAQ.

***Audit Committee***

The Israeli Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company’s business and approving related party transactions as required by law. An audit committee must consist of at least three directors, including all of its external directors. The chairman of the Board of Directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which an approval was granted.

Our audit committee is currently comprised of three independent non-executive directors. The audit committee is chaired by Ido Seltenreich, who serves as the audit committee financial expert, with William Kennedy and Vered Shany as members. The audit committee meets at least twice a year and monitors the adequacy of our internal controls, accounting policies and financial reporting. It regularly reviews the results of the ongoing risk self-assessment process, which we undertake, and our interim and annual reports prior to their submission for approval by the full Board of Directors. The audit committee oversees the activities of the internal auditor, sets its annual tasks and goals and reviews its reports. The audit committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and fees. In accordance with the NASDAQ requirements, our audit committee is directly responsible for the appointment, compensation and oversight of our independent auditors.

We have adopted a written charter for our audit committee, setting forth its responsibilities as outlined by NASDAQ rules and the regulations of the SEC. In addition, our audit committee has adopted procedures for the receipt, retention and treatment of complaints we may receive regarding accounting, internal accounting controls, or auditing matters and the submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, both SEC and NASDAQ rules mandate that the audit committee of a listed issuer consist of at least three members, all of whom must be independent, as such term is defined by rules and regulations promulgated by the SEC. We are in compliance with the independence requirements of both the SEC and NASDAQ.

***Approval of Compensation to Our Officers***

The Israeli Companies Law prescribes that compensation to officers must be approved by a company's Board of Directors. NASDAQ corporate governance rules require that compensation of the chief executive officer and other executive officers be determined, or recommended to the Board of Directors, by a majority of the independent directors or by a compensation committee comprised solely of independent directors. We have established a compensation committee in compliance with the Israeli Companies Law and NASDAQ rules.

Our compensation committee consists of three independent directors: Vered Shany (chairman of the compensation committee), William Kennedy and Ido Seltenreich. The responsibilities of the compensation committee are to set our overall policy on executive remuneration and to decide the specific remuneration, benefits and terms of employment for each senior manager, including the Chief Executive Officer.

The objectives of the compensation committee's policies are that senior managers should receive compensation which is appropriate given their performance, level of responsibility and experience. Compensation packages should also allow us to attract and retain executives of the necessary caliber while, at the same time, motivating them to achieve the highest level of corporate performance in line with the best interests of shareholders. In order to determine the elements and level of remuneration appropriate to each executive director, the compensation committee reviews surveys on executive pay, obtains external professional advice and considers individual performance.

***Research and Development Committee***

Our research and development committee is currently comprised of three external directors, Ben-Zion Weiner, William Kennedy and Michael Weiss. The research and development committee oversees our current and proposed research and development activities in an advisory role and is only authorized to make recommendations to our Board of Directors.

***Internal Auditor***

Under the Israeli Companies Law, the board of directors must appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor cannot be an office holder, an interested party or a relative of an office holder or interested party, and he or she may not be the company's independent accountant or its representative. We comply with the requirement of the Israeli Companies Law relating to internal auditors. Our internal auditors examine whether our various activities comply with the law and orderly business procedure.

***Compliance with NASDAQ Corporate Governance Requirements***

Under the NASDAQ corporate governance rules, foreign private issuers are exempt from many of the requirements if they instead elect to comply with home country practices and disclose where they have elected to do so. As noted above, we are currently in compliance with NASDAQ rules relating to the independence of our Board of Directors and its committees, however, as discussed below, we may in the future elect to comply with the practice required under Israeli law.

Pursuant to NASDAQ Marketplace Rule 4350(a)(i), foreign private issuers may elect to follow home country practices in lieu of certain NASDAQ corporate governance requirements by submitting to NASDAQ a written statement from an independent counsel in the company's home country, certifying that the company's practices are not prohibited by the home country's laws. This letter is only required once, at the time of listing. We previously submitted to NASDAQ such a letter from our legal counsel in Israel in connection with the September 1, 2005, application for our ADRs to trade on the NASDAQ Stock Market under the symbol “XTLB.”

On November 20, 2007, we completed a private placement of ordinary shares for an aggregate consideration of approximately \$9.8 million in gross proceeds. In connection with the private placement, we relied on the exemption afforded by NASDAQ Marketplace Rule 4350(a)(i) from the requirements of NASDAQ Marketplace Rule 4350(i)(D), which requires that an issuer receive shareholder approval prior to an issuance of shares (or securities convertible into or exercisable for shares) which together with any sales by officers, directors or substantial shareholders of the company equals 20% or more of the shares or the voting power outstanding before the issuance.

Employees

As of February 29, 2008, we had 17 full-time equivalent employees. In January 2008, we terminated seven employees in the DOS program concurrent with our plans to out-license the program in 2008. We and our Israeli employees are subject, by an extension order of the Israeli Ministry of Welfare, to a few provisions of collective bargaining agreements between the Histadrut, the General Federation of Labor Unions in Israel and the Coordination Bureau of Economic Organizations, including the Industrialists Associations. These provisions principally address cost of living increases, recreation pay, travel expenses, vacation pay and other conditions of employment. We provide our employees with benefits and working conditions equal to or above the required minimum. Other than those provisions, our employees are not represented by a labor union. We have written employment contracts with our employees, and we believe that our relations with our employees are good.

For the years ended December 31, 2007, 2006 and 2005, the number of our employees engaged in the specified activities, by geographic location, are presented in the table below.

	Year ended December 31,		
	2007	2006	2005
Research and Development			
Israel	2	8	22
US	16	18	19
	18	26	41
Financial and general management			
Israel	4	4	4
US	2	2	—
	6	6	4
Business development			
Israel	—	—	—
US	1	1	1
	1	1	1
Total	25	33	46
Average number of full-time employees	29	40	54



Share Ownership

The following table sets forth certain information as of February 29, 2008, regarding the beneficial ownership by our directors and executive officers. All numbers quoted in the table are inclusive of options to purchase shares that are exercisable within 60 days of February 29, 2008.

	Amount and nature of beneficial ownership			
	Ordinary shares beneficially owned excluding options	Options <sup>1</sup> exercisable within 60 days of February 29, 2008	Total ordinary shares beneficially owned	Percent of ordinary shares beneficially owned
Michael S. Weiss <i>Chairman of the Board</i>	—	3,083,333 <sup>2</sup>	3,083,333	1.0%
William Kennedy <i>Director</i>	—	56,667 <sup>3</sup>	56,667	*
Ben Zion Weiner <i>Director</i>	—	666,667 <sup>4</sup>	666,667	*
Ido Seltenreich <i>Director</i>	250,000 <sup>5</sup>	—	250,000	*
Vered Shany <i>Director</i>	—	—	—	—
Ron Bentsur <i>Chief Executive Officer</i>	201,010	2,180,558 <sup>6</sup>	2,381,568	*
Bill Kessler <i>Director of Finance</i>	50,000	250,000 <sup>7</sup>	300,000	*
All directors and executive officers as a group (7 persons)	501,010	6,237,225	6,738,235	2.3%

- (1) Options to purchase ordinary shares.
- (2) At an exercise price of \$0.36 per ordinary share, expiring July 31, 2010.
- (3) 40,000 options at an exercise price of \$0.853 per ordinary share, expiring July 31, 2015; 11,667 options at an exercise price of \$0.325 per ordinary share, expiring July 31, 2016; and 5,000 options at an exercise price of \$0.204, expiring on July 31, 2007.
- (4) At an exercise price of \$0.354 per ordinary share, expiring July 31, 2010.
- (5) Held under a blind trusteeship arrangement with a third-party.
- (6) 1,555,558 options at an exercise price of \$0.774 per ordinary share, expiring March 15, 2016; and 625,000 options at an exercise price of \$0.315, expiring January 14, 2018.
- (7) 125,000 options at an exercise price of \$0.60 per ordinary share, expiring June 18, 2016; and 125,000 options at an exercise price of \$0.315, expiring January 14, 2018.
- \* Represents Less than 1% of ordinary shares outstanding.

Share Option Plans

We maintain the following share option plans for our and our subsidiary’s employees, directors and consultants. In addition to the discussion below, see Note 7 of our consolidated financial statements, included at “Item 18. Financial Statements.”

Our Board of Directors administers our share option plans and has the authority to designate all terms of the options granted under our plans including the grantees, exercise prices, grant dates, vesting schedules and expiration dates, which may be no more than ten years after the grant date. Options may not be granted with an exercise price of less than the fair market value of our ordinary shares on the date of grant, unless otherwise determined by our Board of Directors.

As of December 31, 2007, we have granted to employees, directors and consultants options that are outstanding to purchase up to 29,167,655 ordinary shares, pursuant to four share option plans and pursuant to certain grants apart from these plans also discussed below under Non-Plan Share Options.

#### *1998 Share Option Plan*

Under a share option plan established in 1998, we granted options to our employees which were held by a trustee under section 3(i) of the Israeli tax ordinance, or the Tax Ordinance, of which 2,145,000 were outstanding and exercisable as of December 31, 2007, at an exercise price of \$0.497 per ordinary share and were non-transferable. The options granted thereunder expired in January 2008. There are no options available for grant under this plan.

#### *1999 Share Option Plan*

Under a share option plan established in 1999, we granted options to our employees which are held by a trustee under section 3(i) of the Tax Ordinance, of which 698,820 are outstanding and exercisable as of December 31, 2007, at an exercise price of \$0.497 per ordinary share. The options are non-transferable.

The option term is for a period of ten years from the grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee will expire. There are no options available for grant under this plan.

#### *2000 Share Option Plan*

Under a share option plan established in 2000, we granted options to our employees which are held by a trustee under section 3(i) of the Tax Ordinance, of which 669,800 are outstanding and exercisable as of December 31, 2007, at an exercise price of \$1.10 per ordinary share. The options are non-transferable.

The option term is for a period of ten years from grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee will expire. There are no options available for grant under this plan.

#### *2001 Share Option Plan*

Under a share option plan established in 2001, referred to as the 2001 Plan, we granted options during 2001-2007, at an exercise price between \$0.106 and \$0.931 per ordinary share. Up to 11,000,000 options were available to be granted under the 2001 Plan, of which 5,114,035 are outstanding. Options granted to Israeli employees were in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The options are non-transferable.

The option term is for a period of ten years from the grant date. The options were granted for no consideration. The options vest over a four year period. As of December 31, 2007, 2,120,285 options are fully vested. As of December 31, 2007, the remaining number of options available for future grants under the 2001 Plan is 5,354,956.

On January 15, 2008, we granted 4,615,300 options pursuant to the 2001 Plan to employees and consultants at an exercise price of \$0.315 per ordinary share (a price equal to the closing price of our ADRs on the NASDAQ Stock Market on the grant date, divided by ten).

#### *Non-Plan Share Options*

In addition to the options granted under our share option plans, there are 20,540,000 outstanding options, and 7,351,114 exercisable options, as of December 31, 2007, which were granted to employees, directors and consultants not under an option plan during 1997-2007. The options were granted at an exercise price between \$0.20 and \$2.11 per ordinary share. The options expire between 2008 and 2017.

This figure includes 9,250,000 and 2,000,000 options that were granted to our Chairman and Ben Zion Weiner, a non-executive director, respectively, at an exercise price equal to \$0.36 and \$0.354 per ordinary share, respectively, in December 2007 and August 2005, respectively, and are exercisable through July 31, 2010, and vest upon achievement of certain market capitalization based milestones (see “-Employment Agreements,” above).

This figure also includes 7,000,000 options that were granted to our CEO, and are exercisable for a period of ten years from the date of issuance at an exercise price equal to \$0.774 per ordinary share. Of these, 2,333,334 options vest over a three year period and the balance of options vest upon achievement of certain market capitalization based or working capital based milestones (see “-Employment Agreements above”).

In addition, this figure also includes options granted to former consultants in conjunction with a licensing agreement, which was subsequently terminated in July 2007, to purchase a total of up to 150,000 of our ordinary shares at an exercise price per share of \$0.20. These options expire on July 12, 2008.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The following table sets forth certain information regarding beneficial ownership of our ordinary shares as of February 29, 2008, by each person who is known by us to own beneficially more than 5% of our outstanding ordinary shares. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Beneficial owner	Number of ordinary shares beneficially owned	Percent of ownership
Perceptive Life Sciences Master Fund Ltd. <sup>1</sup>	52,383,260	17.9%

<sup>1</sup> Pursuant to a Form 4 filed with the SEC on 2/29/08.

As of February 29, 2008, there were 22,304,283 ADRs outstanding, held by approximately 8 record holders, whose holdings represented approximately 76% of the total outstanding ordinary shares, of which 6 record holders were in the US.

Related Party Transactions

We did not have any transactions or loans with related parties during the fiscal year ended December 31, 2005. For the years ended December 31, 2007 and 2006 we leased approximately 100 meters of office space from Keryx subject to a rent sharing agreement for \$4,500 and \$15,000, respectively. The rent sharing agreement was terminated as of March 31, 2007. In addition, our Chief Executive Officer had provided consulting services to Keryx through January 2008, and our Director of Finance provides consulting services to Keryx; however, the amount of their time devoted to this endeavor and the compensation they receive, if any, is immaterial. During 2007, a company controlled by one of our directors purchased \$6,500 in lab equipment that we had disposed of in our Israeli facility.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Our audited consolidated financial statements are included on pages F-1 through F-41 of this annual report.

Legal Proceedings

Neither we nor our subsidiaries are a party to, and our property is not the subject of, any material pending legal proceedings.

Dividend Distributions

We have never declared or paid any cash dividends on our ordinary shares and do not anticipate paying any such cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors. Cash dividends may be paid by an Israeli company only out of retained earnings as calculated under Israeli law. We currently have no retained earnings and do not expect to have any retained earnings in the foreseeable future.

Significant Changes

In March 2008, we signed an agreement to out-license our DOS program to Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program. In accordance with the terms of the license agreement, we received a \$4 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional \$104 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party.

ITEM 9. THE OFFER AND LISTING

Markets and Share Price History

The primary trading market for our securities is the NASDAQ Capital Market. Since September 1, 2005, our ADRs have been traded on the NASDAQ Stock Market under the symbol “XTLB,” with each ADR representing ten ordinary shares. As of July 12, 2005, our ordinary shares are also listed on the Tel Aviv Stock Exchange under the symbol “XTL.”

In the past, our primary trading market was the London Stock Exchange, or LSE, where our shares were listed and traded under the symbol “XTL” since our initial public offering in September of 2000. On October 31, 2007, our ordinary shares were delisted from the LSE, pursuant to the October 2, 2007 vote at our extraordinary general meeting of shareholders.

American Depositary Shares

The following table presents, for the periods indicated, the high and low market prices for our ADRs as reported on the NASDAQ Stock Market<sup>1</sup> since September 1, 2005, the date on which our ADRs were initially quoted. Prior to the initial quotation of our ADRs on the NASDAQ Stock Market on September 1, 2005, our ADRs were not traded in any organized market and were not liquid.

Last Six Calendar Months	US Dollar	
	High	Low
February 2008	4.24	3.56
January 2008	3.59	2.91
December 2007	2.85	1.86
November 2007	2.13	1.66
October 2007	2.03	1.51
September 2007	2.44	1.25
Financial Quarters During the Past Two Full Fiscal Years		
Fourth Quarter of 2007	2.85	1.51
Third Quarter of 2007	2.64	1.24
Second Quarter of 2007	4.07	2.29
First Quarter of 2007	4.99	2.71
Fourth Quarter of 2006	3.69	2.22
Third Quarter of 2006	4.54	2.08
Second Quarter of 2006	7.50	4.40
First Quarter of 2006	8.12	6.13
Full Financial Years Since Listing		
2007	4.99	1.24
2006	8.12	2.08

<sup>1</sup> Our ADRs have been quoted on the NASDAQ Capital Market since December 3, 2007 and prior to that were quoted on the NASDAQ Global Market.

The following table sets forth, for the periods indicated, the high and low sales prices of the ordinary shares on the Tel Aviv Stock Exchange. For comparative purposes only, we have also provided such figures translated into US Dollars at an exchange rate of 3.635 New Israeli Shekel per US Dollar, as reported by the Bank of Israel on February 29, 2008.

Last Six Calendar Months	New Israeli Shekel		US Dollar	
	High	Low	High	Low
February 2008	1.47	1.32	0.40	0.36
January 2008	1.40	0.97	0.39	0.27
December 2007	0.99	0.73	0.27	0.20
November 2007	0.79	0.64	0.22	0.18
October 2007	0.78	0.67	0.21	0.18
September 2007	0.92	0.55	0.25	0.15
Financial Quarters During the Past Two Full Fiscal Years				
Fourth Quarter of 2007	0.99	0.64	0.27	0.18
Third Quarter of 2007	1.06	0.48	0.29	0.13
Second Quarter of 2007	1.62	1.00	0.45	0.28
First Quarter of 2007	2.02	1.12	0.56	0.31
Fourth Quarter of 2006	1.57	0.96	0.43	0.26
Third Quarter of 2006	2.03	1.04	0.56	0.29
Second Quarter of 2006	3.37	2.03	0.93	0.56
First Quarter of 2006	3.66	2.86	1.01	0.79
Full Financial Years Since Listing				
2007	2.02	0.48	0.56	0.13
2006	3.66	0.96	1.01	0.26

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

*Objects and Purposes of the Company*

Pursuant to Part B, Section 3 of our Articles of Association, we may undertake any lawful activity.

*Powers and Obligations of the Directors*

Pursuant to the Israeli Companies Law and our Articles of Association, a director is not permitted to vote on a proposal, arrangement or contract in which he or she has a personal interest. Also, the directors may not vote compensation to themselves or any members of their body, as that term is defined under Israeli law, without the approval of our audit committee and our shareholders at a general meeting. The requirements for approval of certain transactions are set forth below in “Item 10. Additional Information - Memorandum and Articles of Association-Approval of Certain Transactions.” The power of our directors to enter into borrowing arrangements on our behalf is limited to the same extent as any other transaction by us.

The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care generally requires an office holder to act with the same level of care as a reasonable office holder in the same position would employ under the same circumstances. The duty of loyalty includes avoiding any conflict of interest between the office holder’s position in the company and such person’s personal affairs, avoiding any competition with the company, avoiding exploiting any corporate opportunity of the company in order to receive personal advantage for such person or others, and revealing to the company any information or documents relating to the company’s affairs which the office holder has received due to his or her position as an office holder.

*Indemnification of Directors and Officers; Limitations on Liability*

Israeli law permits a company to insure an office holder in respect of liabilities incurred by him or her as a result of an act or omission in the capacity of an office holder for:

- a breach of the office holder’s duty of care to the company or to another person;
- a breach of the office holder’s fiduciary duty to the company, provided that he or she acted in good faith and had reasonable cause to believe that the act would not prejudice the company; and
- a financial liability imposed upon the office holder in favor of another person.

Moreover, a company can indemnify an office holder for any of the following obligations or expenses incurred in connection with the acts or omissions of such person in his or her capacity as an office holder:

- monetary liability imposed upon him or her in favor of a third party by a judgment, including a settlement or an arbitral award confirmed by the court; and
- reasonable litigation expenses, including attorneys’ fees, actually incurred by the office holder or imposed upon him or her by a court, in a proceeding brought against him or her by or on behalf of the company or by a third party, or in a criminal action in which he or she was acquitted, or in a criminal action which does not require criminal intent in which he or she was convicted; furthermore, a company can, with a limited exception, exculpate an office holder in advance, in whole or in part, from liability for damages sustained by a breach of duty of care to the company.

Our Articles of Association allow for insurance, exculpation and indemnification of office holders to the fullest extent permitted by law. We have entered into indemnification, insurance and exculpation agreements with our directors and executive officers, following shareholder approval of these agreements. We have directors’ and officers’ liability insurance covering our officers and directors for a claim imposed upon them as a result of an action carried out while serving as an officer or director, for (a) the breach of duty of care towards us or towards another person, (b) the breach of fiduciary duty towards us, provided that the officer or director acted in good faith and had reasonable grounds to assume that the action would not harm our interests, and (c) a monetary liability imposed upon him in favor of a third party.

*Approval of Certain Transactions*

The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder, as defined in the Israeli Companies Law, is a director, general manager, chief business manager, deputy general manager, vice general manager, executive vice president, vice president, other manager directly subordinate to the managing director or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder. Each person listed in the table under “Directors and Senior Management,” which is displayed under “Item 6. Directors, Senior Management and Employees - Directors and Senior Management,” holds such office in our Company. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the Board of Directors, or a committee thereof. Arrangements regarding the compensation of directors also require audit committee and shareholders approval, with the exception of compensation to external directors in the amounts specified in the regulations discussed in “Item 6. Directors, Senior Management and Employees - Directors and Senior Management - Compensation.”

The Israeli Companies Law requires that an office holder promptly discloses any personal interest that he or she may have, and all related material information known to him or her, in connection with any existing or proposed transaction by the company. The disclosure must be made to our Board of Directors or shareholders without delay and prior to the meeting at which the transaction is to be discussed. In addition, if the transaction is an extraordinary transaction, as defined under the Israeli Companies Law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, or holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction (other than transactions relating to a director’s conditions of service), after the office holder complies with the above disclosure requirement, only board approval is required unless the Articles of Association of the company provides otherwise. The transaction must not be adverse to the company's interest. If the transaction is an extraordinary transaction, then, in addition to any approval required by the Articles of Association, the transaction must also be approved by the audit committee and by the Board of Directors, and under specified circumstances, by a meeting of the shareholders. An office holder who has a personal interest in a matter that is considered at a meeting of the Board of Directors or the audit committee may not be present at this meeting or vote on this matter.

The Israeli Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which is defined as a shareholder who has the ability to direct the activities of a company, other than in circumstances where this power derives solely from the shareholder’s position on the Board or any other position with the company, and includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the Board of Directors and the shareholders of the company. The shareholders’ approval must either include at least one-third of the disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company.

In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds 5% or more of the company’s outstanding share capital, assuming the exercise by such person of all of the convertible securities into shares held by that person, or that will cause any person to become a holder of more than 5% of the company’s outstanding share capital, requires approval by the Board of Directors and the shareholders of the company. However, subject to certain exceptions under regulations adopted under the Israeli Companies Law, shareholder approval will not be required if the aggregate number of shares issued pursuant to such private placement, assuming the exercise of all of the convertible securities into shares being sold in such a private placement, comprises less than 20% of the voting rights in a company prior to the consummation of the private placement.

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the Articles of Association;
- an increase of the company's authorized share capital;
- a merger; and

- approval of interested party transactions that require shareholders approval.

In addition, any controlling shareholder, any shareholder who knows it can determine the outcome of a shareholders vote and any shareholder who, under a company's Articles of Association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty. The Israeli Companies Law requires that specified types of transactions, actions and arrangements be approved as provided for in a company's articles of association and in some circumstances by the audit committee, by the Board of Directors and by the shareholders. In general, the vote required by the audit committee and the Board of Directors for approval of these matters, in each case, is a majority of the disinterested directors participating in a duly convened meeting.

### ***Rights Attached to Ordinary Shares***

Our authorized share capital consists of 500,000,000 ordinary shares, par value NIS 0.02 per share.

Holders of ordinary shares have one vote per share, and are entitled to participate equally in the payment of dividends and share distributions and, in the event of our liquidation, in the distribution of assets after satisfaction of liabilities to creditors. No preferred shares are currently authorized. All outstanding ordinary shares are validly issued and fully paid.

### ***Transfer of Shares***

Fully paid ordinary shares are issued in registered form and may be freely transferred under our Articles of Association unless the transfer is restricted or prohibited by another instrument or applicable securities laws.

### ***Dividend and Liquidation Rights***

We may declare a dividend to be paid to the holders of ordinary shares according to their rights and interests in our profits. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings.

This right may be affected by the grant of preferential dividend or distribution rights, to the holders of a class of shares with preferential rights that may be authorized in the future. Under the Israeli Companies Law, the declaration of a dividend does not require the approval of the shareholders of the company, unless the company's articles of association require otherwise. Our Articles provide that the Board of Directors may declare and distribute dividends without the approval of the shareholders.

### ***Annual and Extraordinary General Meetings***

We must hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the Board of Directors, upon at least 21 days' prior notice to our shareholders to which we need to add additional three days for notices sent outside of Israel. A special meeting may be convened by request of two directors, 25% of the directors then in office, one or more shareholders holding at least 5% of our issued share capital and at least 1% of our issued voting rights, or one or more shareholders holding at least 5% of our issued voting rights. Notice of a general meeting must set forth the date, time and place of the meeting. Such notice must be given at least 21 days but not more than 45 days prior to the general meeting. The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least one-third of the voting rights in the company. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place (with no need for any notice to the shareholders) or until such other later time if such time is specified in the original notice convening the general meeting, or if we serve notice to the shareholders no less than seven days before the date fixed for the adjourned meeting. If at an adjourned meeting there is no quorum present half an hour after the time set for the meeting, any number participating in the meeting shall represent a quorum and shall be entitled to discuss the matters set down on the agenda for the original meeting. All shareholders who are registered in our registrar on the record date, or who will provide us with proof of ownership on that date as applicable to the relevant registered shareholder, are entitled to participate in a general meeting and may vote as described in "Voting Rights" and "Voting by Proxy and in Other Manners," below.

### ***Voting Rights***

Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of ordinary shares that represent more than 50% of the voting power represented at a shareholders meeting in which a quorum is present have the power to elect all of our directors, except the external directors whose election requires a special majority as described under the section entitled "Item 6. Directors, Senior Management and Employees - Board Practices - External and Independent Directors."

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Shareholders may vote in person or by proxy. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Under the Israeli Companies Law, unless otherwise provided in the Articles of Association or by applicable law, all resolutions of the shareholders require a simple majority. Our Articles of Association provide that all decisions may be made by a simple majority. See “-Approval of Certain Transactions” above for certain duties of shareholders towards the company.

***Voting by Proxy and in Other Manners***

Our Articles of Association enable a shareholder to appoint a proxy, who need not be a shareholder, to vote at any shareholders meeting. We require that the appointment of a proxy be in writing signed by the person making the appointment or by an attorney authorized for this purpose, and if the person making the appointment is a corporation, by a person or persons authorized to bind the corporation. In the document appointing a proxy, each shareholder may specify how the proxy should vote on any matter presented at a shareholders meeting. The document appointing the proxy shall be deposited in our offices or at such other address as shall be specified in the notice of the meeting not less than 48 hours before the time of the meeting at which the person specified in the appointment is due to vote.

The Israeli Companies Law and our Articles of Association do not permit resolutions of the shareholders to be adopted by way of written consent, for as long as our ordinary shares are publicly traded.

***Limitations on the Rights to Own Securities***

The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by our Articles of Association or the laws of the State of Israel, except that nationals of countries which are, or have been, in a state of war with Israel may not be recognized as owners of ordinary shares.

***Anti-Takeover Provisions under Israeli Law***

The Israeli Companies Law permits merger transactions with the approval of each party’s board of directors and shareholders. In accordance with the Israeli Companies Law, a merger may be approved at a shareholders meeting by a majority of the voting power represented at the meeting, in person or by proxy, and voting on that resolution. In determining whether the required majority has approved the merger, shares held by the other party to the merger, any person holding at least 25% of the outstanding voting shares or means of appointing the board of directors of the other party to the merger, or the relatives or companies controlled by these persons, are excluded from the vote.

Under the Israeli Companies Law, a merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 30 days have passed from the time the merger was approved in a general meeting of each of the merging companies, and at least 50 days have passed from the time that a merger proposal was filed with the Israeli Registrar of Companies.

Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another shareholder with 25% or greater shares in the company. Similarly, Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser's shareholdings would entitle the purchaser to over 45% of the shares in the company, unless there is a shareholder with 45% or more of the shares in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received the approval of the company’s shareholders; (2) was from a 25% or greater shareholder of the company which resulted in the purchaser becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under the Israeli Companies Law provide that these tender offer requirements do not apply to companies whose shares are listed for trading external of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange or which the shares are traded, either:

- there is a limitation on acquisition of any level of control of the company; or
- the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder holds more than 90% of the outstanding shares. If, as a result of an acquisition of shares, the purchaser will hold more than 90% of a company’s outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the purchaser offered to purchase will be transferred to it. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the purchaser may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares of the company. Israeli tax law treats specified acquisitions, including a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does US tax law. These laws may have the effect of delaying or deterring a change in control of us, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our securities.



***Rights of Shareholders***

Under the Israeli Companies Law, our shareholders have the right to inspect certain documents and registers including the minutes of general meetings, the register of shareholders and the register of substantial shareholders, any document held by us that relates to an act or transaction requiring the consent of the general meeting as stated above under “-Approval of Certain Transactions,” our Articles of Association and our financial statements, and any other document which we are required to file under the Israeli Companies Law or under any law with the Registrar of Companies or the Israeli Securities Authority, and is available for public inspection at the Registrar of Companies or the Securities Authority, as the case may be.

If the document required for inspection by one of our shareholders relates to an act or transaction requiring the consent of the general meeting as stated above, we may refuse the request of the shareholder if in our opinion the request was not made in good faith, the documents requested contain a commercial secret or a patent, or disclosure of the documents could prejudice our good in some other way.

The Israeli Companies Law provides that with the approval of the court any of our shareholders or directors may file a derivative action on our behalf if the court finds the action is a priori, to our benefit, and the person demanding the action is acting in good faith. The demand to take action can be filed with the court only after it is serviced to us, and we decline or omit to act in accordance to this demand.

***Enforceability of Civil Liabilities***

We are incorporated in Israel and some of our directors and officers and the Israeli experts named in this report reside outside the US. Service of process upon them may be difficult to effect within the US. Furthermore, because substantially all of our assets, and those of our non-US directors and officers and the Israeli experts named herein, are located outside the US, any judgment obtained in the US against us or any of these persons may not be collectible within the US.

We have been informed by our legal counsel in Israel, Kantor & Co., that there is doubt as to the enforceability of civil liabilities under the Securities Act or the Exchange Act, pursuant to original actions instituted in Israel. However, subject to particular time limitations, executory judgments of a US court for monetary damages in civil matters may be enforced by an Israeli court, provided that:

- the judgment was obtained after due process before a court of competent jurisdiction, that recognizes and enforces similar judgments of Israeli courts, and the court had authority according to the rules of private international law currently prevailing in Israel;
- adequate service of process was effected and the defendant had a reasonable opportunity to be heard;
- the judgment is not contrary to the law, public policy, security or sovereignty of the State of Israel and its enforcement is not contrary to the laws governing enforcement of judgments;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;
- the judgment is no longer appealable; and
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

We have irrevocably appointed XTL Biopharmaceuticals, Inc., our US subsidiary, as our agent to receive service of process in any action against us in any US federal court or the courts of the State of New York.

Foreign judgments enforced by Israeli courts generally will be payable in Israeli currency. The usual practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date of the judgment. Under existing Israeli law, a foreign judgment payable in foreign currency may be paid in Israeli currency at the rate of exchange for the foreign currency published on the day before date of payment. Current Israeli exchange control regulations also permit a judgment debtor to make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily may be linked to Israel’s consumer price index plus interest at the annual statutory rate set by Israeli regulations prevailing at that time. Judgment creditors must bear the risk of unfavorable exchange rates.

**Material Contracts**

***Bicifadine License***

In January 2007, XTL Development, our wholly owned subsidiary, signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI). XTL Development intends to develop Bicifadine for the treatment of diabetic neuropathic pain, a chronic condition resulting from damage to peripheral nerves. In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of \$7.5 million in cash. In addition, XTL Development will make milestone payments of up to \$126.5 million over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of \$5 million in cash, due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine.

In addition, XTL Development committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. See “Item 5 - Operating and Financial Review and Prospects - Obligations and Commitments.”

***VivoQuest Inc.***

In August 2005, we entered into an asset purchase agreement with VivoQuest, a privately held biotechnology company based in the US, pursuant to which we agreed to purchase from VivoQuest certain assets, including VivoQuest’s laboratory equipment, and to assume VivoQuest’s lease of its laboratory space. In consideration, we paid \$450,000 to VivoQuest, which payment was satisfied by the issuance of ordinary shares having a fair market value in the same amount as of the closing date. In addition, we entered into a license agreement with VivoQuest pursuant to which we acquired exclusive worldwide rights to VivoQuest’s intellectual property and technology. The license covers a proprietary compound library, including VivoQuest’s lead HCV compounds, that was developed through the use of Diversity Oriented Synthesis, or DOS, technology. The terms of the license agreement include an initial upfront license fee of approximately \$941,000 that was paid in our ordinary shares. The license agreement also provides for additional milestone payments triggered by certain regulatory and sales targets. These milestone payments total \$34.6 million, \$25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments on product sales. The asset purchase agreement and the license agreement with VivoQuest were completed in September 2005.

***Presidio Pharmaceuticals, Inc.***

In March 2008, we signed an agreement to out-license our DOS program to Presidio. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the DOS program. In accordance with the terms of the license agreement, we received a \$4 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional \$104 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party.

**Exchange Controls**

Under Israeli Law, Israeli non-residents who purchase ordinary shares with certain non-Israeli currencies (including dollars) may freely repatriate in such non-Israeli currencies all amounts received in Israeli currency in respect of the ordinary shares, whether as a dividend, as a liquidating distribution, or as proceeds from any sale in Israel of the ordinary shares, provided in each case that any applicable Israeli income tax is paid or withheld on such amounts. The conversion into the non-Israeli currency must be made at the rate of exchange prevailing at the time of conversion.

**Taxation**

The following discussion of Israeli and US tax consequences material to our shareholders is not intended and should not be construed as legal or professional tax advice and does not exhaust all possible tax considerations. To the extent that the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. This summary does not purport to be a complete analysis of all potential tax consequences of owning ordinary shares or ADRs. In particular, this discussion does not take into account the specific circumstances of any particular shareholder (such as tax-exempt entities, certain financial companies, broker-dealers, shareholders subject to Alternative Minimum Tax, shareholders that actually or constructively own 10% or more of our voting securities, shareholders that hold ordinary shares or ADRs as part of straddle or hedging or conversion transaction, traders in securities that elect mark to market, banks and other financial institutions or shareholders whose functional currency is not the US dollar), some of which may be subject to special rules.

*We urge shareholders to consult their own tax advisors as to the US, Israeli, or other tax consequences of the purchase, ownership and disposition of ordinary shares and ADRs, including, in particular, the effect of any foreign, state or local taxes. For purposes of the entire Taxation discussion, we refer to ordinary shares and ADRs collectively as ordinary shares.*

**Israeli Tax Considerations**

The following discussion refers to the current tax law applicable to companies in Israel, with special reference to its effect on us. This discussion also includes specified Israeli tax consequences to holders of our ordinary shares and Israeli Government programs benefiting us.

**Tax Reforms**

On January 1, 2003 a comprehensive tax reform took effect in Israel (the Law for Amendment of the Income Tax Ordinance (Amendment No. 132), 5762-2002, as amended) (which we refer to as “the 2003 Reform”). Pursuant to the 2003 Reform, resident companies are subject to Israeli tax on income on a worldwide basis. In addition, the concept of controlled foreign corporation was introduced according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary’s primary source of income is passive income (such as interest, dividends, royalties, rental income or certain capital gains). An Israeli company that is subject to Israeli taxes on the income of its non-Israeli subsidiaries will receive a credit for income tax paid by the subsidiary in its country of resident subject to certain limitations. The 2003 Reform also substantially changed the system of taxation of capital gains.

On July 25, 2005 an additional tax reform took effect in Israel (the Law for Amendment of the Income Tax Ordinance (Amendment No. 147)), which we refer to as “the 2005 Reform”. In general terms, pursuant to the 2005 Reform, and generally effective from January 1, 2006, the Israeli corporate tax rates were and will be further reduced, the capital gains tax rate that applies to Israeli individuals on the disposition of traded securities was increased and the tax rates that apply to dividends distributed by an Israeli company was partly reduced.

**Corporate Tax Rate**

The regular tax rate in Israel in 2007 is 29% (2006-31%). This rate is currently scheduled to decrease as follows: in 2008 - 27%, 2009 - 26%, 2010 and after - 25%.

**Tax Benefits for Research and Development**

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking the deduction. Expenditures not so approved are deductible over a three-year period. In the past, expenditures that were made out of proceeds made available to us through government grants were automatically deducted during a one year period.

**Special Provisions Relating to Taxation under Inflationary Conditions**

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features, which are material to us, can be described as follows:

- where a company's equity, as defined in the law, exceeds the cost of fixed assets as defined in the Inflationary Adjustments Law, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on the excess is allowed up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the cost of fixed assets, as defined in the Inflationary Adjustments Law, exceeds a company's equity, then the excess multiplied by the applicable annual rate of inflation is added to taxable income; and
- subject to specified limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

In February 2008, the Knesset (the Israeli parliament), cancelled the provisions of the Inflationary Adjustments Law, and as a result it will no longer apply to us in 2008 and thereafter.

**Israeli Estate and Gift Taxes**

Generally, Israel does not currently impose taxes on inheritance or bona fide gifts. For transfer of assets by inheritance or gift that would normally be subject to capital gains tax or land appreciation tax, the recipient’s tax cost basis and date of purchase are generally deemed to be the same as those for the transferor of the property.

**Capital Gains Tax on Sale of our Ordinary Shares by Both Residents and Non-Residents of Israel**

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli resident companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a treaty between Israel and the country of the non-resident provides otherwise. The law distinguishes between the inflationary surplus and the real gain. The inflationary surplus is the portion of the total capital gain, which is equivalent to the increase of the relevant asset’s purchase price attributable to the increase in the Israeli consumer price index from the date of purchase to the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. A non resident that invests in taxable assets with foreign currency may elect to calculate the inflationary amount by using such foreign currency.

Non-Israeli residents will be exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on a stock exchange recognized by the Israeli Ministry of Finance (including the Tel-Aviv Stock Exchange and NASDAQ), provided such shareholders did not acquire their shares prior to an initial public offering and that such capital gains are not derived by a permanent establishment of the foreign resident in Israel. Notwithstanding the foregoing, dealers in securities in Israel are taxed at the regular tax rates applicable to business income. However, Non-Israeli corporations will not be entitled to such exemption if an Israeli resident (1) has a controlling interest of 25% or more in such non-Israeli corporation, or (2) is the beneficiary of, or is entitled to, 25% or more of the revenue or profits of such non-Israeli corporation, whether directly or indirectly. In any event, the provisions of the tax reform shall not affect the exemption from capital gains tax for gains accrued before January 1, 2003, as described in the previous paragraph.

On July 25, 2005, the 2005 Reform came into effect. Pursuant to the 2005 Reform, effective January 1, 2006, the capital gains tax imposed on Israeli tax resident individuals on the sale of securities is 20%. With respect to an Israeli tax resident individual who is a “substantial shareholder” on the date of sale of the securities or at any time during the 12 months preceding such sale, the capital gains tax rate was increased to 25%. A “substantial shareholder” is defined as someone who alone, or together with another person, holds, directly or indirectly, at least 10 % in one or all of any of the means of control in the corporation. With respect to Israeli tax resident corporate investors, effective January 1, 2006 capital gains tax at the regular corporate rate will be imposed on such taxpayers on the sale of traded shares.

In addition, pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the “United States- Israel Tax Treaty”), the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the US within the meaning of the United States-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States- Israel Tax Treaty (a “Treaty United States Resident”) generally will not be subject to the Israeli capital gains tax unless such “Treaty United States Resident” holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the twelve- month period preceding such sale, exchange or disposition, subject to certain conditions or if the capital gains from such sale are considered as business income attributable to a permanent establishment of the US resident in Israel. However, under the United States-Israel Tax Treaty, such “Treaty United States Resident” would be permitted to claim a credit for such taxes against the US federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in US laws applicable to foreign tax credits.

**Taxation of Dividends**

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel.

Pursuant to the 2005 Reform, effective January 1, 2006, the tax rate imposed on dividends distributed by an Israeli company to Israeli tax resident individuals or to non-Israeli residents was reduced to a tax at a rate of 20%. With respect to “substantial shareholders,” as defined above, the applicable tax rate remains 25%. The taxation of dividends distributed by an Israeli company to another Israeli corporate tax resident remains unchanged.

Notwithstanding, dividends distributed by an Israeli company to Israeli tax resident individuals or to non-Israeli residents are subject to a 20% withholding tax (15% in the case of dividends distributed from the taxable income attributable to an Approved Enterprise), unless a lower rate is provided in a treaty between Israel and the shareholder’s country of residence. Dividends distributed by an Israeli company to another Israeli tax resident company are generally exempt, unless such dividends are distributed from taxable income attributable to an Approved Enterprise, in which case such dividends are taxed at a rate of 15%, or unless such dividends are distributed from income that was not taxed in Israel, in which case such dividends are taxed at a rate of 25%.

In any case, dividends distributed from the taxable income attributable to an Approved Enterprise, to both Israeli tax residents and non-Israeli residents remains subject to a 15% tax rate.

Under the US-Israel Tax Treaty, the maximum Israeli tax and withholding tax on dividends paid to a holder of ordinary shares who is a resident of the US is generally 25%, but is reduced to 12.5% if the dividends are paid to a corporation that holds in excess of 10% of the voting rights of company during the company’s taxable year preceding the distribution of the Dividend and the portion of the company’s taxable year in which the dividend was distributed. Dividends of an Israeli company derived from the income of an Approved Enterprise will still be subject to a 15% dividend withholding tax; if the dividend is attributable partly to income derived from an Approved Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

***US Federal Income Tax Considerations***

The following discusses the material US federal income tax consequences to a holder of our ordinary shares who qualifies as a US holder, which is defined as:

- a citizen or resident of the US;
- a corporation created or organized under the laws of the US, the District of Columbia, or any state; or
- a trust or estate, treated, for US federal income tax purposes, as a domestic trust or estate.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, current and proposed Treasury regulations promulgated under the Code, and administrative and judicial decisions as of the date of this report, all of which are subject to change, possibly on a retroactive basis. This discussion does not address any aspect of state, local or non-US tax laws. Except where noted, this discussion addresses only those holders who hold our shares as capital assets. This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to US holders entitled to special treatment under US federal income tax laws, for example, financial institutions, insurance companies, tax-exempt organizations and broker/dealers, and it does not address all aspects of US federal income taxation that may be relevant to any particular shareholder based on the shareholder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax, or the special US federal income tax rules applicable in special circumstances, including to US holders who:

- have elected mark-to-market accounting;
- hold our ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- own directly, indirectly or by attribution at least 10% of our voting power;
- are tax exempt entities;
- are persons who acquire shares in connection with employment or other performance of services; and
- have a functional currency that is not the US dollar.

Additionally, this discussion does not consider the tax treatment of partnerships or persons who hold ordinary shares through a partnership or other pass-through entity or the possible application of US federal gift or estate taxes. Material aspects of US federal income tax relevant to a holder other than a US holder are also described below.

Each shareholder should consult its tax advisor regarding the particular tax consequences to such holder of ownership and disposition of our shares, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local, or other taxing jurisdiction.

**Taxation of Dividends Paid on Ordinary Shares**

Subject to the description of the passive foreign investment company rules below, a US holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares, including any Israeli taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for US federal income tax purposes. Distributions in excess of these earnings and profits will be applied against and will reduce the US holder’s basis in the ordinary shares and, to the extent in excess of this basis, will be treated as gain from the sale or exchange of ordinary shares.

Certain dividend income may be eligible for a reduced rate of taxation. Dividend income will be taxed to a non-corporate holder at the applicable long-term capital gains rate if the dividend is received from a “qualified foreign corporation,” and the shareholder of such foreign corporation holds such stock for more than 60 days during the 121 day period that begins on the date that is 60 days before the ex-dividend date for the stock. The holding period is tolled for any days on which the shareholder has reduced his risk of loss. A “qualified foreign corporation” is either a corporation that is eligible for the benefits of a comprehensive income tax treaty with the US or a corporation whose stock, the shares of which are with respect to any dividend paid by such corporation, is readily tradable on an established securities market in the United States. However, a foreign corporation will not be treated as qualified if it is a passive foreign investment company (as discussed below) for the year in which the dividend was paid or the preceding year. Distributions of current or accumulated earnings and profits paid in foreign currency to a US holder will be includible in the income of a US holder in a US dollar amount calculated by reference to the exchange rate on the day the distribution is received. A US holder that receives a foreign currency distribution and converts the foreign currency into US dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the US dollar, which will generally be US source ordinary income or loss.

As described above, we will generally be required to withhold Israeli income tax from any dividends paid to holders who are not resident in Israel. See “- Israeli Tax Considerations—Taxation of Dividends” above. If a US holder receives a dividend from us that is subject to Israeli withholding, the following would apply:

- You must include the gross amount of the dividend, not reduced by the amount of Israeli tax withheld, in your US taxable income.
- You may be able to claim the Israeli tax withheld as a foreign tax credit against your US income tax liability. However, to the extent that 25% or more of our gross income from all sources was effectively connected with the conduct of a trade or business in the US (or treated as effectively connected, with limited exceptions) for a three-year period ending with the close of the taxable year preceding the year in which the dividends are declared, a portion of this dividend will be treated as US source income, possibly reducing the allowable foreign tax.
- The foreign tax credit is subject to significant and complex limitations. Generally, the credit can offset only the part of your US tax attributable to your net foreign source passive income. Additionally, if we pay dividends at a time when 50% or more of our stock is owned by US persons, you may be required to treat the part of the dividend attributable to US source earnings and profits as US source income, possibly reducing the allowable credit.
- A US holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent the US holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or, alternatively, to the extent the US holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a US holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute.
- If you do not elect to claim foreign taxes as a credit, you will be entitled to deduct the Israeli income tax withheld from your XTL dividends in determining your taxable income.
- Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld.
- If you are a US corporation holding our stock, the general rule is that you cannot claim the dividends-received deduction with respect to our dividends. There is an exception to this rule if you own at least 10% of our ordinary shares (by vote) and certain conditions are met.

Special rules, described below, apply if we are a passive foreign investment company.

**Taxation of the Disposition of Ordinary Shares**

Subject to the description of the passive foreign investment company rules below, upon the sale, exchange or other disposition of our ordinary shares, a US holder will recognize capital gain or loss in an amount equal to the difference between the US holder's basis in the ordinary shares, which is usually the cost of these shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year is long-term capital gain and is eligible for a reduced rate of taxation for non-corporate holders. In general, gain realized by a US holder on a sale, exchange or other disposition of ordinary shares generally will be treated as US source income for US foreign tax credit purposes. A loss realized by a US holder on the sale, exchange or other disposition of ordinary shares is generally allocated to US source income. However, regulations require the loss to be allocated to foreign source income to the extent certain dividends were received by the taxpayer within the 24-month period preceding the date on which the taxpayer recognized the loss. The deductibility of a loss realized on the sale, exchange or other disposition of ordinary shares is subject to limitations for both corporate and individual shareholders.

A US holder that uses the cash method of accounting calculates the US dollar value of the proceeds received from a sale of ordinary shares as of the date that the sale settles, and will generally have no additional foreign currency gain or loss on the sale, while a US holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss, unless the US holder has elected to use the settlement date to determine its proceeds of sale for purposes of calculating this foreign currency gain or loss. In addition, a US holder that receives foreign currency upon disposition of our ordinary shares and converts the foreign currency into US dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the US dollar, which will generally be US source ordinary income or loss.

**Tax Consequences If We Are A Passive Foreign Investment Company**

Special tax rules apply to the timing and character of income received by a US holder of a PFIC. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income in a tax year is at least 50%. The IRS, has indicated that cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income, and the relative values of passive and non- passive assets, including goodwill. Furthermore, because the goodwill of a publicly-traded corporation such as us is largely a function of the trading price of its shares, the valuation of that goodwill is subject to significant change throughout each year. A determination as to a corporation’s status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable years ended December 31, 2005 and 2004. However, we believe that we were a PFIC for the taxable years ended December 31, 2007 and 2006. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2008 taxable year and possibly in subsequent years.

If we are classified as a PFIC, a special tax regime would apply to both (a) any “excess distribution” by us (generally, the US holder's ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such US holder in the three preceding years or its holding period, if shorter) and (b) any gain recognized on the sale or other disposition of your ordinary shares. Under this special regime, any excess distribution and recognized gain would be treated as ordinary income and the federal income tax on such ordinary income is determined under the following steps: (i) the amount of the excess distribution or gain is allocated ratably over the US holder's holding period for our ordinary shares; (ii) tax is determined for amounts allocated to the first year in the holding period in which we were classified as a PFIC and all subsequent years (except the year in which the excess distribution was received or the sale occurred) by applying the highest applicable tax rate in effect in the year to which the income was allocated; (iii) an interest charge is added to this tax calculated by applying the underpayment interest rate to the tax for each year determined under the preceding sentence from the due date of the income tax return for such year to the due date of the return for the year in which the excess distribution or sale occurs; and (iv) amounts allocated to a year prior to the first year in the US holder’s holding period in which we were classified as a PFIC or to the year in which the excess distribution or the disposition occurred are taxed as ordinary income and no interest charge applies.

A US holder may generally avoid the PFIC regime by electing to treat his PFIC shares as a “qualified electing fund.” If a US holder elects to treat PFIC shares as a qualified electing fund, also known as a “QEF Election,” the US holder must include annually in gross income (for each year in which PFIC status is met) his *pro rata* share of the PFIC’s ordinary earnings and net capital gains, whether or not such amounts are actually distributed to the US holder. A US holder may make a QEF Election with respect to a PFIC for any taxable year in which he was a shareholder. A QEF Election is effective for the year in which the election is made and all subsequent taxable years of the US holder. Procedures exist for both retroactive elections and the filing of protective statements. A US holder making the QEF Election must make the election on or before the due date, as extended, for the filing of the US holder's income tax return for the first taxable year to which the election will apply.

A QEF Election is made on a shareholder-by-shareholder basis. A US holder must make a QEF Election by completing Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and attaching it to the holder's timely filed US federal income tax return. We have complied with the record-keeping and reporting requirements that are a prerequisite for US holders to make a QEF Election for the 2007 and 2006 tax years. For this purpose, we have made our 2007 and 2006 PFIC annual information statement available under a link entitled "PFIC Annual Information Statement" under the "Investor Information" section on our corporate website, which you may access at [www.xtlbio.com](http://www.xtlbio.com). While we plan to continue to comply with such requirements, if, in the future, meeting those record-keeping and reporting requirements becomes onerous, we may decide, in our sole discretion, that such compliance is impractical and will so notify US holders.

Alternatively, a US holder may also generally avoid the PFIC regime by making a so-called "mark-to-market" election. Such an election may be made by a US holder with respect to ordinary shares owned at the close of such holder's taxable year, provided that we are a PFIC and the ordinary shares are considered "marketable stock." The ordinary shares will be marketable stock if they are regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission, or the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or an equivalent regulated and supervised foreign securities exchange.

If a US holder were to make a mark-to-market election with respect to ordinary shares, such holder generally will be required to include in its annual gross income the excess of the fair market value of the PFIC shares at year-end over such shareholder's adjusted tax basis in the ordinary shares. Such amounts will be taxable to the US holder as ordinary income, and will increase the holder's tax basis in the ordinary shares. Alternatively, if in any year, a United States holder's tax basis exceeds the fair market value of the ordinary shares at year-end, then the US holder generally may take an ordinary loss deduction to the extent of the aggregate amount of ordinary income inclusions for prior years not previously recovered through loss deductions and any loss deductions taken will reduce the shareholder's tax basis in the ordinary shares. Gains from an actual sale or other disposition of the ordinary shares with a "mark-to-market" election will be treated as ordinary income, and any losses incurred on an actual sale or other disposition of the ordinary shares will be treated as an ordinary loss to the extent of any prior "unreversed inclusions" as defined in Section 1296(d) of the Code.

The mark-to-market election is made on a shareholder-by-shareholder basis. The mark-to-market election is made by completing Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, and attaching it to the holder's timely filed US federal income tax return for the year of election. Such election is effective for the taxable year for which made and all subsequent years until either (a) the ordinary shares cease to be marketable stock or (b) the election is revoked with the consent of the IRS.

A US holder who did not make an election either to (i) treat us as a "qualified electing fund," or (ii) mark our ordinary shares to market, will be subject to the following:

- gain recognized by the US holder upon the disposition of, as well as income recognized upon receiving certain excess distributions on the ordinary shares would be taxable as ordinary income;
- the US holder would be required to allocate the excess distribution and/or disposition gain ratably over such US holder's entire holding period for such ordinary shares;
- the amount allocated to each year other than the year of the excess distribution or disposition and pre-PFIC years would be subject to tax at the highest applicable tax rate, and an interest charge would be imposed with respect to the resulting tax liability;
- the US holder would be required to file an annual return on IRS Form 8621 for the years in which distributions were received on and gain was recognized on dispositions of, our ordinary shares; and
- any US holder who acquired the ordinary shares upon the death of the shareholder would not receive a step-up to market value of his income tax basis for such ordinary shares. Instead such US holder beneficiary would have a tax basis equal to the decedent's basis, if lower.

***In view of the complexity of the issues regarding our treatment as a PFIC, US shareholders are urged to consult their own tax advisors for guidance as to our status as a PFIC.***

**US Federal Income Tax Consequences for Non-US holders of Ordinary Shares**

Except as described in "Information Reporting and Back-up Withholding" below, a Non-US holder of ordinary shares will not be subject to US federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- the item is effectively connected with the conduct by the Non-US holder of a trade or business in the US and, in the case of a resident of a country which has a tax treaty with the US, the item is attributable to a permanent establishment in the US;



- the Non-US holder is subject to tax under the provisions of US tax law applicable to US expatriates; or
- the individual non-US holder is present in the US for 183 days or more in the taxable year of the disposition and certain other conditions are met.

### **Information Reporting and Back-Up Withholding**

US holders generally are subject to information reporting requirements with respect to dividends paid in the US on ordinary shares. Existing regulations impose back-up withholding on dividends paid in the US on ordinary shares unless the US holder provides IRS Form W-9 or otherwise establishes an exemption. US holders are subject to information reporting and back-up withholding on proceeds paid from the disposition of ordinary shares unless the US holder provides IRS Form W-9 or otherwise establishes an exemption.

Non-US holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, ordinary shares, provided that the non-US holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption to the US financial institution holding the ordinary shares.

Prospective investors should consult their tax advisors concerning the effect, if any, of these Treasury regulations on an investment in ordinary shares. Back-up withholding is not an additional tax. The amount of any back-up withholding will be allowed as a credit against a holder's US federal income tax liability and may entitle the holder to a refund, provided that specified required information is furnished to the IRS on a timely basis.

### **US Federal Income Tax Consequences for XTL**

We currently have a “permanent establishment” in the United States, or US, which began in 2005, due to the residency of the Chairman of our Board of Directors and our Chief Executive Officer in the US, as well as other less significant contacts that we have with the US. As a result, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualify for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit foreign taxes against our US tax liability in connection with income attributable to our US permanent establishment and subject to US and foreign income tax.

At present, the parent company, XTL Biopharmaceuticals Ltd., does not earn any taxable income for US tax purposes. If we do eventually earn taxable income attributable to our US permanent establishment, we may not be able to utilize any of the accumulated Israeli loss carryforwards reflected on our balance sheet as of December 31, 2007 since these losses were not attributable to the US permanent establishment. However, we would be able to utilize accumulated loss carryforwards to offset such US taxable income only to the extent these carryforwards were attributable to our US permanent establishment. As of December 31, 2007, we estimate that these US net operating loss carryforwards are approximately \$22.4 million. These losses can be carried forward to offset future US taxable income and will begin to expire in 2025. US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations.

*The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his or her taxation position, and who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United States should consult professional advisers.*

### **Documents on Display**

We are required to file reports and other information with the SEC under the Exchange Act and the regulations thereunder applicable to foreign private issuers. You may inspect and copy reports and other information filed by us with the SEC at the SEC’s public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as US companies, we generally announce publicly our interim and year-end results promptly and will file that periodic information with the SEC under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

You may review and obtain copies of our filings with the SEC, including any exhibits and schedules, at the SEC’s public reference facilities in Room 1580, 100 F. Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our periodic filings will also be available on the SEC’s website at [www.sec.gov](http://www.sec.gov). These SEC filings are also available to the public from commercial document retrieval services. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this annual report, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk.* The primary objective of our investment activities is to preserve principal while maximizing our income from investments and minimizing our market risk. We invest in government, investment-grade corporate debt securities, and bank deposits in accordance with our investment policy. Some of these instruments in which we invest may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. As of December 31, 2007, our portfolio of financial instruments consists of cash equivalents and short-term bank deposits with multiple institutions. The average duration of all of our investments held as of December 31, 2007, was less than one year. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments.

*Foreign Currency and Inflation Risk.* We generate all of our revenues and hold most of our cash, cash equivalents and bank deposits in US dollars. While a substantial amount of our operating expenses are in US dollars, we incur a portion of our expenses in New Israeli Shekels. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

### ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure controls and procedures.* Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934. As of December 31, 2007, an evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management concluded that our disclosure controls and procedures as of December 31, 2007, were effective.

(b) *Internal controls over financial reporting.* Management’s responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report of Management on Internal Control over Financial Reporting (“Report of Management”) included in this Annual Report under Exhibit 99.1, management assessed the Company’s internal control over financial reporting as of December 31, 2007, in relation to criteria for effective internal control over financial reporting as described in “*Internal Control — Integrated Framework*”, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded the Company’s internal control over financial reporting is effective as of December 31, 2007.

The Report of Management is included in this Annual Report under Exhibit 99.1. Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report of the Company’s effectiveness of internal control over financial reporting as of December 31, 2007, included in the report of Kesselman & Kesselman dated March 27, 2008, relating to the financial statements which appear in this Annual Report on Form 20-F for the year ended December 31, 2007.

(c) *Internal controls.* There have been no changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 16. RESERVED

Not applicable.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Ido Seltenreich, chairman of our audit committee, is an audit committee financial expert, as defined by applicable SEC regulations, and is independent in accordance with applicable SEC and NASDAQ regulations.

### ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct applicable that applies to all employees, directors and officers of our company, including our principal executive officer, principal financial officer, principal accounting officer or controller and other individuals performing similar functions. A copy of our Code of Conduct can be found on our website ([www.xtlbio.com](http://www.xtlbio.com)) and may also may be obtained, without charge, upon a written request addressed to our investor relations department, XTL Biopharmaceuticals Ltd., 711 Executive Blvd., Suite Q Valley Cottage, NY 10989.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditors

Our audit committee is responsible for the oversight of the independent auditors’ work. The audit committee’s policy is to pre-approve all audit and non-audit services provided by our independent auditors, Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd., or PWC. These services may include audit services, audit-related services and tax services, as further described below.

Principal Accountant Fees and Services

We were billed the following fees for professional services rendered by PwC, for the years ended December 31, 2007 and 2006.

	2007	2006
	(in thousands)	
Audit fees	\$ 174	\$ 164
Audit-related fees	151	150
Tax fees	21	63
Other fees	21	11
Total	\$ 367	\$ 388

The audit fees for the years ended December 31, 2007 and 2006, respectively, were for professional services rendered for the audit of our annual consolidated financial statements, review of interim consolidated financial statements, and statutory audits.

The audit-related fees for the years ended December 31, 2007 and 2006, respectively, were for Sarbanes Oxley compliance and were also for assurance and related due diligence services related to accounting consultations in connection with our fundraising activities in 2007 and 2006, including issuance of comfort letters, and consents and assistance with review of documents filed with the SEC and the United Kingdom Listing Authority.

Tax fees for the years ended December 31, 2007 and 2006, respectively, were for services related to tax compliance, including the preparation of tax returns, tax planning and tax advice, including assistance with tax audits and appeals, and tax advice related to our in-licensing activities.

Other fees for the years ended December 31, 2007 and 2006 relate to expense reimbursement, primarily travel and related.

For the fiscal year ended December 31, 2007 and 2006, all of our audit-related fees, tax fees and other fees were pre-approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

## **PART III**

### **ITEM 17. FINANCIAL STATEMENTS**

We have elected to furnish financial statements and related information specified in Item 18.

### **ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 to F-41 of this Annual Report.

ITEM 19. EXHIBITS

The following exhibits are filed as part of this annual report:

Exhibit Number	Description
3.1	Articles of Association†
4.1	Form of Share Certificate (including both Hebrew and English translations)*
4.2	Form of American Depositary Receipt (included in Exhibit 4.3) †
4.3	Deposit Agreement, dated as of August 31, 2005, by and between XTL Biopharmaceuticals Ltd., The Bank of New York, as Depositary, and each holder and beneficial owner of American Depositary Receipts issued thereunder†
4.5	Form of Director and Senior Management Lock–up Letter^
10.13	1999 Share Option Plan dated June 1, 1999†
10.15	2000 Share Option Plan dated April 12, 2000†
10.16	2001 Share Option Plan dated February 28, 2001†
10.17	Letter of Understanding, dated August 5, 2005, relating to the License Agreement dated June 2, 2004 between Cubist Pharmaceuticals, Inc. and XTL Biopharmaceuticals Ltd.†
10.20	Employment Agreement, dated as of January 3, 2006, between XTL Biopharmaceuticals Ltd. and Ron Bentsur^
10.21	Agreement, dated August 1, 2005, between XTL Biopharmaceuticals Ltd. and Michael S. Weiss†
10.22	Form No. 1 of Director Service Agreement†
10.23	Form No. 2 of Director Service Agreement†
10.24	Form No. 3 of Director Service Agreement†
10.25	Form No. 4 of Director Indemnification Agreement†
10.26	License Agreement Between XTL Biopharmaceuticals Ltd. and VivoQuest, Inc., dated August 17, 2005†
10.27	Asset Purchase Agreement Between XTL Biopharmaceuticals Ltd. and VivoQuest, Inc., dated August 17, 2005†
10.28	Securities Purchase Agreement, dated March 17, 2006, by and among XTL Biopharmaceuticals Ltd., and the purchasers named therein
10.29	Registration Rights Agreement, dated March 22, 2006, by and among XTL Biopharmaceuticals Ltd. and the purchasers named therein
10.30	Form of Ordinary Share Purchase Warrants, dated March 22, 2006, issued to the purchasers under the Securities Purchase Agreement^
10.32	License Agreement between XTL Development, Inc. and DOV Pharmaceutical, Inc., dated January 15, 2007.*
10.33	Employment Agreement, dated as of January 1, 2006, between XTL Biopharmaceuticals Ltd. and Bill Kessler.*
10.34	Securities Purchase Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd., and the purchasers named therein
10.35	Registration Rights Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd. and the purchasers named therein
10.36	License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated March 19, 2008
21.1	List of Subsidiaries

23.1	Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd, dated March 27, 2008
23.2	Consent of Somekh Chaikin, a member firm of KPMG International, dated March 27, 2008
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 27, 2008
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 27, 2008
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 27, 2008
99.1	Report of Management on Internal Control Over Financial Reporting dated March 27, 2008

† Incorporated by reference from the registration statement on Form 20-F filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on July 14, 2005, as it may be amended or restated.

^ Incorporated by reference from the registration statement on Form F-1 filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on April 20, 2006, as it may be amended or restated.

\* Incorporated by reference from the annual report on Form 20-F filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on March 23, 2007.

SIGNATURES

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf.

**XTL BIOPHARMACEUTICALS LTD.**  
*(Registrant)*

Signature: /s/ Ron Bentsur  
\_\_\_\_\_  
Ron Bentsur  
Chief Executive Officer

Date: March 27, 2008



XTL BIOPHARMACEUTICALS LTD.  
(A Development Stage Company)  
2007 ANNUAL REPORT

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Certified Public Accountants  
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Tel Aviv 68125 Israel  
P.O Box 452 Tel Aviv 61003  
Telephone +972-3-7954555  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of  
**XTL BIOPHARMACEUTICALS LTD.**  
**(A Development Stage Company)**

We have completed integrated audits of XTL Biopharmaceuticals Ltd. and its subsidiaries (collectively - the “Company”) consolidated financial statements and of its internal control over financial reporting as of December 31, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements**

We have audited the consolidated balance sheets of the Company as of December 31, 2007 and 2006 and the Consolidated Statements of Operations, Consolidated Statements of Changes in Shareholders’ Equity and the Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005, and for the cumulative period from January 1, 2001 to December 31, 2007. We did not audit the cumulative totals of the Company for the period from March 9, 1993 (date of incorporation) to December 31, 2000, which totals reflect a deficit of \$25,201,000 accumulated during the development stage. Those cumulative totals were audited by another independent registered public accounting firm whose report, dated May 3, 2005, expressed an unqualified opinion on the cumulative amounts through December 31, 2000. Our opinion, insofar as it relates to amounts included for that period is based on the report of the other independent registered public accounting firm, mentioned above. These consolidated financial statements are the responsibility of the Company’s Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company’s Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company at December 31, 2007 and 2006, and the results of their operations, changes in shareholders’ equity and their cash flows for each of the three years in the period ended December 31, 2007 and for the cumulative period from March 9, 1993 to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

**Internal control over financial reporting**

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company’s Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for the assessment of the effectiveness of internal control over financial reporting included in Report of the Company’s Management on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express an opinion on the effectiveness of the Company’s internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also includes performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Tel-Aviv, Israel  
March 27, 2008

/s/ Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member of PricewaterhouseCoopers  
International Limited

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of XTL Biopharmaceuticals Ltd.  
(A Development Stage Company):

We have audited the accompanying consolidated statements of operations, changes in shareholders' equity and cash flows of XTL Biopharmaceuticals Ltd. (A Development Stage Company) (the "Company") and its subsidiary for the period from March 9, 1993 to December 31, 2000. These consolidated financial statements are the responsibility of the Company's management and of the Company's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations of the Company and its subsidiary and their cash flows for the period from March 9, 1993 to December 31, 2000, in conformity with generally accepted accounting principles in the United States of America.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
A member firm of KPMG International

Tel Aviv, Israel  
May 3, 2005

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Balance Sheets  
(in thousands of US dollars, except share amounts)

	December 31	
	2007	2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	2,377	4,400
Short-term bank deposits	10,600	20,845
Trading securities	—	102
Property and equipment (held for sale) - net	—	18
Deferred tax asset	—	29
Other receivables and prepaid expenses	924	702
Total current assets	13,901	26,096
Employee severance pay funds	48	98
Restricted long-term deposits	61	172
Property and equipment - net	106	490
Intangible assets - net	11	25
Deferred tax asset	—	19
Total assets	14,127	26,900
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	3,809	3,003
Deferred gain	—	399
Other current liabilities (Note 2)	1,560	—
Total current liabilities	5,369	3,402
Liability in respect of employee severance obligations	194	340
Deferred gain	—	398
<b>Commitments and contingencies (Note 8)</b>		
Total liabilities	5,563	4,140
<b>Shareholders' equity:</b>		
Ordinary shares of NIS 0.02 par value (500,000,000 and 300,000,000 authorized, 292,654,785 and 220,124,349 issued and outstanding, at December 31, 2007 and 2006, respectively)	1,444	1,072
Additional paid in capital	146,982	136,611
Deficit accumulated during the development stage	(139,862)	(114,923)
Total shareholders' equity	8,564	22,760
Total liabilities and shareholders' equity	14,127	26,900

\_\_\_\_\_  
**/s/ Michael Weiss**  
**Michael Weiss**  
**Chairman of the Board of Directors**

\_\_\_\_\_  
**/s/ Ron Bentsur**  
**Ron Bentsur**  
**Chief Executive Officer**

Date of approval of the financial statements: March 27, 2008.

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Operations  
(in thousands of US dollars, except share and per share amounts)

	Year ended December 31			Period from March 9, 1993* to December 31,
	2007	2006	2005	2007
<b>Revenues:</b>				
Reimbursed out-of-pocket expenses	—	—	2,743	6,012
License	907	454	454	2,000
	907	454	3,197	8,012
<b>Cost of revenues:</b>				
Reimbursed out-of-pocket expenses	—	—	2,743	6,012
License (with respect to royalties)	110	54	54	250
	110	54	2,797	6,262
<b>Gross margin</b>	797	400	400	1,750
<b>Research and development costs</b> (includes \$7,500 initial upfront license fee in 2007 and also includes non-cash stock option compensation of \$141, \$173, and \$112, in 2007, 2006 and 2005, respectively)	18,998	10,229	7,313	112,117
<b>Less - participations</b>	56	—	—	11,006
	18,942	10,229	7,313	101,111
<b>In-process research and development costs</b>	—	—	1,783	1,783
<b>General and administrative expenses</b> (includes non-cash stock option compensation of \$1,784, \$1,992, and \$2,641, in 2007, 2006 and 2005, respectively)	5,582	5,576	5,457	40,170
<b>Business development costs</b> (includes stock appreciation rights compensation of \$1,560 in 2007 and also includes non-cash stock option compensation of \$22, \$15, and \$10, in 2007, 2006 and 2005, respectively)	2,008	641	227	7,162
<b>Operating loss</b>	25,735	16,046	14,380	148,476
<b>Financial and other income, net</b>	590	1,141	443	8,874
<b>Loss before income taxes</b>	25,145	14,905	13,937	139,602
<b>Income taxes</b>	(206)	227	78	260
<b>Loss for the period</b>	24,939	15,132	14,015	139,862
<b>Basic and diluted loss per ordinary share</b>	\$ 0.11	\$ 0.08	\$ 0.08	
<b>Weighted average number of shares used in computing basic and diluted loss per ordinary share</b>	228,492,818	201,737,295	170,123,003	

\* Incorporation date, see Note 1a.

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Changes in Shareholders' Equity  
(in thousands of US dollars, except share amounts)

	Preferred shares		Ordinary shares	
	Number of shares	Amount	Number of shares	Amount
<b>Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2004:</b>				
Comprehensive loss - loss for the period	—	—	—	—
Employee stock options expenses	—	—	—	—
Non-employee stock option expenses	—	—	—	—
Exercise of share warrants in 2000	—	—	1,499,980	7
Exercise of share warrants in 2001	—	—	208,000	1
Exercise of employee stock options in 1999	15,600	**	—	—
Exercise of employee stock options in 2000	—	—	162,500	1
Exercise of employee stock options in 2001	—	—	59,138	**
Exercise of employee stock options in 2002	—	—	38,326	**
Exercise of employee stock options in 2003	—	—	854,100	4
Exercise of employee stock options in 2004	—	—	50,000	**
Issuance of share capital in 1993, net of \$912 issuance expenses	7,705,470	45	—	—
Issuance of share capital in 1994, net of \$22 issuance expenses	717,500	5	—	—
Issuance of share capital in 1996, net of \$646 issuance expenses	6,315,810	49	—	—
Issuance of share capital in 1998, net of \$1,650 issuance expenses	26,319,130	139	—	—
Issuance of share capital in 1999, net of \$49 issuance expenses	2,513,940	12	—	—
Issuance of share capital in 2000	—	—	15,183,590	75
Issuance of shares in 2004, net of \$2,426 issuance expenses	—	—	56,009,732	247
Bonus shares	7,156,660	41	19,519,720	97
Conversion of preferred shares into ordinary shares	(50,744,110)	(291)	50,744,110	291
Receipts in respect of share warrants (expired in 1999)	—	—	—	—
Initial public offering (“IPO”) of the Company’s shares under a prospectus dated September 20, 2000, net of \$5,199 issuance expenses	—	—	23,750,000	118
<b>Balance at December 31, 2004</b>	<b>—</b>	<b>—</b>	<b>168,079,196</b>	<b>841</b>

\*\* Represents an amount less than \$1,000.

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Changes in Shareholders' Equity (continued)  
(in thousands of US dollars, except share amounts)

	<b>Additional paid-in capital</b>	<b>Deficit accumulated during the development stage</b>	<b>Total</b>
<b>Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2004 :</b>			
Comprehensive loss - loss for the period	—	(85,776)	(85,776)
Employee stock options expenses	377	—	377
Non-employee stock option expenses	138	—	138
Exercise of share warrants in 2000	340	—	347
Exercise of share warrants in 2001	74	—	75
Exercise of employee stock options in 1999	**	—	**
Exercise of employee stock options in 2000	—	—	1
Exercise of employee stock options in 2001	26	—	26
Exercise of employee stock options in 2002	20	—	20
Exercise of employee stock options in 2003	—	—	4
Exercise of employee stock options in 2004	19	—	19
Issuance of share capital in 1993, net of \$912 issuance expenses	5,545	—	5,590
Issuance of share capital in 1994, net of \$22 issuance expenses	2,103	—	2,108
Issuance of share capital in 1996, net of \$646 issuance expenses	5,314	—	5,363
Issuance of share capital in 1998, net of \$1,650 issuance expenses	12,036	—	12,175
Issuance of share capital in 1999, net of \$49 issuance expenses	1,189	—	1,201
Issuance of share capital in 2000	16,627	—	16,702
Issuance of shares in 2004, net of \$2,426 issuance expenses	15,183	—	15,430
Bonus shares	(138)	—	—
Conversion of preferred shares into ordinary shares	—	—	—
Receipts in respect of share warrants (expired in 1999)	89	—	89
Initial public offering (“IPO”) of the Company’s shares under a prospectus dated September 20, 2000, net of \$5,199 issuance expenses	45,595	—	45,713
<b>Balance at December 31, 2004</b>	<b>104,537</b>	<b>(85,776)</b>	<b>19,602</b>

\*\* Represents an amount less than \$1,000.

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



**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Changes in Shareholders' Equity (continued)  
(in thousands of US dollars, except share amounts)

	Ordinary shares		Additional
	Number of	Amount	paid in
	shares		capital
<b>Balance at December 31, 2004 -</b>			
brought forward	168,079,196	841	104,537
<b>Changes during 2005:</b>			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	45
Employee stock option compensation expenses	—	—	2,718
Exercise of stock options	3,786,825	17	1,494
Issuance of ordinary shares in respect of license and purchases of assets (Note 3)	1,314,420	6	1,385
<b>Balance at December 31, 2005</b>	173,180,441	864	110,179
<b>Changes during 2006:</b>			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	7
Employee stock option compensation expenses	—	—	2,173
Exercise of stock options	277,238	1	96
Issuance of share warrants, net of \$681 issuance expenses	—	—	4,565
Issuance of shares, net of \$2,956 issuance expenses	46,666,670	207	19,591
<b>Balance at December 31, 2006</b>	220,124,349	1,072	136,611
<b>Changes during 2007:</b>			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	13
Employee stock option compensation expenses	—	—	1,934
Exercise of stock options	45,416	**	4
Issuance of shares, net of \$993 issuance expenses	72,485,020	372	8,420
<b>Balance at December 31, 2007</b>	292,654,785	1,444	146,982

\*\* Represents an amount less than \$ 1,000.

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Changes in Shareholders' Equity (continued)  
(in thousands of US dollars, except share amounts)

	Deficit accumulated during the development stage	Total
<b>Balance at December 31, 2004 -</b>		
brought forward	(85,776)	19,602
<b>Changes during 2005:</b>		
Comprehensive loss - loss for the period	(14,015)	(14,015)
Non-employee stock option compensation expenses	—	45
Employee stock option compensation expenses	—	2,718
Exercise of stock options	—	1,511
Issuance of ordinary shares in respect of license and purchases of assets (Note 3)	—	1,391
<b>Balance at December 31, 2005</b>	(99,791)	11,252
<b>Changes during 2006:</b>		
Comprehensive loss - loss for the period	(15,132)	(15,132)
Non-employee stock option compensation expenses	—	7
Employee stock option compensation expenses	—	2,173
Exercise of stock options	—	97
Issuance of share warrants, net of \$681 issuance expenses	—	4,565
Issuance of shares, net of \$2,956 issuance expenses	—	19,798
<b>Balance at December 31, 2006</b>	(114,923)	22,760
<b>Changes during 2007:</b>		
Comprehensive loss - loss for the period	(24,939)	(24,939)
Non-employee stock option compensation expenses	—	13
Employee stock option compensation expenses	—	1,934
Exercise of stock options	—	4
Issuance of shares, net of \$993 issuance expenses	—	8,792
<b>Balance at December 31, 2007</b>	(139,862)	8,564

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Cash Flows  
(in thousands of US dollars)

	Year ended December 31			Period from March 9, 1993 (a) to December 31,
	2007	2006	2005	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Loss for the period	(24,939)	(15,132)	(14,015)	(139,862)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation and amortization	108	243	242	3,180
Linkage difference on restricted deposits	(2)	(10)	3	(9)
Acquisition of in process research and development	—	—	1,783	1,783
Loss (gain) on disposal of property and equipment	(40)	(57)	6	(79)
Increase (decrease) in liability in respect of employee severance obligations	(70)	8	(159)	1,166
Impairment charges	105	—	26	485
Gain from sales of investment securities	—	—	—	(410)
Other income related to exchange of shares	—	(100)	—	(100)
Loss (gain) from trading securities	48	(2)	—	46
Stock option based compensation expenses	1,947	2,180	2,763	7,405
Stock appreciation rights compensation expenses	1,560	—	—	1,560
Gain on amounts funded in respect of employee severance pay funds	(2)	(1)	(6)	(94)
Deferred tax asset	48	(48)	—	—
Changes in operating assets and liabilities:				
Decrease (increase) in other receivables and prepaid expenses	(315)	(178)	418	(924)
Increase (decrease) in accounts payable and accrued expenses	892	910	(1,127)	3,809
Decrease in deferred gain	(797)	(400)	(400)	—
Net cash used in operating activities	(21,457)	(12,587)	(10,466)	(122,044)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Decrease (increase) in short-term bank deposits	10,245	(20,845)	10,136	(10,600)
Decrease (increase) in restricted deposits	113	(52)	—	(52)
Investment in investment securities	—	—	—	(3,363)
Proceeds from sales of investment securities	—	—	—	3,773
Proceeds from sales of trading securities	54	—	—	54
Employee severance pay funds	(17)	(18)	(50)	(926)
Purchase of property and equipment	(65)	(21)	(38)	(4,107)
Proceeds from disposals of property and equipment	308	103	27	560
Acquisition in respect of license and purchase of assets	—	—	(548)	(548)
Net cash provided by (used in) investing activities	10,638	(20,833)	9,527	(15,209)

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Consolidated Statements of Cash Flows (continued)  
(in thousands of US dollars)

	Year ended December 31			Period from March 9, 1993 (a) to December 31,
	2007	2006	2005	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Issuance of share capital and warrants - net of share issuance expenses	8,792	24,363	—	137,526
Exercise of share warrants and stock options	4	97	1,511	2,104
Proceeds from long-term debt	—	—	—	399
Proceeds from short-term debt	—	—	—	50
Repayment of long-term debt	—	—	—	(399)
Repayment of short-term debt	—	—	—	(50)
Net cash provided by financing activities	8,796	24,460	1,511	139,630
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,023)	(8,960)	572	2,377
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	4,400	13,360	12,788	—
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	2,377	4,400	13,360	2,377
<b>Supplementary information on investing and financing activities not involving cash flows:</b>				
Issuance of ordinary shares in respect of license and purchase of assets	—	—	1,391	1,391
Conversion of convertible subordinated debenture into shares	—	—	—	1,700
<b>Supplemental disclosures of cash flow information:</b>				
Income taxes paid, net of refunds	165	136	49	622
Interest paid	4	—	—	354

(a) Incorporation date, see Note 1a.

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

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**a. General**

- 1) XTL Biopharmaceuticals Ltd. (the “Company”) is a biopharmaceutical company engaged in the acquisition and development of therapeutics for the treatment of unmet medical needs, particularly diabetic neuropathic pain and hepatitis C. The Company was incorporated under the Israel Companies Ordinance on March 9, 1993. The Company is a development stage company in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7 “Accounting and Reporting by Development Stage Enterprises.”

The Company has a wholly-owned subsidiary in the United States (“US”), XTL Biopharmaceuticals, Inc. (the “Subsidiary”), which was incorporated in 1999 under the laws of the State of Delaware. Subsidiary is primarily engaged in development activities and business development. Subsidiary also has a wholly-owned subsidiary, XTL Development, Inc. (“XTL Development”), which was incorporated in 2007 under the laws of the State of Delaware and is engaged in development activities. Unless the context requires otherwise, references to the Company refer to XTL Biopharmaceuticals Ltd. and our wholly owned subsidiaries.

In January 2007, XTL Development signed an agreement with DOV Pharmaceutical, Inc. (“DOV”) to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI) (the “DOV Transaction”). XTL Development intends to develop Bicifadine for the treatment of diabetic neuropathic pain - a chronic condition resulting from damage to peripheral nerves.

In September 2005, the Company licensed from VivoQuest Inc. (“VivoQuest”), a US privately-held company, perpetual, exclusive, and worldwide rights to VivoQuest’s intellectual property and technology, covering a proprietary compound library, which includes VivoQuest’s lead hepatitis C compounds. In addition, the Company also acquired from VivoQuest certain assets.

The Company had licensed its former product candidate HepeX-B to Cubist Pharmaceuticals, Inc. (hereinafter “Cubist”) during 2004. In July 2007, Cubist terminated the license agreement.

- 2) Through December 31, 2007, the Company has incurred losses in an aggregate amount of US \$139.9 million. Such losses have resulted from the Company’s activities as a development stage company. Continuation of the Company’s current operations and planned development activities after utilizing its current cash reserves during 2009 is dependent upon the generation of additional financial resources either through agreements for the commercialization of its product portfolio or through external financing.

The Company has not generated any revenues from its planned principal operations and is dependent upon significant financing to provide the working capital necessary to execute its business plan. If the Company determines that it is necessary to seek additional funding, there can be no assurance that the Company will be able to obtain any such funding on terms that are acceptable to it, if at all.

- 3) The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”).
- 4) The preparation of the financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported expenses during the reporting periods. Actual results may vary from these estimates.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued)

**b. Functional currency**

The currency of the primary economic environment in which the operations of the Company are conducted is the US dollar (“\$” or “dollar”). Most of the Company's expenses and revenues are incurred in dollars. A significant part of the Company's capital expenditures and most of its external financing is in dollars. The Company holds most of its cash, cash equivalents and bank deposits in dollars. Thus, the functional currency of the Company is the dollar.

Since the dollar is the primary currency in the economic environment in which the Company operates, monetary accounts maintained in currencies other than the dollar (principally “cash and cash equivalents” and “accounts payable and accrued expenses”) are remeasured using the representative foreign exchange rate at the balance sheet date. Operational accounts and nonmonetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in the consolidated statements of operations (as “financial and other income - net”) and have not been material to date.

**c. Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances were eliminated in consolidation.

**d. Impairment of long-lived and intangible assets**

Pursuant to SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), long-lived assets, including long-lived intangible assets subject to amortization, to be held and used by an entity, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under SFAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets held and used is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values. Assets “held for sale” are reported at the lower of their carrying amount or fair value less estimated costs to sell. For the year ended December 31, 2007, the Company reported an impairment charge in the amount of \$105,000 (see Note 5).

**e. Cash equivalents**

Highly liquid investments, including short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, are considered by the Company to be cash equivalents.

**f. Marketable securities**

Pursuant to SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company's marketable securities (debt securities mainly in the form of debentures through 2004) have been designated as available-for-sale. Available-for-sale securities are carried at fair value, which is determined based upon the quoted market prices of the securities, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a component of shareholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in “financial and other income - net.” The Company views its available-for-sale portfolio as available for use in its current operations. Interest, premium and discount amortization, and dividends on securities classified as available-for-sale are included in “financial and other income- net.”

At December 31, 2006, the Company had trading securities, which were carried at their fair value based upon the quoted market prices of those investments at period end. Accordingly, net realized and unrealized gains and losses on trading securities were included in “financial and other income - net.” The Company disposed of these trading securities during 2007.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g. Property and equipment**

Property and equipment are carried at historical cost less depreciation, amortization and impairment charges. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Property and equipment that is to be disposed of and is classified as “held-for-sale” is no longer depreciated.

Annual rates of depreciation are as follows:

	%
Laboratory equipment	10-20 (mainly 15)
Computers	33
Furniture and office equipment	6-15

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

**h. Intangible assets**

Intangible assets consist of the assembled workforce in respect of the license and purchase of certain assets from VivoQuest. The intangible assets are being amortized using the straight- line method over an estimated useful life of three years.

**i. Uncertainty in income taxes**

On January 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 clarifies the criteria for recognizing tax benefits related to uncertain tax positions under SFAS No. 109, “Accounting for Income Taxes,” (“SFAS 109”) and requires additional financial statement disclosure. FIN 48 prescribes a new recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also specifies how tax benefits related to uncertain tax positions are to be recognized, measured, and derecognized in financial statements, and provides transition and interim-period guidance, among other provisions. The adoption of FIN 48 has had no impact on the Company’s consolidated results of operations and financial position, since the Company has had no uncertain tax positions that fall within FIN 48.

In addition, the Company’s practice will be to recognize interest and penalties related to tax contingencies as income tax expense. On May 2, 2007, the FASB issued FASB Staff Position (“FSP”) No. FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48-1” (“FSP FIN 48-1”). FSP FIN 48-1 provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Company adopted FSP FIN 48-1 as of January 1, 2007.

**j. Deferred income taxes**

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax basis of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when these differences are reversed. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Paragraph 9(f) of SFAS No. 109, “Accounting for Income Taxes,” (“SFAS 109”) prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax basis of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes.

Income taxes which would apply in the event of disposal of non-Israeli subsidiaries have not been taken into account in computing the deferred taxes, as it is the Company’s intention to hold, and not to realize, these assets.

**k. Research and development costs and participations**

Research and development costs are expensed as they are incurred and consist primarily of salaries and related personnel costs, fees paid to consultants and other third-parties for clinical and laboratory development, license and milestone fees, and facilities-related and other expenses relating to the design, development, testing, and enhancement of product candidates.

Participations from government (and from others) for development of approved projects are recognized as a reduction of expense as the related costs are incurred.

In connection with the purchase of assets, amounts assigned to intangible assets to be used in a particular research and development project that have not reached technological feasibility and have no alternative future use are charged to in-process research and development costs at the purchase date.

**l. Revenue recognition**

The Company recognized the revenue from its licensing agreement with Cubist (see Note 4) under the provisions of the Emerging Issues Task Force (“EITF”) No. 00-21 “Revenue Arrangements with Multiple Deliverables” and Staff Accounting Bulletin (“SAB”) No. 104 “Revenue Recognition.” Under those pronouncements, companies are required to allocate revenues from multiple-element arrangements to the different elements based on sufficient objective and reliable evidence of fair value. Since the Company did not have the ability to determine the fair value of each unit of accounting, the agreement was accounted for as one unit of accounting, after failing the separation criteria, and the Company recognized each payment on the abovementioned agreement ratably over the expected life of the arrangement.

In addition, through 2005, Cubist had requested that the Company provide development services to be reimbursed by Cubist. As required by EITF No. 01-14 “Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred,” amounts paid by the Company, as a principal, are included in the cost of revenues as reimbursable out-of-pocket expenses, and the reimbursements the Company receives as a principal are reported as reimbursed out-of-pocket revenues.

The Company recognizes revenue net of any value added taxes.

**m. Business development costs**

Costs associated with business development are comprised of costs related to seeking new development collaborations and in-licensing opportunities and to partnering activities for the Company’s drug programs (see Note 2). Business development costs are expensed as incurred.



**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n. Loss per share**

Basic and diluted losses per share are presented in accordance with SFAS No. 128 “Earnings per share” (“SFAS 128”), for all the years presented. Outstanding share options and warrants have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all the years presented. The total weighted average number of ordinary shares related to outstanding options, warrants and stock appreciation rights excluded from the calculations of diluted loss per share were 48,634,047, 34,921,782, and 17,402,642 for the years ended December 31, 2007, 2006, and 2005, respectively. These figures exclude performance condition or market-related condition options and stock appreciation rights that had not vested during the applicable periods.

**o. Comprehensive loss**

Comprehensive loss, included in shareholders' equity, consists of the loss for each period presented, and for years prior to 2005, also includes the net unrealized gains or losses on available-for-sale investment securities.

**p. Stock-based compensation**

The Company accounts for equity instruments issued to employees and directors in accordance with SFAS No. 123R “Share - Based Payment” (“SFAS 123R”). SFAS 123R addresses the accounting for share-based payment transactions in which a company obtains employee services in exchange for (a) equity instruments of a company or (b) liabilities that are based on the fair value of a company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R requires that such transactions be accounted for using the grant-date fair value based method.

The Company adopted SFAS 123R as of January 1, 2005, using the modified prospective application transition method. Under such transition method, the Company's financial statements for periods prior to the effective date of SFAS 123R (January 1, 2005) have not been restated. SFAS 123R eliminated the ability to account for employee share-based payment transactions using Accounting Principles Board Opinion No. 25 - “Accounting for Stock Issued to Employees” (“APB 25”). SFAS 123R applies to all awards granted or modified after the effective date of the standard. In addition, compensation costs for the unvested portion of previously granted awards that remained outstanding on the effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant-date fair value as previously calculated for the pro-forma disclosure under SFAS No. 123 “Accounting for Stock-Based Compensation” (“SFAS 123”).

Prior to the adoption of SFAS 123R, the Company accounted for employee stock-based compensation under the intrinsic value model in accordance with APB 25 and related interpretations. Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company's ordinary shares and the exercise price.

Under SFAS 123R, the fair value of stock options granted with service conditions or with performance conditions was determined using the Black-Scholes valuation model. Such value is recognized as an expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123R. The fair value of stock options granted with market conditions was determined using a Monte Carlo Simulation method. Such value is recognized as an expense using the accelerated method under SFAS 123R. Both the Black-Scholes model and the Monte Carlo simulation method take into account a number of valuation parameters.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued)

The estimation of stock awards that will ultimately vest requires significant judgment, and to the extent actual results or updated estimates differ from the Company’s current estimates, such amounts will be recorded as a cumulative adjustment in the period those estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from the Company’s current estimates.

The Company accounts for equity instruments issued to third party service providers (non-employees) in accordance with the fair value method prescribed by SFAS 123R, and the provisions of EITF 96-18. Unvested options are revalued at every reporting period and amortized over the vesting period in order to determine the compensation expense.

The following table illustrates the effect on loss assuming the Company had applied the fair value recognition provisions of SFAS 123 to its stock-based employee compensation, for years presented prior to the adoption of SFAS 123R:

	Period from March 9, 1993* to December 31, 2004
<b>(\$ in thousands except per share amounts)</b>	
Loss for the period, as reported	85,776
Deduct: stock- based employee compensation expense, included in reported loss	(483)
Add: stock-based employee compensation expense determined under fair value method for all awards	6,355
Loss - pro-forma	91,648

\* Incorporation date, see Note 1a.

In January 2007, XTL Development committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction. The Company accounts for the transaction advisory fee in the form of stock appreciation rights (“SAR”) (see Note 2) in accordance with the provisions of EITF No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services” (“EITF 96-18”) and by the provisions of EITF No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock” (“EITF 00-19”). In accordance with EITF 96-18 and EITF 00-19, the Company records SAR compensation expense based on the fair value of the SAR at the reporting date, and the related liability has been recorded as “other current liabilities” on its Consolidated Balance Sheet. The SAR compensation will be revalued, based on the then current fair value, at each subsequent reporting date, until payment of the stock appreciation rights have been satisfied.

**q. Recently issued accounting pronouncements in the United States**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”) which replaces SFAS No 141. SFAS 141R changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer’s income tax valuation allowance and income tax uncertainties. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years (January 1, 2009, for the Company). Early application is prohibited.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued)

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51” (“SFAS 160”) which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years (including interim periods within those fiscal years) beginning on or after December 15, 2008 (January 1, 2009, for the Company). Earlier adoption is prohibited. The statement shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. As of December 31, 2007, the Company’s consolidated financial statements and disclosures did not include any minority interests.

In December 2007, the FASB ratified EITF Issue No. 07-1, “Accounting for Collaborative Arrangements” (“EITF 07-1”). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009, for the Company). EITF 07-1 shall be applied using a modified version of retrospective transition for those arrangements in place at the effective date. Companies are required to report the effects of applying EITF-07-1 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. The Company is currently assessing the impact that EITF 07-1 may have on its results of operations and financial position.

In June 2007, the EITF reached a consensus on EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received to Be Used in Future Research and Development Activities” (“EITF 07-3”). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. The provisions of EITF 07-3 will be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years (January 1, 2008, for the Company). Early application is prohibited. The provisions of EITF 07-3 are applicable for new contracts entered into on or after the effective date.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 is expected to expand the use of fair value accounting, but does not affect existing standards which require certain assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may choose, at its initial application or at other specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (January 1, 2008, for the Company). Were the Company to elect the fair value option for its existing assets and liabilities, the effect as of the adoption date, shall be reported as a cumulative-effect adjustment to the opening balance of comprehensive loss.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which provides guidance for using fair value to measure assets and liabilities. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company), and interim periods within those fiscal years. Subsequent to the issuance of SFAS 157, the FASB issued FSP No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP 157-1") and FSP No. 157-2 "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-1 excludes, in certain circumstances, SFAS No. 13 "Accounting for Leases" and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under statement 13 from the provision of SFAS 157. FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 defers the effective date of SFAS 157 for such instruments to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years (January 1, 2009, for the Company). The Company does not expect the adoption of SFAS 157 to have a material impact on its results of operations and financial position.

**NOTE 2 - BICIFADINE TRANSACTION**

**a. License Agreement with DOV Pharmaceutical, Inc.**

In January 2007, XTL Development signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI). XTL Development is developing Bicifadine for the treatment of diabetic neuropathic pain - a chronic condition resulting from damage to peripheral nerves.

In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of \$7.5 million in cash, which was expensed in "Research Development Costs" in the Company's consolidated statements of operations for the year ended December 31, 2007. In addition, XTL Development will make milestone payments of up to \$126.5 million over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product. These milestone payments may be made in either cash and/or ordinary shares of the Company, at the Company's election, with the exception of \$5 million in cash, due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine.

**b. Transaction Advisory Fee Structured in the Form of Stock Appreciation Rights**

In January 2007, XTL Development committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction. The transaction advisory fee was structured in the form of SARs in the amount equivalent to (i) 3% of the Company's fully diluted ordinary shares at the close of the transaction (representing 8,299,723 ordinary shares), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of the Company's fully diluted ordinary shares at the close of the transaction (representing 19,366,019 ordinary shares), vesting following the first to occur of successful Phase 3 clinical trial results or the acquisition of the Company. Payment of the SARs by XTL Development can be satisfied, at the Company's discretion, in cash and/or by issuance of the Company's registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share of the Company on the exercise date exceeds the \$0.34 grant price for such SAR (fair market value equals (i) the greater of the closing price of an ADR on the exercise date, divided by ten, or (ii) the preceding five day ADR closing price average, divided by ten). The SARs expire on January 15, 2017. In the event of the termination of the license agreement under, any unvested SARs will expire.

**XTL BIOPHARMACEUTICALS LTD.**  
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**NOTE 2 - BICIFADINE TRANSACTION** (continued)

In accordance with EITF 96-18 and EITF 00-19, the Company records SAR compensation expense which is included in Business Development Costs based on the fair value of the SAR at the reporting date, and the related liability has been recorded as “other current liabilities” on its Consolidated Balance Sheet. The SAR compensation will be revalued, based on the then current fair value, at each subsequent reporting date, until payment of the stock appreciation rights have been satisfied (see Note 1p).

The Company used a Black & Scholes model as the fair value pricing model for the SAR as described above. The following assumptions under this method were used for the valuation of the SAR as of December 31, 2007: expected volatility of: 59%; risk-free interest rates (in dollar terms) of 4.2%; dividend yield of 0%; and remaining contractual life of 9 years.

**NOTE 3 - LICENSE AND ASSET PURCHASE AGREEMENT WITH VIVOQUEST**

During September 2005, the Company licensed from VivoQuest perpetual, exclusive, and worldwide rights to VivoQuest’s intellectual property and technology, covering a proprietary compound library, which includes VivoQuest’s lead hepatitis C compounds. In addition, the Company acquired from VivoQuest certain assets, including VivoQuest’s laboratory equipment, assumed VivoQuest’s lease of its laboratory space and certain research and development employees. The Company executed this transaction in order to broaden its pipeline and strengthen its franchise in infectious diseases.

In connection with the VivoQuest transaction (the “Transaction”):

- (1) the Company issued the fair value equivalent of \$1,391,000 of its ordinary shares (1,314,420 ordinary shares, calculated based upon the average of the closing prices per share for the period commencing two days before, and ending two days after the closing of the transaction), made cash payments of approximately \$400,000 to cover VivoQuest’s operating expenses prior to the closing of the Transaction, and incurred \$148,000 in direct expenses associated with the Transaction;
- (2) the Company agreed to make additional contingent milestone payments triggered by certain regulatory and sales targets, totaling up to \$34.6 million, \$25.0 million of which will be due upon or following regulatory approval or actual product sales, and payable in cash or ordinary shares at the Company’s election. No contingent consideration has been paid pursuant to the license agreement as of the balance sheet date, because none of the milestones have been achieved. The contingent consideration will be recorded as part of the acquisition costs in the future; and
- (3) the Company agreed to make royalty payments on future product sales.

As VivoQuest is a development stage enterprise that had not yet commenced its planned principal operations, the Company accounted for the Transaction as an acquisition of assets pursuant to the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets.” Accordingly, the purchase price was allocated to the individual assets acquired, based on their relative fair values, and no goodwill was recorded.

The purchase price consisted of:

	(\$ in thousands)
Fair value of the Company’s ordinary shares	1,391
Cash consideration paid	400
Direct expenses associated with the Transaction	148
Total purchase price	1,939

**XTL BIOPHARMACEUTICALS LTD.**  
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**NOTE 3 - LICENSE AND ASSET PURCHASE AGREEMENT WITH VIVOQUEST** (continued)

The tangible and intangible assets acquired consisted of the following:

	(\$ in thousands)
Tangible assets acquired - property and equipment	113
Intangible assets acquired:	
In-process research and development	1,783
Assembled workforce	43
Total intangible assets acquired	1,826
Total tangible and intangible assets acquired	1,939

The fair value of the in-process research and development acquired was estimated using the “income approach.” In the income approach, fair value is dependent on the present value of future economic benefits to be derived from ownership of an asset. Central to this approach is an analysis of the earnings potential represented by an asset and of the underlying risks associated with obtaining those earnings. Fair value is calculated by discounting future net cash flows available for distribution to their present value at a rate of return, which reflects the time value of money and business risk. In order to apply this approach, the expected cash flow approach was used. Expected cash flow is measured as the sum of the average, or mean, probability-weighted amounts in a range of estimated cash flows. The expected cash flow approach focuses on the amount and timing of estimated cash flows and their relative probability of occurrence under different scenarios. The probability weighted expected cash flow estimates are discounted to their present value using the risk free rate of return, since the business risk is incorporated in adjusting the projected cash flows to the probabilities for each scenario. The risk-free discount rate assumed for the valuation of the license to the intellectual property is 4.6%, based upon the yields on long-term US treasury securities, as of the valuation date.

The fair value of the assembled workforce acquired was estimated by management with the assistance of an independent third-party appraiser, using the “cost approach.” The cost approach measures the fair- value based on the cost of reproducing or replacing an asset, less depreciation and amortization from physical deterioration and functional or economic obsolescence, if present and measurable. According to this approach, the estimated fair value of the assembled workforce is based on the cost of replacing VivoQuest’s key employees, which were hired by the Company as a part of the Transaction.

The amount allocated to in-process research and development represents the relative fair value of purchased in-process research and development that, as of the transaction date, have not reached technological feasibility and have no proven alternative future use. Accordingly, they were charged in the consolidated statement of operations as “in- process research and development costs.”

The assembled workforce that was acquired is being amortized using the straight-line method over its estimated useful life of three years, and is classified as “intangible assets” on the Company’s balance sheet.

For the years ended December 31, 2007, 2006 and 2005, amortization of the assembled workforce was \$14,000, \$14,000 and \$4,000, respectively. The remaining \$11,000 balance will be amortized during 2008.

**XTL BIOPHARMACEUTICALS LTD.**  
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**NOTE 4 - LICENSE AGREEMENT WITH CUBIST**

The Company entered into a licensing agreement with Cubist in June 2004, and as amended in August 2005, under which the Company granted Cubist an exclusive, worldwide license to commercialize HepeX-B against hepatitis B. In July 2007, Cubist terminated the HepeX-B license agreement with the Company.

Under the terms of the agreement, as amended, Cubist paid the Company an initial up-front nonrefundable payment of \$1 million upon the signing of the agreement and a \$1 million collaboration support payment, out of which \$907,000, \$454,000 and \$454,000 was recorded as revenue in the years ended December 31, 2007, 2006 and 2005, respectively. The payments were recorded as deferred revenue upon receipt and were to be amortized through 2008 or the date upon which regulatory approval was to be reached, if earlier. The deferred revenue was subsequently fully recognized in 2007, with the termination of the agreement. In addition, the Company was responsible for certain clinical and product development activities of HepeX-B through August 2005, at the expense of Cubist. See Note 1L for the revenue recognition treatment.

Under a research and license agreement with Yeda Research and Development Company Ltd. (“Yeda”) (see also Note 8a(2)), the Company paid Yeda \$250,000 with respect to the \$1 million up-front fee received by the Company from Cubist in 2004, out of which \$110,000, \$54,000 and \$54,000 was recorded as cost of revenues in 2007, 2006 and 2005, respectively.

The balance of the deferred gain related to the revenue from Cubist, as of December 31, 2007 and 2006, was presented in the balance sheet, net of the above mentioned payment, as follows:

	December 31	
	2007	2006
	(\$ in thousands)	
Deferred revenue	—	907
Less - Deferred expenses related to Yeda	—	110
Deferred gain	—	797

For a discussion of the Company's contingent commitment to the Government of Israel related to HepeX-B see Note 8a(2).

**NOTE 5 - PROPERTY AND EQUIPMENT**

a. Composition of the assets, grouped by major classifications, is as follows:

	December 31	
	2007	2006
	(\$ in thousands)	
<b>Property and equipment</b>		
<b>Cost:</b>		
Laboratory equipment	119	1,281
Computers	220	227
Leasehold improvements	141	572
Furniture and office equipment	98	156
	578	2,236
<b>Accumulated depreciation and amortization:</b>		
Laboratory equipment	115	895
Computers	172	202
Leasehold improvements	141	572
Furniture and office equipment	44	77
	472	1,746
	106	490

**XTL BIOPHARMACEUTICALS LTD.**  
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**NOTE 5 - PROPERTY AND EQUIPMENT** (continued)

- b. The Company had leased an aggregate of approximately 1,776 square meters of office and laboratory facilities in Rehovot, Israel, pursuant to a lease agreement that was set to expire in April 2007. On February 28, 2007, the Company exercised an option to renew the lease and to downsize the facilities to 414 square meters of office space. Subsequent to renewing the lease in 2007, the Company determined to dispose of certain unused assets (primarily lab equipment). Under the provisions of SFAS 144, the Company's management reviewed the carrying value of certain property and equipment (primarily laboratory equipment), and recorded an impairment charge in "research and development costs" in the amount of \$105,000 for the year ended December 31, 2007.

In addition, in 2005, the Company's management reviewed the carrying value of certain property and equipment (primarily laboratory equipment), and recorded an impairment charge in the amount of \$26,000 in "research and development costs" for the year ended December 31, 2005. See Note 10.

- c. The Company completed the disposition of its assets held for sale during 2007, with \$308,000 in proceeds from disposals of property and equipment in 2007. As of December 31, 2007 and 2006, the Company's unused assets (primarily lab equipment) held for sale was \$0 and \$18,000, respectively.
- d. Depreciation totaled \$94,000, \$229,000 and \$238,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 6 - EMPLOYEE SEVERANCE OBLIGATIONS**

**a. The Company**

Israeli labor law generally requires payment of severance upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to the Company:

- 1) On June 30, 2001, or subsequently on the date of employment, the Company entered into an agreement with each of its Israeli employees implementing Section 14 of the Severance Compensation Act, 1963 (the "Law") and the General Approval of the Labor Minister issued in accordance with Section 14 of the Law, mandating that upon termination of such employee's employment, the Company shall release to the employee all amounts accrued in its insurance policies with respect to such employee. Accordingly, the Company remits each month to each of its employees' insurance policies, the amounts required by the Law to cover the severance pay liability.

The employee severance obligations covered by these contribution plans are not reflected in the financial statements, as the severance payment obligation has been irrevocably transferred to the severance funds.

- 2) Insurance policies for certain employees: the policies provide most of the coverage for severance pay and pension liabilities of managerial personnel, the remainder of such liabilities are covered by the Company.

The Company has recorded an employee severance obligation for the amount that would be paid if all such employees were dismissed at the balance sheet date, on an undiscounted basis, in accordance with Israeli labor law. This liability is computed based upon the number of years of service multiplied by the latest monthly salary. The amount of accrued severance represents the Company's severance obligation in accordance with labor agreements in force and based on salary components, which in management's opinion, create an entitlement to severance.

The Company may only utilize the severance pay funds in the insurance policies for the purpose of disbursement of severance.



**XTL BIOPHARMACEUTICALS LTD.**  
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**NOTE 6 - EMPLOYEE SEVERANCE OBLIGATIONS** (continued)

**b. The Subsidiary and XTL Development**

The severance obligations of the Subsidiary and XTL Development are calculated based upon applicable employment agreements.

**c. Severance expenses**

Severance expenses (income) totaled \$(70,000), \$8,000 and \$(159,000) for the years ended December 31, 2007, 2006 and 2005, respectively.

Gain on employee severance pay funds in respect of employee severance obligations totaled \$2,000, \$1,000 and \$6,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

**d. Cash flow information regarding the Company's liability for employee rights upon retirement**

- 1) For the years ended December 31, 2007, 2006 and 2005, the Company contributed to insurance companies, in respect of its severance obligations to its Israeli employees, \$57,000, \$82,000 and \$166,000, respectively, and expects to contribute, in 2008, \$33,000 to insurance companies in respect of its severance obligations to its Israeli employees.
- 2) The Company expects to pay \$45,000 in future benefits to certain employees who will reach retirement during the years 2013-2017. As of December 31, 2007, \$35,000 of these future benefits have been funded by the Company and are included in "employee severance pay funds." This amount was determined based on each employee's current salary and the number of service years that will be accumulated upon each employee's retirement date. These amounts do not include amounts that might be paid to employees that will cease being employed by the Company prior to the normal retirement age.

**NOTE 7 - SHAREHOLDERS' EQUITY**

**a. Share Capital and Warrants**

As of December 31, 2007, American Depositary Receipts, representing the Company's ordinary shares ("ADRs"), trade on the NASDAQ Capital Market, with each ADR representing ten ordinary shares. As of December 31, 2007, the Company's ordinary shares are also traded on the Tel Aviv Stock Exchange ("TASE"). On October 31, 2007, the Company's ordinary shares were delisted from the London Stock Exchange ("LSE"), pursuant to the October 2, 2007 vote at the Company's extraordinary general meeting of shareholders.

On October 2, 2007, the registered share capital of the Company was increased to 500,000,000 ordinary shares, NIS 0.02 nominal value each, from 300,000,000 ordinary shares, NIS 0.02 nominal value each, pursuant to the vote at the Company's extraordinary general meeting of shareholders.

On November 20, 2007, the Company completed a private placement of 72,485,020 ordinary shares (equivalent to 7,248,502 ADRs) at \$0.135 per ordinary share (equivalent to \$1.35 per ADR). The private placement was announced on October 25, 2007. Total proceeds to the Company from this private placement were approximately \$8.8 million, net of offering expenses of approximately \$1.0 million.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

On March 22, 2006, the Company completed a private placement of 46,666,670 ordinary shares (equivalent to 4,666,667 ADRs) at \$0.60 per ordinary share (\$6.00 per ADR), together with warrants for the purchase of an aggregate of 23,333,335 ordinary shares (equivalent to 2,333,333.5 ADRs) at an exercise price of \$0.875 (equivalent to \$8.75 per ADR). The warrants expire on March 22, 2011. The private placement closed on May 25, 2006. Total proceeds to the Company from this private placement were approximately \$24.4 million, net of offering expenses of approximately \$3.6 million.

As of December 31, 2007 and 2006, no warrants have been exercised and no warrants have been cancelled. The Company used the Black & Scholes fair value option pricing model to value the warrants issued in 2006. The following assumptions under this method were used: expected volatility of 48%; risk-free interest rate (in dollar terms) of 4.8%; dividend yield of 0%; and expected life of 4.8 years. The fair value of the warrants issued was \$0.22 per warrant, and was recorded as additional paid-in capital.

On September 21, 2005, the Company issued to VivoQuest the fair value equivalent of \$1,391,000 of its ordinary shares (1,314,420 ordinary shares), see Note 3.

On August 2, 2004, the Company completed a Placing and Open Offer transaction of 56,009,732 ordinary shares at £0.175 per ordinary share (\$0.32 per ordinary share) on the LSE. Total proceeds to the Company from the transaction were approximately \$15.4 million, net of offering expenses of approximately \$2.4 million.

On September 20, 2000 and October 26, 2000, the Company issued 20,900,000 and 2,850,000 ordinary shares, respectively, in an initial public offering on the LSE and in exercise of the underwriters over-allotment option, respectively (collectively the "IPO"), at the price of £ 1.5 per ordinary share (\$2.1 per ordinary share). Total proceeds to the Company from the IPO were approximately \$45.7 million, net of offering expenses of approximately \$5.2 million.

**b. Stock Option Plans**

- 1) The Company maintains the following share option plans for its employees, directors and consultants.

The Company's board of directors administers its share option plans and has the authority to designate all terms of the options granted under the Company's plans including the grantees, exercise prices, grant dates, vesting schedules and expiration dates.

As of December 31, 2007, the Company has granted to employees, directors and consultants options that are outstanding to purchase up to 29,167,655 ordinary shares, under the four remaining share option plans discussed below and pursuant to certain grants apart from these plans also discussed below.

**(a) 1998 Share Option Plan**

Under a share option plan established in 1998 ("the 1998 Plan"), the Company granted options to employees during 1998, which are held by a trustee under section 3(i) of the Israeli tax ordinance (hereinafter the "Tax Ordinance"), of which 2,145,000 are outstanding and exercisable as of December 31, 2007 at an exercise price of \$0.497 per ordinary share.

The options granted hereunder expired in January 2008. If the options were not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. There are no options available for grant under this plan.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

(b) 1999 Share Option Plan

Under a share option plan established in 1999 ("the 1999 Plan"), the Company granted options to employees during 1999, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 698,820 are outstanding and exercisable as of December 31, 2007, at an exercise price of \$0.497 per ordinary share.

The option term is for a period of 10 years from the grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. There are no options available for grant under this plan.

(c) 1999 International Share Option Plan

Under an international share option plan established in 1999, the Company had granted options to employees during 1999 and 2000. All of the options granted under this plan expired during the year ended December 31, 2007. There are no options available for grant under this plan.

(d) 2000 Share Option Plan

Under a share option plan established in 2000 ("the 2000 Plan"), the Company granted options to employees during 2000, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 669,800 are outstanding and exercisable as of December 31, 2007, at an exercise price of \$1.10 per ordinary share.

The option term is for a period of 10 years from grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. There are no options available for grant under this plan.

(e) 2001 Share Option Plan

Under a share option plan established in 2001 ("the 2001 Plan"), the Company has granted options during 2001-2007, at an exercise price between \$0.106 and \$0.931 per ordinary share. Up to 11,000,000 options were available to be granted under the 2001 Plan, of which 5,114,035 are outstanding as of December 31, 2007. Options granted to Israeli employees were in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance.

The option term is for a period of 10 years from the grant date. The options vest over a four year period. As of December 31, 2007, 2,120,285 options are fully vested. As of December 31, 2007, the remaining number of options available for future grants under the 2001 Plan is 5,354,956.

(f) Non-Plan Share Options

In addition to the options granted under the Company's share option plans, there are 20,540,000 outstanding options, and 7,351,114 exercisable options, as of December 31, 2007, which were granted by the Company to employees, directors and consultants not under an option plan during 1997-2007. The options were granted at an exercise price between \$0.20 and \$2.11 per ordinary share. The options expire between 2008 and 2017.

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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

2) The following table summarizes options granted to employees and directors under the Company's stock option plans, as discussed above:

	Year ended December 31					
	2007		2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$		\$
Balance outstanding at beginning of year	32,475,238	0.63	24,268,975	0.59	17,805,661	0.69
Changes during the year:						
Granted <sup>1</sup>	9,620,000	0.36	11,740,000	0.70	11,370,000	0.36
Exercised <sup>2</sup>	(45,416)	0.11	(277,238)	0.35	(3,786,825)	0.40
Cancelled	(9,250,000)	0.35	—	—	—	—
Reclassified <sup>3</sup>	—	—	(125,000)	0.25	—	—
Expired	(3,947,536)	0.70	(2,074,505)	0.60	(153,285)	0.95
Forfeited	(417,339)	0.60	(1,056,994)	0.57	(966,576)	0.39
Balance outstanding at year end <sup>4</sup>	<u>28,434,947</u>	0.62	<u>32,475,238</u>	0.63	<u>24,268,975</u>	0.59
Balance exercisable at year end <sup>4</sup>	<u>12,477,311</u>	0.72	<u>14,145,370</u>	0.72	<u>16,262,310</u>	0.70

- <sup>1</sup> In 2007, the exercise price of the options granted to employees and directors was greater than or equal to the share price on the grant date (see (a) and (c) below). In 2006, the exercise price of the options granted to employees and directors was greater than, equal to, or less than the share price on the grant date (see (b) and (c) below). In 2005, the exercise price of options granted to directors was equal to or less than the share price on the grant date (see (a) and (c) below).
- <sup>2</sup> The total intrinsic value of options exercised during 2007, 2006 and 2005 was \$14,000, \$167,000 and \$1,521,000, respectively.
- <sup>3</sup> In 2006, a former employee was engaged by the Company as a consultant. The options that were granted to that former employee have been reclassified from options to an employee to options to a consultant.
- <sup>4</sup> The aggregate intrinsic value as of December 31, 2007 is \$27,000 for outstanding options, and \$25,000 for exercisable options.

The following table summarizes information about stock options granted to employees and directors outstanding and exercisable at December 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted- average remaining contractual life (years)	Weighted- average exercise price	Number exercisable	Weighted- average remaining contractual life (years)	Weighted- average exercise price
\$0.100-\$0.299	215,800	5.5	\$ 0.168	159,550	4.4	\$ 0.127
\$0.300-\$0.399	11,640,000	2.8	\$ 0.359	3,760,000	2.6	\$ 0.359
\$0.400-\$0.499	3,405,820	0.2	\$ 0.497	3,405,820	0.2	\$ 0.497
\$0.500-\$0.699	3,207,661	8.3	\$ 0.600	845,161	7.9	\$ 0.600
\$0.700-\$0.899	7,199,400	8.1	\$ 0.776	1,540,514	7.8	\$ 0.783
\$0.900-\$1.100	1,491,266	0.9	\$ 1.007	1,491,266	0.9	\$ 1.007
\$2.110	<u>1,275,000</u>	2.7	\$ 2.110	<u>1,275,000</u>	2.7	\$ 2.110
	28,434,947	4.4	\$ 0.619	12,477,311	2.8	\$ 0.719

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

- (a) In December 2007, the Company canceled 9,250,000 options that were granted to its Chairman of the Board (the "Chairman") in August 2005, at an exercise price of \$0.354 per share (the "Original Options"), and granted to the Chairman 9,250,000 options (the "New Options") on the exact same remaining terms and conditions as the Original Options (including the remainder of the exercise period of the Original Options), with the exception of the exercise price, which is equal to \$0.36 per option (a price greater than the closing price on the date of grant of the New Options). Since the exercise price of the New Options are greater than the exercise price of the Original Options and were granted on the exact same remaining terms and conditions, in accordance with SFAS 123R, no incremental compensation cost is recognized and the compensation cost continues to be recognized according to the Original Options as described below. As of December 31, 2007, 3,083,333 options that were granted to the Chairman are vested (the first market condition milestone was reached and therefore 1/3 of the options were vested).

In August 2005, the Company's shareholders granted its Chairman the Original Options at an exercise price equal to \$0.354 per ordinary share (which was below market price on the date of grant). These Original Options were exercisable for a period of five years from the date of issuance, and were granted under the same terms and conditions as the 2001 Plan. The Original Options vest upon achievement of certain market conditions (in each case, 1/3 of the options will vest upon achievement of a certain market condition). In addition, in the event of a merger, acquisition or other change of control or in the event that the Company terminates the Chairman, either without cause or as a result of his death or disability, or he terminates his agreement for good reason, the exercisability of any of the options granted to him that are unexercisable at the time of such event or termination shall accelerate and the time period during which he shall be allowed to exercise such options shall be extended by two years from the date of the termination of his agreement. Additionally, the Company's board of directors shall have the discretion to accelerate all or a portion of the Chairman's options at any time. The compensation expenses are amortized using the accelerated method.

In August 2005, the Company's shareholders granted one of its non-executive directors, options to purchase a total of 2,000,000 ordinary shares at an exercise price equal to \$0.354 per ordinary share (which was below market price on the date of grant). These options are exercisable for a period of five years from the date of issuance, and were granted under the same terms and conditions as the 2001 Plan. The options shall vest upon achievement of certain market conditions (in each case, 1/3 of the options will vest upon achievement of a certain market condition). As of December 31, 2007, 666,667 options that were granted to one of the Company's non-executive directors are vested (the first market condition milestone was reached and therefore 1/3 of the options were vested). The compensation expenses are amortized using the accelerated method.

The Company used a Monte Carlo Simulation method as the fair value option pricing model, which was estimated by management with the assistance of an independent third-party appraiser. The following assumptions under this method were used for the stock options granted in 2005: risk free interest rate of 4.6% (in dollar terms); expected volatility of 50%; dividend yield of 0%; and derived expected life of 1.43 to 4.37 years. The weighted average fair value of options granted during the year, estimated by using the Monte Carlo Simulation Method, was \$0.53 per option.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

- (b) In March 2006, the Company's board of directors granted the Company's Chief Executive Officer ("CEO") options to purchase a total of 7,000,000 ordinary shares at an exercise price equal to \$0.774 per ordinary share (closing price of the Company's ADRs on last trading day prior to official appointment, divided by ten; closing price of the Company's ADRs on grant date, divided by ten was \$0.784). These options are exercisable for a period of 10 years from the date of issuance, and granted under the same terms and conditions as the 2001 Plan. Of these, 2,333,334 options shall vest as follows: 777,782 options on the one-year anniversary of the issuance of the options and 194,444 options at the end of each quarter thereafter for the following two years. The balance of the options shall vest upon achievement of certain market conditions or performance conditions (2,333,333 of the options shall vest upon achievement of a certain market capitalization or working capital condition and 2,333,333 of the options shall vest upon achievement of another market capitalization or working capital condition). In addition, in the event of a merger, acquisition or other change of control or in the event that the Company terminates the CEO, either without cause or as a result of his death or disability, or he terminates his agreement for good reason, the exercisability of any of the options granted to him that are unexercisable at the time of such event or termination shall accelerate and the time period during which he shall be allowed to exercise such options shall be extended by two years from the date of the termination of his agreement. Additionally, the Company's board of directors shall have the discretion to accelerate all or a portion of the CEO's options at any time. As of December 31, 2007, 1,361,114 of the options granted to the CEO have vested. The compensation expenses for the options that vest upon achievement of certain market conditions or performance conditions are amortized using the accelerated method.

The Company used a Monte Carlo Simulation method as the fair value option pricing model for the market condition tranche of the CEO's options grant in 2006, which was estimated by management with the assistance of an independent third-party appraiser. The following assumptions under this method were used for the stock options granted: average risk free interest rate of 4.7% (in dollar terms); expected volatility of 50%; dividend yield of 0%; and derived expected life of 4.00 to 5.00 years. The weighted average fair value of options granted during the year, estimated by using the Monte Carlo Simulation Method was \$0.46 per option.

The Company used a Black & Scholes model as the fair value option pricing model for the service condition tranche (see (c) below).

- (c) In August 2007, the Company granted options to a non-executive director to purchase 20,000 ordinary shares, at an exercise price equal to \$0.204 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). The options are exercisable for a period of ten years from date of grant.

In April 2007, the Company's board of directors granted options to its employees to purchase a total of 350,000 ordinary shares at an exercise price equal to \$0.374 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). These options are exercisable for a period of 10 years from the date of issuance, and were granted under the Company's 2001 Plan.

In September 2006, the Company's board of directors granted options to its employees to purchase a total of 75,000 ordinary shares at an exercise price equal to \$0.286 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). In June 2006, the Company's board of directors granted options to its employees to purchase a total of 4,625,000 ordinary shares at an exercise price equal to \$0.60 per ordinary share (a price above the closing price of the Company's ADRs on the grant date, divided by ten). These options are exercisable for a period of 10 years from the date of issuance, and were granted under the Company's 2001 Plan.

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

In August 2006, the Company granted options to a non-executive director to purchase 20,000 ordinary shares, at an exercise price equal to \$0.325 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). The options are exercisable for a period of ten years from date of grant. In August 2006, the Company granted options to the estate of a non-executive director to purchase 20,000 ordinary shares, at an exercise price equal to \$0.325 per ordinary share (a price below the closing price of the Company's ADRs on the grant date, divided by ten). The options were exercisable through December 31, 2007.

In August 2005, the Company granted to two of its non-executive directors options to purchase a total of 60,000 ordinary shares each, having an exercise price equal to \$0.853 per ordinary share (equal to the average price per share, as derived from the Daily Official List of the London Stock Exchange, in the three days preceding the date of such grant), vesting over the three years from the date of grant. In addition, they also provided for an annual grant of 20,000 options each, for three years, at an exercise price equivalent to the then current closing price of the Company's ADR's on the NASDAQ Stock Market, with the future grants being contingent on such non-executive directors being members of the Company's board of directors at such time.

The Company used a Black & Scholes model as the fair value option pricing model for the service condition awards described above. The following assumptions under this method were used for the stock options granted during the years ended December 31, 2007, 2006 and 2005: weighted average expected volatility of: 51%, 48% and 50%, respectively; weighted average risk-free interest rates (in dollar terms) of 4.6%, 5.0% and 4.6%, respectively; dividend yield of 0%, respectively; and weighted average expected life of 6.0, 5.7 and 5.0 years, respectively. The weighted average fair value of options granted during the years ended December 31, 2007, 2006 and 2005 using the model was \$0.20, \$0.27 and \$0.42 per option, respectively.

The expected term of options granted is derived from historical data and the expected vesting period. Expected volatility is based on the historical volatility of the Company's ordinary shares and the Company's assessment of its future volatility. The risk-free interest rate is based on the US Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The Company has assumed no expected dividend yield, as dividends have never been paid to share or option holders and will not be for the foreseeable future. The Company used historical information to estimate forfeitures within the valuation model. Compensation expenses are calculated based on the straight line method (unless noted otherwise).

- (d) For the years ended December 31, 2007, 2006 and 2005, non-cash compensation relating to options granted to employees and directors was \$1,934,000 (of which \$134,000 was charged to research and development costs, \$1,778,000 was charged to general and administrative expenses and \$22,000 was charged to business development costs), \$2,173,000 (of which \$170,000 was charged to research and development costs, \$1,990,000 was charged to general and administrative expenses and \$13,000 was charged to business development costs), and \$2,718,000 (of which \$67,000 was charged to research and development costs, \$2,641,000 was charged to general and administrative expenses and \$10,000 was charged to business development costs), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2007 was \$3,616,000, and the weighted average period over which it is expected to be recognized is 2.1 years.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

- (e) In March 2006, the Board of Directors of the Company approved the grant to the Chairman and to a non-executive director, of options to purchase 9,898,719 and 750,000 ordinary shares, respectively, at an exercise price of \$0.713 per ordinary share. All of such options are subject to vesting of which one third is based on service period, and the remainder is based on achievement of certain milestones linked to the Company's valuation on the public markets. These grants are subject to shareholder approval. During 2006 and 2007, the Company did not seek shareholder approval, so the options have not been granted as of December 31, 2007.
- 3) The following table summarizes options granted to consultants (including consultants and members of the scientific advisory board and other third-party service providers) under the Company's stock option plans, as discussed above:

	Year ended December 31					
	2007		2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$		\$
Balance outstanding at beginning of year	760,000	0.31	525,000	0.33	525,000	0.33
Changes during the year:						
Granted <sup>1</sup>	150,000	0.37	120,000	0.29	—	—
Reclassified <sup>2</sup>	—	—	125,000	0.25	—	—
Expired	—	—	(10,000)	0.50	—	—
Forfeited	(177,292)	0.20	—	—	—	—
Balance outstanding at year end <sup>3</sup>	732,708	0.35	760,000	0.31	525,000	0.33
Balance exercisable at year end <sup>3</sup>	507,708	0.35	448,334	0.36	355,000	0.39

<sup>1</sup> The options exercise price was equal to the share price on the grant date.

<sup>2</sup> In 2006, a former employee was engaged by the Company as a consultant. The options that were granted to that former employee have been reclassified from options to an employee to options to a consultant.

<sup>3</sup> The aggregate intrinsic value as of December 31, 2007 is \$17,000 for outstanding options, and \$17,000 for exercisable options.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable	Weighted-average remaining contractual life (years)	Weighted-average exercise price
0.100-0.299	367,708	2.8	\$ 0.239	292,708	1.2	\$ 0.227
0.300-0.399	170,000	8.7	\$ 0.366	20,000	4.0	\$ 0.309
0.500-0.699	195,000	4.0	\$ 0.538	195,000	4.0	\$ 0.538
	732,708	4.5	\$ 0.348	507,708	2.4	\$ 0.350



**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 7 - SHAREHOLDERS' EQUITY** (continued)

- (a) The Company used the Black & Scholes fair value option pricing model. The following assumptions under this method on grant date were used in 2007: weighted average expected volatility of 51%; weighted average risk-free interest rates (in dollar terms) of 4.5%, dividend yield of 0%, and weighted average expected life of 3.0 years. The weighted average fair value of options granted during the year using the model was \$0.14 per option. The following assumptions under this method on grant date were used in 2006: weighted average expected volatility of 49%; weighted average risk-free interest rates (in dollar terms) of 4.6%; dividend yield of 0%; and weighted average expected life of 4.5 years. The weighted average fair value of options granted during the year using the model was \$0.13 per option.
  - (b) For the years ended December 31, 2007, 2006 and 2005, non-cash compensation relating to options granted to consultants were \$13,000 (of which \$7,000 was charged to research and development costs, \$6,000 was charged to general and administrative expenses and \$0 was charged to business development costs), \$7,000 (of which \$3,000 was charged to research and development costs, \$2,000 was charged to general and administrative expenses and \$2,000 was charged to business development costs), and \$45,000 (all of which was charged to research and development costs), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2007 was \$11,000, and the weighted average period over which it is expected to be recognized is 1.4 years.
- 4) In regards to the transaction advisory fee in the form of stock appreciation rights see Note 2b.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**a. Royalty and Contingent Milestone Payments**

- 1) The Company has licensed the patent rights to its drug candidates from others. These license agreements require the Company to make contingent milestone payments to its licensors. In addition, under these agreements, the Company must pay royalties on sales of products resulting from licensed technologies.

In accordance with the terms of the license agreement with DOV, XTL Development will make milestone payments of up to \$126.5 million, in cash and/or ordinary shares of the Company over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine. XTL Development is also committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction. The transaction advisory fee was structured in the form of SARs in the amount equivalent to (i) 3% of the Company's then fully diluted ordinary shares at the close of the transaction, vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of the Company's then fully diluted ordinary shares at the close of the transaction, vesting following successful Phase 3 clinical trial results or the acquisition of the Company. Payment of the SARs by XTL Development can be satisfied, at the Company's discretion, in cash and/or by issuance of the Company's registered ordinary shares (see Note 2).

The VivoQuest license agreement provides for milestone payments triggered by certain regulatory and sales targets. These milestone payments total \$34.6 million, \$25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at the Company's election. In addition, the license agreement requires that we make royalty payments on product sales (see Note 3).

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)**

- 2) On December 31, 2007, the Company and Yeda mutually terminated the Research and License agreement dated April 7, 1993, as amended. As of December 31, 2007, and subject to certain closing conditions, all rights in and to the licensed technology and patents revert to Yeda (collectively the “Yeda Technology”).

The Company is committed to pay royalties to the Office of the Chief Scientist of the Government of Israel (the “OCS”) on proceeds from sales of products in the research and development of which the OCS participated by way of grants. At the time grants were received, successful development of the related projects that were derived from the Yeda Technology was not assured. In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties. Under the terms of the Company's funding from the OCS, royalties of 3% - 5% are payable on sales of products developed from projects so funded, up to 100% of the amount of the grant received by the Company (dollar linked), and as from January 1, 1999, with the addition of an annual interest based on Libor.

In 2005, the Company had received approval from the OCS for the transfer of manufacturing rights of its HepeX-B product, under the terms of the agreement with Cubist (see Note 4). As a consequence, thereof, the Company is obligated to repay the grants received from the OCS for the financing of the HepeX-B product from any amounts received by the Company from Cubist due to the sales of HepeX-B product, at a percentage rate, per annum, calculated based on the aggregate amount of grants received from the OCS divided by all amounts invested by the Company in the research and development activities of HepeX-B, and up to an aggregate amount of 300% of the original amounts received for such project, including interest at the Libor rate. In July 2007, Cubist terminated the HepeX-B license agreement with the Company.

As of December 31, 2007, the aggregate amount received from the OCS for the financing of the HepeX-B and the other legacy projects, which revert to Yeda, subject to certain closing conditions, including interest and Libor rate, is equal to \$4,610,000 and \$3,593,000, respectively. During the year ended December 31, 2007, the Company received \$56,000 from the OCS related to the OCS's reconciliation of prior year periods. As of December 31, 2007, the maximum amount of the contingent liability in respect of royalties related to ongoing projects to the OCS is \$17,426,000. As of December 31, 2007, the OCS had not yet approved the assignment of rights to Yeda. Under the terms of the mutual termination agreement with Yeda, as the assignee of the rights under any program funded by the OCS, Yeda shall be obligated to pay any royalties relating to the sale of any products under such programs from December 31, 2007 (also see Note 13).

- 3) The Company has provided for annual grants, over the next year, of options to a non-executive director. The future grants are contingent on being a member of the board of directors at such time (see Note 7(b)2c).

**b. Operating lease commitments**

- 1) The Company leases its office space in Israel and the United States under lease agreements that expire through 2009 (see also Note 5).

Future minimum rental payments under these agreements are \$947,000 (\$507,000 in 2008 and \$440,000 in 2009).

To secure the lease agreement in Israel, the Company provided a bank guarantee in the amount of \$64,000 linked to the Israeli Consumer Price Index (“CPI”). As of December 31, 2007, the guarantee is secured by a pledge on restricted deposits amounting to \$61,000 (December 31, 2006 - \$172,000), renewing automatically on a semi-annual basis at market rates, which is included in the balance sheet as restricted deposits.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)**

Rental expenses for the years ended December 31, 2007, 2006 and 2005 were \$607,000, \$755,000 and \$524,000, respectively. The Company has an option to extend certain rental agreements for up to 5 years.

- 2) The Company leases vehicles under the terms of certain operating lease agreements that expire in 2010, aggregating \$43,000 (\$20,000 in 2008, \$16,000 in 2009 and \$7,000 in 2010). Vehicle lease expense for the years ended December 31, 2007, 2006 and 2005 were \$15,000, \$41,000 and \$76,000, respectively.

**c. Research and development agreement commitments**

The Company has commitments to pay amounts aggregating \$5,754,000, in respect of research and development costs (primarily to outside service providers in regards to its Phase 2b study for Bicifadine in diabetic neuropathic pain), of which \$5,747,000 relates to 2008 and \$7,000 relates to 2009 (also see Note 13).

**NOTE 9 - INCOME TAXES**

**a. The Company**

**Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985**

Under this law, results for tax purposes are measured in real terms, adjusted according to changes in the Israeli consumer price index (hereinafter the "CPI"). The Company is taxed under this law.

Results for tax purposes are measured on a real basis and are adjusted to reflect the increase in the Israeli CPI. As explained in Note 1b, the financial statements are presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate, both on an annual and cumulative basis, causes a difference between taxable income and income reflected in these financial statements (see also Note 1j).

In February 2008, the Knesset (the Israeli parliament), cancelled the provisions of the Inflationary Adjustments Law, and as a result it will no longer apply to the Company in 2008 and thereafter.

**Tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959**

The Company had been granted "approved enterprise" status under the Israeli Law for Encouragement of Capital Investments, 1959. Subject to compliance with applicable requirements, the portion of the Company's undistributed profits derived from the approved enterprise program was to be tax-exempt for a period of two years commencing in the first year in which the Company generates taxable income and was to be subject, for a period of five to eight years, to a reduced corporate tax of between 10% and 25%, depending on the percentage of non-Israeli investors holding the Company's ordinary shares.

The entitlement to the above benefits was conditional upon the Company fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investment in approved enterprise. During 2007, the Company determined to dispose of certain unused assets (primarily lab equipment) in the Israeli facility. As a result of this disposition, the Company has failed to comply with these conditions. As of the date hereof, the Company has not received any benefits from the Investment Center.

**NOTE 9 - INCOME TAXES** (continued)

**Tax rates in Israel applicable to income from other sources**

The income of the Company not eligible for “approved enterprise” benefits, as discussed above (other than income from “approved enterprises”, see c. below) is taxed at the regular rate. For the years ended December 31, 2007, 2006, and 2005, the corporate rates were 29%, 31% and 34%, respectively. The corporate tax rates thereafter are as follows: 2008 - 27%, 2009 - 26% and for 2010 and thereafter - 25%.

**US Federal Income Tax Consequences**

The Company currently has a “permanent establishment” in the US, which began in 2005. Any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if the Company had income attributable to the permanent establishment in the US, the Company may be subject to an additional branch profits tax of 30% on its US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless the Company qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. The Company would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax.

At present, the Company does not earn any taxable income for US tax purposes. If the Company eventually earns taxable income attributable to its US permanent establishment, the Company would be able to utilize accumulated loss carryforwards to offset such income only to the extent these carryforwards were attributable to its US permanent establishment.

**b. The Subsidiary and XTL Development**

The Subsidiary and XTL Development are each taxed according to US tax laws.

**c. Current tax losses for tax purposes**

1) Company

Israeli income tax of the Company is computed on the basis of the income in Israeli currency as determined for statutory purposes. The Company has incurred losses for tax purposes from inception. The loss carryforwards for tax purposes as of December 31, 2007 are approximately \$145.0 million (linked to the CPI), which may be offset against future taxable income generated from a business, (including capital gains from the sale of assets used in the business) with no expiration date. However, any income attributable to the “permanent establishment” in the US would be subject to US corporate income tax. If this is the case, the Company may not be able to utilize any of the accumulated Israeli loss carryforwards as of December 31, 2007 since these losses were not attributable to the US permanent establishment. The Company would be able to utilize losses attributable to the US permanent establishment to offset such US taxable income.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 9 - INCOME TAXES** (continued)

2)     Subsidiary and XTL Development

The Subsidiary and XTL Development are taxed under applicable US tax laws. The Subsidiary is remunerated under a cost plus agreement with the Company. The Subsidiary and XTL Development will file consolidated returns for US federal income tax purposes. Because the group consisting of the Subsidiary and XTL Development has incurred net operating losses for 2007, the group will file a carryback claim for those losses to the years ended December 31, 2006 and 2005 in order to receive a refund for US federal income taxes paid for those years. This refund is reflected on the Company’s consolidated balance sheet in “other receivables and prepaid expenses.” For the years ended December 31, 2006 and 2005, the Subsidiary has incurred taxable income and recorded tax expenses. As of December 31, 2007, Subsidiary and XTL Development have consolidated net operating losses of \$4.3 million, expiring in 2027.

The following tables summarize the taxes on income for the Company and its subsidiaries for 2007, 2006 and 2005:

	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>(\$ in thousands)</b>		<b>(\$ in thousands)</b>		<b>(\$ in thousands)</b>	
	<b>Company</b>	<b>Subsidiaries<sup>1</sup></b>	<b>Company</b>	<b>Subsidiaries<sup>1</sup></b>	<b>Company</b>	<b>Subsidiaries<sup>1</sup></b>
Net loss (income) before income taxes	10,354	14,791	15,363	(458)	14,187	(250)
Income taxes (benefit)	—	(206)	—	227	—	78
Net loss (income) for the year	10,354	14,585	15,363	(231)	14,187	(172)

<sup>1</sup> Subsidiaries include Subsidiary and XTL Development for the year ended December 31, 2007 and includes Subsidiary for the years ended December 31, 2006 and 2005.

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Subsidiaries<sup>2</sup></b>	<b>(\$ in thousands)</b>		
Income taxes for the reported year:			
Current	(254)	275	78
Deferred (in respect of the reporting period)	48	(48)	—
	(206)	227	78

<sup>2</sup> Subsidiaries include Subsidiary and XTL Development for the year ended December 31, 2007 and includes Subsidiary for the years ended December 31, 2006 and 2005.

**d.     Deferred income taxes**

The composition of the deferred tax assets at balance sheets dates are as follows:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	<b>(\$ in thousands)</b>	
Deferred tax assets:		
In respect of tax loss carryforwards	38,003	28,801
Research and development	2,206	2,902
Intangible assets due to different amortization methods	2,890	247
Stock appreciation rights compensation	624	—
Property and equipment	63	19
Employee related provisions	380	53
Other temporary differences	3	726
Net deferred tax asset, excluding valuation allowance	44,169	32,748
Less valuation allowance	(44,169)	(32,700)
Net deferred tax assets	\$ —	\$ 48

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 9 - INCOME TAXES** (continued)

The changes in the valuation allowances for the years ended December 31, 2007, 2006 and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>(\$ in thousands)</u>		
Balance at the beginning of the year	32,700	25,239	23,584
Change during the year	11,469	7,461	1,655
Balance at end of year	<u>44,169</u>	<u>32,700</u>	<u>25,239</u>

**e. Reconciliation of the theoretical tax expense to actual expense**

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see a. above), and the actual tax expense:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>(\$ in thousands)</u>		
Loss before income taxes as reported in the consolidated statement of operations	25,145	14,905	13,937
Computed "expected" tax benefit	(7,292)	(4,621)	(4,739)
<b>Increase (decrease) in income taxes resulting from:</b>			
Change in the balance of the valuation allowance for deferred tax assets allocated to income tax expense (mainly in respect of carryforward tax losses)	11,469	7,461	1,655
<b>Permanent differences</b>	<b>761</b>	<b>1,284</b>	<b>681</b>
Differences in the basis of measurement for tax purposes (Israeli CPI) and for financial reporting purposes (dollar) and other	(4,404)	(3,911)	2,481
<b>Effect of foreign operations</b>	<b>(740)</b>	<b>14</b>	<b>—</b>
Income taxes as reported	<u>(206)</u>	<u>227</u>	<u>78</u>

**f. Tax assessments**

1) Income taxes

The Company files income tax returns in Israel. The Company received tax assessments for the years up to and including the 1998 tax year. The Company's tax returns until 2003 are considered final.

The Company and Subsidiary have filed income tax returns in the US federal jurisdiction and in various states. The Company files US income tax returns since it had a permanent establishment in the US, which began in 2005. For those returns, the statute of limitations has expired for years prior to and including 2003. Tax years 2004 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process, and the Subsidiary has not been audited for tax purposes since incorporation.

2) Uncertain tax positions

As noted in Note 1i above, the Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 has had no impact on the Company's consolidated results of operations and financial position, since the Company has had no uncertain tax positions that fall within FIN 48.

3) Withholding taxes

In 2006, the Company paid \$48,000 to settle an assessment received from the Israeli tax authorities in 2005 related to withholding taxes for the periods of 2001-2004.

**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 10 - RESTRUCTURING**

In 2005, the Company implemented a restructuring plan designed to focus its resources on the development of its lead programs, with the goal of moving these programs through to clinical proof of concept (hereinafter the “2005 Restructuring”). The 2005 Restructuring included a 32 person reduction in the Company’s workforce, 31 of whom were in research and development and one of whom was in general and administrative. As part of the 2005 Restructuring, the Company took a charge in 2005 of \$168,000, relating to employee dismissal costs, \$163,000 of which was included in research and development costs and \$5,000 of which was included in general and administrative expenses. The 2005 Restructuring was completed in early 2006, with the \$168,000 of dismissal costs paid as of December 31, 2006.

In December 2005, as a result of the Company's 2005 Restructuring, and in accordance with the provisions of SFAS 144, the Company reviewed the carrying value of certain lab equipment assets, and recorded an impairment charge in research and development costs in an amount of \$26,000 in 2005 (see also Note 5b).

**NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION**

**a. Short-term bank deposits**

The deposits are denominated in dollars and bear a weighted average annual interest rate of 4.89 % as of December 31, 2007.

**b. Other receivables and prepaid expenses**

	December 31	
	2007	2006
	(\$ in thousands)	
Prepaid expenses (research and development)	440	124
Prepaid expenses (general and administrative)	113	134
Employees	—	118
Value added tax authorities	21	8
Interest receivable	61	318
Income taxes receivable	270	—
Other	19	—
	<u>924</u>	<u>702</u>

**c. Accounts payable and accrued expenses**

Suppliers	2,144	941
Accrued expenses	1,116	1,190
Income taxes	—	143
Accrued compensation and related liabilities	549	729
	<u>3,809</u>	<u>3,003</u>

**d. Financial and other income - net**

	Year ended December 31			March 9, 1993 to December 31,
	2007	2006	2005	2007
	(\$ in thousands)			
Interest income	668	1,058	503	10,954
Interest expense	(4)	—	—	(378)
Foreign exchange differences-gain (loss)	(10)	2	(39)	(1,765)
Gain (loss) from trading securities*	(48)	2	—	(47)
Other income*	—	100	—	100
Other expense	(16)	(21)	(21)	10
	<u>590</u>	<u>1,141</u>	<u>443</u>	<u>8,874</u>

**XTL BIOPHARMACEUTICALS LTD.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements (continued)

**NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION** (continued)

\* During 2001 the Company acquired 20% of the shares of US-based iviGene Corporation (“iviGene”) for \$1 million and agreed to fund certain research activities at iviGene which were charged to research and development costs in the consolidated statement of operations. During 2002, the Company terminated funding research activities at iviGene. In November 2006, Orogenics Inc. (“Orogenics”) acquired the outstanding stock of iviGene owned by the Company in exchange for shares of its common stock at a fair value of \$100,000 (representing less than 1% of Orogenics shares outstanding). Orogenics’ common stock is listed on the American Stock Exchange with the ticker symbol “ONI.” As a result of the exchange, the Company recorded other income of \$100,000. The fair market value of the stock of Orogenics at December 31, 2006 was recorded on the Company's balance sheet under trading securities. During 2007, the Company disposed of the Orogenics stock.

**NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**a. Linkage terms of balances in non-dollars currency**

1) As follows:

	<b>December 31, 2007</b>	
	<b>Israeli currency</b>	<b>Other</b>
	<b>Unlinked</b>	
	<b>(\$ in thousands)</b>	
Assets	144	5
Liabilities	313	50

The above balances do not include Israeli currency balances linked to the dollar.

2) Data regarding the changes in the exchange rate of the dollar and the Israeli CPI:

	<b>Year ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Devaluation (evaluation) of the Israeli currency against the dollar	(8.97)%	(8.21)%	6.85%
Changes in the Israeli CPI	3.4%	(0.1)%	2.4%
Exchange rate of one dollar (at end of year)	NIS 3.846	NIS 4.225	NIS 4.603

**b. Fair value of financial instruments**

The financial instruments of the Company consist of non-derivative assets and liabilities, included in working capital. In view of their nature, the fair value of these financial instruments is usually identical or close to their carrying value. The fair value of short term deposits approximates the carrying value, since they bear interest at rates close to the market rates.

**c. Concentration of credit risks**

Most of the Company’s cash and cash equivalents and bank deposits at the balance sheet dates were deposited with Israel or Israel-related banks. The Company is of the opinion that the credit risk in respect of those balances is remote.



**XTL BIOPHARMACEUTICALS LTD.**  
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Notes to the Consolidated Financial Statements (continued)

**NOTE 13 - SUBSEQUENT EVENTS**

In January 2008, the Company entered into an agreement with a clinical research organization regarding its planned open-label variable-dose trial assessing the safety of Bicifadine in patients with diabetic neuropathic pain.

On January 15, 2008, the Company granted 4,615,300 options pursuant to the 2001 Plan to employees and consultants at an exercise price of \$0.315 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten).

In January 2008, the Company terminated seven employees in the DOS program and recorded a severance charge of approximately \$100,000.

In March 2008, all of the closing conditions related to the termination of the Research and License agreement dated April 7, 1993, as amended between Yeda and the Company were completed. As the per termination agreement, Yeda assumed all of the Company's contingent liabilities related to the OCS (see Note 8a2).

In March 2008, the Company signed an agreement to out-license the DOS program to Presidio Pharmaceuticals, Inc., or Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, Presidio becomes responsible for all further development and commercialization activities and costs relating to the Company's DOS program. In accordance with the terms of the license agreement, the Company received a \$4 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional \$104 million upon reaching certain development and commercialization milestones. In addition, the Company will receive a royalty on direct product sales by Presidio, and a percentage of Presidio's income if the DOS program is sublicensed by Presidio to a third party.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this “*Agreement*”) is dated as of March 17, 2006, among XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel (the “*Company*”), and the purchasers identified on the signature pages hereto (each a “*Purchaser*” and collectively the “*Purchasers*”); and

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act (as defined below), and Rule 506 promulgated thereunder, the Company desires to issue and sell to the Purchasers, and the Purchasers, severally and not jointly, desire to purchase from the Company (the “*Offering*”) in the aggregate, up to 46,000,000 Shares and Warrants (each as defined below) to purchase up to an additional 23,000,000 Ordinary Shares (as defined below) (the “*Maximum Offering Amount*”).

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agrees as follows:

ARTICLE I.  
DEFINITIONS

1.1 *Definitions.* In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings indicated in this Section 1.1:

“*Affiliate*” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

“*Business Day*” means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“*Closing*” means the closing of the purchase and sale of the Shares pursuant to this Agreement.

“*Closing Date*” means March 22, 2006.

“*Commission*” means the Securities and Exchange Commission.

“*Company Counsel*” means Alston & Bird LLP.

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“*Effective Date*” means the date that the Registration Statement is first declared effective by the Commission.

“*Escrow Agent*” means JPMorgan Chase Bank, N.A., a national banking association.

“*Escrow Agreement*” means the Escrow Agreement, dated as of the date of the Agreement, among the Company, the Escrow Agent, and the placement agents listed therein.

“*Escrowed Funds*” has the meaning ascribed to such term in Section 2.2(b)(vi) of this Agreement.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Expiration Date*” shall mean March 31, 2006, or such other date within 30 days thereafter as may be selected by the Company in its sole discretion without notice to investors.

“*Israeli Company Counsel*” means Kantor & Co.

“*Liens*” means a lien, charge, security interest, encumbrance, right of first refusal or other restriction.

“*Material Adverse Effect*” shall have the meaning ascribed to such term in Section 3.1(a).

“*Ordinary Shares*” means the Company’s ordinary shares, par value NIS 0.02.

“*Per Share Purchase Price*” equals \$0.60; equivalent to \$6.00 per ADR.

“*Person*” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“*Placement Agent Agreement*” means the Placement Agent Agreement, dated March 17, 2006, between the Company and certain placement agents listed therein.

“*Placement Agents*” means the placement agents named in the Placement Agent Agreement.

“*Registration Statement*” means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Purchasers of the Shares, the Warrants and the Warrant Shares.

“*Registration Rights Agreement*” means the Registration Rights Agreement, dated as of the date of this Agreement, among the Company and each Purchaser, in the form of Exhibit A hereto.

“*Rule 144*” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“*Securities*” means the Shares, the Warrants, and the Warrant Shares.

“*Securities Act*” means the Securities Act of 1933, as amended.

“*Shares*” means the Ordinary Shares issuable to each Purchaser pursuant to this Agreement, excluding the Warrant Shares.

“*Subscription Amount*” means, as to each Purchaser and the Closing, the amounts set forth below such Purchaser’s signature block on the signature page hereto, in United States dollars and in immediately available funds.

“*Trading Day*” means (i) a day on which American Depositary Receipts representing Ordinary Shares (“*ADRs*”), are traded on a Trading Market, or (ii) if the ADRs are not listed on a Trading Market, a day on which the ADRs are traded on the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the ADRs are not quoted on the OTC Bulletin Board, a day on which the ADRs are quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the ADRs are not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

“*Trading Market*” means the following markets or exchanges on which the ADRs are listed or quoted for trading on the date in question: the American Stock Exchange, the New York Stock Exchange, or the Nasdaq Stock Market.

“*Transaction Documents*” means this Agreement, the Registration Rights Agreement, the Warrant, the Escrow Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“*Warrants*” mean the Ordinary Share Purchase Warrants, in the form of Exhibit B, issuable to the Purchasers at Closing, which warrants shall be exercisable immediately and have an exercise price equal to \$0.875 per ordinary share, the equivalent of \$8.75 per ADR, and a term of exercise of five (5) years.

“*Warrant Shares*” means the Ordinary Shares issuable upon exercise of the Warrants.

**ARTICLE II.**  
**PURCHASE AND SALE**

2.1 *Closing.* Each Purchaser shall purchase from the Company, and the Company shall issue, on the terms and conditions set forth in this Agreement, and sell to each Purchaser, a number of Shares equal to such Purchaser’s Subscription Amount divided by the Per Share Purchase Price, and a number of Warrants equal to fifty percent (50%) of the Shares to be issued to each Purchaser. Upon satisfaction of the conditions set forth in Section 2.2, the Closing shall occur at the offices of the Company, or such other location as the parties shall mutually agree. The Company may continue the Offering, in one or more Closings, until the earlier of the sale of the Maximum Offering Amount or until the Expiration Date. Purchasers will be required to deliver executed, binding Securities Purchase Agreements by the Expiration Date, the Closing of which will only be subject to the satisfaction of the Closing conditions in Section 2.2.

## 2.2 Closing Conditions.

(a) As a condition to the Purchasers' obligation to close, at the Closing (unless otherwise specified below) the Company shall have satisfied each of the conditions set forth below or shall deliver or cause to be delivered to each Purchaser the items set forth below, as appropriate, any one or more of which may be waived in writing by the Purchasers:

(i) this Agreement duly executed by the Company;

(ii) within five (5) Business Days of the Closing Date, a Warrant, registered in the name of each Purchaser, pursuant to which such Purchaser shall have the right to acquire up to the number of Ordinary Shares equal to fifty percent (50%) of the Shares to be issued in the name of such Purchaser at Closing;

(iii) the Registration Rights Agreement duly executed by the Company;

(iv) the Escrow Agreement duly executed by the Company, the Escrow Agent and the placement agents listed therein;

(v) a legal opinion of each of Company Counsel and Israeli Company Counsel, in the forms in Exhibit C attached hereto;

(vi) the representations and warranties made by the Company herein shall be true and correct in all material respects (except any representation and warranty that is qualified by materiality or Material Adverse Effect shall be true and correct in all respects) as of the date hereof and as of the Closing Date with the same effect as if the representations and warranties were made as of the date hereof and as of the Closing Date;

(vii) all covenants, agreements and conditions contained in this Agreement to be performed by the Company on or prior to the Closing shall have been performed or complied with in all material respects;

(viii) no statute, rule, regulation, order, decree, ruling or injunction shall have been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority of competent jurisdiction which in any material respect restricts, prohibits or threatens to restrict or prohibit the consummation of any of the transactions contemplated by the Transaction Documents;

(ix) as of the Closing Date, there shall have been no Material Adverse Effect with respect to the Company since the date hereof;

(x) at the time of the execution of this Agreement, the Placement Agent shall have received from PricewaterhouseCoopers LLP a letter, addressed to the Placement Agents and the Purchasers and dated such date, in form and substance reasonably satisfactory to the Placement Agents (i) confirming that they are independent certified public accountants with respect to the Company within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission and (ii) stating the conclusions and findings of such firm with respect to the financial statements and certain financial information contained or attached as exhibits to the Private Placement Memorandum; and

(xi) with respect to the letter of PricewaterhouseCoopers LLP referred to in the preceding paragraph and delivered to the Placement Agents and the Purchasers concurrently with the execution of this Agreement (the “*initial letter*”), the Company shall have furnished to the Placement Agents and the Purchasers a letter (including any supplemental letter, the “*bring-down letter*”) of such accountants, addressed to the Placement Agents and the Purchasers and dated the Closing Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Private Placement Memorandum, as of a date not more than three days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

With respect to the closing conditions listed in (vi), (vii), (viii) and (ix) above, the Company shall deliver a certificate to such effect, in form and substance reasonably satisfactory to the Placement Agents.

(b) As a condition to the Company’s obligation to close, at the Closing, each Purchaser shall have satisfied each of the conditions set forth below or shall deliver or cause to be delivered to the Company the items set forth below, as appropriate, any one or more of which may be waived in writing by the Company:

(i) this Agreement duly executed by such Purchaser;

(ii) the Registration Rights Agreement duly executed by such Purchaser;

(iii) the representations and warranties made by the Purchasers herein shall be true and correct in all material respects (except any representation and warranty that is qualified by materiality or Material Adverse Effect shall be true and correct in all respects) as of the date hereof and as of the Closing Date with the same effect as if the representations and warranties were made as of the date hereof and as of the Closing Date;

(iv) the Escrow Agreement duly executed by the Company, the Escrow Agent and the placement agents listed therein;

(v) each Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by such Purchaser at or before the Closing;

(vi) no statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority of competent jurisdiction which prohibits or threatens to prohibit the consummation of any of the transactions contemplated by the Transaction Documents; and

(vii) each Purchaser shall have caused such Purchaser's Subscription Amount to be deposited by wire transfer of immediately available funds to such non-interest bearing escrow account of the Escrow Agent as the Escrow Agent shall designate (the "*Escrowed Funds*"), and the Escrow Agent shall have confirmed that it is prepared to transfer such amount to the Company subject only to satisfaction of the receipt of the certificate provided in Section 2.3 hereof; and

(viii) as of the Closing Date, there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

**2.3 Escrow Arrangement.** Each Purchaser shall be deemed to have irrevocably instructed the Escrow Agent to deliver such Purchaser's Escrowed Funds to such bank account(s) of the Company as the Company shall have specified to the Escrow Agent on the Effective Date, subject only to the Escrow Agent having received a certificate, dated the Effective Date, executed by the Company certifying that the Registration Statement shall have been declared effective by the Commission. Following delivery to the Escrow Agent of the certificate referred to in this Section 2.3, (i) the Escrow Agent shall promptly cause the Escrowed Funds to be sent by wire transfer to the bank account(s) specified by the Company in writing, and (ii) the Company shall cause to be delivered to The Bank of New York a single certificate for Ordinary Shares, registered in the name of The Bank of New York or its designee, on the Effective Date, and shall thereafter cause The Bank of New York to immediately issue ADRs registered in the name of such Purchaser or its designee, representing the number of Shares acquired by such Purchaser, in accordance with Section 4.10 hereof. If the Company has not delivered to the Escrow Agent a certificate certifying that the Registration Statement shall have been declared effective by the Commission, on or before March 15, 2007, then the Company shall deliver to the Escrow Agent a notice terminating the Offering upon the receipt of which the Escrow Agent shall distribute the Escrowed Funds to each Purchaser.

2.4 *Satisfaction of Conditions*. Following the deposit of the Escrowed Funds by the Purchaser with the Escrow Agent pursuant to Section 2.2 (b)(vi), this Agreement shall become wholly unconditional save for the satisfaction of the condition specified in Section 2.3 and shall not be capable of termination or rescission save for the non-satisfaction of such condition.

**ARTICLE III.  
REPRESENTATIONS AND WARRANTIES**

3.1 *Representations and Warranties of the Company*. The Company and XTL Biopharmaceuticals Inc., a Delaware corporation (the “*Subsidiary*”), the Company’s sole subsidiary, hereby make the following representations and warranties as of the date hereof and as of the Closing Date to each Purchaser:

(a) *Organization and Qualification*. Each of the Company and the Subsidiary is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its respective organization, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor the Subsidiary is in violation of any of the provisions of its Memorandum and Articles of Organization, bylaws, or other organizational documents. The Company has no wholly-owned subsidiaries other than the Subsidiary. Each of the Company and the Subsidiary is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, properties, business or financial condition of the Company or the Subsidiary, or (iii) a material adverse effect on the Company’s ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a “*Material Adverse Effect*”).

(b) *Authorization; Enforcement*. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its shareholders in connection therewith. Each Transaction Document has been (or, if executed after the date hereof, upon delivery will be) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors’ rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) with respect to the indemnification provisions set forth in the Registration Rights Agreement, as limited by public policy.



(c) *No Conflicts.* The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not (i) conflict with or violate any provision of the Company's or the Subsidiary's Memorandum and Articles of Association, bylaws or other organizational documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a debt of the Company or the Subsidiary or otherwise) or other understanding to which the Company or the Subsidiary is a party or by which any property or asset of the Company or the Subsidiary is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or Subsidiary is subject (including U.S. federal and state securities laws and regulations and the rules and regulations of any Trading Market), or by which any property or asset of the Company or the Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as would not have or reasonably be expected to result in a Material Adverse Effect.

(d) *Filings, Consents and Approvals.* The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filing with the Commission of the Registration Statement, and one or more Forms D with respect to the Securities as may be required under Regulation D of the Securities Act, the application(s) to each Trading Market for the listing of the ADRs representing the Securities for trading thereon in the time and manner required thereby, and applicable Blue Sky filings, (ii) the listing of the Securities on the London Stock Exchange, in accordance with a prospectus to be filed with the United Kingdom Listing Authority, and (iii) such as have already been obtained or such exemptive filings as are required to be made under applicable state and federal securities laws.

(e) *Capitalization.* As of the date hereof, the authorized capital stock of the Company consists of 300,000,000 Ordinary Shares, of which 173,197,930 Ordinary Shares are outstanding. All of the outstanding Ordinary Shares are, and all of the Shares and Warrant Shares, when issued, will be, duly authorized, validly issued, fully paid and nonassessable, and free and clear of all liens created by the Company, and all such Ordinary Shares were, and the Shares and Warrant Shares will be, issued in material compliance with all applicable U.S. federal and state securities laws, including available exemptions therefrom, and none of such issuances were, and the issuance of the Shares and Warrant Shares will not be, made in violation of any pre-emptive or other rights. The Company has reserved from its duly authorized capital stock the maximum number of Shares and Warrant Shares issuable pursuant to this Agreement. The issuance of the Shares and Warrant Shares will not trigger any anti-dilution rights of any existing securities of the Company. Except for options to purchase 42,425,205 Ordinary Shares and warrants to purchase up to 23,000,000 Ordinary Shares, as of the Closing Date, there will be no rights, subscriptions, warrants, options, conversion rights, or agreements of any kind outstanding to purchase from the Company, or otherwise require the Company to issue, any shares of capital stock of the Company or securities or obligations of any kind convertible into or exchangeable for any shares of capital stock of the Company.

(f) *Reports and Financial Statements.* The Company has filed all reports required to be filed by it under the Exchange Act on a timely basis or has received a valid extension of such time of filing and has filed any such reports prior to the expiration of any such extension. The Company has made available to the Purchasers, prior to the execution of this Agreement, a copy of the Company's registration statement on Form 20-F filed with the Commission on July 14, 2005, as amended, and will make available any Current Reports on Form 6-K filed by the Company (as such documents have since the time of their filing been amended or supplemented, and together with all reports, documents and information filed on or after the date first written above through the date of Closing with the Commission, including all information incorporated therein by reference, collectively, the "*SEC Reports*"). The SEC Reports (a) complied and will comply as to form in all material respects with the requirements of the Securities Act and the Exchange Act, and (b) did not, at the time of their filing, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements included in the SEC Reports comply in all material respects with the applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of filing. The financial statements included in the SEC Reports and the Confidential Private Placement Memorandum, dated March 17, 2006 prepared by the Company, including all exhibits, supplements and amendments thereto (the "*Private Placement Memorandum*"), have been prepared in accordance with generally accepted accounting principles in the United States applied on a consistent basis ("*GAAP*"), and fairly represent the financial position of the Company and its Subsidiary as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments and the omission of certain footnotes.

(g) *No Material Change.* Since December 31, 2005, and except as disclosed in its SEC Reports, (i) the Company has not incurred any material liabilities or obligations, indirect, or contingent, or entered into any material oral or written agreement or other transaction which is not in the ordinary course of business or which could reasonably be expected to result in a material reduction in the future earnings of the Company; (ii) the Company has not sustained any loss or interference with its businesses or properties (whether or not covered by insurance) that could reasonably be expected to have a Material Adverse Effect; (iii) the Company has not paid or declared any dividends or other distributions with respect to its capital stock, or redeemed or purchased or otherwise acquired any of its stock and the Company is not in default in the payment of principal or interest on any outstanding debt obligations; (iv) the Company has not changed any compensation arrangement or agreement with any of its key employees or executive officers, or change the rate of pay of its employees as a group, other than in the ordinary course of business; (v) the Company has not changed or amended any contract by which the Company or any of its asset are bound or subject that would have a Material Adverse Effect; (vi) there has not been any change in the capital stock of the Company other than the sale of the Securities hereunder or shares or options issued pursuant to employee equity incentive plans or purchase plans approved by the Company's Board of Directors, or indebtedness not incurred in the ordinary course of business that is material to the Company; and (vii) there has not been any other event which has caused, or is likely to cause, a Material Adverse Effect.

(h) *Litigation*. Except as would not reasonably be expected to result in a Material Adverse Effect on the Company, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending against or, to the knowledge of the Company, threatened against the Company or the Subsidiary. The Company is not subject to any order, writ, judgment, injunction, decree or award of any court or any governmental authority which would reasonably be expected to result in a Material Adverse Effect on the Company.

(i) *Compliance*. The Company has not been advised, nor does the Company have reason to believe, that it is not conducting its business in compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting its business, except where failure to be so in compliance would not reasonably be expected to have a Material Adverse Effect.

(j) *Intellectual Property*. (i) The Company owns or has obtained licenses or options for the inventions, patent applications, patents, trademarks (both registered and unregistered), trade names, copyrights and trade secrets necessary for the conduct of the Company's business as currently conducted (collectively, the "*Intellectual Property*"); and (ii) (a) to the knowledge of the Company, there are no third parties who have any ownership rights to any Intellectual Property that is owned by, or has been licensed to, the Company for the products described in the Private Placement Memorandum that would preclude the Company from conducting its business as currently conducted and have a Material Adverse Effect, except for the ownership rights of the owners of the Intellectual Property licensed or optioned by the Company; (b) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the rights of the Company in or to any Intellectual Property owned, licensed or optioned by the Company, other than claims which would not reasonably be expected to have a Material Adverse Effect; (c) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any Intellectual Property owned, licensed or optioned by the Company, other than non-material actions, suits, proceedings and claims; and (d) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary right of others, other than non-material actions, suits, proceedings and claims.

(k) *Material Agreements.* All material agreements (“*Material Agreements*”) to which the Company or the Subsidiary is a party or to which the property or assets of the Company or the Subsidiary are subject are included as part of or specifically identified in the SEC Reports to the extent required by the rules and regulations of the SEC as in effect at the time of filing. Except for the Material Agreements, the Company has no material contracts. Neither the Company nor, to the Company’s knowledge, any other party to the Material Agreements, is in breach of or default under any of such contracts which would reasonably be expected to have a Material Adverse Effect.

(l) *Taxes.* Except as disclosed in the Private Placement Memorandum or the SEC Reports, the Company and the Subsidiary have filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been or might be asserted or threatened against it which might reasonably be expected to have a Material Adverse Effect.

(m) *Governmental Permits, Etc.* The Company has all franchises, licenses, certificates and other authorizations from such federal, state or local government or governmental agency, department or body that are currently required for the operation of the business of the Company as currently conducted, except where the failure to possess currently such franchises, licenses, certificates and other authorizations is not reasonably expected to have a Material Adverse Effect. The Company has not received any notice of proceedings relating to the revocation or modification of any such permit which, if the subject of an unfavorable decision, ruling or finding, could reasonably be expected to have a Material Adverse Effect.

(n) *Conformity of Descriptions.* The Shares and Warrant Shares conform in all material respects to the descriptions of the Company’s Ordinary Shares contained in the Company’s SEC Reports and other filings with the Commission and the Private Placement Memorandum.

(o) *Statements True and Correct.* No representation, warranty, statement, certificate, instrument, or other writing furnished or to be furnished by the Company to Purchaser or its representatives pursuant to this Agreement, the Private Placement Memorandum or any other document, agreement, or instrument referred to herein contains or will contain any untrue statement of material fact or will omit to state a material fact necessary to make the statements therein not misleading.

(p) *Certain Fees.* Any brokerage, finder’s fees or commissions that are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement will be paid solely by the Company.

(q) *Private Placement.* Neither the Company nor any Person acting on behalf of the Company has sold or offered to sell or solicited any offer to buy the Securities by means of any form of general solicitation or advertising. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer, issuance and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of any Trading Market.

(r) *Offering Materials.* The Company has not distributed and will not distribute prior to the Closing Date any offering material in connection with the offering and sale of the Securities other than the Private Placement Memorandum or any amendment or supplement thereto. Neither the Company nor any person acting on its behalf has in the past or will hereafter take any action independent of the placement agent to sell, offer for sale or solicit offers to buy any securities of the Company which would subject the offer, issuance or sale of the Securities, as contemplated by this Agreement, to the registration requirements of Section 5 of the Securities Act.

(s) *Investment Company.* The Company is not, and is not an Affiliate of, an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

(t) *Application of Takeover Protections.* Assuming the Purchasers beneficially own any Ordinary Shares prior to the date hereof, the Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company’s charter documents) or the laws of its jurisdiction of organization that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation the Company’s issuance of the Shares and the Warrant Shares and the Purchasers’ ownership of the Shares and the Warrants.

(u) *No Integrated Offering.* Neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Shares and Warrants to be integrated with prior offerings by the Company for purposes of the Securities Act or any applicable shareholder approval provisions, including, without limitation, under the rules and regulations of any exchange or automated quotation system on which any of the securities of the Company are listed or designated.

(v) *Listing and Maintenance Requirements.* The Company has been in compliance with all listing and maintenance requirements of each applicable Trading Market, the London Stock Exchange and the Tel Aviv Stock Exchange. The Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Ordinary Shares or ADRs representing Ordinary Shares are or have been listed or quoted, the London Stock Exchange or the Tel Aviv Stock Exchange to the effect that the Company is not in compliance with the listing or maintenance requirements of such market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(w) *Sarbanes-Oxley; Internal Accounting Controls.* The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company has disclosure controls and procedures (as defined in Rule 13a-14 under the Exchange Act) that are designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and the Company's principal financial officer or persons performing similar functions.

(x) *Disclosure.* The Company confirms that, neither the Company nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information, other than information relating to the Offering, that constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representations and covenants in effecting transactions in securities of the Company. All disclosure provided to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Private Placement Memorandum and the Exhibits to this Agreement, furnished by or on behalf of the Company with respect to the representations and warranties made herein are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transaction contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(y) *Independent Public Accountants.* The Company confirms that Kesselman & Kesselman, Israeli certified public accounts and a member of PricewaterhouseCoopers International Limited, are independent public accountants as required by the Securities Act and the rules and regulations promulgated thereunder.

3.2 *Representations and Warranties of the Purchasers.* Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants as of the date hereof and as of the Closing Date to the Company as follows:

(a) *Organization; Authority.* Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate, limited liability or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. The execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) with respect to the indemnification provisions set forth in the Registration Rights Agreement, as limited by public policy.

(b) *General Solicitation.* Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(c) *No Public Sale or Distribution.* Such Purchaser is acquiring the Securities for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the Securities Act; *provided, however*, that by making the representations herein, such Purchaser does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Securities.

(d) *Accredited Investor Status.* Such Purchaser is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D.

(e) *Reliance on Exemptions.* Such Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and such Purchaser’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Purchaser set forth herein and on the signature page hereto in order to determine the availability of such exemptions and the eligibility of such Purchaser to acquire the Securities.

(f) *Information; Confidentiality.* Such Purchaser and its advisors, if any, have been furnished with all publicly available materials relating to the business, finances and operations of the Company and such other publicly available materials relating to the offer and sale of the Securities as have been requested by such Purchaser. The Purchaser acknowledges and understands that the fact that the Company is seeking to effect the private placement of the Securities is itself material, non-public information, and accordingly, the Purchaser agrees not to engage in disclosure of such information or use of such information by the Purchaser or anyone receiving such information from the Purchaser in connection with the purchase, sale or trade of the Company’s securities (other than use by the Purchaser in acquiring the Securities), or any hedging, derivative or similar transactions or activities involving the Company’s securities. Such Purchaser and its advisors, if any, have been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigations conducted by such Purchaser or its advisors, if any, or its representatives shall modify, amend or affect such Purchaser’s right to rely on the Company’s representations and warranties contained herein. Such Purchaser understands that its investment in the Securities involves a high degree of risk. Such Purchaser has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Securities.

(g) *No Governmental Review.* Such Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(h) *Experience of Such Purchaser.* Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters, including investing in biotechnology companies, so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(i) *Sales; Short Selling.* From and after the date that the Purchaser receives any information about the existence of the Offering, and through the Closing Date, the Purchaser has not and shall not, directly or indirectly, sell Ordinary Shares in any open Trading Market or elsewhere, and has not and shall not directly or indirectly, through related parties, affiliates or otherwise sell “short” or “short against the box” (as those terms are generally understood) any equity security of the Company.

(j) *Information Regarding Purchaser.* Purchaser has provided the Company with true, complete, and correct information regarding all applicable items set forth in the on the signature page to this Agreement.

The Company acknowledges and agrees that each Purchaser does not make or has not made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

**ARTICLE IV.**  
**OTHER AGREEMENTS OF THE PARTIES**

4.1 *Transfer Restrictions.* The Securities may only be disposed of in compliance with U.S. state and federal securities laws. In connection with any transfer of Securities other than (i) pursuant to an effective registration statement, (ii) to the Company, or (iii) to an Affiliate of a Purchaser, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement.



*4.2 Furnishing of Information.* During the Effectiveness Period (as such term is defined in the Registration Rights Agreement), the Company covenants to use its commercially reasonable efforts to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. During the Effectiveness Period, the Company further covenants to use its commercially reasonable efforts to take such further action as any Purchaser may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

*4.3 Integration.* The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market.

*4.4 Securities Laws Disclosure; Publicity.* The Company shall, by 8:30 a.m., New York City time, on the Business Day following the Closing Date, issue a press release to be disseminated in the public domain describing the terms of the transactions contemplated by the Transaction Documents. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except (i) as required by federal securities law or the Commission in connection with the registration statement contemplated by the Registration Rights Agreement and (ii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under subclause (i) or (ii).

*4.5 Shareholders Rights Plan.* No claim will be made or enforced by the Company or any other Person that any Purchaser is an “Acquiring Person” under any shareholders rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, in each case solely by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

*4.6 Reservation of Ordinary Shares.* As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of Ordinary Shares for the purpose of enabling the Company to issue Shares pursuant to this Agreement and Warrant Shares pursuant to the Warrants.

4.7 *Listing of Ordinary Shares; ADR Facility.* The Company hereby agrees to use commercially reasonable efforts to maintain the listing of ADRs representing Ordinary Shares on the Nasdaq Stock Market and the listing of the Ordinary Shares on the full list of the London Stock Exchange and on the Tel Aviv Stock Exchange. As soon as reasonably practicable following the Effective Date, the Company will list ADRs representing the Shares and the Warrant Shares on the Nasdaq Stock Market. The Company further agrees, if the Company applies to have ADRs representing Ordinary Shares traded on any other Trading Market, it will include in such application the Shares and Warrant Shares, and will take such other action as is necessary or desirable in the opinion of the Purchasers to cause the Shares and Warrant Shares to be listed on such other Trading Market as promptly as possible. The Company will take all action reasonably necessary to continue the listing and trading of ADRs representing its Ordinary Shares on a Trading Market and will comply in all respects with the Company’s reporting, filing and other obligations under the bylaws or rules of the Trading Market. The Purchasers acknowledge that the Shares and the Warrant Shares will not be eligible for deposit into the American Depositary Receipt trading facility maintained by the Company at The Bank of New York until the Effective Date.

4.8 *Subsequent Financings Prior to Effective Date.* From the date hereof until 90 days after the Effective Date, other than as contemplated by this Agreement, neither the Company nor any Subsidiary shall issue or sell any Ordinary Shares, excluding the issuance of securities issued upon the exercise of currently outstanding options and warrants.

4.9 *Non-Public Information.* The Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing representations in effecting transactions in securities of the Company.

4.10 *Delivery of ADRs.* On the Effective Date, the Company shall deliver the Shares to The Bank of New York, and shall cause The Bank of New York to immediately deliver to each Purchaser ADRs representing a number of Shares equal to such Purchaser’s Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser.

**ARTICLE V.**  
**MISCELLANEOUS**

5.1 *Fees and Expenses.* Except as set forth in Section 3.1(p) and in the Placement Agent Agreement, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all stamp and other taxes and duties levied in connection with the sale of the Securities.

5.2 *Entire Agreement.* The Transaction Documents, together with the exhibits and schedules thereto, the Private Placement Memorandum and the Placement Agent Agreement, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 *Notices.* Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified on the signature pages attached hereto prior to 6:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number on the signature pages attached hereto on a day that is not a Trading Day or later than 6:30 p.m. (New York City time) on any Trading Day, (c) the Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 *Amendments; Waivers.* No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 *Construction.* The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

5.7 *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser. Any Purchaser may assign any or all of its rights under this Agreement to any Person, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the “Purchasers.”

5.8 *No Third-Party Beneficiaries.* This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.1.

5.9 *Governing Law.* All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state or federal courts sitting in the City of New York. Each party hereto hereby irrevocably submits to the jurisdiction of the state and federal courts sitting in the City of New York, New York, exclusive of all other jurisdictions, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. If either party shall commence an action or proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 *Survival.* The representations, warranties, agreements and covenants contained herein shall survive the Closing and delivery of the Shares.

5.11 *Execution.* This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

5.12 *Severability.* If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

5.13 *Replacement of Shares.* If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested.

5.14 *Independent Nature of Purchasers' Obligations and Rights.* The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Document. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents.

*(Signature Page Follows)*

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

**XTL Biopharmaceuticals Ltd.**

By: /s/ Ron Bentsur  
Name: Ron Bentsur  
Title: Chief Executive Officer

*Address for Notice:*  
750 Lexington Avenue, 20th Floor  
New York, NY 10022  
Attn: Ron Bentsur  
Tel: (212) 531-5960  
Fax: (212) 531-5961

*With copy to (which shall not constitute notice):*

Alston & Bird LLP  
90 Park Avenue  
New York, New York 10016  
Attn: Mark F. McElreath  
Tel: (212) 210-9400  
Fax: (212) 210-9444

*(Signature Page Continues)*

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

BANK JULIUS BAER & CO. LTD.

By:     /s/ B. Guzman  
Name:   B. Guzman  
Title:   First Vice President

Date: March 19, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
666,667	\$6.00	\$4,000,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

BRAMDEAN UK EQUITY FUND

By:     /s/ Mark Barnett  
\_\_\_\_\_  
Name:  Mark Barnett  
Title:  Fund Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
804	\$6.00	\$4824.00

  

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CATALYTIX, LDC

By: /s/ Theodore E. Kalem

Name: Theodore E. Kalem

Title: Partner, Array Capital Management

Date: March 17 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
12,500	\$6.00	\$75,000.00

CATALYTIX LIFE SCIENCE HEDGE AC

By: /s/ Theodore E. Kalem

Name: Theodore E. Kalem

Title: Partner, Array Capital Management

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
12,500	\$6.00	\$75,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

APEX INVESTMENTS LTD.

By:    /s/ Ido Nouberger  
\_\_\_\_\_  
Name:  Ido Nouberger  
Title:  CEO  
\_\_\_\_\_

Date: March 19, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
33,333	\$6.00	\$200,000.00

\_\_\_\_\_

APEX PROVIDENT FUNDS

By: /s/ Eitan Yekutzel

Name: Eitan Yekutzel

Title: Asset Manager

Date: March 19, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
33,333	\$6.00	\$200,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

AVIZ RAIZ

By: /s/ Aviv Raiz

Name: Aviv Raiz

Title:

Date: March 18, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
66,667	\$6.00	\$400,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

CAPITAL VENTURES INTERNATIONAL

By: /s/ Martin Kobinger  
Name: Martin Kobinger  
Title: Investment Manager

Date: March 16, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
83,333	\$6.00	\$500,000.00

CIMARRON BIOMEDICAL EQUITY MASTER FUND  
L.P.

By: /s/ Rob Blakeney

Name: Rob Blakeney

Title: Senior Vice President

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
50,000	\$6.00	\$300,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

DIAMONDBACK CAPITAL MANAGEMENT, LLC

By: /s/ Mark G. Hadlock

Name: Mark G. Hadlock

Title: Secretary

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	RICE PER SHARE	TOTAL PURCHASE PRICE
1,666,667	\$6.00	\$1,000,000.00



[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

FORMULA INVESTMENT HOUSE LTD.

By:   /s/ Eyal Tesler

Name:   Eyal Tesler

Title:   Agent

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
50,000	\$6.00	\$300,000.00

FORE CONVERTIBLE MASTER FUND, LTD.

By:   /s/ Hareesh Paranjape

Name:   Hareesh Paranjape

Title:   Assistant Secretary

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
215,400	\$6.00	\$1,292,400.00

FORE ERISA FUND, LTD.

By:   /s/ Hareesh Paranjape

Name:  Hareesh Paranjape

Title:  Assistant Secretary

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
26,300	\$6.00	\$157,800.00

FORE MULTI STRATEGY MASTER FUND, LTD.

By: /s/ Hareesh Paranjape

Name: Hareesh Paranjape

Title: Assistant Secretary

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
134,300	\$6.00	\$805,800

GLG NORTH AMERICAN OPPORTUNITY FUND

By:     /s/ Tim Kuschill  
Name:   Tim Kuschill  
Title:   Legal Counsel

By:     /s/ Simon White  
Name:   Simon White  
Title:   Chief Operating Officer

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
166,667	\$6.00	\$1,000,000.00

HIGHBRIDGE INTERNATIONAL LLC

By:    /s/ Adam J. Chill

Name:  Adam J. Chill

Title:  Managing Director

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
500,000	\$6.00	\$3,000,000

IROQUOIS MASTER FUND

By:     /s/ Joshua Silverman  
Name:  Joshua Silverman  
Title:  Director

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
125,000	\$6.00	\$750,000.00

INVESCO INSITUTIONAL INCOME GROWTH

By: /s/ Mark Barnett

Name: Mark Barnett

Title: Fund Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
5198	\$6.00	\$31,188.00



[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

KENNETH HOBERMAN

By:     /s/ Kenneth Hoberman  
Name:   Kenneth Hoberman  
Title:   \_\_\_\_\_

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
42,334	\$6.00	\$254,004.00
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KEYSTONE INVESTMENT TRUST

By:    /s/ Mark Barnett

Name:  Mark Barnett

Title:  Fund Manager

Date:  March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
29,208	\$6.00	\$175,248.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MAN MAC I, LTD.

By:     /s/ Hareesh Paranjape  
Name: Hareesh Paranjape  
Title: Chief Portfolio Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
124,000	\$6.00	\$744,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MERLIN BIOMED, LP

By: /s/ Norman Schleifer

Name: Norman Schleifer

Title: Chief Financing Officer

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
130,000	\$6.00	\$780,000.00

MERLIN BIOMED II, LP

By:    /s/ Norman Schleifer

Name:  Norman Schleifer

Title:  Chief Financing Officer

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
38,633	\$6.00	\$231,798

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MERLIN BIOMED ROUNDTABLE FUND, LP

By: /s/ Norman Schleifer

Name: Norman Schleifer

Title: Chief Financing Officer

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
7,700	\$6.00	\$46,200.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MERLIN BIOMED INTERNATIONAL, LTD.

By: /s/ Norman Schleifer

Name: Norman Schleifer

Title: Chief Financing Officer

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
157,000	\$6.00	\$942,000.00

NARRAGANSETT OFFSHORE, LTD.

By:    /s/ Joseph L. Dowling, III

Name:   Joseph L. Dowling, III

Title:   Authorized Signature

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
260,000	\$6.00	\$1,560,000.00



NARRAGANSETT I, LP

By:   /s/ Joseph L. Dowling, III

Name:   Joseph L. Dowling, III

Title:   Authorized Signature

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
240,000	\$6.00	\$1,440,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

JAMES OLIVIERO

By:     /s/ James Oliviero  
Name:  James Oliviero  
Title:

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
11,000	\$6.00	\$66,000.00

NORTH SOUND LEGACY INSTITUTIONAL FUND  
LLC

By:     /s/ Andrew B. David  
Name:   Andrew B. David  
Title:   General Counsel

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
140,000	\$6.00	\$840,000.00

NORTH SOUND LEGACY INTERNATIONAL LTD.

By: /s/ Andrew B. David

Name: Andrew B. David

Title: General Counsel

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
360,000	\$6.00	\$2,160,000.00

PORTSIDE GROWTH AND OPPORTUNITY FUND

By: /s/ Jeffrey Smith

Name: Jeffrey Smith

Title: Authorized Signatory

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
166,667	\$6.00	\$1,000,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

PERPETUAL INCOME AND GROWTH  
INVESTMENT TRUST

By: /s/ Mark Barnett

Name: Mark Barnett

Title: Fund Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
9,790	\$6.00	\$568,740.00

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RAQ, LLC

By:     /s/ Lindsay A. Rosenwald, MD

Name:   Lindsay A. Rosenwald, MD

Title:   Managing Member

Date:  March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
41,666	\$6.00	\$250,000.00

ROCK SECURITIES LIMITED

By:

/s/ Simon Dryan

Name: Simon Dryan

Title: Director

By:

/s/ Kenneth Kemsley

Name: Kenneth Kemsley

Title: Director

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
83,333	\$6.00	\$500,000.00



SENVEST MASTER FUND LP

By:   /s/ George Malikonis

Name:  George Malikonis

Title:  Vice President

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
104,000	\$6.00	\$624,000.00

SENVEST ISRAEL PARTNERS LP

By: /s/ George Malikonis

Name: George Malikonis

Title:

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
104,333	\$6.00	\$625,998.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SONOSTAR CAPITAL PARTNERS LLC

By: /s/ Gregory Kiernan

Name: Gregory Kiernan

Title: Managing Partner

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
83,333	\$6.00	\$499,998.00

VALESCO HEALTHCARE PARTNERS I LP

By: /s/ I. Keith Maher

Name: I. Keith Maher

Title: Portfolio Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
14,000	\$6.00	\$84,000.00

VALESCO HEALTHCARE PARTNERS II LP

By: /s/ I. Keith Maher

Name: I. Keith Maher

Title: Portfolio Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
29,333	\$6.00	\$176,000.00

VALESCO HEALTHCARE OVERSEAS FUND LP

By:   /s/ I. Keith Maher

Name:   I. Keith Maher

Title:   Portfolio Manager

Date: March 17, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
23,333	\$6.00	\$140,000.00

YOURDENT LTD

By: /s/ Yory Rabinovitch

Name: Yory Rabinovitch

Title: Chief Executive Officer

Date: March 18, 2006

NUMBER OF ADR SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
33,333	\$6.00	\$199,998.00

The above-signed Purchaser hereby provides the following information to the Company:

1. Please provide the following information regarding the Purchaser:

**Purchaser Name and Address:**

**Telephone:** ( ) \_\_\_\_\_ - \_\_\_\_\_

**Facsimile:** ( ) \_\_\_\_\_ - \_\_\_\_\_

**Email:** \_\_\_\_\_

**Tax ID #:** \_\_\_\_\_

2. If different from the information provided in Item 1 above, please provide the exact name that the Purchaser’s Shares are to be registered in (this is the name that will appear on the share certificate(s)) and/or to whom the Purchaser’s Warrants will be issued (the “*Registered Holder*”). The Purchaser may use a nominee name if appropriate:

**Registered Holder of the Shares and Warrants Name and Address:**

**Facsimile:** ( ) \_\_\_\_\_ - \_\_\_\_\_





3. Please describe the relationship between the Purchaser of the Shares and the Registered Holder of the Shares listed in response to Item 2 above, if different:

4. If different from the information provided in Item 1 above, please provide the mailing address of the Registered Holder of the Shares listed in response to Item 2 above:

5. If different from the information provided above, please provide the number of Ordinary Shares beneficially owned (as determined in accordance with SEC Rule 13d-3 under the Exchange Act) by the Purchaser immediately after Closing. Explain the nature of such beneficial ownership, including Ordinary Shares not held of record by the Purchaser. Disclose the details of any rights to acquire Ordinary Shares.

6. Describe any position, office or other material relationship within the past three years that the Purchaser has, or has had, with the Company or its Affiliates other than as disclosed in the Registration Statement? If none, please state “Not Applicable.”

**Please note that it is the Purchaser’s obligation to advise the Company promptly if any of the foregoing information changes during the effectiveness of the Registration Statement (except due to sales of Ordinary Shares pursuant thereto).**

## Exhibit C

### *Form of Opinion of Kantor & Co.*

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Israel, and has the corporate power and authority to carry on its business and to own, lease and operate its properties and assets as described in the Private Placement Memorandum. Except for the Subsidiary, the Company does not have any subsidiaries and does not own more than fifty percent (50%) of the outstanding capital stock of or control any other business entity.

2. The Company has the corporate power and authority to enter into and perform its obligations under the Transaction Documents and to issue the Shares, the Warrants and the Warrant Shares. The execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary corporate action of the Company.

3. The Transaction Documents have been duly executed and delivered by the Company.

4. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby, including, without limitation, the issuance of the Shares, the Warrants and the Warrant Shares, do not and will not result in a violation of the Company's Memorandum and Articles of Organization or bylaws.

5. The Company has the authorized capitalization as set forth in the Private Placement Memorandum. The issuance of the Shares and the Warrants (and the issuance of the Warrant Shares upon exercise of the Warrants) by the Company in accordance with the Agreement is exempt from registration under the Securities Act of 1933, as amended. When so issued, when certificates representing such Shares and Warrant Shares have been duly executed, countersigned, registered and delivered in accordance with the Agreement, upon payment of the consideration therefor provided therein, the Shares and the Warrant Shares will be duly and validly authorized and issued, fully paid and nonassessable, free of any liens or encumbrances, or preemptive or similar rights, contained in the Company's Memorandum and Articles of Organization or bylaws or any other instrument known to us and will conform to the description thereof contained in the Private Placement Memorandum.

### *Form of Opinion of Alston & Bird LLP*

1. The Company is duly qualified to do business and is in good standing as a foreign corporation in all U.S. jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in Material Adverse Effect.

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2. The Subsidiary is a corporation, validly existing and in good standing under the laws of the State of Delaware, is duly qualified to do business and is in good standing as a foreign corporation in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in Material Adverse Effect, and has the corporate power and authority to carry on its business and to own, lease and operate its properties and assets as described in the Private Placement Memorandum.

3. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby, including, without limitation, the issuance of the Shares, the Warrants and the Warrant Shares, do not and will not (i) result in a violation of the Subsidiary’s Certificate of Incorporation or bylaws; (ii) conflict with, or constitute a material default (or an event that with notice or lapse of time or both would become a default) under, require a consent under, or give to others any rights of termination, amendment, acceleration or cancellation of, any Material Agreement; (iii) result in a violation of any law, rule or regulation of the United States or the State of New York; or (iv) to our knowledge, violate any judgment, order or decree of any court or governmental agency or body having jurisdiction over the Company or any of its properties or assets

4. Except for the registration of the Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under applicable state securities laws in connection with the purchase and distribution of the Securities, no consent, approval, authorization or order of, or filing or registration with, any court, governmental agency or governmental body is required for the execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby.

5. To our knowledge, no person or entity has the right to require registration of Ordinary Shares or other securities of the Company because of the filing or effectiveness of the Registration Statement, the consummation of the transactions contemplated in the Transaction Documents or otherwise, except for persons and entities who have expressly waived such right or who have been given proper notice and have failed to exercise such right within the time or times required under the terms and conditions of such right.

6. The statements in the Private Placement Memorandum (other than the financial statements and related schedules and other financial and statistical data contained therein, as to which we express no opinion) under the headings "Risk Factors," "Business—Intellectual Property and Patents," "Business—Government and Industry Regulation," and "Business—Material Contracts" to the extent that they constitute summaries of matters of law or regulation or legal conclusions, have been reviewed by us and fairly summarize the matters described therein in all material respects

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7. To our knowledge and other than as set forth in the Private Placement Memorandum, there are no legal or governmental proceedings pending to which the Company is a party or of which any property or asset of the Company is the subject which, singularly or in the aggregate, if determined adversely to the Company, would prevent or adversely affect the ability of the Company to perform its obligations under the Transaction Documents; and, to our knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

*Alston & Bird to also confirm:*

We have reviewed certain corporate records and other documents of the Company and its subsidiary and have participated in conferences with officers and other representatives of the Company, its subsidiary, your representatives, your counsel and the Company’s independent public accountants at which the contents of the Private Placement Memorandum and the Transaction Documents and related matters were discussed. Because of the inherent limitations in the independent verification of factual matters and because of the inherent limitations involved in the preparation of registration statements under the Securities Act, we are not passing upon and do not assume any responsibility for, and make no representation that we have independently verified, the accuracy, completeness or fairness of the information and statements contained in the Private Placement Memorandum and the Transaction Documents. We have no reason to believe that on the date of issuance of the Private Placement Memorandum, or the date hereof, the Private Placement Memorandum and the Transaction Documents contained an untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Private Placement Memorandum as of its date and the Private Placement Memorandum and the Transaction Documents on the date hereof included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case, other than the financial statements and other financial information contained therein, as to which we express no opinion).

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## REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this “Agreement”) is made and entered into as of March 22, 2006, among XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel (the “Company”), and the purchasers’ signatory hereto (each such purchaser is a “Purchaser” and all such purchasers are, collectively, the “Purchasers”).

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the “Purchase Agreement”).

The Company and the Purchasers hereby agree as follows:

1. Definitions

**Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement.** As used in this Agreement, the following terms shall have the following meanings:

“Commission” means the United States Securities and Exchange Commission.

“Effectiveness Date” means, with respect to the Registration Statement registering for resale the Registrable Securities, the 90<sup>th</sup> calendar day following the Closing Date (105<sup>th</sup> calendar day in the event of a full review by the Commission); provided, however, in the event that the Company is notified by the Commission that the Registration Statement will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to the Registration Statement shall be the fifth Trading Day following the date on which the Company is so notified if such date precedes the dates required above.

“Effectiveness Period” shall have the meaning set forth in Section 2(a).

“Filing Date” means, with respect to the Registration Statement registering for resale the Registrable Securities, the 30<sup>th</sup> day following the Closing Date.

“Holder” or “Holders” means the holder or holders, as the case may be, from time to time of Registrable Securities.

“Indemnified Party” shall have the meaning set forth in Section 5(c).

“Indemnifying Party” shall have the meaning set forth in Section 5(c).

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Prospectus” means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

“Registrable Securities” means all of the Shares and Warrant Shares, together with any Ordinary Shares issued or issuable as a result of any stock split, dividend or other distribution, recapitalization exchange or similar event with respect to the foregoing.

“Registration Statement” means the registration statements required to be filed hereunder, including (in each case) the Prospectus, amendments and supplements to the Registration Statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in the registration statement.

“Rule 415” means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Rule 424” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Shares” means the Ordinary Shares purchased by the Purchasers under the Purchase Agreement.

“Warrants” means the Share purchase warrants issued to the Purchasers pursuant to the Purchase Agreement.

## 2. Shelf Registration

(a) The Company shall prepare and, as soon as practicable, but in no event later than the Filing Date, file with the Commission a “Shelf” Registration Statement covering the resale of all of the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form F-1 and shall contain (unless otherwise directed by the Holders and except to the extent the Company determines that modifications thereto are required under applicable law) substantially the “Plan of Distribution” attached hereto as Exhibit A. Subject to the terms of this Agreement, the Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its best efforts to keep the Registration Statement continuously effective under the Securities Act until the date which is two years after the date that the Registration Statement is declared effective by the Commission or such earlier date when all Registrable Securities covered by the Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company’s transfer agent and the affected Holders (the “Effectiveness Period”). The Company shall immediately notify the Holders via facsimile or email of the effectiveness of the Registration Statement on the same day that the Company receives notification of the effectiveness from the Commission.

(b) If: (i) the Registration Statement is not filed on or prior to its Filing Date (if the Company files the Registration Statement without affording the Holders the opportunity to review and comment on the same as required by Section 3(b), the Company shall not be deemed to have satisfied clause (i)), or (ii) the Company fails to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act, within five Trading Days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that the Registration Statement will not be “reviewed,” or not subject to further review, or (iii) prior to the Effectiveness Date, the Company fails to file a pre-effective amendment and otherwise respond in writing to comments made by the Commission in respect of the Registration Statement within ten Trading Days after the receipt of comments by or notice from the Commission that such amendment is required in order for the Registration Statement to be declared effective, or (iv) the Registration Statement filed or required to be filed hereunder is not declared effective by the Commission by the Effectiveness Date, or (v) after the Effectiveness Date, the Registration Statement ceases for any reason to remain continuously effective as to all Registrable Securities for which it is required to be effective, or the Holders are not permitted to utilize the Prospectus therein to resell such Registrable Securities for ten consecutive Trading Days or in any individual case an aggregate of fifteen Trading Days during any twelve month period (which need not be consecutive Trading Days) (any such failure or breach being referred to as an “Event”, and for purposes of clause (i) or (iv) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five Trading Day period is exceeded, or for purposes of clause (iii) the date which such ten Trading Day period is exceeded, or for purposes of clause (v) the date on which such ten or fifteen Trading Day period, as applicable, is exceeded being referred to as “Event Date”), then, on each such Event Date and every monthly anniversary thereof until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% per month of the Subscription Amount paid by such Holder pursuant to the Purchase Agreement for Registrable Securities then held by such Holder and covered (or to be covered) by the Registration Statement. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven days after the date payable, the Company will pay interest thereon at a rate of 15% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

(c) The Holders holding at least a majority of the Registrable Securities shall have the right to select one legal counsel to review, comment and oversee any registration pursuant to this Section 2 (“Legal Counsel”), which shall be Dechert LLP or such other counsel as thereafter designated by the holders of at least a majority of the Registrable Securities.

3. Registration Procedures

In connection with the Company’s registration obligations hereunder, the Company shall:

(a) Permit Legal Counsel to review and comment upon a Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference) at least five Trading Days prior to its filing with the Commission and Company shall not file any Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference) in a form to which Legal Counsel reasonably objects in writing; provided that the liquidated damages set forth in Section 2(b) shall not accrue as a result of such objection. The Company shall promptly furnish to Legal Counsel, without charge, (i) copies of any correspondence between the Commission or the staff of the Commission, on one hand, and the Company or its representatives, on the other, relating to any Registration Statement and (ii) upon effectiveness of any Registration Statement, one copy of Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto. The Company shall reasonably cooperate with Legal Counsel in performing the Company’s obligations pursuant to this Section 3.

(b) Not less than three Trading Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall, (i) furnish to each Holder copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary to conduct a reasonable investigation within the meaning of the Securities Act.



(c) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement (subject to the terms of this Agreement), and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten Trading Days, to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance (subject to the terms of this Agreement) with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(d) Notify the Holders of Registrable Securities to be sold and Legal Counsel (which notice, pursuant to clauses (ii) through (vi) hereof, shall be accompanied by an instruction to suspend the use of the Prospectus until the requisite changes have been made) as promptly as reasonably possible and (if requested by any such Person) confirm such notice in writing no later than two Trading Days following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a “review” of the Registration Statement and whenever the Commission comments in writing on the Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); and (C) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; (v) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and (vi) the occurrence or existence of any pending corporate development with respect to the Company that the Company believes may be material and that, in the determination of the Company, makes it not in the best interest of the Company to allow continued availability of the Registration Statement or Prospectus; provided that the Company shall not disclose the nature of such information to the Holder.

(e) Promptly deliver to each Holder, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request. Subject to the terms of this Agreement, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(f) Use commercially reasonable efforts to register or qualify the resale of such Registrable Securities as required under applicable securities or Blue Sky laws of each State within the United States as any Holder requests in writing, to keep each the Registration or qualification (or exemption therefrom) effective during the Effectiveness Period; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(g) Cooperate with the Holders to facilitate the timely preparation and delivery of ADRs representing Registrable Securities to be delivered to a transferee pursuant to the Registration Statement, which shall be free, to the extent permitted by the Purchase Agreement, of all restrictive legends, and to enable such ADRs to be in such denominations and registered in such names as any such Holders may request.

(h) Upon the occurrence of any event contemplated by this Section 3, as promptly as reasonably possible under the circumstances prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with clauses (ii) through (vi) of Section 3(d) above to suspend the use of any Prospectus until the requisite changes to such Prospectus have been made, or the Company otherwise notifies the Holders of its election to suspend the availability of the Registration Statement and Prospectus pursuant to clause (vi) of Section 3(d), then the Holders shall suspend use of such Prospectus. The Company will use its best efforts to ensure that the use of the Prospectus may be resumed as promptly as is practicable, except that in the case of suspension of the availability of the Registration Statement and Prospectus pursuant to clause (vi) of Section 3(d), the Company shall not be required to take such action until such time as it shall determine that the continued availability of the Registration Statement and Prospectus is no longer not in the best interests of the Company. The Company shall be entitled to exercise its right under this Section 3(h) to suspend the availability of the Registration Statement and Prospectus, subject to the payment of liquidated damages pursuant to Section 2(b), for a period not to exceed 60 consecutive days or for multiple periods not to exceed 90 days in any 12 month period.

(i) Comply with all applicable rules and regulations of the Commission.

(j) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(k) The Company may require, at any time prior to the third Trading Day prior to the Filing Date, each Holder to furnish to the Company a statement as to the number of Ordinary Shares beneficially owned by such Holder and, if requested by the Commission, the controlling person thereof, within three Trading Days of the Company's request. During any periods that the Company is unable to meet its obligations hereunder with respect to the registration of the Registrable Securities solely because any Holder fails to furnish such information within three Trading Days of the Company's request, any liquidated damages that are accruing at such time shall be tolled, until such information is delivered to the Company.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Trading Market on which the ADRs are then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws reasonably agreed to by the Company in writing (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company, and (v) reasonable fees and disbursements of Legal Counsel, and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder. In no event shall the Company be responsible for any broker or similar commissions or, except to the extent provided for in the Transaction Documents, any legal fees or other costs of the Holders.

## 5. Indemnification

(a) *Indemnification by the Company.* The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, members, partners, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of ADRs), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, members, partners, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs (including, without limitation, costs of preparation and reasonable attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to (i) any breach of applicable securities laws or untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions or alleged untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e); (ii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities laws, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement; or (iii) any material violation of this Agreement by the Company, its agents or representatives. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding arising from or in connection with the transactions contemplated by this Agreement of which the Company is aware.

(b) *Indemnification by Holders.* Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising out of or based upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, arising solely out of or based solely upon: (i) such Holder's failure to comply with the prospectus delivery requirements of the Securities Act or (ii) any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in the Registration Statement or such Prospectus or to the extent that (1) such untrue statements or omissions are based upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities covered by such Registration Statement giving rise to such indemnification obligation.

(c) *Conduct of Indemnification Proceedings.* If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that such failure shall have prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a material conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the expense of one such counsel for each Holder shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

Subject to the terms of this Agreement, all reasonable fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within 10 Trading Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) *Contribution.* If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. Miscellaneous

(a) *Amendments and Waivers.* The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and all of the Holders of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of all of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(b) *No Inconsistent Agreements.* Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities, that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as set forth on Schedule 6(b), neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

(c) *No Piggyback on Registrations.* Neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders. In addition, the Company shall not cause any other registration statement to become effective prior to the Effective Date.

(d) *Compliance.* Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(e) *Discontinued Disposition.* Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3(d)(ii) through (vi), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(h), or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph. The Company agrees and acknowledges that any periods during which the Holder is required to discontinue the disposition of the Registrable Securities hereunder shall be subject to the provisions of Section 2(b).

(f) *Piggy-Back Registrations.* If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than a registration statement relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within ten Trading Days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in the Registration Statement all or any part of such Registrable Securities such holder requests to be registered; provided, that, the Company shall not be required to register any Registrable Securities pursuant to this Section 6(f) that are eligible for resale pursuant to Rule 144(k) promulgated under the Securities Act or that are the subject of a then effective Registration Statement.

(g) *Notices.* Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

(h) *Successors and Assigns.* This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of all of the Holders of the then-outstanding Registrable Securities. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.



(i) *Counterparts*. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) *Governing Law*. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under the Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Agreement, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(k) *Cumulative Remedies*. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) *Severability*. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(m) *Headings*. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(n) *Remedies.* In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(o) *Independent Nature of Purchasers' Obligations and Rights.* The obligations of each Purchaser hereunder is several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

**XTL Biopharmaceuticals Ltd.**

By: /s/ Ron Bentsur

Name: Ron Bentsur

Title: Chief Executive Officer

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**APEX INVESTMENTS LTD.**

By: /s/ Ido Nouberger

Name: Ido Nouberger

Title: Chief Executive Officer

**APEX PROVIDENT FUNDS**

By: /s/ Eitan Yekutiel  
\_\_\_\_\_  
Name: Eitan Yekutiel  
Title: Asset Manager

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**AVIV RAIZ**

By: /s/ Aviv Raiz  
\_\_\_\_\_  
Name: Aviv Raiz  
Title:

\_\_\_\_\_

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**BANK JULIUS BAER & CO. LTD.**

By: /s/ B. Guzman  
\_\_\_\_\_  
Name: B. Guzman  
Title: First Vice President

By: /s/ M. Real  
\_\_\_\_\_  
Name: M. Real  
Title: Authorised Signatory

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**KEYSTONE INVESTMENT TRUST**

By: /s/ Mark Barnett  

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Name: Mark Barnett  
Title: Fund Manager

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**CATALYTIX, LDC**

By: /s/ Theodore E. Kalem

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Name: Theodore E. Kalem

Title: Partner, Avery Capital Management, LLC

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CATALYTIX LDC LIFE SCIENCE HEDGE AC

By: /s/ Theodore E. Kalem

Name: Theodore E. Kalem

Title: Partner, Avery Capital Management, LLC

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CAPITAL VENTURES INTERNATIONAL

By: /s/ Martin Kobringer  
\_\_\_\_\_  
Name: Martin Kobringer  
Title: Investment Manager

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**CIMARRON BIOMEDICAL EQUITY  
MASTER FUND L.P.**

By: /s/ Rob Blakeney  
\_\_\_\_\_  
Name: Rob Blakeney  
Title: Senior Vice President

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**DIAMONDBACK CAPITAL MANAGEMENT, LLC**

By: /s/ Mark G. Hadlock

Name: Mark G. Hadlock  
Title: Secretary

**FORMULA INVESTMENT HOUSE**

By: /s/ Eyal Tesler  
\_\_\_\_\_  
Name: Eyal Tesler  
Title: Agent

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**FORE CONVERTIBLE MASTER FUND, LTD.**

By: /s/ Hareesh Paranjape

Name: Hareesh Paranjape

Title: Assistant Secretary

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**FORE ERISA FUND, LTD.**

By: /s/ Hareesh Paranjape

Name: Hareesh Paranjape  
Title: Assistant Secretary

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**FORE MULTI STRATEGYMASTER FUND, LTD.**

By: /s/ Hareesh Paranjape

Name: Hareesh Paranjape  
Title: Assistant Secretary

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**GLG NORTH AMERICAN OPPORTUNITY FUND**

By: /s/ Tim Kuschill  

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Name: Tim Kuschill  
Title: Legal Counsel

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**HIGHBRIDGE INTERNATIONAL LLC**

By: /s/ Adam J. Chill

Name: Adam J. Chill

Title: Managing Director

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**IROQUOIS MASTER FUND, LTD.**

By: /s/ Joshua Silverman

Name: Joshua Silverman  
Title: Director

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**INVESCO INSTITUTIONAL INCOME GROWTH**

By: /s/ Mark Barnett  

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Name: Mark Barnett  
Title: Fund Manager

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**JAMES OLIVIERO, III**

By: /s/ James Oliviero, III

Name: James Oliviero, III

Title:

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**KENNETH HOBERMAN**

By: /s/ Kenneth Hoberman

Name: Kenneth Hoberman

Title:

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**PERPETUAL INCOME AND GROWH INVESTMENT TRUST**

By: /s/ Mark Barnett  

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Name: Mark Barnett  
Title: Fund Manager

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**MAN MAC I, LTD.**

By: /s/ Hareesh Paranjape  
\_\_\_\_\_  
Name: Hareesh Paranjape  
Title: Chief Portfolio Manager

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**MERLIN BIOMED, LP**

By: /s/ Norman Schleifer

Name: Norman Schleifer

Title: Chief Financing Officer

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**MERLIN BIOMED II, LP**

By: /s/ Norman Schleifer

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Name: Norman Schleifer

Title: Chief Financing Officer

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**MERLIN BIOMED ROUNDTABLE FUND, LP**

By: /s/ Norman Schleifer

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Name: Norman Schleifer

Title: Chief Financing Officer

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**MERLIN BIOMED INTERNATIONAL, LP**

By: /s/ Norman Schleifer

\_\_\_\_\_

Name: Norman Schleifer

Title: Chief Financing Officer

\_\_\_\_\_

**NARRAGANSETT OFFSHORE, LTD.**

By: /s/ Joseph L. Dowling, III  
\_\_\_\_\_  
Name: Joseph L. Dowling, III  
Title: Authorized Signature

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**NARRAGANSETT I, LP**

By: /s/ Joseph L. Dowling, III  
\_\_\_\_\_  
Name: Joseph L. Dowling, III  
Title: Authorized Signature

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**NORTH SOUND LEGACY INSTITUTIONAL  
FUND LLC**

By: /s/ Andrew B. David

\_\_\_\_\_  
Name: Andrew B. David  
Title: General Counsel

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**NORTH SOUND LEGACY INTERNATIONAL LTD.**

By: /s/ Andrew B. David

Name: Andrew B. David

Title: General Counsel

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**PORTSIDE GROWTH AND OPPORTUNITY FUND**

By: /s/ Jeffrey Smith  
\_\_\_\_\_  
Name: Jeffrey Smith  
Title: Authorized Signatory

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**BRAMDEAN UK EQUITY FUND**

By: /s/ Mark Barnett  

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Name: Mark Barnett  
Title: Fund Manager

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**RAQ, LLC**

By: /s/Lindsay A. Rosenwald, MD  
\_\_\_\_\_  
Name: Lindsay A. Rosenwald, MD  
Title: Managing Member

\_\_\_\_\_

**ROCK SECURITIES LIMITED**

By: /s/ Simon Dryan  
\_\_\_\_\_  
Name: Simon Dryan  
Title: Director

By: /s/ Kenneth Kemsley  
\_\_\_\_\_  
Name: Kenneth Kemsley  
Title: Director

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**SENVEST MASTER FUND LP**

By: /s/ George Malikonis

Name: George Malikonis

Title: Vice President

SENVEST ISRAEL PARTNERS LP

By: /s/ George Malikonis

Name: George Malikonis

Title: Vice President

[SIGNATURE PAGE OF HOLDERS TO RRA]

**SONOSTAR CAPITAL PARTNERS LLC**

By: /s/ Gregory F. Kiernan

Name: Gregory F. Kiernan

Title: Managing Partner



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**VALESCO HEALTHCARE PARTNERS I LP**

By: /s/ I. Keith Maher  
\_\_\_\_\_  
Name: I. Keith Maher  
Title: Portfolio Manager

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**VALESCO HEALTHCARE PARTNERS II LP**

By: /s/ I. Keith Maher  
\_\_\_\_\_  
Name: I. Keith Maher  
Title: Portfolio Manager

\_\_\_\_\_

[SIGNATURE PAGE OF HOLDERS TO RRA]

**VALESCO HEALTHCARE OVERSEAS FUND LTD.**

By: /s/ I. Keith Maher

\_\_\_\_\_

Name: I. Keith Maher

Title: Portfolio Manager

\_\_\_\_\_

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**YOURDENT LTD.**

By: /s/ Yory Rabinovitch

\_\_\_\_\_

Name: Yory Rabinovitch

Title: Chief Executive Officer

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## **Exhibit A**

### **Plan of Distribution**

The selling shareholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their ADRs on any stock exchange, market or trading facility on which the ADRs are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling ordinary shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the ADRs as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales created after the date of this Prospectus;
- broker-dealers may agree with the selling shareholders to sell a specified number of such ADRs at a stipulated price per ADR;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell ADRs under Rule 144 under the Securities Act, if available, rather than under this prospectus. Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling shareholder may from time to time pledge or grant a security interest in some or all of the ADRs owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the ADRs from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus.

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The selling shareholders also may transfer the ADRs in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealers or agents that are involved in selling the ADRs may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the ADRs purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling shareholders have informed the Company that none of them have any agreement or understanding, directly or indirectly, with any person to distribute the ADRs.

The Company is required to pay all fees and expenses incurred by the Company incident to the registration of the ADRs. The Company has agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this “*Agreement*”) is dated as of October 25, 2007 among XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel (the “*Company*”), and the purchasers identified on the signature pages hereto (each a “*Purchaser*” and collectively the “*Purchasers*”); and

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act (as defined below), and Rule 506 and Regulation S promulgated thereunder, the Company desires to issue and sell to the Purchasers, and the Purchasers, severally and not jointly, desire to purchase from the Company (the “*Offering*”) in the aggregate, up to 89,000,000 Shares (as defined below) (the “*Maximum Offering Amount*”).

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agrees as follows:

ARTICLE I.  
DEFINITIONS

1.1 *Definitions.* In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings indicated in this Section 1.1:

“*Affiliate*” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144 of the Securities Act. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

“*Business Day*” means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“*Closing*” means the closing of the purchase and sale of the Shares pursuant to this Agreement.

“*Closing Date*” means November 1, 2007, or as soon as reasonably practicable thereafter.

“*Commission*” means the Securities and Exchange Commission.

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*“Company Counsel”* means Alston & Bird LLP.

*“Disclosure Documents”* means (a) the Company’s Annual Report on Form 20-F as filed with the Securities and Exchange Commission (“SEC”) on March 23, 2007; and (b) the Company’s interim financial results filed on a Form 6-K with the SEC on August 23, 2007.

*“Effective Date”* means the date that the Registration Statement is first declared effective by the Commission.

*“Escrow Agent”* means Wilmington Trust Company.

*“Escrow Agreement”* means the Escrow Agreement, dated as of the date of the Agreement, among the Company, the Escrow Agent, and the placement agents listed therein.

*“Escrowed Funds”* has the meaning ascribed to such term in Section 2.2(b)(vii) of this Agreement.

*“Exchange Act”* means the Securities Exchange Act of 1934, as amended.

*“Expiration Date”* shall mean October 31, 2007, or such other date within 30 days thereafter as may be selected by the Company in its sole discretion without notice to investors.

*“Israeli Company Counsel”* means Kantor & Co.

*“Liens”* means a lien, charge, security interest, encumbrance, right of first refusal or other restriction.

*“Material Adverse Effect”* shall have the meaning ascribed to such term in Section 3.1(a).

*“Ordinary Shares”* means the Company’s ordinary shares, par value NIS 0.02.

*“Per Share Purchase Price”* equals \$.135; equivalent to \$1.35 per ADR.

*“Person”* means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

*“Placement Agent Agreement”* means the Placement Agent Agreement, dated October 15, 2007, between the Company and certain placement agents listed therein.

*“Placement Agents”* means the placement agents named in the Placement Agent Agreement.



“*Registration Statement*” means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Purchasers of the Shares.

“*Registration Rights Agreement*” means the Registration Rights Agreement, dated as of the date of this Agreement, among the Company and each Purchaser, in the form of Exhibit A hereto.

“*Rule 144*” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“*Securities*” means the Shares.

“*Securities Act*” means the Securities Act of 1933, as amended.

“*Shares*” means the Ordinary Shares issuable to each Purchaser pursuant to this Agreement.

“*Subscription Amount*” means, as to each Purchaser and the Closing, the amounts set forth below such Purchaser’s signature block on the signature page hereto, in United States dollars and in immediately available funds.

“*Trading Day*” means (i) a day on which American Depositary Receipts representing Ordinary Shares (“*ADRs*”), are traded on a Trading Market, or (ii) if the ADRs are not listed on a Trading Market, a day on which the ADRs are traded on the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the ADRs are not quoted on the OTC Bulletin Board, a day on which the ADRs are quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the ADRs are not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

“*Trading Market*” means the following markets or exchanges on which the ADRs are listed or quoted for trading on the date in question: the American Stock Exchange, the New York Stock Exchange, or the Nasdaq Stock Market.

“*Transaction Documents*” means this Agreement, the Registration Rights Agreement, the Escrow Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

**ARTICLE II.**  
**PURCHASE AND SALE**

2.1 *Closing*. Each Purchaser shall purchase from the Company, and the Company shall issue, on the terms and conditions set forth in this Agreement, and sell to each Purchaser, a number of Shares equal to such Purchaser’s Subscription Amount divided by the Per Share Purchase Price. Upon satisfaction of the conditions set forth in Section 2.2, the Closing shall occur at the offices of the Company, or such other location as the parties shall mutually agree. The Company may continue the Offering, in one or more Closings, until the earlier of the sale of the Maximum Offering Amount or until the Expiration Date. Purchasers will be required to deliver executed, binding Securities Purchase Agreements by the Expiration Date, the Closing of which will only be subject to the satisfaction of the Closing conditions in Section 2.2.

## 2.2 Closing Conditions.

(a) As a condition to the Purchasers' obligation to close, at the Closing (unless otherwise specified below) the Company shall have satisfied each of the conditions set forth below or shall deliver or cause to be delivered to each Purchaser the items set forth below, as appropriate, any one or more of which may be waived in writing by the Purchasers:

(i) this Agreement duly executed by the Company;

(ii) the Registration Rights Agreement duly executed by the Company;

(iii) the Escrow Agreement duly executed by the Company, the Escrow Agent and the placement agents listed therein;

(iv) a legal opinion of each of Company Counsel and Israeli Company Counsel, in the forms in Exhibit B attached hereto;

(v) the representations and warranties made by the Company herein shall be true and correct in all material respects (except any representation and warranty that is qualified by materiality or Material Adverse Effect shall be true and correct in all respects) as of the date hereof and as of the Closing Date with the same effect as if the representations and warranties were made as of the date hereof and as of the Closing Date;

(vi) all covenants, agreements and conditions contained in this Agreement to be performed by the Company on or prior to the Closing shall have been performed or complied with in all material respects;

(vii) no statute, rule, regulation, order, decree, ruling or injunction shall have been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority of competent jurisdiction which in any material respect restricts, prohibits or threatens to restrict or prohibit the consummation of any of the transactions contemplated by the Transaction Documents; and

(viii) as of the Closing Date, there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

With respect to the closing conditions listed in (v), (vi), (vii) and (viii) above, the Company shall deliver a certificate to such effect, in form and substance reasonably satisfactory to the Placement Agents.

(b) As a condition to the Company's obligation to close, at the Closing, each Purchaser shall have satisfied each of the conditions set forth below or shall deliver or cause to be delivered to the Company the items set forth below, as appropriate, any one or more of which may be waived in writing by the Company:

(i) this Agreement duly executed by such Purchaser;

(ii) the Registration Rights Agreement duly executed by such Purchaser;

(iii) the representations and warranties made by the Purchasers herein shall be true and correct in all material respects (except any representation and warranty that is qualified by materiality or Material Adverse Effect shall be true and correct in all respects) as of the date hereof and as of the Closing Date with the same effect as if the representations and warranties were made as of the date hereof and as of the Closing Date;

(iv) the Escrow Agreement duly executed by the Company, the Escrow Agent and the placement agents listed therein;

(v) each Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by such Purchaser at or before the Closing;

(vi) no statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority of competent jurisdiction which prohibits or threatens to prohibit the consummation of any of the transactions contemplated by the Transaction Documents; and

(vii) each Purchaser shall have caused such Purchaser's Subscription Amount to be deposited by wire transfer of immediately available funds to such non-interest bearing escrow account of the Escrow Agent as the Escrow Agent shall designate (the "*Escrowed Funds*"), and the Escrow Agent shall have confirmed that it is prepared to transfer such amount to the Company subject only to satisfaction of the receipt of the certificate provided in Section 2.3 hereof; and

(viii) as of the Closing Date, there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

(c) As a condition to the Company's and each Purchaser's obligation to close, by the time of the Closing, the Company's Ordinary Shares on the Official List of the United Kingdom Listing Authority shall have been de-listed, and the Registration Statement shall be declared effective only following such de-listing.

(d) As a condition to the Company’s and each Purchaser’s obligation to close, by the time of the Closing, the board of directors of the Company shall have approved the issuance of the Shares.

(e) As a condition to the Company’s and each Purchaser’s obligation to close, by the time of the Closing, the Tel Aviv Stock Exchange shall have approved the listing of the Shares.

2.3 *Escrow Arrangement.* Each Purchaser shall be deemed to have irrevocably instructed the Escrow Agent to deliver such Purchaser’s Escrowed Funds to such bank account(s) of the Company as the Company shall have specified to the Escrow Agent on the Effective Date, subject only to the Escrow Agent having received a certificate, dated the Effective Date, executed by the Company certifying that the Registration Statement shall have been declared effective by the Commission. Following delivery to the Escrow Agent of the certificate referred to in this Section 2.3, (i) the Escrow Agent shall promptly cause the Escrowed Funds to be sent by wire transfer to the bank account(s) specified by the Company in writing, and (ii) the Company shall cause to be delivered to The Bank of New York a single certificate for Ordinary Shares, registered in the name of The Bank of New York or its designee, on the Effective Date, and shall thereafter cause The Bank of New York to immediately issue ADRs registered in the name of such Purchaser or its designee, representing the number of Shares acquired by such Purchaser, in accordance with Section 4.10 hereof. If the Company has not delivered to the Escrow Agent a certificate certifying that the Registration Statement shall have been declared effective by the Commission, on or before October 18, 2008, or the condition in Section 2.2(c) has not been satisfied within 60 days of the execution of this Agreement, then the Company shall deliver to the Escrow Agent a notice terminating the Offering upon the receipt of which the Escrow Agent shall distribute the Escrowed Funds to each Purchaser.

2.4 *Satisfaction of Conditions.* Following the deposit of the Escrowed Funds by the Purchaser with the Escrow Agent pursuant to Section 2.2 (b)(vii), this Agreement shall become wholly unconditional except for the satisfaction of the condition specified in Section 2.3 and shall not be capable of termination or rescission save for the non-satisfaction of such condition.

**ARTICLE III.**  
**REPRESENTATIONS AND WARRANTIES**

3.1 *Representations and Warranties of the Company.* The Company and XTL Biopharmaceuticals Inc., and XTL Development, Inc., each a Delaware corporation (the “*Subsidiaries*”), the Company’s subsidiaries, hereby make the following representations and warranties as of the date hereof and as of the Closing Date to each Purchaser:

(a) *Organization and Qualification.* The Company and each of the Subsidiaries is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its respective organization, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor the Subsidiaries are in violation of any of the provisions of its Memorandum and Articles of Organization, bylaws, or other organizational documents. The Company has no wholly-owned subsidiaries other than the Subsidiaries. The Company and each of the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, properties, business or financial condition of the Company or the Subsidiaries, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "*Material Adverse Effect*").

(b) *Authorization; Enforcement.* The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its shareholders in connection therewith. Each Transaction Document has been (or, if executed after the date hereof, upon delivery will be) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) with respect to the indemnification provisions set forth in the Registration Rights Agreement, as limited by public policy.

(c) *No Conflicts.* The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not (i) conflict with or violate any provision of the Company's or the Subsidiaries' Memorandum and Articles of Association, bylaws or other organizational documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a debt of the Company or the Subsidiaries or otherwise) or other understanding to which any of the Company or the Subsidiaries are a party or by which any property or asset of the Company or the Subsidiaries is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which any of the Company or Subsidiaries are subject (including U.S. federal and state securities laws and regulations and the rules and regulations of any Trading Market), or by which any property or asset of any of the Company or the Subsidiaries is bound or affected; except in the case of each of clauses (ii) and (iii), such as would not have or reasonably be expected to result in a Material Adverse Effect.

(d) *Filings, Consents and Approvals.* The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filing with the Commission of the Registration Statement, and one or more Forms D with respect to the Securities as may be required under Regulation D of the Securities Act, the application(s) to each Trading Market for the listing of the ADRs representing the Securities for trading thereon in the time and manner required thereby, and applicable Blue Sky filings, and (ii) such as have already been obtained or such exemptive filings as are required to be made under applicable state and federal securities laws.

(e) *Capitalization.* As of September 30, 2007, the authorized capital stock of the Company consisted of 300,000,000 Ordinary Shares, of which 220,156,932 Ordinary Shares were issued and outstanding. As of October 2, 2007, the Company's shareholders approved an increase in the authorized capital stock of the Company, and the Company therefore now has, as of the date hereof, authorized capital stock of the Company consisting of 500,000,000 Ordinary Shares. All of such outstanding Ordinary Shares are, and all of the Shares, when issued, will be, duly authorized, validly issued, fully paid and nonassessable, and free and clear of all liens created by the Company, and all such Ordinary Shares were, and the Shares will be, issued in material compliance with all applicable U.S. federal and state securities laws, including available exemptions therefrom, and none of such issuances were, and the issuance of the Shares will not be, made in violation of any pre-emptive or other rights. The Company has reserved from its duly authorized capital stock the maximum number of Shares issuable pursuant to this Agreement. The issuance of the Shares will not trigger any anti-dilution rights of any existing securities of the Company. Except as set forth on Schedule 3.1(e), as of the Closing Date, there will be no rights, subscriptions, warrants, options, conversion rights, or agreements of any kind outstanding to purchase from the Company, or otherwise require the Company to issue, any shares of capital stock of the Company or securities or obligations of any kind convertible into or exchangeable for any shares of capital stock of the Company.

(f) *Reports and Financial Statements.* The Company has filed all reports required to be filed by it under the Exchange Act on a timely basis or has received a valid extension of such time of filing and has filed any such reports prior to the expiration of any such extension. The Company has made available to the Purchasers, prior to the execution of this Agreement, a copy of the Company's annual report on Form 20-F filed with the Commission on March 23, 2007, and will make available any Current Reports on Form 6-K filed by the Company (as such documents have since the time of their filing been amended or supplemented, and together with all reports, documents and information filed on or after the date first written above through the date of Closing with the Commission, including all information incorporated therein by reference, collectively, the "*SEC Reports*"). The SEC Reports (a) complied and will comply as to form in all material respects with the requirements of the Securities Act and the Exchange Act, and (b) did not, at the time of their filing, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements included in the SEC Reports comply in all material respects with the applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of filing. The financial statements included in the SEC Reports and the Disclosure Documents, have been prepared in accordance with generally accepted accounting principles in the United States applied on a consistent basis ("*GAAP*"), and fairly represent the financial position of the Company and its Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments and the omission of certain footnotes.

(g) *No Material Change*. Since June 30, 2007, and except as disclosed in its SEC Reports, (i) the Company has not incurred any material liabilities or obligations, indirect, or contingent, or entered into any material oral or written agreement or other transaction which is not in the ordinary course of business or which could reasonably be expected to result in a material reduction in the future earnings of the Company; (ii) the Company has not sustained any loss or interference with its businesses or properties (whether or not covered by insurance) that could reasonably be expected to have a Material Adverse Effect; (iii) the Company has not paid or declared any dividends or other distributions with respect to its capital stock, or redeemed or purchased or otherwise acquired any of its stock and the Company is not in default in the payment of principal or interest on any outstanding debt obligations; (iv) the Company has not changed any compensation arrangement or agreement with any of its key employees or executive officers, or change the rate of pay of its employees as a group, other than in the ordinary course of business; (v) the Company has not changed or amended any contract by which the Company or any of its asset are bound or subject that would have a Material Adverse Effect; (vi) there has not been any change in the capital stock of the Company other than the sale of the Securities hereunder or shares or options issued pursuant to employee equity incentive plans or purchase plans approved by the Company's Board of Directors, or indebtedness not incurred in the ordinary course of business that is material to the Company; and (vii) there has not been any other event which has caused, or is likely to cause, a Material Adverse Effect.

(h) *Litigation*. Except as would not reasonably be expected to result in a Material Adverse Effect on the Company, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending against or, to the knowledge of the Company, threatened against the Company or either of the Subsidiaries. The Company is not subject to any order, writ, judgment, injunction, decree or award of any court or any governmental authority which would reasonably be expected to result in a Material Adverse Effect on the Company.

(i) *Compliance.* The Company has not been advised, nor does the Company have reason to believe, that it is not conducting its business in compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting its business, except where failure to be so in compliance would not reasonably be expected to have a Material Adverse Effect.

(j) *Intellectual Property.* (i) The Company owns or has obtained licenses or options for the inventions, patent applications, patents, trademarks (both registered and unregistered), trade names, copyrights and trade secrets necessary for the conduct of the Company’s business as currently conducted (collectively, the “*Intellectual Property*”); and (ii) (a) to the knowledge of the Company, there are no third parties who have any ownership rights to any Intellectual Property that is owned by, or has been licensed to, the Company for the products described in the Disclosure Documents that would preclude the Company from conducting its business as currently conducted and have a Material Adverse Effect, except for the ownership rights of the owners of the Intellectual Property licensed or optioned by the Company; (b) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the rights of the Company in or to any Intellectual Property owned, licensed or optioned by the Company, other than claims which would not reasonably be expected to have a Material Adverse Effect; (c) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any Intellectual Property owned, licensed or optioned by the Company, other than non-material actions, suits, proceedings and claims; and (d) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary right of others, other than non-material actions, suits, proceedings and claims.

(k) *Material Agreements.* All material agreements (“*Material Agreements*”) to which the Company or either of the Subsidiaries is a party or to which the property or assets of the Company or either of the Subsidiaries are subject are included as part of or specifically identified in the SEC Reports to the extent required by the rules and regulations of the SEC as in effect at the time of filing. Except for the Material Agreements, the Company has no material contracts. Neither the Company nor, to the Company’s knowledge, any other party to the Material Agreements, is in breach of or default under any of such contracts which would reasonably be expected to have a Material Adverse Effect.

(l) *Taxes.* Except as disclosed in the Disclosure Documents or the SEC Reports, the Company and each of the Subsidiaries have filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been or might be asserted or threatened against it which might reasonably be expected to have a Material Adverse Effect.



(m) *Governmental Permits, Etc.* The Company has all franchises, licenses, certificates and other authorizations from such federal, state or local government or governmental agency, department or body that are currently required for the operation of the business of the Company as currently conducted, except where the failure to possess currently such franchises, licenses, certificates and other authorizations is not reasonably expected to have a Material Adverse Effect. The Company has not received any notice of proceedings relating to the revocation or modification of any such permit which, if the subject of an unfavorable decision, ruling or finding, could reasonably be expected to have a Material Adverse Effect.

(n) *Conformity of Descriptions.* The Shares conform in all material respects to the descriptions of the Company's Ordinary Shares contained in the Company's SEC Reports and other filings with the Commission and the Disclosure Documents.

(o) *Statements True and Correct.* No representation, warranty, statement, certificate, instrument, or other writing furnished or to be furnished by the Company to Purchaser or its representatives pursuant to this Agreement, the Disclosure Documents or any other document, agreement, or instrument referred to herein contains or will contain any untrue statement of material fact or will omit to state a material fact necessary to make the statements therein not misleading.

(p) *Certain Fees.* Any brokerage, finder's fees or commissions that are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement will be paid solely by the Company.

(q) *Private Placement.* Neither the Company nor any Person acting on behalf of the Company has sold or offered to sell or solicited any offer to buy the Securities by means of any form of general solicitation or advertising. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer, issuance and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of any Trading Market.

(r) *Offering Materials.* The Company has not distributed and will not distribute prior to the Closing Date any offering material in connection with the offering and sale of the Securities other than the Disclosure Documents or any amendment or supplement thereto. Neither the Company nor any person acting on its behalf has in the past or will hereafter take any action independent of the placement agent to sell, offer for sale or solicit offers to buy any securities of the Company which would subject the offer, issuance or sale of the Securities, as contemplated by this Agreement, to the registration requirements of Section 5 of the Securities Act.

(s) *Investment Company.* The Company is not, and is not an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(t) *Application of Takeover Protections.* Assuming the Purchasers beneficially own any Ordinary Shares prior to the date hereof, the Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's charter documents) or the laws of its jurisdiction of organization that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation the Company's issuance of the Shares and the Purchasers' ownership of the Shares.

(u) *No Integrated Offering.* Neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Shares to be integrated with prior offerings by the Company for purposes of the Securities Act or any applicable shareholder approval provisions, including, without limitation, under the rules and regulations of any exchange or automated quotation system on which any of the securities of the Company are listed or designated.

(v) *Listing and Maintenance Requirements.* Except as disclosed in Schedule 3.1(v), the Company has been in compliance with all listing and maintenance requirements of each applicable Trading Market and the Tel Aviv Stock Exchange. Except as disclosed in Schedule 3.1(v), the Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Ordinary Shares or ADRs representing Ordinary Shares are or have been listed or quoted, or the Tel Aviv Stock Exchange to the effect that the Company is not in compliance with the listing or maintenance requirements of such market. Except as disclosed in Schedule 3.1(v), the Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(w) *Sarbanes-Oxley; Internal Accounting Controls.* The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the date hereof. The Company has disclosure controls and procedures (as defined in Rule 13a-14 under the Exchange Act) that are designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and the Company's principal financial officer or persons performing similar functions.

(x) *Disclosure.* The Company confirms that, neither the Company nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information, other than information relating to the Offering, that constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representations and covenants in effecting transactions in securities of the Company. All disclosure provided to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Documents and the Exhibits to this Agreement, furnished by or on behalf of the Company with respect to the representations and warranties made herein are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transaction contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(y) *Independent Public Accountants.* The Company confirms that Kesselman & Kesselman, Israeli certified public accounts and a member of PricewaterhouseCoopers International Limited, are independent public accountants as required by the Securities Act and the rules and regulations promulgated thereunder.

3.2 *Representations and Warranties of the Purchasers.* Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants as of the date hereof and as of the Closing Date to the Company as follows:

(a) *Organization; Authority.* Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate, limited liability or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. The execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) with respect to the indemnification provisions set forth in the Registration Rights Agreement, as limited by public policy.

(b) *General Solicitation.* Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(c) *No Public Sale or Distribution.* Such Purchaser is acquiring the Securities for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the Securities Act; *provided, however*, that by making the representations herein, such Purchaser does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Securities.

(d) *Accredited Investor Status.* If Purchaser is purchasing Securities pursuant to the exemption from the registration requirements of United States federal securities laws provided by Regulation D promulgated under the Securities Act, such Purchaser is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D.

(e) *Regulation S.* If Purchaser is purchasing Securities pursuant to the exemption from the registration requirements of United States federal securities laws provided by Regulation S promulgated under the Securities Act, such Purchaser:

(i) is not a U.S. person (as defined in Regulation S) and is not acquiring the Securities for the account or benefit of any U.S. person; and

(ii) agrees to resell such Securities only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration; and agrees not to engage in hedging transactions with regard to such Securities unless in compliance with the Securities Act.

(f) *Reliance on Exemptions.* Such Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and such Purchaser’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Purchaser set forth herein and on the signature page hereto in order to determine the availability of such exemptions and the eligibility of such Purchaser to acquire the Securities.

(g) *Information; Confidentiality.* Such Purchaser and its advisors, if any, have been furnished with all publicly available materials relating to the business, finances and operations of the Company and such other publicly available materials relating to the offer and sale of the Securities as have been requested by such Purchaser. The Purchaser acknowledges and understands that the fact that the Company is seeking to effect the private placement of the Securities is itself material, non-public information, and accordingly, the Purchaser agrees not to engage in disclosure of such information or use of such information by the Purchaser or anyone receiving such information from the Purchaser in connection with the purchase, sale or trade of the Company’s securities (other than use by the Purchaser in acquiring the Securities), or any hedging, derivative or similar transactions or activities involving the Company’s securities. Such Purchaser and its advisors, if any, have been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigations conducted by such Purchaser or its advisors, if any, or its representatives shall modify, amend or affect such Purchaser’s right to rely on the Company’s representations and warranties contained herein. Such Purchaser understands that its investment in the Securities involves a high degree of risk. Such Purchaser has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Securities.

(h) *No Governmental Review.* Such Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(i) *Experience of Such Purchaser.* Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters, including investing in biotechnology companies, so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(j) *Sales; Short Selling.* From and after the date that the Purchaser receives any information about the existence of the Offering, and through the Closing Date, the Purchaser has not and shall not, directly or indirectly, sell Ordinary Shares in any open Trading Market or elsewhere, and has not and shall not directly or indirectly, through related parties, affiliates or otherwise sell “short” or “short against the box” (as those terms are generally understood) any equity security of the Company.

(k) *Information Regarding Purchaser.* Purchaser has provided the Company with true, complete, and correct information regarding all applicable items set forth on the signature page to this Agreement.

The Company acknowledges and agrees that each Purchaser does not make or has not made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

**ARTICLE IV.**  
**OTHER AGREEMENTS OF THE PARTIES**

4.1 *Transfer Restrictions.* The Securities may only be disposed of in compliance with U.S. state and federal securities laws. In connection with any transfer of Securities other than (i) pursuant to an effective registration statement, (ii) to the Company, or (iii) to an Affiliate of a Purchaser, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement.

4.2 *Furnishing of Information.* During the Effectiveness Period (as such term is defined in the Registration Rights Agreement), the Company covenants to use its commercially reasonable efforts to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. During the Effectiveness Period, the Company further covenants to use its commercially reasonable efforts to take such further action as any Purchaser may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act.

4.3 *Integration.* The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market.

4.4 *Securities Laws Disclosure; Publicity.* The Company shall, by 8:30 a.m., New York City time, on the Business Day following the Closing Date, issue a press release to be disseminated in the public domain describing the terms of the transactions contemplated by the Transaction Documents. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except (i) as required by federal securities law or the Commission in connection with the registration statement contemplated by the Registration Rights Agreement and (ii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under subclause (i) or (ii).

4.5 *Shareholders Rights Plan.* No claim will be made or enforced by the Company or any other Person that any Purchaser is an “Acquiring Person” under any shareholders rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, in each case solely by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.6 *Reservation of Ordinary Shares.* As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of Ordinary Shares for the purpose of enabling the Company to issue Shares pursuant to this Agreement.

4.7 *Listing of Ordinary Shares; ADR Facility.* The Company hereby agrees to use commercially reasonable efforts to maintain the listing of ADRs representing Ordinary Shares on the Nasdaq Stock Market. The Company further agrees, if the Company applies to have ADRs representing Ordinary Shares traded on any other Trading Market, it will include in such application the Shares, and will take such other action as is necessary or desirable in the opinion of the Purchasers to cause the Shares to be listed on such other Trading Market as promptly as possible. The Company will take all action reasonably necessary to continue the listing and trading of ADRs representing its Ordinary Shares on a Trading Market and will comply in all respects with the Company’s reporting, filing and other obligations under the bylaws or rules of the Trading Market. The Purchasers acknowledge that the Shares will not be eligible for deposit into the American Depositary Receipt trading facility maintained by the Company at The Bank of New York until the Effective Date.

4.8 *Subsequent Financings Prior to Effective Date.* From the date hereof until 90 days after the Effective Date, other than as contemplated by this Agreement, neither the Company nor either of the Subsidiaries shall issue or sell any Ordinary Shares, excluding the issuance of securities issued upon the exercise of currently outstanding options and warrants.

4.9 *Non-Public Information.* The Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing representations in effecting transactions in securities of the Company.

4.10 *Delivery of ADRs.* On the Effective Date, the Company shall deliver the Shares to The Bank of New York, and shall cause The Bank of New York to immediately deliver to each Purchaser ADRs representing a number of Shares equal to such Purchaser’s Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser.

**ARTICLE V.**  
**MISCELLANEOUS**

5.1 *Fees and Expenses.* Except as set forth in Section 3.1(p) and in the Placement Agent Agreement, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all stamp and other taxes and duties levied in connection with the sale of the Securities.

5.2 *Entire Agreement.* The Transaction Documents, together with the exhibits and schedules thereto, the Disclosure Documents and the Placement Agent Agreement, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 *Notices.* Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified on the signature pages attached hereto prior to 6:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number on the signature pages attached hereto on a day that is not a Trading Day or later than 6:30 p.m. (New York City time) on any Trading Day, (c) the Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 *Amendments; Waivers.* No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 *Construction.* The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

5.7 *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser. Any Purchaser may assign any or all of its rights under this Agreement to any Person, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the “Purchasers.”

5.8 *No Third-Party Beneficiaries.* This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.1.

5.9 *Governing Law.* All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state or federal courts sitting in the City of New York. Each party hereto hereby irrevocably submits to the jurisdiction of the state and federal courts sitting in the City of New York, New York, exclusive of all other jurisdictions, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. If either party shall commence an action or proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.



5.10 *Survival.* The representations, warranties, agreements and covenants contained herein shall survive the Closing and delivery of the Shares.

5.11 *Execution.* This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

5.12 *Severability.* If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

5.13 *Replacement of Shares.* If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested.

5.14 *Independent Nature of Purchasers' Obligations and Rights.* The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Document. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents.

(Signature Page Follows)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

**XTL Biopharmaceuticals Ltd.**

By: /s/ Ron Bentsur

Name: Ron Bentsur

Title: Chief Executive Officer

*Address for Notice:*

711 Executive Blvd., Suite Q

Valley Cottage, NY 10989

Attn: Ron Bentsur

Tel: (845) 267-0707

Fax: (845) 267-0926

*With copy to (which shall not constitute notice):*

Alston & Bird LLP

90 Park Avenue

New York, New York 10016

Attn: Mark F. McElreath

Tel: (212) 210-9400

Fax: (212) 210-9444

(Signature Page Continues)

## EYAL CARMON

Name: Eyal Carmon

Title:

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
900,000	\$ .135	\$ 121,500.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

M.D.K INC.

By:           /s/ Wayne Rothbaum            
Name: Wayne Rothbaum  
Title:

Date: October 27, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
750,000	\$ 0.135	\$ 101,250.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MANIV (BRUNSTEIN) BUSINESS PROMOTION AND  
DEVLOPMENT LTD.

By: /s/ Brunstein  
\_\_\_\_\_  
Name:  
Title: President and CEO

Date: October 28, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
750,000	\$ 0.135	\$ 101,250.00

\_\_\_\_\_

THE ISRAEL AIRCRAFT INDUSTRIES WORKER  
PROVIDENT FUND

By: /s/ Yael Aroshas  
Name: Yasl Aroshas  
Title: Investment Manager

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
7,500,000	\$ 0.135	\$ 1,012,500.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

PUNK ZIEGEL & CO.

By:           /s/ Ira Z. Leiderman            
Name: Ira Z. Leiderman  
Title: Managing Director

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
3,703,703	\$ .135	\$ 500,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MEITAV UNDERWRITING LTD.

By: /s/ Yonatan Malca  
\_\_\_\_\_  
Name: Yonatan Malca  
Title: CEO

By: /s/ Ben Amrani  
\_\_\_\_\_  
Name: Ben Amrani  
Title: Nostro Manager

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,111,111	\$ 0.135	\$ 150,000.00

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MEITAV PENSION LTD.

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
22,222	\$ 0.135	\$ 3,000.00

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MEITAV MISHAN LTD.

By:     /s/ Avi Berkowitz  
\_\_\_\_\_  
Name:  Avi Berkowitz  
Title:

Date: Ocotober 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
200,000	\$ 0.135	\$ 27,000

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

MEITAV GEMEL LTD.

By:     /s/ Avi Berkowitz  
\_\_\_\_\_  
Name:  Avi Berkowitz  
Title:

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,629,630	\$ 0.135	\$ 220,000

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

GADI BEN ARI

By:     /s/ Gadi Ben Ari  
          \_\_\_\_\_

Name:   Gadi Ben Ari  
Title:

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
600,000	\$ 0.135	\$ 81,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SONOSTAR CAPITAL PARTNERS, LLC

By:     /s/ Gregory Kiernan  
\_\_\_\_\_  
Name:  Gregory Kiernan  
Title:  Managing Member

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,481,481	\$ 0.135	\$ 200,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

GREGORY KIERNAN

By:     /s/ Gregory Kiernan  
          \_\_\_\_\_

Name: Gregory Kiernan  
Title:

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,851,852	\$ 0.135	\$ 250,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

DAVID TUBOUL

By:     /s/ David TuBoul  
\_\_\_\_\_  
Name:   David TuBoul  
Title:

Date: October 25, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
750,000	\$ 0.135	\$ 101,250.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

QUOGUE CAPITAL LLC

By:     /s/ Wayne Rothbaum  
\_\_\_\_\_  
Name:   Wayne Rothbaum  
Title:   President

Date: October 23, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
9,250,000	\$ 0.135	\$ 1,248,750.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

PERCEPTIVE LIFE SCIENCES MASTER FUND LTD.

By:     /s/ James Mannix

Name:  James Mannix

Title:  Chief Operating Officer

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
	[\$        ]	\$        1,250,000

DELAWARE CHARTER GUARANTEE AND TRUST

Name: Steven Oliveira  
Title: Trustee

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
3,750,000	\$ .135	\$ 506,250.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

TMW CAPITAL, LLC

By:     /s/ Todd Wider  
\_\_\_\_\_  
Name:  Todd Wider  
Title:  President

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
2,962,963	\$ .135	\$ 400,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

VERSANT CAPITAL MANAGEMENT LLC

By:     /s/ Herriot Tabuteau  
\_\_\_\_\_  
Name:   Herriot Tabuteau  
Title:   Managing Member

Date: October 24, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
3,703,704	\$ 0.135	\$ 500,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

CAT TRAIL CAPITAL, LLC

By:     /s/ David Dakkar  
\_\_\_\_\_  
Name:   David Dakkar  
Title:   Managing Partner

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
	[\$    ]	\$    500,000.00

\_\_\_\_\_

IROQUOIS MASTER FUND LTD.

By:     /s/ Joshua Silverman  
\_\_\_\_\_  
Name:  Joshua Silverman  
Title:  Authorized Signatory

Date: October 23, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,111,111	\$ .135	\$ 150,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

JAMES F. OLIVIERO

By:     /s/ James F. Oliviero  
          \_\_\_\_\_

Name: James F. Oliviero  
Title:

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
55,000	\$ .135	\$ 7,425.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

BRIAN S. WATERMAN

By:     /s/ Brian S. Waterman  
\_\_\_\_\_  
Name:  Brian S. Waterman  
Title:

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,050,000	\$ .135	\$ 141,750.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

JAMES D. KUHN

By:     /s/ James D. Kuhn  
\_\_\_\_\_  
Name:   James D. Kuhn  
Title:   President

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
2,500,000	\$ .135	\$ 337,500.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

PROMED OFFSHORE FUND, LTD.

By:     /s/ Barry Kurokawa  
\_\_\_\_\_  
Name:   Barry Kurokawa  
Title:   Managing Director

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
525,000	\$ .135	\$ 70,875.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

PROMED PARTNERS, LP

By:     /s/ Barry Kurokawa  
\_\_\_\_\_  
Name:   Barry Kurokawa  
Title:   Managing Director

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
3,179,000	\$ .135	\$ 429,165.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SCO CAPITAL PARTNERS, LP

By:     /s/ Steven H. Rouhandeh  
\_\_\_\_\_  
Name: Steven H. Rouhandeh  
Title:  Managing Member

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
3,703,703	\$ .135	\$ 500,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SENVEST ISRAEL PARTNERS LP

By:     /s/ Gregory Malikonis  
\_\_\_\_\_  
Name: Gregory Malikonis  
Title: Vice President

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
	[\$        ]	\$     150,000.00

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

KENNETH HOBERMAN

By:     /s/ Kenneth Hoberman  
\_\_\_\_\_  
Name: Kenneth Hoberman  
Title:

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
	[\$        ]	\$        75,000.00

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CLEARWATER OFFSHORE FUND, LTD.

By:     /s/ H. Heye  
\_\_\_\_\_  
Name: H. Heye  
Title:  Trading Manager

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,851,850	\$ 0.135	\$ 249,999.75

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

CLEARWATER FUND I, LP

By:     /s/ H. Heye  
\_\_\_\_\_  
Name: H. Heye  
Title:   Managing Member

Date: October 22, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
1,851,850	\$ 0.135	\$ 249,999.75

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[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

SENVEST MASTER FUND LP

By:     /s/ George Malikonis  
          \_\_\_\_\_

Name:  George Malikonis  
Title:  Vice President

Date: October 19, 2007

NUMBER OF ORDINARY SHARES SUBSCRIBED FOR	PRICE PER SHARE	TOTAL PURCHASE PRICE
	[\$    ]	\$    150,000.00

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The above-signed Purchaser hereby provides the following information to the Company:

1. Please provide the following information regarding the Purchaser:

**Purchaser Name and Address:**

**Telephone:** (    ) \_\_\_\_\_ - \_\_\_\_\_

**Facsimile:** (    ) \_\_\_\_\_ - \_\_\_\_\_

**Email:** \_\_\_\_\_

**Tax ID #:** \_\_\_\_\_

2. If different from the information provided in Item 1 above, please provide the exact name that the Purchaser’s Shares are to be registered in (this is the name that will appear on the share certificate(s)) (the “*Registered Holder*”). The Purchaser may use a nominee name if appropriate:

**Registered Holder of the Shares Name and Address:**

**Facsimile:** (    ) \_\_\_\_\_ - \_\_\_\_\_

3. Please describe the relationship between the Purchaser of the Shares and the Registered Holder of the Shares listed in response to Item 2 above, if different:

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4. If different from the information provided in Item 1 above, please provide the mailing address of the Registered Holder of the Shares listed in response to Item 2 above:

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5. If different from the information provided above, please provide the number of Ordinary Shares beneficially owned (as determined in accordance with SEC Rule 13d-3 under the Exchange Act) by the Purchaser immediately after Closing. Explain the nature of such beneficial ownership, including Ordinary Shares not held of record by the Purchaser. Disclose the details of any rights to acquire Ordinary Shares.

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6. Describe any position, office or other material relationship within the past three years that the Purchaser has, or has had, with the Company or its Affiliates other than as disclosed in the Registration Statement? If none, please state “Not Applicable.”

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**Please note that it is the Purchaser’s obligation to advise the Company promptly if any of the foregoing information changes during the effectiveness of the Registration Statement (except due to sales of Ordinary Shares pursuant thereto).**

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**Exhibit A**

**Registration Rights Agreement**

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**Exhibit B**

*Form of Opinion of Kantor & Co.*

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Israel, and has the corporate power and authority to carry on its business and to own, lease and operate its properties and assets as described in the Disclosure Documents. Except for the Subsidiaries, the Company does not have any subsidiaries and does not own more than fifty percent (50%) of the outstanding capital stock of or control any other business entity.
2. The Company has the corporate power and authority to enter into and perform its obligations under the Transaction Documents and to issue the Shares. The execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary corporate action of the Company.
3. The Transaction Documents have been duly executed and delivered by the Company.
4. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby, including, without limitation, the issuance of the Shares, do not and will not result in a violation of the Company’s Memorandum and Articles of Organization or bylaws.
5. The Company has the authorized capitalization as set forth in the Disclosure Documents. The issuance of the Shares by the Company in accordance with the Agreement is exempt from registration under the Securities Act of 1933, as amended. When so issued, when certificates representing such Shares have been duly executed, countersigned, registered and delivered in accordance with the Agreement, upon payment of the consideration therefor provided therein, the Shares will be duly and validly authorized and issued, fully paid and nonassessable, free of any liens or encumbrances, or preemptive or similar rights, contained in the Company’s Memorandum and Articles of Organization or bylaws or any other instrument known to us and will conform to the description thereof contained in the Disclosure Documents.

*Form of Opinion of Alston & Bird LLP*

1. The Company is duly qualified to do business and is in good standing as a foreign corporation in all U.S. jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in Material Adverse Effect.
  2. The Subsidiaries are corporations, validly existing and in good standing under the laws of the State of Delaware, are duly qualified to do business and are in good standing as a foreign corporation in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by them makes qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in Material Adverse Effect, and has the corporate power and authority to carry on their business and to own, lease and operate their properties and assets as described in the Disclosure Documents.
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3. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby, including, without limitation, the issuance of the Shares, do not and will not (i) result in a violation of the Certificate of Incorporation or bylaws of the Subsidiaries; (ii) conflict with, or constitute a material default (or an event that with notice or lapse of time or both would become a default) under, require a consent under, or give to others any rights of termination, amendment, acceleration or cancellation of, any Material Agreement; (iii) result in a violation of any law, rule or regulation of the United States or the State of New York; or (iv) to our knowledge, violate any judgment, order or decree of any court or governmental agency or body having jurisdiction over the Company or any of its properties or assets.

4. Except for the registration of the Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under applicable state securities laws in connection with the purchase and distribution of the Securities, no consent, approval, authorization or order of, or filing or registration with, any court, governmental agency or governmental body is required for the execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby.

5. To our knowledge, no person or entity has the right to require registration of Ordinary Shares or other securities of the Company because of the filing or effectiveness of the Registration Statement, the consummation of the transactions contemplated in the Transaction Documents or otherwise, except for persons and entities who have expressly waived such right or who have been given proper notice and have failed to exercise such right within the time or times required under the terms and conditions of such right.

6. The statements in the Disclosure Documents (other than the financial statements and related schedules and other financial and statistical data contained therein, as to which we express no opinion) under the headings "Risk Factors," "Business—Intellectual Property and Patents," "Business—Government and Industry Regulation," and "Business—Material Contracts" to the extent that they constitute summaries of matters of law or regulation or legal conclusions, have been reviewed by us and fairly summarize the matters described therein in all material respects.

7. To our knowledge and other than as set forth in the Disclosure Documents, there are no legal or governmental proceedings pending to which the Company is a party or of which any property or asset of the Company is the subject which, singularly or in the aggregate, if determined adversely to the Company, would prevent or adversely affect the ability of the Company to perform its obligations under the Transaction Documents; and, to our knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

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*Alston & Bird to also confirm:*

We have reviewed certain corporate records and other documents of the Company and its subsidiaries and have participated in conferences with officers and other representatives of the Company, its subsidiaries, your representatives, your counsel and the Company’s independent public accountants at which the contents of the Transaction Documents and related matters were discussed. Because of the inherent limitations in the independent verification of factual matters and because of the inherent limitations involved in the preparation of registration statements under the Securities Act, we are not passing upon and do not assume any responsibility for, and make no representation that we have independently verified, the accuracy, completeness or fairness of the information and statements contained in the Transaction Documents. We have no reason to believe that on the date hereof, the Transaction Documents contained an untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Transaction Documents on the date hereof included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case, other than the financial statements and other financial information contained therein, as to which we express no opinion).

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### Schedule 3.1(e)

- As of September 30, 2007, there are 55,516,243 Ordinary Shares that may be issued in the future subject to the exercise of all options and warrants (at exercise prices per Ordinary Share of \$0.106 to \$2.110) outstanding.
  - At September 30, 2007, the remaining number of options to purchase Ordinary Shares available for future grants under the 2001 Share Option Plan is 4,917,756.
  - In March 2006, the Board of Directors of the Company approved the grant to the Chairman and to a non-executive director, of options to purchase 9,898,719 and 750,000 ordinary shares, respectively. All of such options are subject to vesting of which one third is based on service period, and the remainder is based on achievement of certain milestones linked to the Company's valuation on the public markets. These grants are subject to shareholder approval. As of September 30, 2007, the Company did not seek shareholder approval, so the options had not been granted.
  - In addition, the Company may issue additional Ordinary Shares for the potential settlement in cash or Ordinary Shares, at the Company's sole discretion, of certain potential milestones related to the Company's in-licensed products:
    - In August 2005, the Company entered into a license agreement with VivoQuest Inc. ("VivoQuest") pursuant to which it acquired exclusive worldwide rights to VivoQuest's intellectual property and technology. The license covers a proprietary compound library, including VivoQuest's lead HCV compounds, that was developed through the use of Diversity Oriented Synthesis, or DOS, technology. The terms of the license agreement include an initial upfront license fee of approximately \$941,000 that was paid in the Company's Ordinary Shares. The license agreement also provides for additional milestone payments triggered by certain regulatory and sales targets. These milestone payments total \$34.6 million, \$25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or Ordinary Shares at the Company's election. In addition, the license agreement requires that the Company make royalty payments on product sales. The actual number of Ordinary Shares that may be issued in the future at the Company's election is dependent upon the actual price of the Ordinary Shares on settlement date. Currently, as no milestones have been met and no milestone payments are payable, the actual number of Ordinary Shares to be issued, if at all, cannot be ascertained at this time.
    - In addition, in January 2007, XTL Development, Inc. ("XTL Development"), a wholly-owned subsidiary, of the Company, signed an agreement with DOV Pharmaceutical, Inc. (hereinafter "DOV") to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (hereinafter the "DOV Transaction"). XTL Development intends to develop Bicifadine for the treatment of neuropathic pain - a chronic condition resulting from damage to peripheral nerves. In accordance with the terms of the license agreement, XTL Development made an initial up-front payment of \$7.5 million in cash. In addition, XTL Development will make milestone payments of up to \$126.5 million, in cash and/or Ordinary Shares of the Company over the life of the license, of which up to \$115 million will be due upon or after regulatory approval of the product and the remaining \$11.5 million will be due prior to regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of the product to DOV. The actual number of Ordinary Shares that may be issued in the future at the Company's election is dependent upon the actual price of the Ordinary Shares on settlement date. Currently, as no milestones have been met and no milestone payments are payable, the actual number of Ordinary Shares to be issued, if at all, cannot be ascertained at this time.
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- Also, the Company may issue Ordinary Shares for the potential settlement in cash or in Ordinary Shares, at the Company's sole discretion, of the transaction advisory fee in the form of the Stock Appreciation Rights that were issued to the intermediary in the transaction with DOV Pharmaceutical, Inc.:
  - In January 2007, XTL Development committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction. The transaction advisory fee was structured in the form of Stock Appreciation Rights (“SARs”) in the amount equivalent to (i) 3% of the Company's fully diluted Ordinary Shares at the close of the transaction (representing 8,299,723 Ordinary Shares), vesting one year after the close of the transaction, and (ii) 7% of the Company's fully diluted Ordinary Shares at the close of the transaction (representing 19,366,019 Ordinary Shares), vesting following successful Phase III clinical trial results for Bicifadine or the acquisition of the Company. Payment of the SARs by XTL Development can be satisfied, at the Company's discretion, in cash and/or by issuance of the Company's registered Ordinary Shares. Currently, as the amount payable under the SAR is unknown (as this amount is based on the calculation of the stock appreciation on the date of exercise), the fact whether Ordinary Shares will be issued and the amounts that may be issued cannot be ascertained at this time.

#### **Schedule 3.1(v)**

- On August 28, 2007, the Company announced the receipt on August 23, 2007, of a NASDAQ Staff Deficiency Letter indicating that, according to the Company's financial statements for the six months ended June 30, 2007, the Company no longer complied with the minimum \$10 million shareholders' equity requirement for continued listing on The NASDAQ Global Market as set forth in Marketplace Rule 4450(a)(3). The Company was asked to respond.
  - On September 26, 2007, the Company announced that on September 24, 2007, the Company received a NASDAQ Staff Determination indicating that the Company failed to comply with the minimum \$10 million shareholders' equity requirement for continued listing on the NASDAQ Global Market as set forth in Marketplace Rule 4450(a)(3), and that its ADRs are, therefore, subject to delisting from the NASDAQ Global Market.
  - On September 25, 2007, the Company requested a hearing before a NASDAQ Listing Qualifications Panel to review the Staff Determination. A hearing request will stay the suspension of the Company's ADRs from the NASDAQ Global Market pending the Panel's decision. There can be no assurance that the Panel will grant the Company's request for continued listing. If the Panel does not grant the Company's request for continued listing, the Company has the option to transfer its ADR listing to the NASDAQ Capital Market, previously called the NASDAQ SmallCap Market.
-

## REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this “Agreement”) is made and entered into as of October 25, 2007, among XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel (the “Company”), and the purchasers’ signatory hereto (each such purchaser is a “Purchaser” and all such purchasers are, collectively, the “Purchasers”).

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the “Purchase Agreement”).

The Company and the Purchasers hereby agree as follows:

1. Definitions

**Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement.** As used in this Agreement, the following terms shall have the following meanings:

“Commission” means the United States Securities and Exchange Commission.

“Effectiveness Date” means, with respect to the Registration Statement registering for resale the Registrable Securities, the 90<sup>th</sup> calendar day following the Closing Date (105<sup>th</sup> calendar day in the event of a full review by the Commission); provided, however, in the event that the Company is notified by the Commission that the Registration Statement will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to the Registration Statement shall be the fifth Trading Day following the date on which the Company is so notified if such date precedes the dates required above.

“Effectiveness Period” shall have the meaning set forth in Section 2(a).

“Filing Date” means, with respect to the Registration Statement registering for resale the Registrable Securities, the 30<sup>th</sup> day following the Closing Date.

“Holder” or “Holders” means the holder or holders, as the case may be, from time to time of Registrable Securities.

“Indemnified Party” shall have the meaning set forth in Section 5(c).

“Indemnifying Party” shall have the meaning set forth in Section 5(c).

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Prospectus” means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

“Registrable Securities” means all of the Shares issued or issuable as a result of any stock split, dividend or other distribution, recapitalization exchange or similar event with respect to the foregoing.

“Registration Statement” means the registration statements required to be filed hereunder, including (in each case) the Prospectus, amendments and supplements to the Registration Statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in the registration statement.

“Rule 415” means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Rule 424” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Shares” means the Ordinary Shares purchased by the Purchasers under the Purchase Agreement.

## 2. Shelf Registration

(a) The Company shall prepare and, as soon as practicable, but in no event later than the Filing Date, file with the Commission a “Shelf” Registration Statement covering the resale of all of the Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form F-3, or other appropriate form, and shall contain (unless otherwise directed by the Holders and except to the extent the Company determines that modifications thereto are required under applicable law) substantially the “Plan of Distribution” attached hereto as Exhibit A. Subject to the terms of this Agreement, the Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its best efforts to keep the Registration Statement continuously effective under the Securities Act until the date which is two years after the date that the Registration Statement is declared effective by the Commission or such earlier date when all Registrable Securities covered by the Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company’s transfer agent and the affected Holders (the “Effectiveness Period”). The Company shall immediately notify the Holders via facsimile or email of the effectiveness of the Registration Statement on the same day that the Company receives notification of the effectiveness from the Commission.

(b) If: (i) the Registration Statement is not filed on or prior to its Filing Date (if the Company files the Registration Statement without affording the Holders the opportunity to review and comment on the same as required by Section 3(b), the Company shall not be deemed to have satisfied clause (i)), or (ii) the Company fails to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act, within five Trading Days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that the Registration Statement will not be “reviewed,” or not subject to further review, or (iii) prior to the Effectiveness Date, the Company fails to file a pre-effective amendment and otherwise respond in writing to comments made by the Commission in respect of the Registration Statement within ten Trading Days after the receipt of comments by or notice from the Commission that such amendment is required in order for the Registration Statement to be declared effective, or (iv) the Registration Statement filed or required to be filed hereunder is not declared effective by the Commission by the Effectiveness Date, or (v) after the Effectiveness Date, the Registration Statement ceases for any reason to remain continuously effective as to all Registrable Securities for which it is required to be effective, or the Holders are not permitted to utilize the Prospectus therein to resell such Registrable Securities for ten consecutive Trading Days or in any individual case an aggregate of fifteen Trading Days during any twelve month period (which need not be consecutive Trading Days) (any such failure or breach being referred to as an “Event”, and for purposes of clause (i) or (iv) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five Trading Day period is exceeded, or for purposes of clause (iii) the date which such ten Trading Day period is exceeded, or for purposes of clause (v) the date on which such ten or fifteen Trading Day period, as applicable, is exceeded being referred to as “Event Date”), then, on each such Event Date and every monthly anniversary thereof until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to **1.0%** per month of the Subscription Amount paid by such Holder pursuant to the Purchase Agreement for Registrable Securities then held by such Holder and covered (or to be covered) by the Registration Statement. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven days after the date payable, the Company will pay interest thereon at a rate of **15%** per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

(c) The Holders holding at least a majority of the Registrable Securities shall have the right to select one legal counsel to review, comment and oversee any registration pursuant to this Section 2 (“Legal Counsel”), which shall be McDermott Will & Emory, or such other counsel as thereafter designated by the holders of at least a majority of the Registrable Securities.

### 3. Registration Procedures

In connection with the Company’s registration obligations hereunder, the Company shall:

(a) Permit Legal Counsel to review and comment upon a Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference) at least five Trading Days prior to its filing with the Commission and Company shall not file any Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference) in a form to which Legal Counsel reasonably objects in writing; provided that the liquidated damages set forth in Section 2(b) shall not accrue as a result of such objection. The Company shall promptly furnish to Legal Counsel, without charge, (i) copies of any correspondence between the Commission or the staff of the Commission, on one hand, and the Company or its representatives, on the other, relating to any Registration Statement and (ii) upon effectiveness of any Registration Statement, one copy of Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto. The Company shall reasonably cooperate with Legal Counsel in performing the Company’s obligations pursuant to this Section 3.

(b) Not less than three Trading Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall, (i) furnish to each Holder copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary to conduct a reasonable investigation within the meaning of the Securities Act.

(c) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement (subject to the terms of this Agreement), and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten Trading Days, to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance (subject to the terms of this Agreement) with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(d) Notify the Holders of Registrable Securities to be sold and Legal Counsel (which notice, pursuant to clauses (ii) through (vi) hereof, shall be accompanied by an instruction to suspend the use of the Prospectus until the requisite changes have been made) as promptly as reasonably possible and (if requested by any such Person) confirm such notice in writing no later than two Trading Days following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a “review” of the Registration Statement and whenever the Commission comments in writing on the Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); and (C) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; (v) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and (vi) the occurrence or existence of any pending corporate development with respect to the Company that the Company believes may be material and that, in the determination of the Company, makes it not in the best interest of the Company to allow continued availability of the Registration Statement or Prospectus; provided that the Company shall not disclose the nature of such information to the Holder.

(e) Promptly deliver to each Holder, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request. Subject to the terms of this Agreement, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(f) Use commercially reasonable efforts to register or qualify the resale of such Registrable Securities as required under applicable securities or Blue Sky laws of each State within the United States as any Holder requests in writing, to keep each the Registration or qualification (or exemption therefrom) effective during the Effectiveness Period; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(g) Cooperate with the Holders to facilitate the timely preparation and delivery of ADRs representing Registrable Securities to be delivered to a transferee pursuant to the Registration Statement, which shall be free, to the extent permitted by the Purchase Agreement, of all restrictive legends, and to enable such ADRs to be in such denominations and registered in such names as any such Holders may request.

(h) Upon the occurrence of any event contemplated by this Section 3, as promptly as reasonably possible under the circumstances prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with clauses (ii) through (vi) of Section 3(d) above to suspend the use of any Prospectus until the requisite changes to such Prospectus have been made, or the Company otherwise notifies the Holders of its election to suspend the availability of the Registration Statement and Prospectus pursuant to clause (vi) of Section 3(d), then the Holders shall suspend use of such Prospectus. The Company will use its best efforts to ensure that the use of the Prospectus may be resumed as promptly as is practicable, except that in the case of suspension of the availability of the Registration Statement and Prospectus pursuant to clause (vi) of Section 3(d), the Company shall not be required to take such action until such time as it shall determine that the continued availability of the Registration Statement and Prospectus is no longer not in the best interests of the Company. The Company shall be entitled to exercise its right under this Section 3(h) to suspend the availability of the Registration Statement and Prospectus, subject to the payment of liquidated damages pursuant to Section 2(b), for a period not to exceed 60 consecutive days or for multiple periods not to exceed 90 days in any 12 month period.

(i) Comply with all applicable rules and regulations of the Commission.

(j) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(k) The Company may require, at any time prior to the third Trading Day prior to the Filing Date, each Holder to furnish to the Company a statement as to the number of Ordinary Shares beneficially owned by such Holder and, if requested by the Commission, the controlling person thereof, within three Trading Days of the Company's request. During any periods that the Company is unable to meet its obligations hereunder with respect to the registration of the Registrable Securities solely because any Holder fails to furnish such information within three Trading Days of the Company's request, any liquidated damages that are accruing at such time shall be tolled, until such information is delivered to the Company.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Trading Market on which the ADRs are then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws reasonably agreed to by the Company in writing (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company, and (v) reasonable fees and disbursements of Legal Counsel, and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder. In no event shall the Company be responsible for any broker or similar commissions or, except to the extent provided for in the Transaction Documents, any legal fees or other costs of the Holders.



## 5. Indemnification

(a) *Indemnification by the Company.* The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, members, partners, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of ADRs), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, members, partners, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs (including, without limitation, costs of preparation and reasonable attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to (i) any breach of applicable securities laws or untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions or alleged untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e); (ii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities laws, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement; or (iii) any material violation of this Agreement by the Company, its agents or representatives. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding arising from or in connection with the transactions contemplated by this Agreement of which the Company is aware.

(b) *Indemnification by Holders.* Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising out of or based upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, arising solely out of or based solely upon: (i) such Holder's failure to comply with the prospectus delivery requirements of the Securities Act or (ii) any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in the Registration Statement or such Prospectus or to the extent that (1) such untrue statements or omissions are based upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities covered by such Registration Statement giving rise to such indemnification obligation.

(c) *Conduct of Indemnification Proceedings.* If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an “Indemnified Party”), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the “Indemnifying Party”) in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that such failure shall have prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a material conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the expense of one such counsel for each Holder shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

Subject to the terms of this Agreement, all reasonable fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within 10 Trading Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) *Contribution.* If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

## 6. Miscellaneous

(a) *Amendments and Waivers.* The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and all of the Holders of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of all of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(b) *No Inconsistent Agreements.* Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities, that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as set forth on Schedule 6(b), neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

(c) *No Piggyback on Registrations.* Neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders. In addition, the Company shall not cause any other registration statement to become effective prior to the Effective Date.

(d) *Compliance.* Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(e) *Discontinued Disposition.* Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3(d)(ii) through (vi), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(h), or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph. The Company agrees and acknowledges that any periods during which the Holder is required to discontinue the disposition of the Registrable Securities hereunder shall be subject to the provisions of Section 2(b).

(f) *Piggy-Back Registrations*. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than a registration statement relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within ten Trading Days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in the Registration Statement all or any part of such Registrable Securities such holder requests to be registered; provided, that, the Company shall not be required to register any Registrable Securities pursuant to this Section 6(f) that are eligible for resale pursuant to Rule 144(k) promulgated under the Securities Act or that are the subject of a then effective Registration Statement.

(g) *Notices*. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

(h) *Successors and Assigns*. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of all of the Holders of the then-outstanding Registrable Securities. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

(i) *Counterparts*. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) *Governing Law.* All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under the Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Agreement, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(k) *Cumulative Remedies.* The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(l) *Severability.* If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(m) *Headings.* The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(n) *Remedies.* In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(o) *Independent Nature of Purchasers’ Obligations and Rights.* The obligations of each Purchaser hereunder is several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

**XTL BIOPHARMACEUTICALS LTD.**

By: /s/ Ron Bentsur  
Name: Ron Bentsur  
Title: Chief Executive Officer

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**EYAL CARMON**

By: /s/ Eyal Carmon  
\_\_\_\_\_  
Name: Eyal Carmon  
Title:

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**MANIV (BRUNSTEIN) BUSINESS PROMOTION AND  
DEVELOPMENT LTD.**

By: /s/ Brustein

\_\_\_\_\_

Name:

Title: President & CEO

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[SIGNATURE PAGE OF HOLDERS TO RRA]

**QUOGUE CAPITAL**

By: /s/ Wayne Rothbaum

Name: Wayne Rothbaum

Title: President

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**PERCEPTIVE LIFE SCIENCES MASTER FUND LTD.**

By: /s/ James Mannix

Name: James Mannix  
Title: COO

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**DELAWARE CHARTER GUARANTEE AND TRUST**

By: /s/ Steve Oliveira  

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Name: Steve Oliviveira  
Title: Trustee

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**VERSANT CAPITAL MANAGEMENT LLC**

By: /s/ Herriot Tabuteau

Name: Herriot Tabuteau

Title: Managing Member

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**TMW CAPITAL, LLC**

By: /s/ Todd Wider

Name: Todd Wider  
Title: President

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**CAT TRAIL CAPITAL LLC**

By: /s/ David Dakkar

Name: David Dakkar

Title: Managing Partner



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**JAMES F. OLIVIERO, III**

By: James F. Oliviero, III

Name: James F. Oliviero, III

Title:

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**BRIAN S. WATERMAN**

By: /s/ Brian S. Waterman

Name: Brian S. Waterman

Title:

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**JAMES D. KUHN**

By: /s/ James D. Kuhn  
\_\_\_\_\_  
Name: James D. Kuhn  
Title: President

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**PROMED OFFSHORE FUND, LTD.**

By: /s/ Barry Kurokawa  
\_\_\_\_\_  
Name: Barry Kurokawa  
Title: Managing Director

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**PROMED PARTNERS, LP**

By: /s/ Barry Kurokawa

Name: Barry Kurokawa

Title: Managing Director

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**IROQUOIS MASTER FUND LTD.**

By: /s/ Joshua Silverman

Name: Joshua Silverman

Title: Authorized Signatory

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**M.D.K. FOUNDATION INC.**

By: /s/ Wayne Rothbaum

Name: Wayne Rothbaum

Title: President

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**SCO CAPITAL PARTNERS, LP**

By: /s/ Steven H. Rouhandeh

Name: Steven H. Rouhandeh

Title: Managing Member



SENVEST ISRAEL PARTNERS LP

By: /s/ George Malikonis

Name: George Malikonis

Title: Vice President

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**SENVEST MASTER FUND LP**

By: /s/ George Malikonis

Name: George Malikonis

Title: Vice President

[SIGNATURE PAGE OF HOLDERS TO RRA]

**KENNETH HOBERMAN**

By: /s/ Kenneth Hoberman

\_\_\_\_\_

Name: Kenneth Hoberman

Title:

\_\_\_\_\_

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**CLEARWATER OFFSHORE FUND, LTD.**

By: /s/ H. Heye  
\_\_\_\_\_  
Name: H. Heye  
Title: Trading Manager

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**CLEARWATER FUND I, LLP**

By: /s/ H. Heye  

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Name: H. Heye  
Title: Trading Manager

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**GREGORY F. KIERNAN**

By: /s/ Gregory F. Kiernan

Name: Gregory Kiernan

Title:

[SIGNATURE PAGE OF HOLDERS TO RRA]

**SONOSTAR CAPITAL PARTNERS, LLC**

By: /s/ Gregory F. Kiernan

Name: Gregory F. Kiernan

Title: Managing Member

[SIGNATURE PAGE OF HOLDERS TO RRA]

**PUNK ZIEGEL & CO.**

By: /s/ Ira Z. Leiderman

Name: Ira Z. Leiderman

Title: Managing Director



[SIGNATURE PAGE OF HOLDERS TO RRA]

**GADI BEN ARI**

By: /s/ Gadi Ben Ari  

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Name: Gadi Ben Ari  
Title:

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[SIGNATURE PAGE OF HOLDERS TO RRA]

**THE ISRAEL AIRCRAFT INDUSTRIES WORKER PROVIDENT  
FUND**

By: /s/ Yael Aroshas  
\_\_\_\_\_  
Name: Yael Aroshas  
Title: Investment Manager

\_\_\_\_\_

[SIGNATURE PAGE OF HOLDERS TO RRA]

**DAVID TUBOUL**

By: /s/ David TuBoul

Name: David TuBoul  
Title:

[SIGNATURE PAGE OF HOLDERS TO RRA]

**MEITAV PENSION LTD.**

By: /s/ Avi Berkowitz  
\_\_\_\_\_  
Name: Avi Berkovitz  
Title:

\_\_\_\_\_

[SIGNATURE PAGE OF HOLDERS TO RRA]

**MEITAV MISHAN LTD.**

By: /s/ Avi Berkowitz  

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Name: Avi Berkovitz  
Title:

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[SIGNATURE PAGE OF HOLDERS TO RRA]

**MEITAV GEMEL LTD.**

By: /s/ Avi Berkowitz

Name: Avi Berkovitz

Title:

**MEITAV UNDERWRITING LTD.**

By: /s/ Yonatan Malca  
\_\_\_\_\_  
Name: Yonatan Malca  
Title: CEO

By: /s/ Ben Amrani  
\_\_\_\_\_  
Name: Ben Amrani  
Title: Nostro Manager

\_\_\_\_\_

## **Exhibit A**

### **Plan of Distribution**

The selling shareholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their ADRs on any stock exchange, market or trading facility on which the ADRs are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling ordinary shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the ADRs as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales created after the date of this Prospectus;
- broker-dealers may agree with the selling shareholders to sell a specified number of such ADRs at a stipulated price per ADR;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell ADRs under Rule 144 under the Securities Act, if available, rather than under this prospectus. Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling shareholder may from time to time pledge or grant a security interest in some or all of the ADRs owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the ADRs from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus.

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The selling shareholders also may transfer the ADRs in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealers or agents that are involved in selling the ADRs may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the ADRs purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling shareholders have informed the Company that none of them have any agreement or understanding, directly or indirectly, with any person to distribute the ADRs.

The Company is required to pay all fees and expenses incurred by the Company incident to the registration of the ADRs. The Company has agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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**Confidential Treatment Requested. Confidential portions of this document have been omitted and have been separately filed with the Commission.**

**Execution Version**

**LICENSE AGREEMENT**

**By and Between**

**PRESIDIO PHARMACEUTICALS, INC.**

**and**

**XTL BIOPHARMACEUTICALS LTD.**

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**Confidential material omitted and filed separately with the Commission.**

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- Exhibit B – VivoQuest Agreements
- Exhibit C – Series 1, 2, 3 and 4 Compounds in XTL Database and Other Records
- Exhibit D – Series 1 Patent Rights as of the Effective Date
- Exhibit E – Series 2-4 Patent Rights as of the Effective Date
- Exhibit F – Press Releases
- Exhibit G – \*\*\*\*\*

## LICENSE AGREEMENT

This License Agreement (this “Agreement”), dated the 19<sup>th</sup> day of March, 2008 (the “Effective Date”), is by and between Presidio Pharmaceuticals, Inc., a Delaware corporation (“PRESIDIO”), and XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of Israel (“XTL”).

### INTRODUCTION

1. XTL owns or controls rights to Licensed Compounds, Licensed Patent Rights and Licensed Technology (each as hereinafter defined).
2. PRESIDIO is in the business of discovering, developing and marketing pharmaceutical products.
3. XTL and PRESIDIO are interested in establishing a licensing relationship pursuant to which XTL shall grant PRESIDIO certain rights and licenses to the Licensed Compounds, Licensed Patent Rights and Licensed Technology to develop and commercialize certain products.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, PRESIDIO and XTL agree as follows:

#### **Article I** Definitions

When used in this Agreement, each of the following terms shall have the meanings set forth in this Article I:

Section 1.1 “Additional Third Party Licenses”. Additional Third Party Licenses means licenses under any Patent Rights of a Third Party (other than Licensed Patent Rights licensed or sublicensed to PRESIDIO under the VivoQuest License Agreement or any Assigned Contracts) which PRESIDIO and/or any of its Affiliates or Third Party sublicensees reasonably determines are necessary for the Development and/or Commercialization of a Licensed Compound or Licensed Product for use in the Field in any country of the Territory.

Section 1.2 “Affiliate”. Affiliate means, with respect to a Party, any Person that controls, is controlled by, or is under common control with such Party. For purposes of this Section 1.2, “control” shall refer to (a) in the case of a Person that is a corporate entity, direct or indirect ownership of fifty percent (50%) or more of the stock or shares having the right to vote for the election of directors of such Person, and (b) in the case of a Person that is not a corporate entity, the possession, directly or indirectly, of the power to direct, or cause the direction of, the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

Section 1.3 “Assigned Contracts”. Assigned Contracts means the agreements listed on Exhibit A.

**Confidential material omitted and filed separately with the Commission.**

Section 1.4 “Bankruptcy Code”. Bankruptcy Code means 11 U.S.C §§ 101-1330, as amended.

Section 1.5 “Commercialization” or “Commercialize”. Commercialization or Commercialize means any activities directed to producing or manufacturing for commercial distribution; marketing, promoting, detailing or commercially distributing; importing, having imported, exporting or having exported for commercial distribution; or selling or offering to sell, a product.

Section 1.6 “Commercially Reasonable Efforts”. Commercially Reasonable Efforts means the efforts normally used by a United States biotechnology or pharmaceutical company with resources similar to those of PRESIDIO to Develop or Commercialize a pharmaceutical product or compound owned by it or to which it has rights, taking into account its market potential and the stage in its development or product life, relevant issues of safety and efficacy, product profile and labeling, other medical and clinical considerations, difficulty in developing the product or compound, competitiveness of the marketplace for the applicable product(s) marketed or to be marketed, the proprietary position of the compound or product, the regulatory structure involved, the potential profitability of the applicable product(s) marketed or to be marketed, and other relevant factors affecting the cost, risk and timing of Development and the total potential reward to be obtained if a product is Commercialized. Such efforts and resources that are used by PRESIDIO’s Affiliates and Third Party sublicensees shall be attributed to PRESIDIO for purposes of this Agreement.

Section 1.7 “Competing Product”. Competing Product means any prescription pharmaceutical product that is an \*\*\*\*\*.

Section 1.8 “Confidential Information”. Confidential Information means all Know-How and other information (whether or not patentable) regarding a Party’s technology, products, business or objectives, that is disclosed by such Party to the other Party in the course of such Party’s performance of this Agreement.

Section 1.9 “Control” or “Controlled”. Control or Controlled means, with respect to any intellectual property right or other intangible property, the possession by a Party or an Affiliate of a Party (whether by ownership or license, other than a license granted pursuant to this Agreement) of the ability to grant access to, or a license or sublicense of, such rights or property as contemplated under this Agreement.

Section 1.10 “Cover”, “Covering” or “Covered”. Cover, Covering or Covered means, as to Patent Rights and a product, that, but for a license granted to a Party under a Valid Claim of such Patent Rights, the Development or Commercialization of such product would infringe such Valid Claim.

Section 1.11 “Derivative Compounds”. Derivative Compounds means, with respect to any Licensed Compound, any compounds actually chemically derived, in one or more steps, by or on behalf of PRESIDIO, its Affiliates and/or Third Party sublicensees from such Licensed Compound, provided that, compounds derived by Third Party sublicensees or Third Party acquirers of PRESIDIO shall not constitute Derivative Compounds if such compounds are so derived (i) prior to the effective date of the grant by PRESIDIO of the sublicense to such sublicensee or the acquisition by such acquirer, as evidenced by contemporaneously prepared written records of such sublicensee or acquirer or (ii) without any use, direct or indirect, of (A) proprietary know-how disclosed to such Third Party in connection with the grant of the sublicense or the acquisition, or (B) Licensed Compounds (including Derivative Compounds) on which Development had previously been conducted by XTL or PRESIDIO, the results of which prior Development are identified to such Third Party in connection with the grant of the sublicense or the acquisition.



Section 1.12 “Development” or “Develop”. Development or Develop means any research, discovery, and preclinical and clinical drug development activities, including without limitation test method development and stability testing, toxicology, animal efficacy studies, formulation, quality assurance/quality control development, statistical analysis, clinical studies, regulatory affairs, product approval and registration, chemical development and manufacturing development, packaging development and manufacturing and development documentation efforts in support of development activities anywhere in the world.

Section 1.13 “EMA”. EMA means the European Agency for the Evaluation of Medical Products, or any successor agency thereof.

Section 1.14 “EU”. EU means the European Union, as it may be constituted from time to time.

Section 1.15 “FDA”. FDA means the United States Food and Drug Administration, or any successor agency thereof.

Section 1.16 “Field”. Field means the prevention, treatment, palliation and/or control of any and all human diseases and conditions, including without limitation the HCV Field.

Section 1.17 “Fiscal Year”. Fiscal Year means, with respect to a Party or any Third Party sublicensee of a Party, the fiscal year of such Party or Third Party sublicensee.

Section 1.18 “HCV”. HCV means hepatitis C virus.

Section 1.19 “HCV Field”. HCV Field means the prevention, treatment, palliation and/or control of any and all HCV indications.

Section 1.20 “IND”. IND means an Investigational New Drug application filed with the FDA.

Section 1.21 “Know-How”. Know-How means any know-how, expertise, discoveries, inventions, information, trade secrets, data or materials, whether or not patentable, proprietary or embodied in tangible form, including without limitation ideas, concepts, formulas, methods, procedures, designs, technologies, compositions, plans, applications, technical data, samples, biological or chemical materials, laboratory notebooks, preclinical or clinical data, databases, designs, assays, protocols, analytical systems, discovery tools, reports, Regulatory Filings and manufacturing documentation.

Section 1.22 “Licensed Compounds”. Licensed Compounds means (a) the Series 1 Compounds, and (b) the Series 2-4 Compounds.

Section 1.23 “Licensed Patent Rights”. Licensed Patent Rights means (a) the Series 1 Patent Rights, (b) the Series 2-4 Patent Rights, and (c) any other Patent Rights Controlled by XTL or any of its Affiliates, as of the Effective Date and/or during the term of this Agreement, that Cover any Licensed Technology and/or the Development and/or Commercialization of any Licensed Compounds or Licensed Products.

Section 1.24 “Licensed Product”. Licensed Product means any product that contains one or more Licensed Compounds as an active ingredient.

Section 1.25 “Licensed Technology”. Licensed Technology means any Know-How Controlled by XTL or any of its Affiliates, as of the Effective Date and/or during the term of this Agreement, relating to the Development and/or Commercialization of Licensed Compounds or Licensed Products, and all intellectual property rights therein.

Section 1.26 “Major EU Countries”. Major EU Countries means any of the United Kingdom, Germany, France, Italy and Spain.

Section 1.27 “NDA”. NDA means an application submitted to a Regulatory Authority for marketing approval of a product, including without limitation a New Drug Application filed with the FDA and any foreign equivalent thereof.

Section 1.28 “Net Sales”. Net Sales means, with respect to a Licensed Product, the gross amount invoiced by PRESIDIO and/or its Affiliates, or by Third Party sublicensees, as the case may be, in respect of sales of such Licensed Product to unrelated Third Parties, in each case less the following deductions:

(a) Trade, cash and/or quantity discounts actually allowed and taken with respect to such sales;

(b) Discounts paid under discount prescription programs and reductions for coupon and voucher programs;

(c) Tariffs, duties, excises, sales taxes, value-added taxes and other taxes imposed upon and paid by PRESIDIO and/or one of its Affiliates, or by Third Party sublicensees, as the case may be, with respect to the use, sale or importation of the Licensed Product, to the extent that neither PRESIDIO nor any of its Affiliates is entitled to a rebate, refund or credit for such amounts;

(d) Amounts repaid or credited by reason of rejections, defects, recalls or returns or because of chargebacks, refunds, rebates or retroactive price reductions;

(e) Negotiated payments made to private sector and government third party payors (e.g., PBMs, HMOs and PPOs) and purchasers/providers (e.g., staff model HMOs, hospitals and clinics), regardless of the payment mechanism, including without limitation rebate, chargeback and credit mechanisms;

**Confidential material omitted and filed separately with the Commission.**

(f) Freight, insurance and other transportation charges incurred by PRESIDIO and/or its Affiliates, or by Third Party sublicensees, as the case may be, in shipping a Licensed Product to Third Parties;

(g) Sales commissions and inventory management fees paid to wholesalers and distributors to the extent allocable to Licensed Products;

(h) Amounts that are written off as uncollectible and costs of collections; and

(i) Gross amounts received in respect of sales for test marketing, sampling or promotional use, clinical trial purposes or compassionate or similar use.

Such amounts shall be determined from the books and records of PRESIDIO and/or its Affiliates, or Third Party sublicensees, as the case may be, maintained in accordance with generally accepted accounting principles applicable within a particular country, consistently applied, including periodic adjustments to reflect amounts actually incurred.

In the event the Licensed Product is sold as part of a Combination Product (as defined below), the Net Sales from the Combination Product, for the purposes of determining royalty payments, shall be determined on a country-by-country basis by multiplying the Net Sales (as determined above) of the Combination Product in each country, during the applicable royalty reporting period, by the fraction  $A/(A+B)$ , where A is the average net selling price of the Licensed Product when sold separately in finished form in such country and B is the average net selling price of the other active ingredient (s) included in the Combination Product when sold separately in finished form in such country, in each case during the applicable royalty reporting period or, if sales of both the Licensed Product and the other active ingredient(s) did not occur in such country in such period, then in the most recent royalty reporting period in which sales of both occurred in such country. In the event that such average net selling price cannot be determined for both the Licensed Product and all other active ingredient(s) included in such Combination Product for a country, Net Sales for the purposes of determining royalty payments shall be calculated by multiplying the Net Sales of the Combination Product in such country by the fraction of  $C/(C+D)$  where C is the fair market value of the Licensed Product and D is the fair market value of all other active ingredient(s) included in the Combination Product. In such event, PRESIDIO shall in good faith make a determination of the respective fair market values of the Licensed Product and all other active ingredient(s) included in the Combination Product, and shall notify XTL of such determination and provide XTL with data to support such determination. XTL shall have the right to review such determination of fair market values and, if XTL disagrees with such determination, to notify PRESIDIO of such disagreement within \*\*\*\*\* days after PRESIDIO notifies XTL of such determination. If XTL notifies PRESIDIO that XTL disagrees with such determination within such \*\*\*\*\* day period and if thereafter the Parties are unable to agree in good faith as to such respective fair market values, then such matter shall be resolved as provided in Article X. If XTL does not notify PRESIDIO that XTL disagrees with such determination within such \*\*\*\*\* day period, such determination shall be conclusive and binding on the Parties.

As used above, the term “Combination Product” means any pharmaceutical product that includes both (x) a Licensed Product and (y) other active ingredient(s).

Section 1.29 “NS5A”. NS5A means the HCV non-structural protein 5A, including without limitation partial and full-length proteins thereof.

Section 1.30 “Party” or “Parties”. Party means PRESIDIO or XTL; Parties means PRESIDIO and XTL.

Section 1.31 “Pass-Through Costs”. Pass-Through Costs means amounts payable to Third Parties pursuant to (a) the Assigned Contracts attached hereto as Exhibit A, (b) the VivoQuest License Agreement attached hereto as Exhibit B, and/or (c) Additional Third Party Licenses, including without limitation upfront payments or similar acquisition costs to obtain such licenses; in the case of each of the foregoing clauses (a), (b) and (c), with respect to the Development and/or Commercialization of Licensed Compounds or Licensed Products.

Section 1.32 “Patent Rights”. Patent Rights means the rights and interest in and to all issued patents and pending patent applications in any country in the Territory, including without limitation all utility models, utility model applications, provisionals, divisionals, substitutions, continuations, continuations-in-part, continuing prosecution applications, patents of addition, requests for continued examination, reexaminations, supplementary protection certificates, extensions, registrations or confirmation patents, and reissues thereof.

Section 1.33 “Person”. Person means any natural person or any corporation, company, partnership, joint venture, firm or other entity, including without limitation a Party.

Section 1.34 “Phase I Trial”. Phase I Trial means a clinical study of a Licensed Product in human volunteers or patients with the endpoint of determining initial tolerance, toxicity, safety and/or pharmacokinetic information.

Section 1.35 “Phase II Trial”. Phase II Trial means a dose exploration, dose response, duration of effect, kinetic/dynamic relationship and preliminary efficacy and safety clinical study of a Licensed Product in patients.

Section 1.36 “Phase III Trial”. Phase III Trial means a pivotal clinical study of a Licensed Product in patients designed to confirm with statistical significance the efficacy and safety of a Licensed Product performed to provide a sufficient basis for an application for Regulatory Approval of such Licensed Product.

Section 1.37 “Regulatory Approval”. Regulatory Approval means the approvals (including any applicable governmental price and reimbursement approvals), licenses, registrations or authorizations of Regulatory Authorities necessary for the commercial manufacture and sale of a product in a country or territory.

Section 1.38 “Regulatory Authority”. Regulatory Authority means a federal, national, multinational, state, provincial or local regulatory agency, department, bureau or other governmental entity with authority over the testing, manufacture, use, storage, import, promotion, marketing or sale of a product in a country or territory.

Section 1.39 “Regulatory Filings”. Regulatory Filings means any filing or application with any Regulatory Authority with respect to a Licensed Compound or Licensed Product, including without limitation any INDs or its foreign equivalent, Regulatory Approvals, and correspondence with the relevant Regulatory Authorities, as well as minutes of any material meetings, telephone conferences or discussions with the relevant Regulatory Authorities.

**Confidential material omitted and filed separately with the Commission.**

Section 1.40 “Royalty Term”. Royalty Term means, with respect to each Licensed Product in each country of the Territory, the period commencing upon first commercial sale of such Licensed Product in such country and ending upon the later of (a) the expiration of the last-to-expire Valid Claim under the Licensed Patent Rights Covering such Licensed Product in such country, or (b) \*\*\*\*\* years following first commercial sale of such Licensed Product in such country. For avoidance of doubt, the Royalty Term shall be determined on a country-by-country and Licensed Product-by-Licensed Product basis.

Section 1.41 “Senior Executives”. Senior Executives means, with respect to PRESIDIO, the Chief Executive Officer (or a senior executive designated by such officer) and, with respect to XTL, the Chief Executive Officer (or a senior executive designated by such officer).

Section 1.42 “Series 1 Compounds”. Series 1 Compounds means (a) the compounds claimed or disclosed in the Series 1 Patent Rights, (b) the compounds identified as “Series 1 Compounds” on Exhibit C, and (c) Derivative Compounds of any compound set forth in either of the foregoing clauses (a) and (b); in the case of each of clauses (a), (b) and (c) above, regardless of whether or not any such compound has been synthesized by XTL and/or its Affiliates.

Section 1.43 “Series 1 Licensed Products”. Series 1 Licensed Products means Licensed Products that contain any Series 1 Compound(s).

Section 1.44 “Series 1 Patent Rights”. Series 1 Patent Rights means (a) the Patent Rights set forth on Exhibit D, (b) counterparts of the Patent Rights set forth on Exhibit D in any country of the Territory, and (c) all Patent Rights claiming priority from the Patent Rights described in either of the foregoing clauses (a) and (b) in any country of the Territory.

Section 1.45 “Series 2-4 Compounds”. Series 2-4 Compounds means (a) any and all compounds claimed or disclosed in any Series 2-4 Patent Right, (b) the compounds identified as “Series 2, 3 or 4 Compounds” on Exhibit C, and (c) Derivative Compounds of any compound set forth in either of the foregoing clauses (a) and (b); in the case of each of clauses (a), (b) and (c) above, regardless of whether or not any such compound has been synthesized by XTL and/or its Affiliates.

Section 1.46 “Series 2-4 Licensed Products”. Series 2-4 Licensed Products means Licensed Products that contain any Series 2-4 Compound (s).

Section 1.47 “Series 2-4 Patent Rights”. Series 2-4 Patent Rights means (a) the Patent Rights set forth on Exhibit E, (b) counterparts of the Patent Rights set forth on Exhibit E in any country of the Territory, and (c) all Patent Rights claiming priority from the Patent Rights described in either of the foregoing clauses (a) and (b) in any country of the Territory.

Section 1.48 “Series 5-50 Compounds”. Series 5-50 Compounds means any and all compounds claimed or disclosed in any Patent Rights licensed or acquired by XTL from VivoQuest under the VivoQuest Asset Purchase Agreement or VivoQuest License Agreement, excluding the Series 1 Compounds and the Series 2-4 Compounds.

Section 1.49 “Sublicense Income”. Sublicense Income means, subject to Section 5.4, all amounts received by PRESIDIO and/or its Affiliates from Third Parties in connection with the sublicensing or licensing to such Third Parties of rights under Licensed Patent Rights and/or Licensed Technology to Develop and/or Commercialize any Series 1 Licensed Products, including without limitation all license fees, milestone payments and royalties, but excluding any of the following amounts received by PRESIDIO and/or its Affiliates from such Third Parties:

- (a) Amounts received as the purchase price for PRESIDIO’s and/or its Affiliates’ debt or equity securities, except to the extent such amounts exceed the fair market value of such debt or equity securities;
- (b) Amounts received for bona fide research and development activities undertaken for, or in collaboration with, such Third Parties, except to the extent such amounts exceed reasonable and customary funding amounts for such activities (e.g., cost reimbursement or reasonable FTE-based funding);
- (c) Amounts received for bona fide co-promotion and other commercial activities undertaken for, or in collaboration with, such Third Parties, except to the extent such amounts exceed reasonable and customary funding amounts for such activities (e.g., fees calculated and paid as cost reimbursement, reasonable per-detail fees or reasonable FTE-based funding);
- (d) In the event such license or sublicense is structured as a profit-sharing arrangement, PRESIDIO’s and its Affiliates’ share of revenue amounts that are offset by PRESIDIO’s and its Affiliates’ share of costs in the profit-share calculation (i.e., only PRESIDIO’s and its Affiliates’ share of net profits, as opposed to gross revenues, shall constitute Sublicense Income hereunder); and
- (e) Amounts received to cover Pass-Through Costs payable by PRESIDIO and/or its Affiliates under this Agreement, including without limitation any Pass-Through Costs owed by XTL to VivoQuest which are payable by PRESIDIO under Section 5.8 and any Pass-Through Costs payable by PRESIDIO pursuant to any Assigned Contracts and Additional Third Party Licenses.

Section 1.50 “Successful Completion”. Successful Completion means (a) with respect to a Phase I Trial for a Licensed Product, the completion of such Phase I Trial with data that PRESIDIO determines is satisfactory to progress such Licensed Product to a Phase II Trial, and (b) with respect to a Phase III Trial for a Licensed Product, the completion of such Phase III Trial with data that (i) achieves the primary endpoint of such Phase III Trial or (ii) that PRESIDIO reasonably determines is suitable for inclusion as a pivotal trial in an NDA for such Licensed Product to a Regulatory Authority.

Section 1.51 “Territory”. Territory means all countries of the world.

Section 1.52 “Third Party”. Third Party means any person or entity other than a Party or any of its Affiliates.

Section 1.53 “Valid Claim”. Valid Claim means, on a country-by-country basis, a claim of (a) an issued patent that (i) has not expired; (ii) has not been disclaimed; (iii) has not been cancelled or superseded, or if cancelled or superseded, has not been reinstated; and (iv) has not been revoked, held invalid, or otherwise declared unenforceable or not allowable by a tribunal or patent authority of competent jurisdiction over such claim in such country from which no further appeal has or may be taken; or (b) a patent application that has been pending less than \*\*\*\*\* years from the earliest date from which such patent application claims priority and which claim has not been cancelled, withdrawn or abandoned or finally rejected by an administrative agency action from which no appeal can be taken.

Section 1.54 “VivoQuest Asset Purchase Agreement”. VivoQuest Asset Purchase Agreement means the asset purchase agreement, dated as of August 11, 2005, between XTL Biopharmaceuticals Inc. and VivoQuest Inc. (including any successor-in-interest, “VivoQuest”).

Section 1.55 \*\*\*\*\*

Section 1.56 “VivoQuest License Agreement”. VivoQuest License Agreement means the license agreement, dated as of August 11, 2005, between XTL and VivoQuest.

Section 1.57 “VivoQuest Licensed Patents”. VivoQuest Licensed Patents means the “Licensed Patents” as defined in the VivoQuest License Agreement.

Section 1.58 Additional Definitions. Each of the following definitions is set forth in the section of this Agreement indicated below:

Definitions	Section
Agreement	Preamble
Apath License Agreement	Exhibit A
Breaching Party	9.2
Combination Product	1.28
CPR	10.2
Effective Date	Preamble
ICDR	10.3(a)
Indemnified Party	11.1(c)
Indemnifying Party	11.1(c)
Invalidity Claim	6.4
Knowledge	8.5
PRESIDIO	Preamble
Retained Liabilities	11.1(b)
Severed Clause	11.11
Technology Transfer Period	3.1
TTC	3.2
Validity Challenge	9.4(b)
VivoQuest	1.54
XTL	Preamble

**Article II**  
Grant of License; Assigned Contracts; Exclusivity

Section 2.1 License Grant. Subject to the terms and conditions of this Agreement, XTL hereby grants to PRESIDIO an exclusive (even as to XTL), royalty-bearing right and license under the Licensed Patent Rights and Licensed Technology, with the right to grant sublicenses, to Develop and Commercialize Licensed Compounds and Licensed Products in the Field in the Territory. Each sublicense granted hereunder shall be pursuant to a written agreement that is consistent with the terms and conditions of this Agreement, provided that further sublicenses granted by any Third Party sublicensee to any of its affiliates shall not be required to be pursuant to written agreements (the term “affiliates” as used in this sentence shall mean, with respect to a Third Party sublicensee, any Person that controls, is controlled by, or is under common control with such Third Party sublicensee, with “control” having the meaning provided in Section 1.2). PRESIDIO shall provide a copy of each such sublicense agreement entered into by PRESIDIO promptly following its execution; provided that, PRESIDIO shall be entitled to redact from the copy of such sublicense agreement provided to XTL terms that are not related to the determination of payments due to XTL under this Agreement or the consistency of such sublicense agreement with the terms and conditions of this Agreement; provided further that, such copies of sublicense agreements provided by PRESIDIO to XTL shall constitute Confidential Information of PRESIDIO hereunder.

Section 2.2 Assigned Contracts. As of the Effective Date, XTL shall, and shall cause its Affiliates to, assign to PRESIDIO, and PRESIDIO shall assume, all of XTL’s or the applicable Affiliate’s rights and obligations under the Assigned Contracts, provided, that XTL shall remain responsible for the Retained Liabilities. XTL shall, and shall cause its Affiliates to, take all reasonable further actions and execute all assignments or other documents requested by PRESIDIO as may be necessary or desirable to accomplish the foregoing assignments to PRESIDIO and to vest in PRESIDIO the rights set forth in this Section 2.2.

Section 2.3 Exclusivity

(a) During the term of this Agreement, neither XTL nor any of its Affiliates shall, or shall license, permit or assist any Third Party to, use any of the Series 1 Compounds, the Series 2-4 Compounds, the Series 5-50 Compounds, any Derivative Compounds of the foregoing, or any other materials or Know-How licensed or acquired by XTL from VivoQuest, for any Development or Commercialization purpose relating or directed to the HCV Field in the Territory.

(b) During the term of this Agreement, neither XTL nor any of its Affiliates shall, or shall license, permit or assist any Third Party to, Develop or Commercialize any Competing Product in the Territory; provided, however, that in the event that, after the Effective Date, a Third Party acquires XTL, then such Third Party shall not be bound by the restrictions provided in this Section 2.3(b), and no Patents or Know-How owned or Controlled by such Third Party shall be or become subject to the licenses granted herein, provided, that such Third Party acquirer does not access or use any Licensed Compounds or Licensed Technology, or practice any invention Covered by any Licensed Patent Rights, in connection with such activities.



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Section 2.4 Retained Rights; Other Limitations. Without limiting Section 8.5(a), the rights granted to PRESIDIO herein, including without limitation the license granted to PRESIDIO in Section 2.1, as pertaining to Licensed Patent Rights and Licensed Technology that are Controlled, but are not owned, by XTL, shall be limited by any rights retained by Third Parties, or other limitations or conditions on XTL's sublicensee's rights to such Licensed Patent Rights and Licensed Technology. As of the Effective Date, such retained rights and limitations consist solely of the rights retained by the U.S. government pursuant to Section 2 of the VivoQuest License Agreement.

Section 2.5 Section 365(n) of the Bankruptcy Code. All rights and licenses granted to PRESIDIO under or pursuant to this Agreement are, and shall otherwise be, deemed to be, for purposes of Section 365(n) of the Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101(35A) of the Bankruptcy Code. The Parties shall retain and may fully exercise all of their respective rights and elections under the Bankruptcy Code.

**Article III**  
**Technology Transfer**

Section 3.1 Technology Transfer. Without limiting the license granted to PRESIDIO pursuant to Section 2.1, XTL shall deliver, and shall cause XTL's Affiliates to deliver, to PRESIDIO, commencing promptly following the Effective Date and for no additional consideration, (a) all Licensed Compounds and all other chemical or biological materials owned or Controlled by XTL or any of its Affiliates, that are necessary or useful for producing the Licensed Compounds or otherwise practicing the Licensed Patent Rights or Licensed Technology, (b) all patent files associated with the Licensed Patent Rights, including without limitation the complete texts of all patents and patent applications and copies of all office actions, office action responses and other official communications received from, or filed with, all relevant patent offices, in each case, in the possession or Control of XTL or any of its Affiliates, and (c) all Licensed Technology, including without limitation all laboratory notebooks, preclinical or clinical data, databases, designs, assays, protocols, analytical systems, discovery tools, reports and manufacturing documentation relating to the Development and/or Commercialization of any Licensed Compounds or Licensed Products, in each case, in the possession or Control of XTL or any of its Affiliates. XTL shall complete, and shall cause XTL's Affiliates to complete, the delivery to PRESIDIO of all of the items listed in each of the foregoing clauses (a), (b) and (c) within a period of three (3) months following the Effective Date (the "Technology Transfer Period"). XTL shall make \*\*\*\*\* and \*\*\*\*\* reasonably available to PRESIDIO \*\*\*\*\* , and \*\*\*\*\* reasonably available to PRESIDIO until \*\*\*\*\* , in each case to answer any questions or provide instruction concerning the Licensed Compounds, Licensed Patent Rights, Licensed Technology and/or any of the other items delivered to PRESIDIO pursuant to this Section 3.1. During the Technology Transfer Period, XTL and its Affiliates shall take all such further reasonable actions as may be necessary or desirable to accomplish the foregoing transfers to PRESIDIO and to put PRESIDIO in actual possession of the foregoing information and materials.

Section 3.2 Technology Transfer Committee; Decision-Making Authority.

(a) Within \*\*\*\*\* days following the Effective Date, the Parties shall establish a technology transfer committee (the “TTC”) to facilitate and oversee the technology transfer activities set forth in Section 3.1 during the Technology Transfer Period. The TTC shall consist of no more than two (2) representatives from each Party, each of whom shall be appointed by the Senior Executive of the applicable Party. Each Party shall designate one such representative to serve as the co-chair of the TTC. Unless otherwise agreed by the Parties, the TTC shall remain in effect solely during the Technology Transfer Period.

(b) The TTC shall have decision-making authority with respect to any technical matter relating to the technology transfer activities under Section 3.1, but shall have no authority to amend the scope of the licenses granted to PRESIDIO hereunder or amend any other contractual rights or obligations of either Party under this Agreement. All decisions of the TTC shall be made by consensus of the TTC co-chairs. If the TTC co-chairs are unable to reach consensus with respect to a particular matter within its purview, the matter shall be referred to the Senior Executives for resolution. If the Senior Executives are unable to resolve such matter within \*\*\*\*\* days following such referral, the matter shall be resolved pursuant to Article X.

**Article IV**

Reports and Meetings; Diligence; Certain Regulatory and Manufacturing Activities

Section 4.1 Development Reports; Meetings.

(a) Within \*\*\*\*\* prior to the first commercial launch of the first Licensed Product by PRESIDIO and/or any of its Affiliates or Third Party sublicensees, PRESIDIO shall provide to XTL a written report summarizing the activities undertaken by PRESIDIO, its Affiliates and Third Party sublicensees during the immediately preceding \*\*\*\*\* period (or such shorter period as may be applicable with respect to the first and last such report) in connection with the Development and Commercialization of Licensed Products.

(b) Prior to the first commercial launch of the first Licensed Product hereunder, PRESIDIO shall, upon reasonable request by XTL, at no cost to PRESIDIO, meet with XTL, no more frequently than on a semi-annual basis and at PRESIDIO’s corporate headquarters (or by telephone), to discuss generally the reports provided to XTL under the foregoing Section 4.1(a).

(c) After the first commercial launch of the first Licensed Product by PRESIDIO and/or any of its Affiliates or Third Party sublicensees, PRESIDIO’s reporting obligations shall be limited to those set forth in Section 5.9(a) below.

(d) Notwithstanding any of the foregoing, in the event that XTL is acquired by, or otherwise becomes an Affiliate of, a Person that is engaged in Development and/or Commercialization activities relating or directed to the HCV Field, PRESIDIO’s obligations under Section 4.1(a), Section 4.1(b) and Section 6.1(c) shall terminate.

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Section 4.2 Commercially Reasonable Efforts. PRESIDIO shall use Commercially Reasonable Efforts to Develop and Commercialize at least one Licensed Product for the prevention, treatment, palliation and/or control of any HCV indication in the United States, the EU and Japan. For purposes of clarity, PRESIDIO shall be deemed to have used Commercially Reasonable Efforts hereunder with respect to its Development and Commercialization activities in the EU if PRESIDIO Develops and Commercializes at least one Licensed Product for the prevention, treatment, palliation and/or control of any HCV indication in any \*\*\*\*\* of the Major EU Countries. Notwithstanding anything to the contrary in this Agreement, however, XTL’s sole and exclusive remedy, and PRESIDIO’s sole and exclusive liability, for any breach by PRESIDIO of such obligation to exercise Commercially Reasonable Efforts shall be for XTL to exercise any right that XTL may have to terminate this Agreement as provided in Section 9.2.

Section 4.3 Certain Regulatory and Manufacturing Activities. As between the Parties, PRESIDIO shall be responsible, at its expense, for all Development and Commercialization activities conducted by PRESIDIO and/or its Affiliates or Third Party sublicensees, including without limitation:

(a) Filing applications for, and obtaining and maintaining, any necessary Regulatory Approvals with respect to the Development and/or Commercialization of Licensed Compounds or Licensed Products. As between the Parties, PRESIDIO shall own all Regulatory Filings with respect to Licensed Compounds and/or Licensed Products filed by or on behalf of PRESIDIO and/or its Affiliates or Third Party sublicensees; and

(b) Manufacturing, or having manufactured by a Third Party manufacturer, all preclinical, clinical and commercial supply of Licensed Products, including without limitation Licensed Compounds and/or other components necessary for such Licensed Products.

**Article V**  
Financial Provisions

Section 5.1 License Payment. Within fourteen (14) days after the Effective Date, PRESIDIO shall make a one-time, non-refundable license payment to XTL of Three Million Nine Hundred Forty Thousand Dollars (\$3,940,000).

Section 5.2 Milestone Payments for Series 1 Licensed Products. Subject to Sections 5.4, 5.5(a), 5.6, 5.7 and 5.8(b), within \*\*\*\*\* days after achievement of each of the following milestone events with respect to Series 1 Licensed Products by PRESIDIO or any of its Affiliates, PRESIDIO shall make the indicated one-time milestone payment to XTL; provided, however, that where a portion of a milestone payment is payable by XTL to VivoQuest as indicated in the parenthetical clauses included in the table below, such amount (that is, such portion of the total milestone payment) shall be payable by PRESIDIO to XTL within \*\*\*\*\* days after the achievement of the relevant milestone event, except that the amount so payable upon the achievement of the milestone event indicated in row (h) in the table below shall be payable by PRESIDIO to XTL within \*\*\*\*\* days after the achievement of the relevant milestone event. \*\*\*\*\*:

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Milestone Event	Column A	Column B
	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****
*****	*****	*****

Each of the milestone payments payable pursuant to this Section 5.2 upon achievement of the corresponding milestone event shall be payable (x) only once, under either Column A or Column B above (but not both), irrespective of how many Licensed Products are Developed or Commercialized hereunder, (y) only upon achievement of the corresponding milestone event by PRESIDIO and/or its Affiliates, and not by any Third Party sublicensee of PRESIDIO or any of its Affiliates, except as and to the extent required by Section 5.8(a) and (z) with respect to the milestone payments set forth in clauses (a), (b), (c), (d), (e), (f) and (g) of the table above, subject to the limitations set forth in Section 5.4. In addition to the foregoing, the milestone payments above shall be reduced if PRESIDIO enters into an agreement with one or more Third Parties pursuant to which PRESIDIO grants such Third Party(ies) a sublicense or license under the Licensed Patent Rights and/or Licensed Technology to Develop and Commercialize any Series 1 Licensed Product in any of the countries indicated immediately below. Such reduction shall be given effect prior to any reduction of the above milestones payments as provided in Section 5.5 and Section 5.6 of this Agreement. Such reduction shall be in an amount equal to the percentage of the applicable milestone payment indicated below in connection with the grant of the foregoing rights in the specified country: \*\*\*\*\*. \*\*\*\*\*. Such reductions shall only be applied to milestone payments that are payable in connection with milestone events that are achieved after the execution and delivery of the relevant agreement(s) between PRESIDIO and such Third Party(ies) and shall not be given retroactive effect.

Section 5.3 Royalties. During the Royalty Term applicable to sales of each Licensed Product in each country of the Territory, PRESIDIO shall pay to XTL the royalties set forth in Section 5.3(a) or 5.3(b) below, as applicable, with the amount of such royalties calculated as a percentage of worldwide Net Sales of such Licensed Product during each Fiscal Year of PRESIDIO.

(a) Royalties for Series 1 Licensed Products. Subject to Sections 5.5(b), 5.6, 5.7 and 5.8(b), PRESIDIO shall pay XTL the following royalty with respect to Net Sales, generated during the applicable Royalty Term, of each Series 1 Licensed Product (on a product-by-product basis) by PRESIDIO and/or its Affiliates (but not by any Third Party sublicensee of PRESIDIO or any of its Affiliates) during each Fiscal Year of PRESIDIO:

Annual Worldwide Net Sales of Series 1 Licensed Product	Percentage of Incremental Net Sales Amount
*****	*****
*****	*****
*****	*****
*****	*****
*****	*****

\*\*\*\*\*.

(b) Royalties for Series 2-4 Licensed Products. PRESIDIO shall pay XTL a royalty of (i) \*\*\*\*\*of Net Sales by PRESIDIO and/or its Affiliates of a Series 2-4 Licensed Product during any period that such Series 2-4 Licensed Product is Covered by a Valid Claim of any Licensed Patent Right, and (ii) \*\*\*\*\* of Net Sales by any Third Party sublicensee of PRESIDIO and/or its Affiliates of a Series 2-4 Licensed Product during any period that such Series 2-4 Licensed Product is Covered by a Valid Claim of any Licensed Patent Right.

(c) Royalties Payable Only Once. The obligation to pay royalties is imposed only once with respect to Net Sales of the same unit of a Licensed Product.

Section 5.4 Sublicense Income for Series 1 Licensed Products. Subject to Section 5.8(a), PRESIDIO shall pay XTL the following percentage of Sublicense Income, with respect to the Development and/or Commercialization of any Series 1 Licensed Product by a Third Party sublicensee, which Sublicense Income is received by PRESIDIO and/or its Affiliates during Royalty Term applicable to such Series 1 Licensed Product in the country(ies) in which the activities giving rise to the Sublicense Income payment to PRESIDIO and/or its Affiliates occur:

- (a) \*\*\*\*\*;
- (b) \*\*\*\*\*;

- (c) \*\*\*\*\*;
- (d) \*\*\*\*\*.

Notwithstanding Section 5.2 and the foregoing provisions of this Section 5.4, and subject to the remaining provisions of this paragraph, PRESIDIO’s obligations to pay XTL (A) milestone payments upon the achievement by PRESIDIO or its Affiliates of the milestone events designated (a), (b), (c), (d), (e), (f) and (g) in the table in Section 5.2 and (B) payments pursuant to this Section 5.4 based on Sublicense Income comprised of upfront payments (that is, payments due in connection with the execution and delivery of a sublicense that are not contingent on the occurrence of other events or achievements) or milestone payments other than milestone payments based on the achievement by a Third Party sublicensee of sales milestones (i.e., the achievement of specified levels of sales of Series 1 Licensed Products \*\*\*\*\*). Notwithstanding the limitation on PRESIDIO’s payment obligations described in this Section, the amounts provided in Section 5.8 shall remain due and payable in full in accordance with the terms set forth in Section 5.8.

Section 5.5 Reduction for Lack of Patent Coverage.

- (a) Each of the milestone payments payable by PRESIDIO pursuant to Section 5.2 above shall be reduced by \*\*\*\*\* (i.e., reduced to \*\*\*\*\* of the amount otherwise payable) in the event that the first Series 1 Licensed Product with respect to which the corresponding milestone event is achieved is not Covered by a Valid Claim of any Licensed Patent Rights at the time of such achievement; provided that if the same milestone event is subsequently achieved with one or more Series 1 Licensed Products that are Covered by a Valid Claim of a Licensed Patent Right at the time of such achievement, then the remainder of such milestone payment (i.e., the \*\*\*\*\* not previously paid) shall then become payable hereunder.
- (b) The royalty rate set forth in Section 5.3(a) above payable by PRESIDIO with respect to Net Sales by PRESIDIO and/or its Affiliates of any Series 1 Licensed Product for use in the Field in any country in the Territory shall be reduced to \*\*\*\*\* of Net Sales during any portion of the Royalty Term for such Series 1 Licensed Product in which such Series 1 Licensed Product in such country is not Covered by a Valid Claim of any Licensed Patent Rights.

Section 5.6 Reduction for Pass-Through Costs Under Assigned Contracts and Additional Third Party Licenses. As between the Parties, PRESIDIO shall be responsible for paying all Pass-Through Costs required to be paid under the Assigned Contracts and any Additional Third Party Licenses; provided, however, that, PRESIDIO shall have the right to reduce the milestone and royalty payments payable by PRESIDIO under Sections 5.2 and 5.3(a) above \*\*\*\*\* of all such Pass-Through Costs payable by PRESIDIO hereunder, provided, that, in no event shall any single milestone or royalty payment payable by PRESIDIO under Section 5.2 or 5.3(a) with respect to any Series 1 Licensed Product be reduced by more than \*\*\*\*\* of the amount otherwise due to XTL under Section 5.2 or 5.3(a). For the avoidance of doubt, no reduction shall be applied by PRESIDIO under this Section 5.6 with respect to the \*\*\*\*\* required to be paid under the \*\*\*\*\*.

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Section 5.7 Priority of Reduction. In the event that the reductions provided for in Sections 5.5 and 5.6 would otherwise both be applicable to a milestone or royalty payment payable by PRESIDIO under Section 5.2 or 5.3(a), then only the reduction in Section 5.5 shall apply to such milestone or royalty payment.

Section 5.8 Offset for Payment of VivoQuest Pass-Through Costs. As between the Parties, XTL shall be responsible for maintaining the VivoQuest License Agreement in full force and effect and for paying all amounts due to VivoQuest thereunder. Anything in this Agreement to the contrary notwithstanding, in addition to (but subject to PRESIDIO's offset rights as provided below) any other amounts that may be payable hereunder:

(a) If, at any time, Pass-Through Costs are owed by XTL to VivoQuest under the VivoQuest License Agreement as a result of the Development and/or Commercialization of Series 1 Licensed Products by a Third Party sublicensee of PRESIDIO or any of its Affiliates (but not by PRESIDIO or any of its Affiliates), then PRESIDIO shall pay XTL the amount of the Pass-Through Costs owed by XTL to VivoQuest; provided, however, that, PRESIDIO shall have the right to offset such amount paid by PRESIDIO against any amounts otherwise payable, concurrently or subsequently, by PRESIDIO to XTL under Section 5.4.

(b) If any amount payable by PRESIDIO to XTL under Section 5.2 or Section 5.3(a) is less than the corresponding Pass-Through Costs that are owed by XTL to VivoQuest under the VivoQuest License Agreement as a result of the Development and/or Commercialization of Series 1 Licensed Products by PRESIDIO and/or any of its Affiliates (but not by a Third Party sublicensee of PRESIDIO or any of its Affiliates), then PRESIDIO shall pay XTL the difference between (i) the amount paid by PRESIDIO under Section 5.2 or Section 5.3(a), and (ii) the amount of the Pass-Through Costs owed by XTL to VivoQuest.

(c) PRESIDIO shall be obligated to pay XTL any Pass-Through Costs that are owed by XTL to VivoQuest under the VivoQuest License Agreement as a result of the Development and/or Commercialization of Series 2-4 Licensed Products by PRESIDIO and/or any of its Affiliates or Third Party sublicensees.

(d) In the event that any Pass-Through Costs set forth in any of the foregoing clauses (a) through (c) are payable by PRESIDIO under such provisions, or any Pass-Through Costs referenced in the parenthetical clauses in Column A of the table in Section 5.2 are owed by XTL to VivoQuest, \*\*\*\*\*.

Section 5.9 Reports and Accounting.

(a) Reports; Payments. PRESIDIO shall deliver to XTL, within \*\*\*\*\* days after the end of each calendar quarter, a good faith estimate of the royalties and Sublicense Income that will be paid to XTL for such calendar quarter (excluding any estimate of royalties which may be payable by PRESIDIO under Section 5.3(b)(ii) with respect to Net Sales of Series 2-4 Licensed Products by Third Party sublicensees of PRESIDIO and/or its Affiliates), and, within \*\*\*\*\* days after the end of each calendar quarter, reasonably detailed written accountings of Net Sales and Sublicense Income of Licensed Products that are subject to payment obligations to XTL for such calendar quarter. Such quarterly reports shall indicate (i) gross sales, Net Sales, gross amounts received from Third Party sublicensees, and Sublicense Income on a Licensed Product-by-Licensed Product and country-by-country basis, and (ii) the calculation of payment amounts owed to XTL from such Net Sales and Sublicense Income. When PRESIDIO delivers such accounting to XTL, PRESIDIO shall also deliver all amounts due under Sections 5.3 and 5.4 to XTL for the calendar quarter.

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(b) Audits by XTL. PRESIDIO shall keep, and shall require its Affiliates and Third Party sublicensees to keep, records of the latest \*\*\*\*\* years relating to gross sales, Net Sales, gross amounts received from Third Party sublicensees, and Sublicense Income, in each case as applicable, and all information relevant under Sections 5.2, 5.3, 5.4, 5.6, 5.7 and 5.8. For the sole purpose of verifying amounts payable to XTL, XTL shall have the right no more than once each calendar year, at XTL's expense, to have XTL's independent certified public accountants review such records in the location(s) where such records are maintained by PRESIDIO and/or its Affiliates or, with respect to records of Third Party sublicensees, either at PRESIDIO's premises or the premises of such Third Party sublicensees, in each case as may be designated by PRESIDIO, upon \*\*\*\*\* days' prior notice and during regular business hours. Results of such review shall be made available to PRESIDIO. If the review reflects an underpayment to XTL, such underpayment shall be promptly remitted to XTL, together with interest calculated in the manner provided in Section 5.13. If the underpayment is equal to or greater than \*\*\*\*\* of the aggregate amount that was otherwise due for any calendar year, PRESIDIO shall promptly reimburse XTL for the reasonable costs incurred in connection with such review. If the review reflects an overpayment to XTL, such overpayment shall be promptly refunded by XTL to PRESIDIO.

Section 5.10 Currency and Method of Payments. All payments under this Agreement shall be made in United States dollars by transfer to such bank account as XTL may designate from time to time. Any royalties or portions of Sublicense Income due hereunder with respect to amounts in currencies other than United States dollars shall be payable in their United States dollar equivalents, calculated using the average applicable interbank transfer rate determined by reference to the currency trading rates published by The Wall Street Journal (Western U.S. edition) over all business days of the calendar quarter to which the report under Section 5.9(a) relates.

Section 5.11 United States Dollars. All dollar (\$) amounts specified in this Agreement are United States dollar amounts.

Section 5.12 Tax Withholding. If withholding taxes are payable with respect to payments to XTL hereunder, PRESIDIO may withhold the required amount and pay it to the appropriate governmental authority. PRESIDIO will withhold only such amounts as are required to be withheld by law in the country from which payment is being made. PRESIDIO shall submit to XTL a copy of the remittance voucher and reasonably satisfactory evidence of payment of the corresponding taxes with the applicable royalty report, if possible, or within \*\*\*\*\* days thereafter. PRESIDIO will make reasonable efforts and will reasonably cooperate with XTL and provide such information and records as XTL may reasonably require in connection with XTL obtaining any applicable reduction or exemption from withholding tax from tax authorities in any country.



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Section 5.13 Late Payments. PRESIDIO shall pay interest to XTL on the aggregate amount of any payment that is not paid on or before the date such payment is due under this Agreement at a rate per annum equal to \*\*\*\*\*.

Section 5.14 Blocked Payments. In the event that, by reason of applicable laws or regulations in any country, it becomes impossible or illegal for PRESIDIO or its Affiliates to transfer, or have transferred on its behalf, royalties or other payments to XTL, such royalties or other payments shall be deposited in local currency in the relevant country to the credit of XTL in a recognized banking institution designated by XTL or, if none is designated by XTL within a period of \*\*\*\*\* days, in a recognized banking institution selected by PRESIDIO or its Affiliates.

Section 5.15 Costs and Expenses. Except as otherwise expressly set forth herein, each Party shall bear its own costs and expenses incurred in connection with the performance of its obligations hereunder.

**Article VI**  
**Intellectual Property Protection and Related Matters**

Section 6.1 Prosecution and Maintenance of Licensed Patent Rights.

(a) Right to Prosecute and Maintain. As between the Parties, PRESIDIO shall have the first right to file and prosecute patent applications and maintain patents within the Licensed Patent Rights. Subject to Section 6.6 below, PRESIDIO shall use Commercially Reasonable Efforts to file and prosecute patent applications and maintain patents within the Licensed Patent Rights in the United States, Canada, the Major EU Countries and Japan in a manner that is intended to provide optimal protection for any Licensed Products that PRESIDIO may Develop and/or Commercialize in such countries, including without limitation seeking claims of reasonably broad scope, to the extent permitted under applicable law. Notwithstanding the foregoing, in the event that PRESIDIO decides to abandon or discontinue the filing, prosecution or maintenance of any non-provisional patent application or patent within the Licensed Patent Rights in any such country, then PRESIDIO shall notify XTL of such determination reasonably in advance of any loss of rights by XTL with respect to such patent application or patent. Thereafter, XTL shall have the right, upon written notice to PRESIDIO, to file, prosecute and maintain such non-provisional patent applications and patents, in its name and at its own expense, which patent applications and patents shall no longer be deemed “Licensed Patent Rights” under this Agreement. Notwithstanding anything in this Agreement to the contrary, XTL’s sole and exclusive remedy, and PRESIDIO’s sole and exclusive liability, for any decision by PRESIDIO not to file, prosecute and/or maintain any patent applications or patents hereunder shall be for XTL to assume such filing, prosecution and maintenance activities with respect to such patent applications or patents pursuant to this Section 6.1.

(b) Disclosure of New Inventions. XTL shall, and shall cause its Affiliates to, disclose to PRESIDIO any and all new inventions or other Know-How that (i) would constitute subject matter with respect to which a patent application within the Licensed Patent Rights may be filed hereunder or would otherwise constitute Licensed Technology hereunder, and (ii) becomes Controlled by XTL or any of its Affiliates during the term of this Agreement. XTL shall, and shall cause its Affiliates to, disclose such inventions or other such Know-How to PRESIDIO within \*\*\*\*\* days after such Control exists, including without limitation reasonably detailed information with respect to such inventions or other such Know-How to enable PRESIDIO to obtain appropriate patent protection with respect to such inventions or other Know-How.

- (c) Cooperation. Subject to Section 4.1(d), each Party agrees to cooperate with the other Party with respect to the filing and prosecution of patent applications and maintenance of patents within the Licensed Patent Rights pursuant to this Section 6.1, including without limitation:
- (i) the execution of all such documents and instruments and the performance of such acts as may be reasonably necessary in order to permit the other Party to file and prosecute patent applications or maintain patents as provided for in Section 6.1(a);
  - (ii) making its employees, agents and consultants reasonably available to the other Party (or to the other Party's authorized attorneys, agents or representatives), to the extent reasonably necessary to enable such other Party to file and prosecute patent applications or maintain patents as provided for in Section 6.1(a); and
  - (iii) to provide the other Party with copies of all material official communications received from, or filed with, the relevant patent offices pertaining to the filing and prosecution of patent applications and maintenance of patents as provided for in Section 6.1(a).

Section 6.2 Third Party Infringement.

- (a) Notifications of Third Party Infringement. Each Party agrees to notify the other Party when it becomes aware of any infringement of the Licensed Patent Rights or misappropriation of Licensed Technology, or the reasonable probability of such infringement or misappropriation, arising from or relating to the development, manufacture, offer for sale, sale, import or other use of any Third Party product.
- (b) Infringement Action. PRESIDIO shall decide whether to institute an infringement suit or take other appropriate action that it believes is reasonably required to protect the Licensed Patent Rights or Licensed Technology from such infringement or misappropriation. In the event that PRESIDIO brings an action pursuant to this Section 6.2(b), XTL shall cooperate with PRESIDIO to the extent reasonably requested by PRESIDIO, including without limitation joining the suit if requested by PRESIDIO and necessary or desirable.
- (c) Costs. PRESIDIO shall assume and pay all of its own and XTL's out-of-pocket costs incurred in connection with any litigation or proceedings described in this Section 6.2; provided, however, that if XTL elects to be represented in such litigation or proceedings by separate counsel, XTL shall assume and pay for all of its own out-of-pocket costs incurred in connection with such litigation or proceedings.
- (d) Recoveries. Any recovery obtained by PRESIDIO as a result of any action or proceeding described in this Section 6.2, or from any counterclaim or similar claim asserted in a proceeding described in Section 6.3, by settlement or otherwise, shall be applied in the following order of priority:

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(i) first, to reimburse PRESIDIO for all litigation costs in connection with such proceeding paid by PRESIDIO and not otherwise recovered; and

(ii) second, the remainder of the recovery shall be paid \*\*\*\*\*.

Section 6.3 Claimed Infringement. In the event that a Party becomes aware of any claim that the Development or Commercialization of Licensed Products infringes Patent Rights or misappropriates the Know-How of any Third Party, such Party shall promptly notify the other Party.

Section 6.4 Patent Invalidity Claim. If a Third Party at any time asserts a claim that any Licensed Patent Right is invalid, unenforceable and/or otherwise not infringed (an “Invalidity Claim”), whether as a defense in an infringement action brought by PRESIDIO pursuant to Section 6.2 or in an action brought against PRESIDIO or XTL referred to in Section 6.3, PRESIDIO shall have the right to prepare and formulate all responses to, and defend and settle, such Invalidity Claim. XTL shall cooperate with PRESIDIO with respect to such activities upon reasonable request by PRESIDIO.

Section 6.5 Patent Marking. PRESIDIO agrees to comply with any applicable patent marking statutes in each country in which Licensed Products are sold by PRESIDIO and/or its Affiliates.

Section 6.6 Certain Limitations. Without limiting the representations, warranties and covenants provided by XTL pursuant to Section 8.5, the Parties acknowledge that PRESIDIO may not be permitted to exercise all of the rights set forth in this Article VI with respect to Licensed Patent Rights that are not owned by XTL. Under such circumstances, XTL shall use reasonable efforts to obtain such rights for PRESIDIO and XTL shall provide prompt written notice to PRESIDIO of any such limitations on PRESIDIO’s rights under this Article VI. The existence of any such limitations, or XTL’s inability to avoid or eliminate any such limitations (provided XTL has used reasonable efforts to do so and subject to Section 8.5), shall not constitute a breach of this Agreement by XTL.

**Article VII**  
Confidentiality

Section 7.1 Confidential Information. All Confidential Information disclosed by a Party to the other Party during the term of this Agreement shall not be used by the receiving Party except in connection with the activities contemplated by this Agreement, shall be maintained in confidence by the receiving Party (except to the extent disclosure is reasonably necessary for Development and/or Commercialization of Licensed Products, for the filing, prosecution and maintenance of Patent Rights or to enforce the provisions of this Agreement), and shall not otherwise be disclosed by the receiving Party to any other person, firm, or agency, governmental or private (except as set forth Sections 7.2 or 7.3), without the prior written consent of the disclosing Party, except to the extent that the Confidential Information:

(a) was known or used by the receiving Party prior to its date of disclosure to the receiving Party; or

(b) either before or after the date of the disclosure to the receiving Party is lawfully disclosed to the receiving Party by sources other than the disclosing Party rightfully in possession of the Confidential Information; or

(c) either before or after the date of the disclosure to the receiving Party becomes published or generally known to the public through no fault or omission on the part of the receiving Party; or

(d) is independently developed by or for the receiving Party without reference to or reliance upon the Confidential Information; or

(e) is required to be disclosed by the receiving Party to comply with applicable laws, regulations or rules, to defend or prosecute litigation or to comply with legal process, provided that the receiving Party provides prior written notice of such disclosure to the disclosing Party and only discloses Confidential Information of the other Party to the extent necessary for such legal compliance or litigation purpose.

Section 7.2 Employee, Director, Consultant and Advisor Obligations. PRESIDIO and XTL each agrees that it and its Affiliates shall provide Confidential Information received from the other Party only to the receiving Party's respective (a) employees, directors, consultants and advisors, and to the employees, directors, consultants and advisors of the receiving Party's Affiliates, who have a need to know such Confidential Information to assist the receiving Party in fulfilling its obligations under this Agreement, and (b) existing and prospective investors, acquirers, lenders, sublicensees, collaborators and Third Party contractors engaged in the Development and/or Commercialization of Licensed Compounds or Licensed Products, or in connection with such Party's financing activities; provided that PRESIDIO and XTL shall each remain responsible for any failure by any Person included in the foregoing clauses (a) and (b) to treat such Confidential Information as required under Section 7.1.

### Section 7.3 Publicity.

(a) Upon execution of this Agreement, the Parties shall issue separate press releases, in form and substance mutually-agreed by the Parties, announcing the execution of this Agreement, a copy of each of which is attached hereto as Exhibit F. During the term of this Agreement, neither Party nor its Affiliates shall disclose this Agreement or make any public announcement, press release, filing or other disclosure concerning the existence, terms and conditions of this Agreement without the other Party's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), except (i) as set forth in Section 7.3(b) below, (ii) as required to comply with applicable laws, regulation or rules (including without limitation any rules of the United States Securities and Exchange Commission or similar regulatory agency, stock exchange or securities trading institution of such other jurisdictions whose laws may apply to a Party), or (iii) to existing and prospective investors, acquirers, lenders and other Third Parties in connection with such Party's financing activities, provided, that each such Third Party is bound to treat such information as confidential. If a Party is required to make any such disclosure under applicable law, regulation or rule, such Party shall provide the other Party with a copy of the proposed text of any such written disclosure or the proposed content of any non-written disclosure, sufficiently in advance (to the extent practicable or permitted under applicable law, regulation or rule) of the scheduled release or disclosure thereof to afford the other Party a reasonable opportunity to review and comment upon such proposed disclosure and/or obtain confidential treatment with respect to such proposed disclosure.

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(b) Notwithstanding the foregoing, (i) PRESIDIO and/or any of its Affiliates and Third Party sublicensees shall have the right to disclose, in private communications, public announcements, press releases, filings or other disclosures, information concerning or related to its or their Development and Commercialization activities with respect to Licensed Products hereunder, and (ii) each Party and/or any of such Party's Affiliates and/or, with respect to PRESIDIO, Third Party sublicensees, shall have the right to disclose information that is the same or substantially similar to information that has previously been disclosed under this Section 7.3; in the case of each of the foregoing clauses (i) and (ii), without having to grant the other Party the opportunity to review and comment on such proposed disclosure or obtain such other Party's prior written consent.

Section 7.4 Term. All obligations of confidentiality imposed under this Article VII shall expire \*\*\*\*\* following termination or expiration of this Agreement.

**Article VIII**  
**Representations and Warranties**

Section 8.1 Representations of Authority. PRESIDIO and XTL each represents and warrants to the other that, as of the Effective Date, it has full right, power and authority to enter into this Agreement and to perform its respective obligations under this Agreement.

Section 8.2 Consents. PRESIDIO and XTL each represents and warrants that as of the Effective Date all necessary consents, approvals and authorizations of all government authorities and other Persons required to be obtained by such Party in connection with the execution, delivery and performance of this Agreement have been obtained.

Section 8.3 No Conflict. PRESIDIO and XTL each represents and warrants that, as of the Effective Date, the execution and delivery of this Agreement and the performance of such Party's obligations hereunder (a) do not conflict with or violate any requirement of applicable laws or regulations, and (b) do not conflict with, violate or breach or constitute a default of, or require any consent under, any contractual obligations of such Party, except such consents as have been obtained as of the Effective Date.

Section 8.4 Employee, Director, Consultant and Advisor Obligations. PRESIDIO and XTL each represents and warrants that, as of the Effective Date, each of its and its Affiliates' employees, directors, consultants and advisors has executed an agreement or has an existing obligation under law obligating such employee, director, consultant or advisor to maintain the confidentiality of Confidential Information to the extent required under Article VII.

Section 8.5 Intellectual Property. XTL represents, warrants and covenants to PRESIDIO that:

**Confidential material omitted and filed separately with the Commission.**

(a) VivoQuest has assigned to XTL all right, title and interest in and to the VivoQuest Licensed Patents, a complete and accurate list of which VivoQuest Licensed Patents are included on Exhibit D and Exhibit E. XTL is the sole and exclusive owner (subject to Section 2.4) of all right, title and interest in and to the VivoQuest Licensed Patents and the other Patent Rights set forth on Exhibit D and Exhibit E, and, as of the Effective Date, is the sole and exclusive owner of all right, title and interest in and to, or has obtained exclusive rights to, the Licensed Compounds and Licensed Technology;

(b) Each of XTL's and its Affiliates' current and former employees, directors, consultants and contractors has executed an agreement assigning to XTL or XTL's Affiliate all of its or his or her right, title and interest in and to any inventions developed in the course of its or his or her employment or engagement with XTL or XTL's Affiliate, and such agreements are valid and binding on all such current and former employees, directors, consultants and contractors;

(c) To the Knowledge of XTL, each patent and patent application included within the Licensed Patent Rights sets forth a complete and accurate list of all inventors;

(d) XTL has the right to grant to PRESIDIO the rights and licenses to Licensed Compounds, Licensed Patent Rights and Licensed Technology granted in this Agreement;

(e) XTL and its Affiliates have not granted, and during the term of this Agreement XTL will not grant and will cause its Affiliates not to grant, any rights to any Third Party (including without limitation VivoQuest or any of the counterparties to any Assigned Contracts) which would conflict with the rights granted to PRESIDIO hereunder;

(f) None of the Licensed Patent Rights procured by XTL or its Affiliates and, to the Knowledge of XTL, none of the Licensed Patent Rights procured by any Third Party was fraudulently procured from the relevant governmental patent granting authority;

(g) To the Knowledge of XTL, the practice of the Licensed Patent Rights and Licensed Technology as contemplated under this Agreement does not violate the intellectual property rights of any Third Party, and, as of the Effective Date, no claim, demand or suit has been made, or proceeding initiated, nor is any such claim, demand, suit or proceeding pending or threatened, that asserts the invalidity, misuse or unenforceability of the Licensed Patent Rights or Licensed Technology; \*\*\*\*\*;

(h) To the Knowledge of XTL, none of the Licensed Patent Rights are being infringed, nor is any Licensed Technology being misappropriated, by any Third Party;

(i) All necessary registration, maintenance and renewal fees for Licensed Patent Rights have been paid on time, \*\*\*\*\*;

(j) Exhibits D and E provide a complete and accurate listing of the Licensed Patent Rights as of the Effective Date, including without limitation the VivoQuest Licensed Patents, and XTL does not own or otherwise Control any Patent Rights other than the Patent Rights listed on Exhibits D and E that claim or disclose any Licensed Compounds or Licensed Technology;

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(k) Exhibit C provides a complete and accurate listing of all Series 1 Compounds and Series 2-4 Compounds that are included in XTL's and/or its Affiliates' databases, laboratory notebooks and/or other records, or that have otherwise been identified, studied, screened or evaluated by XTL and/or its Affiliates, regardless of whether or not such compounds have been synthesized by XTL or any of its Affiliates;

(l) \*\*\*\*\*;

(m) Attached as Exhibits A and B are all complete and accurate copies of all Third Party agreements to which XTL or any XTL Affiliate is a party as of (or, solely with respect to the Assigned Contracts, immediately prior to) the Effective Date relating to the Licensed Compounds, Licensed Patent Rights and/or Licensed Technology. Except for the VivoQuest License Agreement, the VivoQuest Asset Purchase Agreement and Assigned Contracts, neither XTL nor any XTL Affiliate, as of (or, except for the Assigned Contracts, immediately prior to) the Effective Date, is a party to, or is otherwise bound by, any agreement pursuant to which any Third Party has any economic or other interest with respect to the Development and/or Commercialization of the Licensed Compounds or Licensed Products, or any ownership rights in any of the Licensed Compounds, Licensed Patent Rights and/or Licensed Technology;

(n) The VivoQuest License Agreement, the VivoQuest Asset Purchase Agreement and all Assigned Contracts are in full force and effect, and XTL and/or its Affiliates are in full compliance with the terms of such agreements, \*\*\*\*\*, no dispute presently exists, nor has XTL received any notice of any such claim of breach or dispute nor, to the Knowledge of XTL, is any such claim pending or threatened, between XTL and the counterparty to any such agreement that would jeopardize any of the rights or licenses granted to PRESIDIO under this Agreement, and, to the Knowledge of XTL, there is no basis for any such claim of breach or dispute;

(o) During the term of this Agreement, XTL shall, and shall cause its Affiliates to, comply with all terms and conditions of, and shall not, and shall cause its Affiliates not to, without the prior written consent of PRESIDIO, amend, terminate, or make or waive any claims or rights under, or grant any rights to VivoQuest or any other Third Party in connection with, the VivoQuest License Agreement or the VivoQuest Asset Purchase Agreement, in any manner that would adversely affect the rights granted to PRESIDIO under this Agreement, or take any action or fail to take any action that would give VivoQuest the right to amend or terminate the VivoQuest License Agreement or the VivoQuest Asset Purchase Agreement or would otherwise adversely affect the rights granted to PRESIDIO under this Agreement;

(p) XTL and its Affiliates have obtained all necessary consents to assign the Assigned Contracts to PRESIDIO hereunder;

**Confidential material omitted and filed separately with the Commission.**

(q) To the Knowledge of XTL, all written statements and other writings furnished by XTL or its Affiliates pursuant to or in connection with this Agreement or the transactions contemplated hereby are complete and accurate in all material respects. No representation or warranty by XTL in this Agreement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any statement contained herein not misleading. To the Knowledge of XTL, there is no fact, event or condition that would adversely affect PRESIDIO's rights under this Agreement that has not been set forth in this Agreement or disclosed by XTL to PRESIDIO in writing; and

(r) \*\*\*\*\*.

The term "Knowledge" means the actual knowledge of \*\*\*\*\* as of the Effective Date. For avoidance of doubt, anything to the contrary herein notwithstanding, XTL makes no representations or warranties with respect to any Derivative Compounds.

Section 8.6 No Warranties . EXCEPT AS OTHERWISE EXPRESSLY SET FORTH HEREIN, THE PARTIES MAKE NO REPRESENTATIONS AND EXTEND NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. IN PARTICULAR, PRESIDIO EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY THAT ANY LICENSED COMPOUND OR LICENSED PRODUCT WILL BE SUCCESSFULLY DEVELOPED OR COMMERCIALIZED.

**Article IX**

Term and Termination

Section 9.1 Term . This Agreement shall become effective as of the Effective Date, may be terminated as set forth in this Article IX, and otherwise remains in effect until the expiration of all of PRESIDIO's payments obligations pursuant to Article V. Upon expiration of this Agreement, on a Licensed Product-by-Licensed Product and country-by-country basis, the license granted to PRESIDIO under Section 2.1 shall convert to a non-exclusive, perpetual, fully paid-up, non-royalty-bearing license.

Section 9.2 Termination For Material Breach . Upon any material breach of this Agreement by either Party (in such capacity, the "Breaching Party"), the other Party may terminate this Agreement by providing \*\*\*\*\* days' written notice to the Breaching Party, specifying the material breach. The termination shall become effective at the end of the \*\*\*\*\* day period unless (a) the Breaching Party cures such material breach during such \*\*\*\*\* day period or (b) if the material breach is not susceptible to cure within such \*\*\*\*\* day period, the Breaching Party is diligently pursuing a cure and effects such cure within an additional \*\*\*\*\* days after the end of such initial \*\*\*\*\* day period. Notwithstanding any of the foregoing, (x) if the non-Breaching Party gives the Breaching Party notice pursuant to this Section 9.2 of a material breach by such Breaching Party, and the Breaching Party notifies the non-Breaching Party within the applicable cure period set forth in the immediately preceding sentence that such Breaching Party disputes such basis for termination pursuant to this Section 9.2, then this Agreement shall not terminate unless and until the arbitrator issues a final award pursuant to Article X upholding such basis for termination (or unless and until the Breaching Party is no longer disputing such basis, if earlier) and within \*\*\*\*\* days thereafter the Breaching Party fails to comply with the terms of such final award issued by the arbitrator, and (y) if any uncured material breach by PRESIDIO of its diligence obligations under Section 4.2 is limited to only one or two of the following territories, then XTL may terminate this Agreement solely with respect to such territory or territories: (i) the EU, (ii) the United States, and (iii) Japan. Both Parties shall perform all of their respective obligations hereunder during the process of conducting any dispute resolution hereunder, including without limitation, the payment of all undisputed amounts as and when they become due and payable hereunder.



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Section 9.3 Termination for Convenience . PRESIDIO may terminate this Agreement at any time upon \*\*\*\*\* days prior written notice to XTL for any or no reason.

Section 9.4 Effect of Material Breach or Patent Validity Challenge by XTL or its Affiliates.

(a) In the event that this Agreement is terminated by PRESIDIO pursuant to Section 9.2 above as a result of XTL’s uncured material breach (other than a material breach by a Third Party acquirer of XTL, or by XTL or any of its Affiliates, following an acquisition transaction resulting in a change of control of XTL or of all or substantially all of its business or assets), then PRESIDIO shall have the option of (i) actually terminating this license, in which case the provisions of Section 9.5(c) shall apply and become effective, and pursuing any remedies that may be available to it hereunder or at law, or (ii) not exercising such termination right and continuing the licenses and this Agreement, in accordance with the terms and conditions set forth herein, provided that (A) the amounts that become due under Article V shall, as of the date of such waiver and for the remainder of the term of this Agreement, be reduced by \*\*\*\*\* (after application of all other reductions and offsets that may be applicable); provided that the amounts provided in Section 5.8 shall remain due and payable in full in accordance with the terms set forth in Section 5.8 and (B) PRESIDIO shall cease to have any further obligation pursuant to Article IV as of the date of such waiver and for the remainder of the term of this Agreement.

(b) If (i) XTL or any of its Affiliates intentionally initiates, or encourages or knowingly provides assistance to any Third Party with respect to, any action seeking a determination that any of the Licensed Patent Rights in any country are invalid, unenforceable and/or not infringed (including without limitation a request for reexamination of any Licensed Patent Rights or the institution of or participation in any opposition, interference or similar administrative proceeding adverse to the validity or enforceability of any Licensed Patent Rights) (“Validity Challenge”) or (ii) a Third Party acquirer of XTL, or XTL or any of its Affiliates, following an acquisition transaction resulting in a change of control of XTL or of all or substantially all of its business or assets, materially breaches this Agreement and fails to cure the breach such that PRESIDIO has the right to terminate this Agreement pursuant to Section 9.2 above, then (A) the license granted to PRESIDIO under Section 2.1 shall automatically convert to a perpetual, fully paid-up, non-royalty-bearing license; provided that the amounts provided in Section 5.8 shall remain due and payable in full in accordance with the terms set forth in Section 5.8 and (B) PRESIDIO shall cease to have any further obligation pursuant to Article IV or Article V (other than Section 5.8 and, to the extent applicable to payments owed to VivoQuest, Sections 5.9, 5.10 and 5.11).

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(c) The reduction of payments in connection with PRESIDIO's election not to exercise its termination right referenced above in Section 9.4(a)(ii) and in connection with the license conversion referenced above in Section 9.4(b) is used for the convenience of the Parties and is not intended to be a penalty to be paid by XTL. The Parties acknowledge that there will be difficulties in proving the amount and extent of PRESIDIO's losses resulting from such uncured material breach or Validity Challenge. The Parties also agree that the compensation attributable to such reduction of payments is a reasonable pre-estimate of the probable losses which would be suffered by PRESIDIO.

Section 9.5 Effects of Termination.

(a) If this Agreement is terminated in its entirety by XTL as a result of PRESIDIO's uncured material breach pursuant to Section 9.2 above, or on a territory-by-territory basis as a result of PRESIDIO's uncured material breach of its diligence obligations with respect to a territory as described in Section 9.2(y) above, then the following provisions shall be applicable:

(i) In each of the above instances of a termination of this Agreement, XTL shall have the right to terminate the license granted by XTL to PRESIDIO under Section 2.1, subject to Section 9.6 below and, in the case of an uncured material breach by PRESIDIO of its diligence obligations which breach is limited to only one or two of the territories identified in Section 9.2(y), the termination shall be limited to such territory(ies); and

(ii) PRESIDIO shall return to XTL all Licensed Technology and other items delivered by XTL to PRESIDIO pursuant to Section 3.1, to the extent such Licensed Technology and other items remain in existence as of such termination; provided that PRESIDIO shall not be required to return the Licensed Technology or other items delivered by XTL to PRESIDIO pursuant to Section 3.1 if XTL terminates PRESIDIO's rights hereunder only in regard to certain territories and not the entire Territory as provided in Section 9.2(y) above; and

(iii) PRESIDIO shall not, directly or with or through its Affiliates, and subject to Section 9.6 below, Third Party sublicensees or other Third Parties, continue the Commercialization of any Licensed Compounds or Licensed Products for a period of \*\*\*\*\* following such termination, such restriction to apply to the entire Territory if XTL terminates the Agreement pursuant to Section 9.2, and, if such termination is only applicable to certain territories, then such restriction shall apply only to the territories to which such termination applies; provided that if, at the time of such termination, PRESIDIO and/or any of its Affiliates and/or Third Party sublicensees is engaged in the Commercialization of Licensed Products and has commercial inventory (including work-in-process inventory) of Licensed Products, PRESIDIO and/or such Affiliate(s) and/or Third Party sublicensee(s) may complete the manufacture of any work-in-process inventory and continue to commercially distribute and sell all such existing inventory following termination, subject to PRESIDIO continuing to pay XTL all amounts due under this Agreement with respect to such continuing Commercialization.

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(b) If this Agreement is terminated by PRESIDIO pursuant to Section 9.3, then the following provisions shall be applicable:

(i) The license granted by XTL to PRESIDIO under Section 2.1 shall terminate; and

(ii) PRESIDIO shall return to XTL all Licensed Technology and other items delivered by XTL to PRESIDIO pursuant to Section 3.1, to the extent such Licensed Technology and other items remain in existence as of such termination; and

(iii) PRESIDIO shall not, directly or with or through its Affiliates, Third Party sublicensees or other Third Parties, continue the Development and Commercialization of any Licensed Compounds or Licensed Products for a period of \*\*\*\*\* following such termination.

(c) If this Agreement is terminated by PRESIDIO as described in Section 9.4(a)(i), then the following provisions shall be applicable:

(i) The license granted by XTL to PRESIDIO under Section 2.1 shall terminate; and

(ii) PRESIDIO shall return to XTL all Licensed Technology and other items delivered by XTL to PRESIDIO pursuant to Section 3.1, to the extent such Licensed Technology and other items remain in existence as of such termination; and

(iii) PRESIDIO shall not, directly or with or through its Affiliates, Third Party sublicensees or other Third Parties, continue the Commercialization of any Licensed Compounds or Licensed Products for a period of \*\*\*\*\* following such termination.

(d) The license termination and other rights set forth in this Section 9.5 shall, subject to Section 4.2, be in addition to any and all other remedies that XTL may have in connection with such a termination of this Agreement.

Section 9.6 Survival . Upon expiration or termination of this Agreement for any reason, nothing in this Agreement shall be construed to release either Party from any obligations that accrue prior to the effective date of expiration or termination, and the following provisions shall expressly survive any such expiration or termination: Section 2.2, Section 2.5, Section 9.1, Section 9.4, Section 9.5, this Section 9.6 and Article V (solely as pertaining to payment obligations (a) that are due and payable as of the effective date of termination or expiration, (b) that have accrued prior to the date of termination or expiration but for which the payment due date falls after the date of termination or expiration or (c) that become payable after termination pursuant to Section 9.5(a)(iii)), Article VII, Article X and Article XI. In addition, any sublicense granted by PRESIDIO and/or any of its Affiliates to a Third Party under the license granted by XTL to PRESIDIO in Section 2.1 shall survive expiration or termination of this Agreement, provided that such termination did not arise out of the actions of such Third Party; provided further that the Third Party continues to comply in all material respects with the terms and conditions of such sublicense.

**Article X**  
Dispute Resolution

Section 10.1 Referral to Senior Executives . Except as set forth in Section 3.2(b), any dispute arising out of or relating to this Agreement shall first be referred to the Senior Executives of both Parties for resolution. Such Senior Executives shall attempt in good faith to resolve such dispute within \*\*\*\*\* days following such referral. If the Senior Executives cannot resolve such dispute within such \*\*\*\*\* day period, then either Party may make a written demand for formal dispute resolution pursuant to Section 10.2.

Section 10.2 Mediation . If the Senior Executives are unable to resolve any dispute referred to them as set forth in Section 10.1, such dispute shall then be referred to non-binding mediation upon either Party's written demand for formal dispute resolution. Such mediation shall be conducted by an impartial mediator in accordance with The CPR Mediation Procedure for Business Disputes (Revised 1998) of the CPR Institute for Dispute Resolution ("CPR"). The Parties shall select, by mutual agreement, a mediator who has had both training and experience as a mediator of general corporate and commercial matters in the biotechnology and/or pharmaceutical industry. If the Parties cannot agree upon the selection of the mediator within \*\*\*\*\* days after initiation thereof, the mediator shall be appointed by the President of the CPR in accordance with the criteria set forth in the preceding sentence. Within \*\*\*\*\* days after the selection of the mediator, the Parties and their respective legal counsel will meet with the mediator for one mediation session of at least four hours. If any dispute cannot be settled during such mediation session or during any mutually agreed continuation of such session, either Party may give to the mediator and the other Party written notice declaring the mediation process at an end, and such dispute will be resolved by binding arbitration pursuant to Section 10.3 below. The costs of any mediation pursuant to this Section 10.2 will be shared equally by the Parties.

Section 10.3 Arbitration.

(a) If any dispute is not resolved by the Senior Executives pursuant to Section 10.1 or through mediation pursuant to Section 10.2, either Party may submit such dispute to arbitration upon written notice to the other Party. Within \*\*\*\*\* days after receipt of such notice, the Parties shall designate in writing a single arbitrator to resolve the dispute; provided, however, that if the Parties cannot agree on an arbitrator within such \*\*\*\*\* day period, the arbitrator shall be selected by the International Centre for Dispute Resolution (the "ICDR"). The arbitrator shall be a lawyer with biotechnology and/or pharmaceutical industry legal experience, and shall not be an Affiliate, employee, consultant, officer, director or stockholder of any Party.

(b) Within \*\*\*\*\* days after the designation of the arbitrator, the arbitrator and the Parties shall meet, at which time the Parties shall be required to set forth in writing all disputed issues and a proposed ruling on the merits of each such issue.

(c) The arbitrator shall set a date for a hearing, which shall be no later than \*\*\*\*\* days after the submission of written proposals pursuant to Section 10.3(b), to discuss each of the issues identified by the Parties. The Parties shall have the right to be represented by counsel. Except as provided herein, the arbitration shall be governed by the International Dispute Resolution Procedures of the ICDR; provided, however, that the United States Federal Rules of Evidence shall apply with regard to the admissibility of evidence and the arbitration shall be conducted by a single arbitrator.

**Confidential material omitted and filed separately with the Commission.**

(d) The arbitrator shall use his or her best efforts to rule on each disputed issue within \*\*\*\*\* days after the completion of the hearings described in Section 10.3(c). The determination of the arbitrator as to the resolution of any dispute shall be binding and conclusive upon all Parties. All rulings of the arbitrator shall be in writing and shall be delivered to the Parties.

(e) The (i) attorneys' fees of the Parties in any arbitration, (ii) fees of the arbitrator and (iii) costs and expenses of the arbitration shall be borne by the Parties as determined by the arbitrator.

(f) Any arbitration pursuant to this Section 10.3 shall be conducted in New York, New York. Any arbitration award may be entered in and enforced by any court of competent jurisdiction.

Section 10.4 No Limitation . Nothing in Section 10.1, Section 10.2 or Section 10.3 shall be construed as limiting in any way the right of a Party to seek an injunction or other equitable relief with respect to any actual or threatened breach of this Agreement or to bring an action in aid of arbitration. Should any Party seek an injunction or other equitable relief, or bring an action in aid of arbitration, then for purposes of determining whether to grant such injunction or other equitable relief, or whether to issue any order in aid of arbitration, the dispute underlying the request for such injunction or other equitable relief, or action in aid of arbitration, may be heard by the court in which such action or proceeding is brought.

**Article XI**

Miscellaneous Provisions

Section 11.1 Indemnification.

(a) PRESIDIO. PRESIDIO agrees to defend XTL, its Affiliates and their respective directors, officers, employees and agents at PRESIDIO's cost and expense, and shall indemnify and hold harmless XTL and its Affiliates and their respective directors, officers, employees and agents from and against any liabilities, losses, costs, damages, fees or expenses (including without limitation reasonable attorneys' fees) arising out of any Third Party claim relating to or arising out of (i) any breach by PRESIDIO of any of its representations, warranties or covenants pursuant to this Agreement, (ii) any failure by PRESIDIO to make payment of any Pass-Through Costs which are payable by PRESIDIO under this Agreement as a result of the Development and/or Commercialization of Licensed Products by PRESIDIO or its Affiliates or Third Party sublicensees, (iii) any liabilities and obligations of PRESIDIO under the Assigned Contracts that arise after the date of assignment of such Assigned Contracts to PRESIDIO hereunder, excluding the Retained Liabilities, (iv) any action by PRESIDIO in breach of this Agreement causing a breach of the VivoQuest License Agreement, (v) any action by PRESIDIO causing a breach of any Additional Third Party Agreements or any Assigned Contracts, or (vi) the Development and/or Commercialization of a Licensed Product by PRESIDIO or its Affiliates or Third Party sublicensees, in each case except to the extent that such claim relates to or arises out of any breach by XTL of any of its representations or warranties pursuant to this Agreement or any breach by XTL or its Affiliates of the VivoQuest License Agreement, the VivoQuest Asset Purchase Agreement or any Assigned Contract.

**Confidential material omitted and filed separately with the Commission.**

(b) XTL. XTL agrees to defend PRESIDIO, its Affiliates and their respective directors, officers, employees and agents at XTL's cost and expense, and shall indemnify and hold harmless PRESIDIO and its Affiliates and their respective directors, officers, employees and agents from and against any liabilities, losses, costs, damages, fees or expenses (including without limitation reasonable attorneys' fees) arising out of (i) any Third Party claim relating to or arising out of (A) any breach by XTL of any of its representations, warranties or covenants pursuant to this Agreement, (B) any liabilities and obligations of XTL and/or its Affiliates under the Assigned Contracts that have accrued prior to the date of assignment of such Assigned Contracts to PRESIDIO hereunder (the "Retained Liabilities"), or (C) without limiting the foregoing clauses (A) or (B), or any of XTL's representations, warranties or covenants in Section 8.5, any breach by XTL or its Affiliates of the VivoQuest License Agreement, the VivoQuest Asset Purchase Agreement or any Assigned Contract; (ii) any claim by any existing or former employee, director, shareholder or consultant of XTL or any of its Affiliates, or of VivoQuest, to any right, title or interest in any of the Licensed Patent Rights, Licensed Compounds or Licensed Technology which, if such claim were successful, would limit or impair any of the rights granted hereunder to PRESIDIO; \*\*\*\*\*.

(c) Claims for Indemnification. A Person entitled to indemnification under this Section 11.1 (an "Indemnified Party") shall give prompt written notification to the Person from whom indemnification is sought (the "Indemnifying Party") of the commencement of any action, suit or proceeding relating to a Third Party claim for which indemnification may be sought or, if earlier, upon the assertion of any such claim by a Third Party (it being understood and agreed, however, that the failure by an Indemnified Party to give notice of a third-party claim as provided in this Section 11.1 (c) shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except and only to the extent that such Indemnifying Party is actually damaged as a result of such failure to give notice). Within \*\*\*\*\* days after delivery of such notification, the Indemnifying Party may, upon written notice thereof to the Indemnified Party, assume control of the defense of such action, suit, proceeding or claim with counsel reasonably satisfactory to the Indemnified Party. If the Indemnifying Party does not assume control of such defense, the Indemnified Party shall control such defense. The Party not controlling such defense may participate therein at its own expense; provided that, if the Indemnifying Party assumes control of such defense and the Indemnified Party reasonably concludes, based on advice from counsel, that the Indemnifying Party and the Indemnified Party have conflicting interests with respect to such action, suit, proceeding or claim, the Indemnifying Party shall be responsible for the reasonable fees and expenses of counsel to the Indemnified Party solely in connection therewith; provided, however, that in no event shall the Indemnifying Party be responsible for the fees and expenses of more than one counsel for all Indemnified Parties. The Party controlling such defense shall keep the other Party advised of the status of such action, suit, proceeding or claim and the defense thereof and shall consider recommendations made by the other Party with respect thereto. The Indemnified Party shall not agree to any settlement of such action, suit, proceeding or claim without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld, delayed or conditioned. The Indemnifying Party shall not agree to any settlement of such action, suit, proceeding or claim or consent to any judgment in respect thereof that does not include a complete and unconditional release of the Indemnified Party from all liability with respect thereto or that imposes any liability or obligation on the Indemnified Party without the prior written consent of the Indemnified Party.

Section 11.2 Governing Law . This Agreement shall be construed and the respective rights of the Parties determined (including the validity and applicability of the arbitration provision set forth in Section 10.3, and the conduct of any arbitration, enforcement of any arbitral award and any other questions of arbitration law or procedure arising thereunder) according to the substantive laws of the State of New York, USA, notwithstanding the provisions governing conflict of laws under such New York law to the contrary.

Section 11.3 Assignment . Neither XTL nor PRESIDIO may assign this Agreement in whole or in part without the consent of the other, except if such assignment occurs in connection with the merger, sale or transfer of all or substantially all of the business and assets of XTL, on the one hand, or PRESIDIO, on the other, to which the subject matter of this Agreement pertains. Notwithstanding the foregoing, any Party may assign its rights (but not its obligations) pursuant to this Agreement in whole or in part to an Affiliate of such Party, provided, that the assigning Party shall remain primarily liable to the other Party for any breach of this Agreement by such Affiliate.

Section 11.4 Entire Agreement; Amendments . This Agreement (including all exhibits and attachments hereto) constitutes the entire agreement between the Parties with respect to the subject matter hereof, and supersedes all previous arrangements with respect to the subject matter hereof, whether written or oral. Any amendment or modification to this Agreement shall be made in writing signed by both Parties.

Section 11.5 Notices . Any notice required or provided for by the terms of this Agreement shall be in writing and shall be (a) sent by registered or certified mail, return receipt requested, postage prepaid, (b) sent via a reputable overnight or international express courier service, (c) sent by facsimile transmission, or (d) personally delivered, in each case properly addressed in accordance with the paragraph below. The effective date of notice shall be the actual date of receipt by the Party receiving the same.

Notices to XTL shall be addressed to:

XTL Biopharmaceuticals Ltd.  
711 Executive Blvd., Suite Q  
Valley Cottage, NY 10989  
Attention: Chief Executive Officer  
Facsimile No.: 845-267-0926

with a copy to:

Goodwin Procter  
Exchange Place  
Boston, MA 02109  
Attention: Christopher Denn  
Facsimile No.: 617-523-1231

Notices to PRESIDIO shall be addressed to:

Presidio Pharmaceuticals, Inc.  
1700 Owens Street  
Suite 585  
San Francisco, CA 94158  
USA  
Attention: President and Chief Executive Officer  
Facsimile No.: 415-986-2864

with a copy to:

WilmerHale  
60 State Street  
Boston, MA 02109  
USA  
Attention: David E. Redlick, Esq.  
Facsimile No.: 617-526-5000

**Confidential material omitted and filed separately with the Commission.**

Any Party may change its address by giving notice to the other Party in the manner herein provided.

Section 11.6 Force Majeure . No failure or omission by a Party in the performance of any obligation of this Agreement shall be deemed a breach of this Agreement or create any liability if the same shall arise from any cause or causes beyond the reasonable control of such Party, including, but not limited to, the following: acts of God; acts or omissions of any government; any rules, regulations or orders issued by any governmental authority or by any officer, department, agency or instrumentality thereof; fire; storm; flood; earthquake; accident; war; terrorism; rebellion; insurrection; riot; and invasion. The Party claiming force majeure shall notify the other Party with notice of the force majeure event as soon as practicable, but in no event longer than \*\*\*\*\* business days after its occurrence, which notice shall reasonably identify such obligations under this Agreement and the extent to which performance thereof will be affected.

Section 11.7 Independent Contractors . It is understood and agreed that the relationship between the Parties hereunder is that of independent contractors and that nothing in this Agreement shall be construed as authorization for either XTL or PRESIDIO to act as agent for the other.

Section 11.8 No Strict Construction . This Agreement has been prepared jointly and shall not be strictly construed against any Party.



Section 11.9 Headings . The captions or headings of the sections or other subdivisions hereof are inserted only as a matter of convenience or for reference and shall have no effect on the meaning of the provisions hereof.

Section 11.10 No Implied Waivers; Rights Cumulative . No failure on the part of XTL or PRESIDIO to exercise, and no delay in exercising, any right, power, remedy or privilege under this Agreement, or provided by statute or at law or in equity or otherwise, shall impair, prejudice or constitute a waiver of any such right, power, remedy or privilege or be construed as a waiver of any breach of this Agreement or as an acquiescence therein, nor shall any single or partial exercise of any such right, power, remedy or privilege preclude any other or further exercise thereof or the exercise of any other right, power, remedy or privilege.

Section 11.11 Severability . If, under applicable law or regulation, any provision of this Agreement is invalid or unenforceable, or otherwise directly or indirectly affects the validity of any other material provision(s) of this Agreement (such invalid or unenforceable provision, a “Severed Clause”), this Agreement shall endure except for the Severed Clause. The Parties shall consult one another and use reasonable efforts to agree upon a valid and enforceable provision that is a reasonable substitute for the Severed Clause in view of the intent of this Agreement.

Section 11.12 Execution in Counterparts . This Agreement may be executed in counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, and all of which counterparts, taken together, shall constitute one and the same instrument.

Section 11.13 No Third Party Beneficiaries . No person or entity other than XTL, PRESIDIO and their respective Affiliates and permitted assignees hereunder shall be deemed an intended beneficiary hereunder or have any right to enforce any obligation of this Agreement.

Section 11.14 No Consequential Damages . NEITHER PARTY HERETO WILL BE LIABLE FOR INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, EXEMPLARY OR PUNITIVE DAMAGES ARISING OUT OF THIS AGREEMENT OR THE EXERCISE OF ITS RIGHTS HEREUNDER, OR FOR LOST PROFITS ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF ANY NOTICE OF SUCH DAMAGES. NOTHING IN THIS SECTION 11.14 IS INTENDED TO LIMIT OR RESTRICT THE INDEMNIFICATION RIGHTS OR OBLIGATIONS OF EITHER PARTY WITH RESPECT TO THIRD PARTY CLAIMS.

*[Remainder of This Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

PRESIDIO PHARMACEUTICALS, INC.

By: /s/ Omar K. Haffar, Ph.D.

Name: Omar K. Haffar, Ph.D.

Title: President and CEO

XTL BIOPHARMACEUTICALS LTD.

By: /s/ Ron Bentsur

Name: Ron Bentsur

Title: Chief Executive Officer

Confidential material omitted and filed separately with the Commission.

Exhibit A

Assigned Contracts

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Copies of the foregoing contracts are attached hereto.

**Exhibit B**

**VivoQuest Agreements**

**Copies of the VivoQuest License Agreement and the VivoQuest Asset Purchase Agreement are attached hereto.**

Confidential material omitted and filed separately with the Commission.

Exhibit C

Series 1, 2, 3 and 4 Compounds in XTL Database and Other Records

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Confidential material omitted and filed separately with the Commission.

Exhibit D

Series 1 Patent Rights as of the Effective Date

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Confidential material omitted and filed separately with the Commission.

Exhibit E

Series 2-4 Patent Rights as of the Effective Date

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**Exhibit F**

**Press Releases**

See attached.



Confidential material omitted and filed separately with the Commission.

Exhibit G

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SUBSIDIARIES OF XTL BIOPHARMACEUTICALS LTD.

Name of Subsidiary	Jurisdiction of Incorporation
XTL Biopharmaceuticals, Inc.	Delaware
XTL Development, Inc.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (Nos. 333-141529 and 333-147024), the Registration Statements on Form S-8 (No. 333-148085 and 333-148754) and related Prospectuses of XTL Biopharmaceuticals Ltd. of our report dated March 27, 2008 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ Kesselman & Kesselman

Certified Public Accountant (Isr.)  
A member of PricewaterhouseCoopers International Limited  
Tel Aviv, Israel  
March 27, 2008

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
XTL Biopharmaceuticals Ltd.  
Rehovot  
Israel

We consent to the incorporation by reference in the registration statements (No. 333-141529 and No. 333-147024) on Form F-3 and the registration statements (No.333-148085 and No. 333-148754) on Form S-8 of XTL Biopharmaceuticals Ltd (a Development Stage Company) of our report dated May 3, 2005, with respect to the consolidated statements of operations, changes in shareholders' equity and cash flows of XTL Biopharmaceuticals Ltd. (a Development Stage Company) and its subsidiary for the period from March 9, 1993 to December 31, 2000, which report appears in the December 31, 2007, annual report on Form 20-F of XTL Biopharmaceuticals Ltd (a Development Stage Company).

Somekh Chaikin  
Certified Public Accountants(Isr.)  
(A member firm of KPMG International)

Tel Aviv, Israel  
March 27, 2008

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CERTIFICATION

I, Ron Bentsur, certify that:

1. I have reviewed this annual report on Form 20-F of XTL Biopharmaceuticals Ltd. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Ron Bentsur  

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Ron Bentsur  
*Chief Executive Officer*

Date: March 27, 2008

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CERTIFICATION

I, Bill Kessler, certify that:

1. I have reviewed this report on Form 20-F of XTL Biopharmaceuticals Ltd. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Bill Kessler  

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Bill Kessler  
*Director of Finance*  
*Principal Finance and Accounting Officer*

Date: March 27, 2008

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of XTL Biopharmaceuticals Ltd. (the “Company”) on Form 20-F for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Ron Bentsur, Chief Executive Officer of the Company, and Bill Kessler, Director of Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ron Bentsur

Ron Bentsur

Chief Executive Officer

/s/ Bill Kessler

Bill Kessler

Director of Finance

Principal Finance and Accounting Officer

Date: March 27, 2008

Report of Management on Internal Control Over Financial Reporting

Financial Statements

XTL Biopharmaceuticals Ltd. (the “Company”) is responsible for the preparation, integrity and fair presentation of its published consolidated financial statements as of December 31, 2007, and for the year then ended. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States.

Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

The Company’s internal control over financial reporting is a process designed by, or under the supervision of, the Company’s Audit Committee, principal executive and principal financial officers, and effected by the Company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations - COSO - of the Treadway Commission. Based on that assessment, management has concluded that as of December 31, 2007 the Company’s internal control over financial reporting is effective.

The Company's independent auditors, Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, have audited the consolidated financial statements prepared by the Company and independently assessed the effectiveness of the Company’s internal control over financial reporting.

/s/ Ron Bentsur

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Ron Bentsur  
Chief Executive Officer  
March 27, 2008

/s/ Bill Kessler

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Bill Kessler  
Director of Finance  
March 27, 2008

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