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, 2008

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)

Kiryat Weizmann Science Park
3 Hasapir Street, Building 3, PO Box 370
Rehovot 76100, Israel

(Address of principal executive offices)

David Grossman
Co-Chief Executive Officer
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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	The NASDAQ Capital Market
(Title of Class)	**(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.

21,444,383 American Depositary Shares	292,805,326 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 ☒

XTL BIOPHARMACEUTICALS LTD.
ANNUAL REPORT ON FORM 20-F

TABLE OF CONTENTS

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, 2008, 2007, 2006, 2005 and 2004. We have derived the selected financial data for the fiscal years ended December 31, 2008, 2007, and 2006, and as of December 31, 2008 and 2007, 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, 2005 and 2004 and as of December 31, 2006, 2005 and 2004, 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,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	$ —	$ —	$ —	$ 2,743	$ 3,269
License	5,940	907	454	454	185
	5,940	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	5,940	797	400	400	153
Research and development					
Research and development costs	11,490	18,998	10,229	7,313	11,985
Less participations	—	56	—	—	—
	11,490	18,942	10,229	7,313	11,985
In-process research and development	—	—	—	1,783	—
General and administrative	5,143	5,582	5,576	5,457	4,134
Business development costs	(1,102)	2,008	641	227	810
Operating loss	(9,591)	(25,735)	(16,046)	(14,380)	(16,776)
Other income (expense):					
Financial and other income, net	314	590	1,141	443	352
Income taxes	31	206	(227)	(78)	(49)
Loss for the period	$ (9,246)	$ (24,939)	$ (15,132)	$ (14,015)	$ (16,473)
Loss per ordinary share					
Basic and diluted	$ (0.03)	$ (0.11)	$ (0.08)	$ (0.08)	$ (0.12)
Weighted average shares outstanding	292,769,320	228,492,818	201,737,295	170,123,003	134,731,766

	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents, bank deposits and trading and marketable securities	$ 2,924	$ 12,977	$ 25,347	$ 13,360	$ 22,924
Working capital	1,385	8,532	22,694	11,385	20,240
Total assets	3,430	14,127	26,900	15,151	25,624
Long-term obligations	—	194	738	1,493	2,489
Total shareholders' equity	1,426	8,564	22,760	11,252	19,602

Acquisition of the use patent on Erythropoietin

On March 18, 2009, we entered into an asset purchase agreement with Bio-Gal Ltd, a private company, for the rights to a use patent on Erythropoietin, or rHuEPO, for the treatment of multiple myeloma, or MM. We intend to develop rHuEPO for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. The course of the disease is progressive, and various complications occur, until death. In the United States alone, there are approximately 56,000 people living with MM, with about 20,000 new cases diagnosed annually, making MM the second most prevalent blood cancer.

In accordance with the terms of the asset purchase agreement, we will issue to Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of XTL. In addition, we will make a milestone payment of approximately $10 million in cash upon the successful completion of a Phase 2 clinical trial. Our Board of Directors may at its sole discretion issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including: XTL's and Bio-Gal's shareholders' approval, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009.

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, 2008, we had an accumulated deficit of approximately $149.1 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, consummate out-licensing agreements, 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 depends 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, and other third-party service providers to conduct the clinical trials of our drug candidates and technologies, and we expect to continue to do so. We also may, from time to time, engage a clinical research organization for the execution of our clinical trials. 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, and/or other foreign regulatory agencies/authorities 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 could result in enforcement action against us.

Our international clinical trials may be delayed or otherwise adversely impacted by social, political and economic factors affecting the particular foreign country.

We may conduct clinical trials in different geographical locations. Our ability to successfully initiate, enroll and complete a clinical trial in any of these countries, or in any future foreign country in which we may initiate a clinical trial, are subject to numerous risks unique to conducting business in foreign countries, including:

- difficulty in establishing or managing relationships with clinical research organizations and physicians;
- different standards for the conduct of clinical trials and/or health care reimbursement;

- our inability to locate qualified local consultants, physicians, and partners;
- the potential burden of complying with a variety of foreign laws, medical standards and regulatory requirements, including the regulation of pharmaceutical products and treatment; and
- general geopolitical risks, such as political and economic instability, and changes in diplomatic and trade relations.

Any disruption to our international clinical trial program could significantly delay our product development efforts.

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, Recombinant Erythropoietin (rHuEPO), is planned for a Phase 1-2 clinical program 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 Recombinant Erythropoietin (rHuEPO) has shown promising preclinical data and has also shown promising clinical observation data for the extension and improvement of the quality of life of Multiple Myeloma terminal patients prior to it being acquired by us, preliminary results of pre-clinical, clinical observations or clinical tests do not necessarily predict the final results, and promising results in pre-clinical, clinical observations 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. In order to obtain FDA approval to market a new drug product, we or our potential partners must demonstrate proof of safety and efficacy in humans. To meet these requirements, we or our potential partners will have to conduct extensive pre-clinical testing and “adequate and well-controlled” clinical trials.

Pre-clinical testing and clinical development are long, expensive and uncertain processes. Clinical trials are very difficult to design and implement, in part because they are subject to rigorous regulatory requirements. Satisfaction of regulatory requirements typically depends on the nature, complexity and novelty of the product and requires the expenditure of substantial resources. The commencement and rate of completion of clinical trials may be delayed by many factors, including:

- obtaining regulatory approvals to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- slower than expected rates of patient recruitment due to narrow screening requirements;
- the inability of patients to meet protocol requirements imposed by the FDA or other regulatory authorities;
- the need or desire to modify our manufacturing process;
- delays, suspension, or termination of the clinical trials due to the institutional review board responsible for overseeing the study at a particular study site; and
- government or regulatory delays or “clinical holds” requiring suspension or termination of the trials.

Following the completion of a clinical trial, 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. In addition, the designs of our ongoing clinical trials were not, and the designs of future clinical trials may not be, reviewed or approved by the FDA prior to their commencement, and consequently the FDA could determine that the parameters of any existing or future studies are insufficient to demonstrate proof of safety and efficacy in humans. Failure to approve a completed study could also result from several other factors, including unforeseen safety issues, the determination of dosing, low rates of patient recruitment, the inability to monitor patients adequately during or after treatment, the inability or unwillingness of medical investigators to follow our clinical protocols, and the lack of effectiveness of the trials.

Specifically, in 2008, Amgen Inc. announced that US regulators added black box, or black label, warnings to its erythropoietin drugs, Epogen and Aranesp. Similar warnings were also added to Johnson and Johnson's Procrit which is also licensed from Amgen. In the United States, a black box warning is a type of warning that appears on the package insert for prescription drugs that may cause serious adverse effects. A black box warning means that medical studies indicate that the drug carries a significant risk of serious or even life-threatening adverse effects. The new warnings warn that the erythropoietin drugs increased death and accelerated tumor growth in patients with several types of cancer, including breast and cervical. Prior labeling warned of similar risks in other types of cancers.

If the clinical trials fail to satisfy the criteria required, the FDA and/or other regulatory agencies/authorities may request additional information, including additional clinical data, before approval of marketing a product. Negative or inconclusive results or medical events during a clinical trial could also cause us to delay or terminate our development efforts. 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.

Clinical trials 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. 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.

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 acquired and/or licensed the rights, patent or otherwise, to our drug candidates from third parties. Specifically, we have acquired the use patent on Recombinant Erythropoietin (rHuEPO) for the prolongation of multiple myeloma patients' survival and improvement of their quality of life from Bio-Gal Ltd., , who in turn licensed it from Mor Research Applications Ltd. and Yeda Research and Development Company Ltd., both Israeli private corporations, 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.

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, in 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.

Even if we or our collaborative/strategic partners or potential collaborative/strategic partners receive approval to market our drug candidates, 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 including potential generic competition;
- 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.

Specifically, Recombinant Erythropoietin (rHuEPO), if successfully developed and commercially launched for the treatment of multiple myeloma, will compete with both currently marketed and new products marketed by other companies. Health care providers may not accept or utilize any of our product candidates. Physicians and other prescribers may not be inclined to prescribe our products unless our products bring clear and demonstrable advantages over other products currently marketed for the same indications. 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 we will either be able to purchase Recombinant Erythropoietin (rHuEPO) from existing pharmaceutical companies or to enter into collaborative agreements with contract manufacturers or other third-parties to obtain sufficient inventory to satisfy the clinical supply needs for our planned Phase 1-2 development program for the treatment of multiple myeloma. If our contract manufacturers or other third parties 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 or sources, 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 market their drugs more effectively.

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 present 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 March 31, 2009, we had 5 full-time employees. To successfully develop our drug candidates and technologies, we must be able to attract and retain highly skilled personnel, including consultants and employees. The retention of their services cannot be guaranteed. In addition, David Grossman, our co-Chief Executive Officer's pending employment agreement will require approval by our shareholders. We do not maintain a key man life insurance policy covering Mr. Grossman.

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.

Specifically, as per the terms of our agreement with Bio-Gal Ltd., we will be issuing 58.0 million ordinary shares par value NIS 0.10 (equivalent to 290.0 million ordinary shares par value NIS 0.02) and we may at our option issue 100.4 million ordinary shares par value NIS 0.10 (equivalent to 500.2 million ordinary shares par value NIS 0.02) to Bio-Gal Ltd. on a successful completion of a Phase 2 clinical trial (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).

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 may not be able to successfully complete our acquisition of the use patent on Erythropoietin, and as a result may be deemed a shell company with minimal operations, which would significantly impact our ability to raise additional capital and continue operations.

On March 18, 2009, we entered into an asset purchase agreement with Bio-Gal Ltd, a private company, for the rights to a use patent on rHuEPO, for the treatment of MM. We intend to develop rHuEPO for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. The course of the disease is progressive, and various complications occur, until death. In accordance with the terms of the asset purchase agreement, we will issue Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of XTL. In addition, we will make a milestone payment of approximately $10 million in cash upon the successful completion of a Phase 2 clinical trial. Our Board of Directors may at its sole discretion issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including: XTL's and Bio-Gal's shareholders' approval, as well as completion of a financing. There can be no assurance that the conditions to the closing will be achieved, and that we will be able to consummate the acquisition of the use patent on rHuEPO. If we do not consummate this acquisition, we will be deemed a shell company, subject to de-listing from the NASDAQ Stock Market, if we are not then already de-listed, and our ability to raise additional capital and continue operations will be significantly impaired.

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 will be able to obtain sufficient product liability insurance coverage for our planned 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. Based on our current business plan and forecast, we believe that our current cash, cash equivalents and bank deposits provide us with sufficient resources to fund our operations through July 2009; however, the actual amount of funds that we will need will depend on many factors, some of which are beyond our control. These factors include:

- the progress in successfully meeting the closing conditions for the agreement with Bio-Gal Ltd., including a financing;
- the progress of our planned research activities;
- the accuracy of our financial forecasts;
- the number and scope of our planned 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 do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount or method of any such financing. The global capital markets have been experiencing extreme volatility and disruption for more than twelve months. In recent months, the volatility and disruption have reached unprecedented levels. Given recent particularly adverse market conditions for small biotechnology companies, additional financing may not be available to us when we need it. We may also be forced to delay raising capital or bear an unattractive cost of capital. 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, ADRs, 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 or at all. If we are not able to raise capital in a timely manner, there is a material risk regarding our ability to continue as a going concern.

It is possible that we may 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 have had a “permanent establishment” in the United States, or US, which began in 2005, due to the residency of the former 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. This may continue in 2009 as well. 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, 2008 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, 2008, we estimate that these US net operating loss carryforwards are approximately $22.6 million. These losses can be carried forward to offset future US taxable income, subject to limitation in the case of shifts in ownership of XTL, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, and expiring through 2028. 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.

Our subsidiary's Lease Agreement with Suga Development with respect to its former offices in Valley Cottage, New York could obligate that subsidiary to pay the remaining lease payments even though they have delivered notice of termination and mitigation to the landlord.

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. We believe that the notice provided a clear indication of the termination of XTL Biopharmaceuticals, Inc.'s obligations under the lease, effective as of the date of the notice. In addition, XTL Biopharmaceuticals, Inc. informed Suga Development that upon receipt of the notice, they should use their best effort to re-rent the premises and to mitigate any damages. There can be no assurance that the landlord will not dispute the termination of the lease, and attempt to hold XTL Biopharmaceuticals, Inc. responsible for the full amount of all future unpaid lease payments, approximately $335,000.

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 Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. A main use patent (United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer") was submitted by Mor Research Applications Ltd., an Israeli corporation and Yeda Research and Development Company Ltd., an Israeli corporation, in April 1998 and PCT was filed in April 1999. The patent was granted in the United States, Europe, Israel and Hong Kong. Patent applications are pending in Canada and Japan. Currently, under the license agreement which we are acquiring from Bio-Gal Ltd., we will have exclusive worldwide rights to the above patent for the use of Recombinant Erythropoietin ("rHuEPO") in multiple myeloma. 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.

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 and near-term working capital;
- expiration or termination of licenses, research contracts or other collaboration agreements;

- conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;
- delisting from the Nasdaq Stock Market
- 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, 2008 provide us with sufficient resources to fund our operations through July 2009; 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 successfully close the Bio-Gal Ltd. transaction or 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. In addition, 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. Additionally, pursuant to the Bio Gal Ltd. agreement, we may issue 100.4 million ordinary shares par value NIS 0.10 (equivalent to 500.2 million ordinary shares par value NIS 0.02) upon a successful Phase 2 program. In the future, we may also enter into additional arrangements with other third-parties permitting us to issue ordinary shares in lieu of certain cash payments.

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

Following the planned closing of the Bio-Gal Ltd. transaction, Bio-Gal Ltd.'s stockholders and their affiliates will hold approximately 49% of our then 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 and regulatory compliance issues.

ADRs representing our ordinary shares are quoted on the NASDAQ Capital Market and our ordinary shares are traded on the Tel Aviv Stock Exchange, or TASE. 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.

Were we to be delisted from the Nasdaq Stock Market, we may then be required to follow the full rules and regulations of the Tel Aviv Stock Exchange. This would include the need to file regulatory documents in both Hebrew and English, the need to use International Financial Reporting Standards, and the need to comply with the rules and regulations of the United States Securities and Exchange Commission and the Tel Aviv Stock Exchange.

We are currently not in compliance with NASDAQ rules for continued listing on the NASDAQ Capital Market and are at risk of being delisted, which may subject us to the SEC's penny stock rules and decrease the liquidity of our ADRs and ordinary shares.

On January 27, 2009, we received a Staff Determination Letter from The Nasdaq Stock Market, or Nasdaq, notifying us that the staff of Nasdaq's Listing Qualifications Department determined, using its discretionary authority under Nasdaq Marketplace Rule 4300, that our ADRs would be delisted from Nasdaq. The letter further stated that Nasdaq would suspend trading on our ADRs at the opening of trading on February 5, 2009, unless we appealed Nasdaq's delisting determination. Nasdaq's determination to delist our ADRs was based on Nasdaq's belief that the Company is a public shell, and that we do not meet the stockholder's equity requirement or any of its alternatives. On February 3, 2009, we appealed the determination by the Nasdaq Listing Qualification Staff to delist our ADRs from the Nasdaq Capital Market. On March 19, 2009, we participated in an oral hearing before the Nasdaq Hearings Panel (the "Panel"). Nasdaq's delisting action has been stayed, pending a final written determination by the Panel following the hearing. At the hearing, the Company presented its plan to remedy its "public shell" determination and for future compliance with all other applicable Nasdaq listing requirements.

We intend to continue to work with Nasdaq to try to find an acceptable manner in which our ADRs can remain listed on the NASDAQ Capital Market. However, we cannot provide assurance that we will be successful in that effort, or that in the future we will continue to meet the listing requirements of the NASDAQ Capital Market, including, without limitation, bid price, stockholders' equity and/or market value of listed securities minimum requirements. Additionally, our efforts to continue to meet the listing requirements may be limited by current market conditions, including volatility in the market.

If we are delisted from The NASDAQ Stock Market, our ADRs may be traded over-the-counter on the OTC Bulletin Board or the "pink sheets." These alternative markets, however, are generally considered to be less efficient than, and not as broad as, the NASDAQ Capital Market. Many OTC stocks trade less frequently and in smaller volumes than securities traded on the NASDAQ markets, which could have a material adverse effect on the liquidity of our ADRs.

If our ADRs are delisted from the NASDAQ Stock Market, there may be a limited market for our ADRs, trading in our ADRs may become more difficult and our ADR price could decrease even further. In addition, if our ADRs are delisted, our ability to raise additional capital may be impaired.

In addition, our ADRs may become subject to penny stock rules. The SEC generally defines "penny stock" as an equity security that has a market price of less than $5.00 per share, subject to certain exceptions. We presently qualify for an exemption from the penny stock rules, as our ADRs are quoted on the NASDAQ Stock Market. However, if we were delisted, our ADRs would become subject to the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell our securities. If our ADRs were considered penny stock, the ability of broker-dealers to sell our ADRs and the ability of our shareholders to sell their ADRs in the secondary market would be limited and, as a result, the market liquidity for our ADRs would be adversely affected. We cannot assure you that trading in our securities will not be subject to these or other regulations in the future.

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

There is a risk that we will be classified as a passive foreign investment company, or 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, 2008. 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 2009 taxable year and possibly in subsequent years. Although we may not be a PFIC in any one year, the PFIC taint remains with respect to those years in which we were or are a PFIC and the special PFIC taxation regime will continue to apply.

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 thereby depressing 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. These 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 depository. 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 is 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 depository 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.

Our headquarters and some of our planned 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 have generated all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. In the past, a substantial amount of our operating expenses were in US dollars (approximately 96% in 2008), and we incurred 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 multiple myeloma, or MM, and hepatitis C.

Our lead compound is Recombinant Erythropoietin, or rHuEPO, a known compound that we are developing for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. The course of the disease is progressive, and various complications occur, until death. This devastating disease affects the bone marrow, bones, kidneys, heart and other vital organs. It is characterized by pain, recurrent infections, anemia and pathological fractures. In the course of the disease, many patients become gradually disabled and bed-ridden. The median duration of survival with chemotherapy and other novel treatments is about five years. Most of these treatments have severe side effects

We signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., a private biotechnology company based in Gibraltar, in March 2009. In accordance with the terms of the asset purchase agreement, we will issue to Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of our company. In addition, we will make milestone a payment of approximately $10 million in cash upon the successful completion a Phase 2 clinical trial. Our company's Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including XTL's and Bio-Gal's shareholders' approvals, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009.

Our second program is the Diversity Oriented Synthesis program, or DOS, which is focused on the development of novel pre-clinical hepatitis C small molecule inhibitors, which we had out-licensed to Presidio Pharmaceuticals, Inc., or Presidio, a private specialty pharmaceutical company based in San Francisco, California, in 2008.

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 – γ 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.

In January 2007, XTL Development, Inc., our wholly owned subsidiary ("XTL Development"), had signed an agreement with DOV Pharmaceutical, Inc.(" DOV"), to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI) (the Bicifadine transaction). XTL Development was developing Bicifadine for the treatment of diabetic neuropathic pain - a chronic condition resulting from damage to peripheral nerves. In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain.

In 2008, we 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, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 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.

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 Kiryat Weizmann Science Park, 3 Hasapir Street, Building 3, PO Box 370 Rehovot 76100, Israel, and our telephone number is +972-8-930-4444. XTL Biopharmaceuticals, Inc., our wholly-owned US subsidiary and agent for service of process in the US, can be reached at XTL Biopharmaceuticals, Inc., c/o Corporation Trust Company, Corporation Trust Center, 1209 N. Orange Street, Wilmington, Deleware 19801, or by telephone at (800) 677-3394. Our primary internet address is 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, 2008, 2007, and 2006 our capital expenditures were $2,000, $65,000 and $21,000, respectively. During 2008, we completed the disposition of certain assets (primarily lab equipment) associated with the DOS program, with $327,000 in proceeds from disposals of those assets in 2008.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 year ended December 31, 2006.

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 MM and also hepatitis C.

Our lead compound is rHuEPO, which we are developing for the survival extension of MM patients.

Erythropoietin (EPO) is a glycoprotein hormone produced mainly by the kidney. It is the major growth regulator of the erythroid lineage. EPO stimulates erythropoiesis, the production of red blood cells, by binding to its receptor (EPO-R) on the surface of erythroid progenitor cells, promoting their proliferation and differentiation and maintaining their viability. Over the last decade, several reports have indicated that the action of EPO is not restricted to the erythroid compartment, but may have additional biological, and consequently potential therapeutic properties, broadly beyond erythropoiesis. Erythropoietin is available as a therapeutic agent produced by recombinant DNA technology in mammalian cell culture. rHuEPO is used in clinical practice for the treatment of various anemias including anemia of kidney disease and cancer-related anemia. For over a decade, two types of rHuEPO have been used: recombinant erythropoietin α and β; more recently, novel long acting erythropoiesis stimulating proteins have been developed (Amgen's AraNESP, Roche's CERA).

Currently incurable, MM is a severe plasma cell malignancy characterized by the accumulation and proliferation of clonal plasma cells in the marrow, leading to the gradual replacement of normal hematopoiesis. The course of the disease is progressive, and various complications occur, until death. This devastating disease affects the bone marrow, bones, kidneys, heart and other vital organs. It is characterized by pain, recurrent infections, anemia and pathological fractures. In the course of the disease, many patients become gradually disabled and bed-ridden.

In the first months, after the diagnosis, 15 % of the patients die. When no treatment is given MM has a progressive course with a median survival of 6-10 months. The median overall survival duration today with chemotherapy and other novel treatments is about five years, with perhaps 20% of the patients living for more than ten years. These treatments have severe side effects, including the suppression of the immune system, susceptibility to infections, nausea, vomiting and bleeding disorders.

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:

- initiate a prospective, multi-center, double blind, placebo controlled Phase 1-2 clinical study intended to assess the safety and efficacy of rHuEPO when given to patients with advanced MM;
- advance the development of rHuEPO towards approval as treatment of MM either alone or with a corporate partner; and
- seek to in-license or acquire additional candidates.

Products Under Development

rHuEPO for the treatment of MM

Market Opportunity

We intend to develop the use of rHuEPO for the prolongation of MM patients' survival. According to the MM Research Foundation, in the United States alone, there are approximately 56,000 people living with MM, with about 20,000 new cases diagnosed annually. MM is the second most prevalent blood cancer representing approximately 1% of all cancers in white US residents and 2% of all cancers in African Americans. The average age at diagnosis is 62 years for men and 61 years for women, and is also more common in men than women, and in African Americans than Caucasians.

Scientific Background

Erythropoietin, a glycoprotein hormone produced mainly by the kidney, is the major growth regulator of the erythroid lineage. EPO stimulates erythropoiesis by binding to its receptor (EPO-R) on the surface of erythroid progenitor cells, promoting their proliferation and differentiation and maintaining their viability. The cloning of the EPO gene led to the introduction of recombinant human EPO (rHuEPO) into clinical practice for the treatment of various anemias including anemia of kidney disease and cancer-related anemia.

Over the last decade, several reports (Mittelman PNAS 2001, Mittelman European Journal of Hematology 2004; Katz Acta Haematol 2005; Prutchi-Sagiv BJH 2006; Prutchi-Sagiv Exp Hematol 2008; Brines PNAS 2001; Baz Acta Haematol 2007) have indicated that the action of EPO is not restricted to the erythroid compartment, but may have additional biological, and consequently potential therapeutic properties, broadly beyond erythropoiesis.

A clinical observation made by Professor Moshe Mittelman and colleagues (Mittelman M, Zeidman A, Kanter P, Katz O, Oster H, Rund D, Neumann D. Erythropoietin has an anti-myeloma effect - a hypothesis based on a clinical observation supported by animal studies. Eur J Haematol. 2004 Mar;72(3):155-65) confirmed the high success rate of rHuEPO in treating the anemia in patients with MM. Six patients continued treatment with rHuEPO beyond the initial designed 12 week period with very poor prognostic features of MM, whose expected survival was less than 6 months, , and surprisingly, they lived for 45–133 months cumulatively with the MM diagnosis and 38–94 months with rHuEPO (with a good quality of life).

This clinical observation was further supported by pre-clinical animal studies. These animal studies not only confirmed the anti-myeloma effect of rHuEPO but also detected a new unrecognized hitherto immune-mediated effect to rHuEPO, probably mediated via T cells (Mittelman M., Neumann D., Peled A., Kanter P. and Haran- Ghera N. (2001) Erythropoietin induces tumor regression and antitumor immune responses in murine myeloma models. PNAS, vol. 98: 9. 5181 - 5186; Katz O, Barzilay E, Skaat A, Herman A, Mittelman M, Neumann D.Erythropoietin induced tumour mass reduction in murine lymphoproliferative models. Acta Haematol. 2005; 114 (3):177-9.). Recently, it was also shown that treatment of stage II-III MM patients with rHuEPO is associated with a significant improvement of various immunological parameters and functions (Prutchi-Sagiv British Journal of Hematology 2006; Prutchi-Sagiv Experimental Hematology 2008; Lifshitz Molecular Immunology 2009).

Furthermore, several studies have been published by other investigators addressing survival and/or prognosis in cancer patients treated with rHuEPO. For example:

- **Baz R et al**: A team from the Cleveland Clinic Myeloma Program analyzed their experience with rHuEPO in MM patients. This retrospective analysis provides data on 292 MM patients enrolled on different protocols between 1997 and 2003. The authors concluded that "rHuEPO was associated with improved overall survival in this population of anemic MM patients with SWOG stages II, III and IV." They summarized by saying that "a prospective randomized trial is warranted to corroborate this finding" (Baz R et al: Recombinant human erythropoietin is associated with increased overall survival in patients with multiple myeloma (Acta Haematol 2007; 117: 162-7)).

- **Ludwig H et al**.: Forty two patients with various types of cancers were treated with rHuEPO for their anemia. The malignant diseases were: 18 multiple myeloma (MM), 10 myelodysplastic syndromes (MDS), 9 breast cancers and 5 colon cancers. The median time period of treatment with rHuEPO was 16 weeks. The study was designed to treat anemia (not the cancer). Response was defined as an increase of the initial hemoglobin (Hb) level by at least 2 g/dl. The response rates varied: 44.4% for breast cancer, 40% for colon cancer, 77.8% for MM, 10% for MDS. The median survival time of responders was 28.0 months as compared to only 9.2 months for non-responders. (Ludwig H et al; Erythropoietin treatment for chronic anemia of selected hematological malignancies and solid tumorsAnn Oncol 1993; 4:161-7).

- **Wallvik J et al.**: This Swedish group reports its experience with a long-term follow-up of 68 MDS patients treated with rHuEPO. The median Hb response duration was 15 months. The median overall survival time from start of rHuEPO treatment was 26 months, significantly longer for responders than for non-responders (49 vs. 18 months, p=0.018) (Wallvik J et al.; Serum erythropoietin (EPO) levels correlate with survival and independently predict response to EPO treatment in patients with myelodysplastic syndromes. Eur J Haematol 2002; 68: 180-5).

Development Status

We plan on performing a prospective, multi-center, double blind, placebo controlled phase 1-2 study intended to assess safety of rHuEPO when given to patients with advanced MM and demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We intend to initiate the clinical trial in the second half of 2009. We have begun preliminary discussions with potential clinical sites and third party vendors for the planned study.

DOS

Market Opportunity

We had been developing the DOS program for the treatment of hepatitis C, prior to us out-licensing it to Presidio in March 2008. 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 the 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

In March 2008, and as revised in August 2008, we signed an agreement to out-license the 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, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 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. 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. Presidio is currently in the process of identifying drug leads to be tested in formal toxicological studies in anticipation of the commencement of clinical trials in humans thereafter. See "Item 10. Additional Information -Material Contracts."

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.

rHuEPO for the treatment of MM

A main use patent, United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer," was submitted by Mor Research Applications Ltd. and Yeda Research and Development Company Ltd., Israeli corporations, in April 1998 and a PCT was filed in April 1999. The patent was granted in the United States, Europe, Israel and Hong Kong. Patent applications are pending in Canada and Japan. The issued patent will expire in 2019. Pursuant to our agreement with Bio-Gal Ltd., we will have exclusive worldwide rights to the above patent for the use of rHuEPO in MM.

The main claims of this issued patent are as follows: A method for the treatment of a multiple myeloma patient, comprising the administration of erythropoietin or recombinant human erythropoietin, as the case may be, for the inhibition of tumor growth, triggering of tumor regression or inhibition of MM cell metastasis in the said patient.

The original EPO patent is currently owned by Amgen and Johnson & Johnson.

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.

Bio-Gal Ltd.

In March 2009, we signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., a private biotechnology company based in Gibraltar. In accordance with the terms of the asset purchase agreement, we will issue to Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of our company. In addition, we will make a milestone payment of approximately $10 million in cash upon the successful completion of a Phase 2 clinical trial. Our company’s Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including XTL’s and Bio-Gal’s shareholders’ approvals, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009.

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, and as revised August 2008, we signed an agreement to out-license the 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, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 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.

Bicifadine License

In January 2007, XTL Development had signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI). XTL Development was 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 in 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 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 November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain in 2008.

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 MM

Traditional chemotherapy treatment includes melphalan and prednisone, now used sparingly because of its propensity to compromise collection of haematopoietic stem cells, other combinations, and regimens containing high dose corticosteroids. The latter—including dexamethasone; vincristine, doxorubicin, and dexamethasone; and cyclophosphamide, vincristine, doxorubicin, and methylprednisolone—are preferred for transplant candidates.

High dose chemotherapy, particularly melphalan, with autologous haematopoietic stem cell transplantation improves response rates and their duration and survival compared with conventional chemotherapy. It is now commonly used as consolidation treatment. Unfortunately, even after haematopoietic stem cell transplantation, relapse is only a matter of time, although a minority of patients seems to survive over a decade in remission ("operational cure"). Maintenance treatment after transplantation with corticosteroids or *α*interferon is often prescribed in an attempt to delay relapse. Although this probably does prolong the duration of remission, it is unclear if it confers a survival benefit.

Allogeneic haematopoietic stem cell transplantation might potentially cure a proportion of patients through immunologically mediated graft versus myeloma effect. However, this procedure remains highly experimental at the present time. High mortality related to treatment has been a problem historically, but the use of safer preparative regimens of reduced intensity could improve long term results.

Thalidomide is effective in approximately one-third of patients (for a certain period of time) with advanced disease and is synergistic with other agents active in multiple myeloma. Its exact mechanism of action is unclear, but inhibition of angiogenesis, modulation of cytokines, and immunological effects are probably involved. Thalidomide, as a single agent or in combination with steroids, is now the standard first line treatment for relapsed or refractory myeloma (if not used before) and is also being used as frontline and maintenance treatment. Newer derivatives of thalidomide, such as revlinmid or lenalidomide (formerly CC5013), have potentially greater biological activity and fewer adverse effects, including teratogenicity. Preliminary studies show a response in 30-50% of patients with refractory disease. Thalidomide has severe side effects such as flu-like symptoms, constipation, neuropathy and thrombophilia, and has not yet demonstrated survival advantage.

Bortezomib (Velcade) inhibits the proteasome, an intracellular organelle responsible for protein disposal. The response rate to bortezomib in extensively treated myeloma is around 50%. The drug has recently been approved by the FDA based phase 2 clinical results. The drug has several serious side effects, including neuropathy.

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 and 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.

rHuEPO for the treatment of MM

We believe that we will either be able to purchase Recombinant Erythropoietin (rHuEPO) from existing pharmaceutical companies or to enter into collaborative agreements with contract manufacturers or other third-parties to obtain sufficient inventory to satisfy the clinical supply needs for our planned development program for the treatment of MM.

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 number 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.

Property, Plant and Equipment

We lease an aggregate of approximately 414 square meters in Rehovot, Israel, expiring in April 2009. 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 $68,000, linked to the Israeli Consumer Price Index. As of December 31, 2008, the guarantee is secured by pledge on a restricted deposit amounting to $71,000, which is included in the balance sheet as a restricted deposit.

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. We believe that the notice provided a clear indication of the termination of XTL Biopharmaceuticals, Inc.'s obligations under the lease, effective as of the date of the notice. In addition, XTL Biopharmaceuticals, Inc. informed Suga Development that upon receipt of the notice, they should use their best effort to re-rent the premises and to mitigate any damages. There can be no assurance that the landlord will not dispute the termination of the lease, and attempt to hold XTL Biopharmaceuticals, Inc. responsible for the full amount of all future unpaid lease payments, approximately $335,000.

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, 2008, 2007 and 2006, and as of December 31, 2008 and 2007, 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, 2008, 2007, 2006, 2005 and 2004. We have derived the selected financial data for the fiscal years ended December 31, 2008, 2007, and 2006, and as of December 31, 2008 and 2007, 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, 2005 and 2004 and as of December 31, 2006, 2005 and 2004, 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,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	$ —	$ —	$	$ 2,743	$ 3,269
License	5,940	907	454	454	185
	5,940	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	5,940	797	400	400	153
Research and development					
Research and development costs	11,490	18,998	10,229	7,313	11,985
Less participations	—	56	—	—	—
	11,490	18,942	10,229	7,313	11,985
In-process research and development	—	—	—	1,783	—
General and administrative	5,143	5,582	5,576	5,457	4,134
Business development costs	(1,102)	2,008	641	227	810
Operating loss	(9,591)	(25,735)	(16,046)	(14,380)	(16,776)
Other income (expense):					
Financial and other income, net	314	590	1,141	443	352
Income taxes	31	206	(227)	(78)	(49)
Loss for the period	$ (9,246)	$ (24,939)	$ (15,132)	$ (14,015)	$ (16,473)
Loss per ordinary share					
Basic and diluted	$ (0.03)	$ (0.11)	$ (0.08)	$ (0.08)	$ (0.12)
Weighted average shares outstanding	292,769,320	228,492,818	201,737,295	170,123,003	134,731,766

	As of December 31,				
	2008	2007	2006	2005	2004
			(In thousands)		
Balance Sheet Data:					
Cash, cash equivalents, bank deposits and trading and marketable securities	$ 2,924	$ 12,977	$ 25,347	$ 13,360	$ 22,924
Working capital	1,385	8,532	22,694	11,385	20,240
Total assets	3,430	14,127	26,900	15,151	25,624
Long-term obligations	—	194	738	1,493	2,489
Total shareholders' equity	1,426	8,564	22,760	11,252	19,602

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 multiple myeloma, or MM, 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 and license fees from Presidio. 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. We recognized the upfront non-refundable payment from Presidio as license fee revenue over our period of significant involvement. 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 associated with the Bicifadine transaction 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 planned 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 or generate licensing revenues from upfront payments associated with out-licensing transactions. 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, 2008 and 2007

Revenues. Revenues for the year ended December 31, 2008, increased by $5,033,000 to $5,940,000, as compared to revenues of $907,000 for the year ended December 31, 2007. Revenues for the year ended December 31, 2008, were due to the recognition of license revenue associated with the Presidio out-licensing agreement. Revenue 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 do not anticipate to recognize material revenue in 2009.

Cost of Revenues. There was no cost of revenues for the year ended December 31, 2008. The $110,000 of cost of revenues for the year ended December 31, 2007 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 decreased by $7,452,000 to $11,490,000 for the year ended December 31, 2008, as compared to $18,942,000 for the year ended December 31, 2007. The decrease in research and development costs was due primarily to the absence of the $7.5 million initial upfront license fee paid to DOV in 2007 in connection with the in-licensing of Bicifadine, the absence of $1,477,000 in development expenses associated with our legacy hepatitis C projects that were terminated in 2007, and also due to a decline of $3,361,000 in expenses associated with the pre-clinical DOS program that we out-licensed to Presidio in 2008, offset by an increase of $4,830,000 in clinical development expenses associated with the now terminated Bicifadine clinical program. See 2008 Restructuring below and also see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company.”

Excluding the impact of the Bio-Gal Ltd transaction and non-cash compensation expenses associated with stock option grants, we expect our overall research and development expenses to decrease in 2009 primarily due the smaller expected size and geographic scope associated with our planned clinical program for Recombinant Erythropoietin for the treatment of MM versus the larger size and geographic scope associated with the Phase 2b and open label studies for the Bicifadine clinical program terminated in November 2008.

General and Administrative Expenses. General and administrative expenses decreased by $439,000 to $5,143,000 for the year ended December 31, 2008, as compared to expenses of $5,582,000 for the year ended December 31, 2007. The decrease in general and administrative expenses was due primarily to a decrease in legal and patent related expenses as well as second–year Sarbanes-Oxley compliance costs, offset by an increase of severance related expenses associated with the 2008 Restructuring. Excluding non-cash compensation costs, we expect a significant decline in our level of our general and administrative costs during 2008.

Business Development Costs. Business development costs decreased by $3,110,000 to a negative expense, or income of $1,102,000 for the year ended December 31, 2008, as compared to expenses of $2,008,000 for the year ended December 31, 2007. The decrease in business developments costs was due primarily to the reversal of $1,553,000 in transaction advisory fees in the form of stock appreciation rights associated with the in-licensing of Bicifadine in 2008 that was recorded in 2007. The transaction advisory fee in the form of a SAR is 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, 2008, decreased by $276,000 to $314,000, as compared to financial and other income of $590,000 for the year ended December 31, 2007. 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 increased by $175,000 to a negative expense, or income of $31,000 for the year ended December 31, 2008, as compared to a negative expense, or income, of $206,000 for the year ended December 31, 2007. The negative expense for the year ended December 31, 2008, was due to a carryback claim to the year ended December 31, 2004 of the US consolidated tax group consisting of XTL Biopharmaceuticals, Inc. and XTL Development which incurred net operating losses in 2008 offset by New York State Franchise tax associated with the US permanent establishment. The US consolidated tax group will file a carryback claim for those losses to the year ended December 31, 2004 in order to receive a refund for US federal income taxes paid for that year. For the year ended December 31, 2007, the US consolidated tax group incurred net operating losses. The group filed a carryback claim for those losses to the years ended December 31, 2006 and December 31, 2005 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 US subsidiaries and the US permanent establishment. This income is eliminated upon consolidation of our financial statements.

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.

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.

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.

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 development 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.

2008 Restructuring

During the first half of 2008, we terminated the employment of 11 research and development employees in the DOS program, which was out-licensed to Presidio in 2008. As a result, we incurred a charge of $191,000 in research and development during 2008 related to employee dismissal costs, all of which were paid in 2008.

In December 2008, we implemented a restructuring plan following the failure of the Bicifadine Phase 2b clinical trial. We notified nine of our remaining employees (six in research and development, two in general and administrative and one in business development) that they will be terminated, representing approximately 75% of our then remaining workforce. In addition, in December 2008, we announced that our then Chief Executive Officer would be departing in 2009. The remaining employees were tasked with seeking potential assets or a company to merge into XTL, or for assisting in the liquidation and/or disposition of XTL's remaining assets. As a result, we took a charge of $420,000 in 2008 relating to employee dismissal costs, $110,000 of which was included in research and development costs, $305,000 of which was included in general and administrative expenses and $5,000 was included in business development expenses.

As of December 31, 2008, 5 employees left XTL under the 2008 Restructuring and $0 of dismissal costs were paid. As of December 31, 2008 approximately $420,000 in employee dismissal obligations were included in "liability in respect to employee severance obligations," and was all subsequently paid in the first quarter of 2009.

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.

Revenue Recognition. We recognize license revenue consistent with the provisions of Staff Accounting Bulletin ("SAB") No. 104 and EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." We analyze each element of our licensing agreement to determine the appropriate revenue recognition. We recognize revenue on upfront payments and milestone payments over the period of significant involvement under the related agreements unless the fee is in exchange for products delivered or services rendered that represent the culmination of a separate earnings process and no further performance obligation exists under the contract. We may recognize milestone payments in revenue upon the achievement of specified milestones if (1) the milestone is substantive in nature, and the achievement of the milestone was not reasonably assured at the inception of the agreement and (2) the fees are nonrefundable. Any milestone payments received prior to satisfying these revenue recognition criteria would be recognized as deferred revenue.

Purchase Price Allocation. The purchase price allocation for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values. Additionally, we must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in a business combination.

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, 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 was 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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R changes the accounting for business combinations. Among the more significant changes, it expands the definition of a business and a business combination, changes 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. Early application is prohibited. We were required to adopt SFAS 141R on January 1, 2009. We are currently assessing the impact that SFAS 141R may have on its consolidated financial statements in the event of a future acquisition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. An ownership interest in subsidiaries held by parties other than the parent should be presented in the consolidated statement of financial position within equity, but separate from the parent's equity. SFAS 160 requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for similarly as equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. 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. We were required to adopt SFAS 160 on January 1, 2009. We do not expect the adoption of this Statement to have a material effect on our consolidated financial statements, since as of December 31, 2008, we did not have any non-controlling 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. 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. We were required to adopt EITF 07-1 on January 1, 2009. We do not expect the adoption of EITF 07-1 to have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 from 2008 to 2009 for all 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).

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions on legal and contractual provisions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We will be required to adopt FSP 142-3 on January 1, 2009. We do not expect the adoption of this FSP to have a material effect on our Consolidated Financial Statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets," ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. A defensive intangible asset shall be assigned a useful life in accordance with paragraph 11 of Statement 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is not permitted. We were required to adopt EITF 08-7 on January 1, 2009. We do not expect the adoption of EITF 08-7 to have a material effect on our Consolidated Financial Statements.

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 27% in 2008 (29% in 2007), which will be reduced as follows: 2009 - 26%, 2010 and after - 25%.

As of December 31, 2008, XTL Biopharmaceuticals Ltd. did not have any taxable income. As of December 31, 2008, our net operating loss carryforwards for Israeli tax purposes amounted to approximately $153.5 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.

As of December 31, 2008, we had a "permanent establishment" in the US, which began in 2005 due to the residency of our former Chairman of the Board of Directors and the departing Chief Executive Officer in the US. This may continue in 2009 as well. 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 we had income attributable to the permanent establishment in the US, 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 qualified 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 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. As of the signing date of our financial statements, there was a change in our Board and senior management composition, such that the residences of our newly appointed Chairman and co-Chief Executive Officer were outside of the United States, as of the end of the first quarter of 2009.

As of December 31, 2008, we did not earn any taxable income for US federal tax purposes. If we eventually earn taxable income attributable to its 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, 2008, we estimate that these US net operating loss carryforwards are approximately $22.6 million. These losses, subject to limitation in the case of shifts in ownership of the Company, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, can be carried forward to offset future US taxable income and expire through 2028. For the year ended December 31, 2008, the Company was subject to a State franchise tax of $10,000 in regards to the permanent establishment.

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, 2008, 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, 2008, we had $2.9 million in cash, cash equivalents, and short-term bank deposits, a decrease of $10.1 million from December 31, 2007. Cash used in operating activities for the year ended December 31, 2008, was $10.6 million, as compared to $21.4 million for the year ended December 31, 2007. This decrease in cash used in operating activities was due primarily to the absence of the $7.5 million initial upfront license fee for Bicifadine and from our revenue from the out-licensing of the DOS program to Presidio in 2008. For the year ended December 31, 2008, the net cash provided by investing activities of $10.9 million, as compared to net cash provided by investing activities of $10.6 million for the year ended December 31, 2007, was primarily the result of the maturity of short-term bank deposits. For the year ended December 31, 2008, net cash provided by financing activities of $0.2 million, as compared to $8.8 million for the year ended December 31, 2007, was the result of our $8.8 million private placement that closed in November 2007.

We currently anticipate that our cash and cash equivalents and restricted short-term bank deposits are sufficient to finance our operations through July 2009. Continuation of our current operations after utilizing our current cash reserves is dependent upon the generation of additional financial resources either through agreements for the monetization of our residual in the DOS program or through external financing. These matters raise substantial doubt about our ability to continue as a going concern. We do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. 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 costs involved in closing the Bio-Gal transaction, including the required financing;
- the accuracy of our financial forecasts;
- the timing of the in-licensing, partnering and acquisition of new product opportunities;
- the timing of expenses associated with product development and manufacturing of the proprietary drug candidate that we have acquired from Bio-Gal Ltd. and those that may be in-licensed, partnered or acquired;
- our ability to achieve our milestones under licensing arrangements; 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 and which would raise substantial doubt about our ability to continue as a going concern. 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."

The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The factors discussed above, taken together with our limited cash and cash equivalents raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. In addition, the report of our independent registered public accounting firm covering our 2008 Consolidated Financial Statements, included in this Annual Report, contains an explanatory paragraph that makes reference to uncertainty about our ability to continue as a going concern.

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, 2008, we had known contractual obligations, commitments and contingencies of $464,000. Of this amount, $0 relates to research and development agreements. The $464,000 relates to our operating lease obligations, of which $457,000 is due within the next year, with the remaining balance due as per the schedule below.

	Payment due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Research & development agreements	$ —	$ —	$ —	$ —	$ —
Operating leases	464,000	457,000	7,000	—	—
Total	$ 464,000	$ 457,000	$ 7,000	$ —	$ —

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. We believe that the notice provided a clear indication of the termination of XTL Biopharmaceuticals, Inc.'s obligations under the lease, effective as of the date of the notice. In addition, XTL Biopharmaceuticals, Inc. informed Suga Development that upon receipt of the notice, they should use their best effort to re-rent the premises and to mitigate any damages. There can be no assurance that the landlord will not dispute the termination of the lease, and attempt to hold XTL Biopharmaceuticals, Inc. responsible for the full amount of all future unpaid lease payments, approximately $335,000 as of March 31, 2009. The $335,000 is included in operating lease obligations in the table above.

Additionally, the VivoQuest license agreement provides for contingent 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. Pursuant to our out-licensing agreement with Presidio, Presidio is obligated to pay us for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement.

We have undertaken to make contingent milestone payments to DOV Pharmaceuticals, Inc. of up to approximately $126.5 million over the life of the license, of which approximately $115.0 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. We ceased development of Bicifadine in November 2008.

Pursuant to our asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., we will issue to Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of our company. In addition, we will make milestone payments of approximately $10 million in cash upon the successful completion of a Phase 2 clinical trial. In addition, our company's Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd. in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. See "Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations" above.

In addition, in January 2007, XTL Development and the company committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. In October 2008, XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the "Definitive Agreements"). Under the terms of the Definitive Agreements, 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 on the "Date of Milestone Event." The "Date of Milestone Event" shall mean the earlier to occur of (i) positive (i.e., a statistically significant difference between the placebo arm and (x) at least one drug arm in the trial, or (y) the combined drug arms in the trial in the aggregate) results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by us or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain (regardless of indication or whether the study is the first such pivotal trial for Bicifadine conducted thereby), (ii) the filing of a New Drug Application for Bicifadine by us or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to us or XTL Development whereby persons or entities holding a majority of the equity interests of us or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. 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 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 our license agreement for the Bicifadine compounds, any unvested SARs will expire. As of December 31, 2008, the 3% tranche was vested and the 7% tranche was not vested. In the event of the termination of our license agreement with DOV, any unvested SARs will expire. See also "Item 10. Additional Information - Material Contracts."

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 rHuEPO for the treatment of MM. 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."

Following the closing of the agreement with Bio-Gal Ltd., we plan on performing a prospective, multi-center, double blind, placebo controlled phase 1-2 study intended to assess safety of rHuEPO when given to patients with advanced MM and demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We intend to initiate the clinical trial in the second half of 2009. While we have begun preliminary discussions with potential clinical sites and third party vendors for the planned study, we have not yet determined the size and scope of the study, and as a result, we cannot estimate when such clinical development will end, and the estimated cost to complete the study.

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

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,			
	2008	2007	2006	Cumulative, as of December 31, 2008
Bicifadine (includes $7.5 million initial upfront license fee in 2007)	$ 10,806,000	$ 13,476,000	$ —	$ 24,282,000
DOS	684,000	4,056,000	4,653,000	10,633,000
Legacy programs[12]				
Research and development costs	—	1,466,000	5,576,000	94,704,000
Less participations	—	(56,000)	—	(17,018,000)
Total legacy programs	—	1,410,000	5,576,000	77,686,000
Total Research and development				
Research and development costs	11,490,000	18,998,000	10,229,000	129,619,000
Less participations	—	(56,000)	—	(17,018,000)
	11,490,000	18,942,000	10,229,000	112,601,000

[1] 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.

[2] Legacy programs include, XTL-2125, XTL-6865, HepeX-B and 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 March 31, 2009. Except as noted, the business address for each of the following is Kiryat Weizmann Science Park, Building 3, POB 370, Rehovot 76100, Israel.

Name	Age	Position
Marc Allouche	35	Non Executive Director
Dafna Cohen	39	Non Executive and External Director
Jaron Diament	42	Non Executive and External Director
David Grossman	34	Executive Director and Co-Chief Executive Officer
Boaz Shweiger	33	Non Executive Director
Amit Yonay	39	Chairman of the Board of Directors
Ron Bentsur	43	Co-Chief Executive Officer
Bill Kessler	43	Director of Finance

David Grossman has served as a director in our company and as co-Chief Executive Officer of our company since February 2009. He served as a Vice President of Eurocom Investments LP, a private equity fund focused on long-term investments mainly in Israeli public companies, from March 2006 to December 2008. Also from March 2006 to December 2008, Mr. Grossman was Vice President of Sahar Investments Ltd, (TASE: SAIN) which focused on investments in the Life Sciences arena. From July 2003 to March 2006, Mr. Grossman was a Senior Analyst at Israel Health Care Ventures, an Israeli healthcare venture capital fund. From 2001 to March 2003, Mr. Grossman was a senior investment banker with Reliance Capital Ltd. From 2001-2003, he was a partner of Magna Business Development, a consulting boutique. In addition, Mr. Grossman is currently a director and member of the audit committee of Bio Light Israeli Life Science Investments Ltd. (TASE: BOLT) since December 2008, and from May 2007 to July 2008 was a Director and member of the audit committee of Gilat Satcom Ltd. (AIM: GLT). Mr. Grossman received a BA business administration with a focus on information technology, from the Interdisciplinary Center Herzliya.

Boaz Shweiger has served as a director in our company since February 2009. He has served as a partner and Managing Director of Sean S. Holdings Ltd., a private investment company, since August 2005. Mr. Shweiger was an attorney at S. Horowitz & Co, practicing commercial law, from June 2001 to January 2005. From December 2001 to April 2005, Mr. Shweiger served as Director and a member of the investment committee of Isal Amlat Investments (1993) Ltd., an investment company (TASE: ISAL), engaged in the fields of industry, commerce, real estate and advanced technologies services. Mr. Shweiger received an LL.B, magna cum laude, from the College of Management and an MBA in finance and auditing from Tel - Aviv University.

Marc Allouche has served as a director in our company since March 2009. He is currently actively involved in independent business ventures. He had served as the head of the Alternative Investments Division of Harel Insurance Investments & Financial Services Ltd. (TASE: HARL), from January 2008 until January 2009, focused on venture capital, private equity and real estate investments. From March 2006 to July 2007, Mr. Allouche served as Executive Vice President of investments and strategic development of SGPA Ltd., a French holding company and concurrently was CEO of one of its portfolio companies, operating in the retail sector in France for turn-around purposes. From November 2002 to December 2005, Mr. Allouche was a Senior Manager in the private equity advisory group of Russel Bedford International, in charge of corporate finance transaction services and restructuring advisory services. From 2001 to 2002, Mr. Allouche was involved in the creation of an Israeli-French software start-up (in strategic alliance with ENST – Telecom Paris) operating within the Telecommunications arena. From 2000 to 2001, Mr. Allouche served a Vice President at Nessuah Zanex Venture Capital Company Ltd., then running a Life Sciences venture capital vehicle, and was concurrently also Managing Director of one of its healthcare portfolio companies for turn-around purposes. In addition, from 1998 to 2000, Mr. Allouche was a Senior Advisor in the Corporate Finance division of KPMG International - Somekh Chaikin. From 1996 to 1998, Mr. Allouche was a Senior Consultant at the Audit division and the Transaction Services / Corporate Finance division of Price Waterhouse in Paris. Mr. Allouche received a BA in economics and management and an MBA with major in corporate finance and accounting from Dauphine University, Paris. He is also a Chartered Public Accountant in France.

Amit Yonay has served as a director in our company since March 2009. Since 2007, he has been actively involved in independent investments primarily in the real estate and capital markets with an emphasis toward distressed asset opportunities. Mr. Yonay had served from 2000 to January 2007, as the Head Israeli Sell-Side Analyst with ING Financial Markets (NYSE: ING, Euronext: INGA) in Israel. From 1998 until 2000, Mr. Yonay was Portfolio Manager at Meretz Investments Ltd. and from 1996 until 1998 he was a buy-side analyst at Meretz Investments. Mr. Yonay received a BS in Electrical Engineering from Binghamton University and an MBA from Tel Aviv University in Finance and International Business.

Jaron Diament has served as a director in our company since March 2009. He has served as the founding partner and Chief Financial Officer of Tagor Capital Ltd., a public real estate investment company (TASE: TGCP), since September 2006 and a board member of all of its non-Israel real estate investments. From 2003 to September 2006, Mr. Diament was an independent financial advisor focused on risk management and corporate finance transactions. From 1994 to February 2005 Mr. Diament was CFO of H.G.I.I. Ltd. (TASE: HGII, today a private company) and a member of the board of certain wholly owned subsidiaries. Prior to that Mr. Diament was an accountant with Eliezer Oren and Partners. In addition, Mr. Diament serves as an external director of Mega Or Holdings Ltd. (TASE: MGOR) since September 2007. Mr. Diament received a BA in economics and accounting from Tel Aviv University.

Dafna Cohen has served as a director in our company since March 2009. She has served as Director of Group Investment and a Treasurer of Emblaze Ltd. (LSE-BLZ), a group of technology companies focused on growth and innovation, since December 2005. From 2000 to 2004, Ms. Cohen was an Investment Manager for Leumi & Co., an investment house of the Bank Leumi Group. From 1994-2000, Ms. Cohen worked in the derivatives sector of Bank Leumi. In addition, Ms. Cohen serves as an external director of Bee-Contact Ltd (TASE: BCNT) since September 2007. Ms. Cohen received a BA in economics and political science and an MBA in finance and accounting from Hebrew University, Jerusalem.

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. Mr. Bentsur will be leaving XTL imminently.

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. Mr. Kessler will be leaving XTL in May 2009.

Employment Agreements

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. Mr. Kessler will be leaving XTL in May 2009.

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 2008 (eleven persons) was approximately $1.0 million. This amount includes payments made for social security, pension, disability insurance and health insurance premiums of approximately $0.1 million, as well as severance 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.

We granted our former directors 5,020,000 options to purchase ordinary shares in 2008, pursuant to shareholder meetings, exercisable at a weighted average price of $0.208 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. As of March 18, 2009, 1,443,874 of these options were forfeited. The remaining vested options expire three months after March 18, 2009, the resignation date of the former directors.

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 March 2009, pursuant to a shareholders' meeting, the monetary compensation was set for each of Mr. Grossman, Mr. Shweiger, Mr. Allouche, Mr. Yonay, Mr. Diament and Ms. Cohen as follows: annual consideration of $10,000 (to be paid in 4 equal quarterly payments), payments of $375 for attendance at each board or committee meeting in person or held by teleconference and reimbursement of reasonable out-of-pocket expenses.

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 six 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 Amit Yonay, (chairman of the nomination committee), Jaron Diament and Dafna Cohen. 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 March 2009, at an extraordinary general meeting of our shareholders, David Grossman and Boaz Shweiger were re-elected to serve as directors of our company and Marc Allouche and Amit Yonay were elected to serve as directors of our company. Dafna Cohen and Jaron Diament were elected to serve as external directors of our company at the March 2009 extraordinary general meeting. Dafna Cohen and Jaron Diament are serving as external directors pursuant to the provisions of the Israeli Companies Law for a three-year term ending in March 2012. 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.

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.

Dafna Cohen and Jaron Diament 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 Jaron Diament, who serves as the audit committee financial expert, with Dafna Cohen and Boaz Schweiger 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: Jaron Diament, Dafna Cohen and Marc Allouche. 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.

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 March 31, 2009, we had 5 full-time equivalent employees. We and our Israeli employees are subject, by an extension order of the Israeli Ministry of Welfare, to a certain 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. See also "Item 5. Operating and Financial Review and Prospects - 2008 Restructuring" and "Item 6. Directors, Senior Management and Employees – Employment Agreements" above.

For the years ended December 31, 2008, 2007 and 2006, the number of our employees engaged in the specified activities, by geographic location, are presented in the table below.

	Year ended December 31,		
	2008	**2007**	**2006**
Research and Development			
Israel	2	2	8
US	—	16	18
	2	18	26
Financial and general management			
Israel	3	4	4
US	2	2	2
	5	6	6
Business development			
Israel	—	—	—
US	1	1	1
	1	1	1
Total	8	25	33
Average number of full-time employees	14	29	40

Share Ownership

The following table sets forth certain information as of March 31, 2009, 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 March 31, 2009.

	Amount and nature of beneficial ownership			
	Ordinary shares beneficially owned excluding options	**Options[1] exercisable within 60 days of March 31, 2009**	**Total ordinary shares beneficially owned**	**Percent of ordinary shares beneficially owned**
Amit Yonay *Chairman of the Board*	—	—	—	—
Marc Allouche *Director*	—	—	—	—
Dafna Cohen *Director*	—	—	—	—
Jaron Diament *Director*	—	—	—	—
David Grossman *Director and co-Chief Executive Officer*	—	—	—	—
Boaz Schweiger *Director*	—	—	—	—
Ron Bentsur[2] Co-*Chief Executive Officer*	201,010	3,583,334	3,784,344	1.3%
Bill Kessler[3] *Director of Finance*	50,000	500,000	550,000	*
All directors and executive officers as a group (7 persons)	251,010	4,083,334	4,334,344	1.5%

(1) Options to purchase ordinary shares
(2) 2,333,334 options at an exercise price of $0.774 per ordinary share, expiring three months after Mr. Bentsur's departure; and 1,250,000 options at an exercise price of $0.315, expiring three months after Mr. Bentsur's departure. Mr. Bentsur will leaving XTL imminently.
(3) 250,000 options at an exercise price of $0.60 per ordinary share, expiring one year after Mr. Kessler's departure; and 250,000 options at an exercise price of $0.315, expiring one year after Mr. Kessler's departure.
* 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, 2008, we have granted to employees, directors and consultants options that are outstanding to purchase up to 30,825,178 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.

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 4,200 are outstanding and exercisable as of December 31, 2008, 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 89,800 are outstanding and exercisable as of December 31, 2008, 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 2001-2008, 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 7,446,177 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, 2008, 3,681,952 options are fully vested. As of December 31, 2008, the remaining number of options available for future grants under the 2001 Plan is 2,872,273.

Non-Plan Share Options

In addition to the options granted under our share option plans, there are 23,285,001 outstanding options, and 10,725,010 exercisable options, as of December 31, 2008, which were granted to employees, directors and consultants not under an option plan during 1997-2008. The options were granted at an exercise price between $0.20 and $2.11 per ordinary share. The options expire between 2008 and 2018.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As of March 31, 2009, we are not aware of any beneficial owner holding more than 5% of our outstanding ordinary shares. As of February 28, 2009, there were 20,970,313 ADRs outstanding, held by approximately 5 record holders, whose holdings represented approximately 72% of the total outstanding ordinary shares, of which 4 record holders were in the US.

Related Party Transactions

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 co-Chief Executive Officer had provided consulting services to Keryx through January 2008 for no compensation, 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. Our former Chairman of the Board is the Chairman and CEO of Keryx. During 2007, a company controlled by one of our former 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-40 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 2009, we signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., a private biotechnology company based in Gibraltar. In accordance with the terms of the asset purchase agreement, we will issue Bio-Gal Ltd. ordinary shares representing just under 50% of the current issued and outstanding share capital of our company. In addition, we will make a milestone payment of approximately $10 million in cash upon the successful completion a Phase 2 clinical trial. Our company's Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. We are also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including XTL's and Bio-Gal's shareholders' approvals, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009.

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.

On January 27, 2009, we received a Staff Determination Letter from The Nasdaq Stock Market notifying us that the staff of Nasdaq's Listing Qualifications Department determined, using its discretionary authority under Nasdaq Marketplace Rule 4300, that our ADRs would be delisted from Nasdaq. The letter further stated that Nasdaq would suspend trading on our ADRs at the opening of trading on February 5, 2009, unless we appealed Nasdaq's delisting determination. Nasdaq's determination to delist our ADRs was based on Nasdaq's belief we are a public shell, and that we do not meet the stockholder's equity requirement or any of its alternatives. On February 3, 2009, we appealed the determination by the Nasdaq Listing Qualification Staff to delist our ADRs from the Nasdaq Capital Market. The Nasdaq Office of the General Counsel assigned a date of March 19, 2009, for an oral hearing before the Nasdaq Hearings Panel. Nasdaq's delisting action has been stayed, pending a final written determination by the Panel following the hearing. At the hearing, we presented our plan to remedy the "public shell" determination and for future compliance with all other applicable Nasdaq listing requirements.

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[1] 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.

	US Dollar	
	High	**Low**
Last Six Calendar Months		
March 2009	0.16	0.07
February 2009	0.10	0.08
January 2009	0.13	0.06
December 2008	0.11	0.04
November 2008	2.85	0.07
October 2008	3.51	1.98
Financial Quarters During the Past Two Full Fiscal Years		
First Quarter of 2009	0.16	0.06
Fourth Quarter of 2008	3.51	0.04
Third Quarter of 2008	4.73	3.29
Second Quarter of 2008	3.88	2.95
First Quarter of 2008	4.24	2.91
Fourth Quarter of 2007	2.85	1.51
Third Quarter of 2007	2.64	1.24
Second Quarter of 2007	4.07	2.29
Full Financial Years Since Listing		
2008	4.73	0.04
2007	4.99	1.24
2006	8.12	2.08

[1] 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 4.188 New Israeli Shekel per US Dollar, as reported by the Bank of Israel on March 31, 2009.

	New Israeli Shekel		US Dollar	
	High	**Low**	**High**	**Low**
Last Six Calendar Months				
March 2009	0.061	0.038	0.015	0.009
February 2009	0.048	0.042	0.011	0.010
January 2009	0.058	0.020	0.014	0.005
December 2008	0.048	0.016	0.011	0.004
November 2008	1.065	0.043	0.254	0.010
October 2008	1.234	0.763	0.295	0.182
Financial Quarters During the Past Two Full Fiscal Years				
First Quarter of 2009	0.061	0.020	0.015	0.005
Fourth Quarter of 2008	1.234	0.016	0.295	0.004
Third Quarter of 2008	1.707	1.041	0.408	0.249
Second Quarter of 2008	1.291	0.967	0.308	0.231
First Quarter of 2008	1.497	0.932	0.357	0.223
Fourth Quarter of 2007	0.990	0.640	0.240	0.150
Third Quarter of 2007	1.060	0.480	0.250	0.110
Second Quarter of 2007	1.620	1.000	0.390	0.240
Full Financial Years Since Listing				
2008	1.707	0.016	0.408	0.004
2007	2.020	0.480	0.480	0.110
2006	3.660	0.960	0.870	0.230

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 on 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

Through March 18, 2009, our authorized share capital is NIS 10,000,000 consisting of 500,000,000 ordinary shares, par value NIS 0.02 per share. On March 18, 2009, pursuant to a vote at the recent shareholder's meeting, the share capital of our company was consolidated and re-divided so that each five (5) shares of NIS 0.02 nominal value was consolidated into one (1) share of NIS 0.1 nominal value so that following such consolidation and re-division, our authorized share capital consists of 100,000,000 ordinary shares, par value NIS 0.10 per share. In addition, the authorized share capital of our company was increased from NIS 10,000,000 to NIS 70,000,000 divided into 700,000,000 ordinary shares, NIS 0.10 nominal value. We expect the change to be effective during April 2009.

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

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, and as revised August 2008, we 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, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 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.

Bio-Gal Ltd.

On March 18, 2009, we announced that we had entered into an asset purchase agreement with Bio-Gal Ltd, a Gibraltar private company, for the rights to a use patent on Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. In accordance with the terms of the asset purchase agreement, we will to issue Bio-Gal Ltd. ordinary shares representing just under 50% of the then current issued and outstanding share capital of the Company. In addition, XTL will make milestone payments of approximately $10 million in cash upon the successful completion a Phase 2 clinical trial. The Company's Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. XTL is also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to various conditions including XTL's and Bio-Gal's shareholders' approvals, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009.

Bicifadine License

In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain in 2008. In January 2007, XTL Development had signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI). XTL Development was 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 in 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 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."

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 2008 is 27% (2007-29%). This rate is currently scheduled to decrease as follows: in, 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.

Under the Israel Income Tax Law (Adjustments for Inflation) (Amendment No. 20), 2008 (hereinafter - the Amendment), the provisions of the Adjustments Law will no longer apply to our company in the 2008 tax year and thereafter, and therefore, the results of our company will be measured for tax purposes in nominal terms. The amendment includes a number of transition provisions regarding the end of application of the Adjustments Law, which applied to the company through the end of the 2007 tax year.

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, 2008, 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 2009 taxable year and possibly in subsequent years. In addition, even though we may not be a PFIC in any one particular year, the PFIC taint remains, and the special PFIC tax regime will continue to apply.

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. 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

As of December 31, 2008, we had a “permanent establishment” in the US, which began in 2005 due to the residency of our former Chairman of the Board of Directors and departing Chief Executive Officer in the US. This may continue into 2009 as well. 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 we had income attributable to the permanent establishment in the US, 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 qualified 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 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. As of the signing date of our financial statements, there was a change in our Board and senior management composition, such that the residence of our newly appointed Chairman and co-Chief Executive Officer were outside of the United States, as of the end of the first quarter of 2009.

As of December 31, 2008, we did not earn any taxable income for US federal 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 our US permanent establishment. As of December 31, 2008, we estimate that these US net operating loss carryforwards are approximately $22.6 million. These losses, subject to limitation in the case of shifts in ownership of the Company, e.g., a planned offering or capital raise, resulting in a more than 50 percentage point change over a three year lookback period, can be carried forward to offset future US taxable income and expire through 2028.

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. 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, 2008, our portfolio of financial instruments consists of cash and cash equivalents and restricted short-term bank deposits with multiple institutions. The average duration of all of our investments held as of December 31, 2008, 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, 2008, an evaluation was performed under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures as of December 31, 2008, 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, 2008, 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, including the chief executive officer and chief financial officer, concluded the Company's internal control over financial reporting is effective as of December 31, 2008.

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, 2008, included in the report of Kesselman & Kesselman dated April 6, 2009, relating to the financial statements which appear in this Annual Report on Form 20-F for the year ended December 31, 2008.

(c) *Internal controls*. There have been no changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2008 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 Jaron Diament, chairperson 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) and may also may be obtained, without charge, upon a written request addressed to our investor relations department, XTL Biopharmaceuticals Ltd., PO Box 370, Rehovot 76100, Israel.

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. ("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, 2008 and 2007.

	2008	2007
	(in thousands)	
Audit fees	$ 133	$ 174
Audit-related fees	61	151
Tax fees	3	21
Other fees	36	21
Total	$ 233	$ 367

The audit fees for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007 relate to expense reimbursement, primarily travel and related.

For the fiscal year ended December 31, 2008 and 2007, 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.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant differences between our corporate governance practices and those required of a U.S. domestic issuer under the NASDAQ Stock Market Rules. See also "Item 6. Directors, Senior Management and Employees – Board practices –Compliance with NASDAQ Corporate Governance Requirements"

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-40 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

10.37	Amended and Restated License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated August 4, 2008 >
10.38	Services Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., Quoque Bioventures LLC and Antecip Bioventures LLC.+
10.39	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC+
10.40	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC.+
10.41	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Antecip Bioventures LLC.+
10.42	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC.+
10.43	Asset Purchase Agreement, dated as of March 18, 2009 between XTL Biopharmaceuticals Ltd. and Bio-Gal Ltd. >
10.44	Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Biogal Ltd. (under its previous name Haverfield Ltd.) and Biogal Advanced Biotechnology Ltd. dated January 7, 2002 >
10.45	Amendment to Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Haverfield Ltd. and Biogal Advanced Biotechnology Ltd. effective as of April 1, 2008 >
21.1	List of Subsidiaries
23.1	Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd, dated April 6, 2009
23.2	Consent of Somekh Chaikin, a member firm of KPMG International, dated April 6, 2009
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 April 6, 2009
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 April 6, 2009
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 April 6, 2009
99.1	Report of Management on Internal Control Over Financial Reporting dated April 6, 2009

† 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.

+ Incorporated by reference from the current annual report on Form 6-K filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on October 24, 2008.

> Confidential treatment has been requested with respect to the omitted portions of this exhibit.

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
Co-Chief Executive Officer

Date: April 6, 2009

XTL BIOPHARMACEUTICALS LTD.
(A Development Stage Company)
2008 ANNUAL REPORT

TABLE OF CONTENTS

Kesselman & Kesselman
Certified Public Accountants
Trade Tower, 25 Hamered Street
Tel Aviv 68125 Israel
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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, 2008, 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, 2008 and 2007 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, 2008, 2007 and 2006, and for the cumulative period from January 1, 2001 to December 31, 2008. 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, 2008 and 2007, 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, 2008 and for the cumulative period from March 9, 1993 to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1a(3) to the financial statements, the Company incurred significant losses from operations and has an accumulated deficit at December 31, 2008 which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1a(3). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2008, 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
April 6, 2009

/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	
	2008	**2007**
Assets		
Current assets:		
Cash and cash equivalents	2,924	2,377
Short-term bank deposits	—	10,600
Short-term employee severance pay funds	40	—
Restricted short-term deposits	71	—
Other receivables and prepaid expenses	354	924
Total current assets	3,389	13,901
Employee severance pay funds	—	48
Restricted long-term deposits	—	61
Property and equipment – net	41	106
Intangible assets – net	—	11
Total assets	3,430	14,127
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	416	2,144
Accrued expenses	1,058	1,665
Liability in respect of employee severance obligations	523	—
Other current liabilities (Note 2)	7	1,560
Total current liabilities	2,004	5,369
Liability in respect of employee severance obligations	—	194
Commitments and contingencies (Note 8)		
Total liabilities	2,004	5,563
Shareholders' equity:		
Ordinary shares of NIS 0.02 par value (500,000,000 authorized at December 31, 2008 and 2007, 292,805,326 and 292,654,785 issued and outstanding, at December 31, 2008 and 2007, respectively)	1,445	1,444
Additional paid in capital	149,089	146,982
Deficit accumulated during the development stage	(149,108)	(139,862)
Total shareholders' equity	1,426	8,564
Total liabilities and shareholders' equity	3,430	14,127

/s/ Amit Yonay
Amit Yonay
Chairman of the Board of Directors

/s/ Ron Bentsur
Ron Bentsur
Co-Chief Executive Officer

Date of approval of the financial statements: April 6, 2009.

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,
	2008	2007	2006	2008
Revenues:				
Reimbursed out-of-pocket expenses	—	—	—	6,012
License	5,940	907	454	7,940
	5,940	907	454	13,952
Cost of revenues:				
Reimbursed out-of-pocket expenses	—	—	—	6,012
License (with respect to royalties)	—	110	54	250
	—	110	54	6,262
Gross margin	5,940	797	400	7,690
Research and development costs (includes $7,500 initial upfront license fee in 2007 and also includes non-cash stock option compensation of $78, $141, and $173, in 2008, 2007 and 2006, respectively)	11,490	18,998	10,229	123,607
Less – participations	—	56	—	11,006
	11,490	18,942	10,229	112,601
In-process research and development costs	—	—	—	1,783
General and administrative expenses (includes non-cash stock option compensation of $1,735, $1,784, and $1,992, in 2008, 2007 and 2006, respectively)	5,143	5,582	5,576	45,313
Business development costs (includes stock appreciation rights compensation (income) of ($1,553) and $1,560 in 2008 and 2007, respectively, and also includes non-cash stock option compensation of $85, $22, and $15, in 2008, 2007 and 2006, respectively)	(1,102)	2,008	641	6,060
Operating loss	9,591	25,735	16,046	158,067
Financial and other income, net	314	590	1,141	9,188
Loss before taxes on income	9,277	25,145	14,905	148,879
Taxes on income	(31)	(206)	227	229
Loss for the period	9,246	24,939	15,132	149,108
Basic and diluted loss per ordinary share	$ 0.03	$ 0.11	$ 0.08	
Weighted average number of shares used in computing basic and diluted loss per ordinary share	292,769,320	228,492,818	201,737,295	

\+ 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
Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2005:				
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	**
Exercise of employee stock options in 2005	—	—	3,786,825	17
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
Issuance of ordinary shares in 2005 in respect of license and purchases of assets (Note 3)	—	—	1,314,420	6
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
Balance at December 31, 2005	—	—	173,180,441	864

** 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)

	Additional paid-in capital	Deficit accumulated during the development stage	Total
Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2005 :			
Comprehensive loss - loss for the period	—	(99,791)	(99,791)
Employee stock options expenses	3,095	—	3,095
Non-employee stock option expenses	183	—	183
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
Exercise of employee stock options in 2005	1,494	—	1,511
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
Issuance of ordinary shares in 2005 in respect of license and purchases of assets (Note 3)	1,385	—	1,391
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
Balance at December 31, 2005	110,179	(99,791)	11,252

** 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 paid-in capital
	Number of shares	Amount	
Balance at December 31, 2005 -			
brought forward	173,180,441	864	110,179
Changes during 2006:			
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
Balance at December 31, 2006	220,124,349	1,072	136,611
Changes during 2007:			
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
Balance at December 31, 2007	292,654,785	1,444	146,982
Changes during 2008:			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	13
Employee stock option compensation expenses	—	—	1,885
Exercise of stock options	150,541	1	32
Return of stamp tax paid on 2004 share issuance	—	—	177
Balance at December 31, 2008	292,805,326	1,445	149,089

** 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
Balance at December 31, 2005 -		
brought forward	(99,791)	11,252
Changes during 2006:		
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
Balance at December 31, 2006	(114,923)	22,760
Changes during 2007:		
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
Balance at December 31, 2007	(139,862)	8,564
Changes during 2008:		
Comprehensive loss - loss for the period	(9,246)	(9,246)
Non-employee stock option compensation expenses	—	13
Employee stock option compensation expenses	—	1,885
Exercise of stock options	—	33
Return of stamp tax paid on 2004 share issuance	—	177
Balance at December 31, 2008	(149,108)	1,426

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 + to December 31,
	2008	2007	2006	2008
CASH FLOWS FROM OPERATING ACTIVITIES:				
Loss for the period	(9,246)	(24,939)	(15,132)	(149,108)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation and amortization	39	108	243	3,219
Linkage difference on restricted deposits	—	(2)	(10)	(9)
Acquisition of in-process research and development	—	—	—	1,783
Gain on disposal of property and equipment	(288)	(40)	(57)	(367)
Increase (decrease) in liability in respect of employee severance obligations	333	(70)	8	1,499
Impairment charges	—	105	—	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	1,898	1,947	2,180	9,303
Stock appreciation rights compensation expense (income)	(1,553)	1,560	—	7
Loss (gain) on amounts funded in respect of employee severance pay funds	4	(2)	(1)	(90)
Deferred tax asset	—	48	(48)	—
Changes in operating assets and liabilities:				
Decrease (increase) in other receivables and prepaid expenses	570	(315)	(178)	(354)
Increase (decrease) in accounts payable and accrued expenses	(2,335)	892	910	1,474
Decrease in deferred gain	—	(797)	(400)	—
Net cash used in operating activities	(10,578)	(21,457)	(12,587)	(132,622)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Decrease (increase) in short-term bank deposits	10,600	10,245	(20,845)	—
Decrease (increase) in restricted deposits	(10)	113	(52)	(62)
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)	(926)
Purchase of property and equipment	(2)	(65)	(21)	(4,109)
Proceeds from disposals of property and equipment	327	308	103	887
Acquisition in respect of license and purchase of assets	—	—	—	(548)
Net cash provided by (used in) investing activities	10,915	10,638	(20,833)	(4,294)

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+ to December 31,
	2008	2007	2006	2008
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital and warrants - net of share issuance expenses	—	8,792	24,363	137,526
Return of stamp tax paid on 2004 share issuance	177	—	—	177
Exercise of share warrants and stock options	33	4	97	2,137
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	210	8,796	24,460	139,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	547	(2,023)	(8,960)	2,924
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,377	4,400	13,360	—
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,924	2,377	4,400	2,924
Supplementary information on investing and financing activities not involving cash flows:				
Issuance of ordinary shares in respect of license and purchase of assets	—	—	—	1,391
Conversion of convertible subordinated debenture into shares	—	—	—	1,700
Supplemental disclosures of cash flow information:				
Income taxes paid, net of refunds	(260)	165	136	362
Interest paid	3	4	—	357

\+ Incorporation date, see Note 1a.

The accompanying notes are an integral part of the 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. 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 December 2008, the Company implemented a restructuring plan following the failure of its then lead clinical compound, Bicifadine, in a Phase 2b clinical trial. The remaining employees of the Company were tasked with seeking potential assets or a company to merge into XTL, or for assisting in the liquidation and/or disposition of the Company's remaining assets (see also Note 10 – Restructuring). As of December 31, 2008, the Company had no active development activities, but held a residual interest in the DOS program that was out-licensed to Presidio Pharmaceuticals, Inc. earlier in 2008.

In March 2009, the Company announced that it had entered into an asset purchase agreement with Bio-Gal Ltd. ("Bio-Gal"), a Gibraltar private company, for the rights to use a use patent on Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. The closing of the transaction is subject to certain other closing conditions including a financing (see also Note 13 – Subsequent Events).

2) In 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 (the "DOS program"). In addition, the Company also acquired from VivoQuest certain assets. In 2008, the Company out-licensed the rights to the DOS program to Presidio Pharmaceuticals, Inc. ("Presidio"), a US privately-held company.

In 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") for the treatment of diabetic neuropathic pain. In November 2008, the Company announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result the Company ceased development of Bicifadine for the treatment of diabetic neuropathic pain.

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.

3) Through December 31, 2008, the Company has incurred losses in an aggregate amount of US $149.1 million. Such losses have resulted from the Company's activities as a development stage company. It is expected that the Company will be able to finance its operations from its current reserves through July 2009. Continuation of the Company's current operations after utilizing its current cash reserves is dependent upon the generation of additional financial resources either through agreements for the commercialization of its remaining out-licensed program or through external financing. As noted above, in March 2009, the Company signed an agreement with Bio-Gal, subject to certain other closing conditions including a financing (see also Note 13 – Subsequent Events). These matters raise substantial doubt about the Company's ability to continue as a going concern.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

4) The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP").

5) 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.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As of December 31, 2008, the Company held no marketable securities.

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 consisted of the assembled workforce in respect of the license and purchase of certain assets from VivoQuest. The intangible assets were amortized using the straight- line method over its estimated useful life of three years. As of December 31, 2008, the intangible assets were fully amortized.

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.

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 (see also Note 9 – Income Taxes).

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 for development of approved projects were 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.

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use 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 Company's adoption of EITF 07-3 did not have a material effect on the Company's consolidated financial statements.

l. Revenue recognition

The Company recognized the revenue from its licensing agreements with Presidio (see Note 3) and 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 Cubist agreement was accounted for as one unit of accounting, after failing the separation criteria, and the Company recognized each payment on the Cubist agreement ratably over the expected life of the arrangement.

The Company recognizes revenue on upfront payments and milestone payments over the period of significant involvement under the related agreements unless the fee is in exchange for products delivered or services rendered that represent the culmination of a separate earnings process and no further performance obligation exists under the contract. The Company may recognize milestone payments in revenue upon the achievement of specified milestones if (1) the milestone is substantive in nature, and the achievement of the milestone was not reasonably assured at the inception of the agreement and (2) the fees are nonrefundable.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 also Note 2). Business development costs are expensed as incurred.

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 51,624,903, 48,634,047, and 34,921,782 for the years ended December 31, 2008, 2007, and 2006, 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 SFAS123R. Both the Black-Scholes model and the Monte Carlo simulation method take into account a number of valuation parameters.

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:

($ in thousands except per share amounts)	Period from March 9, 1993* to December 31, 2004
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. **Fair value measurements**

As of January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), and the related effective FSPs. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, a company uses various valuation approaches, including market, income and/or cost approaches. SFAS157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The hierarchy is broken down into three levels based on the reliability of inputs and disclosed in one of the following three categories:

Level 1 – quoted prices in active markets for identical assets and liabilities;

Level 2 – inputs other than Level 1 quoted prices that are directly or indirectly observable; and

Level 3 – unobservable inputs that are not corroborated by market data.

The adoption of SFAS 157 and the related FSP's did not have a material effect on the Company's consolidated financial position and operating results. As of December 31, 2008, the Company held cash and cash equivalents and current assets and liabilities and therefore SFAS 157 had no impact on the Company's consolidated balance sheet.

In addition, effective January 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", including an amendment of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which permits an entity to measure certain financial assets and financial liabilities at fair value. The Company has not elected the fair value option to any eligible assets or liabilities. Thus, the adoption of this Statement did not affect the company's consolidated financial position and operating results.

r. Recently issued accounting pronouncements in the United States

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R changes the accounting for business combinations. Among the more significant changes, it expands the definition of a business and a business combination, changes 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. Early application is prohibited. The Company will be required to adopt SFAS 141R on January 1, 2009. The Company is currently assessing the impact that SFAS 141R may have on its consolidated financial statements in the event of a future acquisition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. An ownership interest in subsidiaries held by parties other than the parent should be presented in the consolidated statement of financial position within equity, but separate from the parent's equity. SFAS 160 requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for similarly as equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. 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. The Company will be required to adopt SFAS 160 on January 1, 2009. The Company does not expect the adoption of this Statement to have a material effect on the Company's consolidated financial statements, since as of December 31, 2008, the Company did not have any non-controlling interests.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 will be required to adopt EITF 07-1 on January 1, 2009. The Company does not expect the adoption of EITF 07-1 to have a material effect on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 from 2008 to 2009 for all 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).

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions on legal and contractual provisions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt FSP 142-3 on January 1, 2009. The Company does not expect the adoption of this FSP to have a material effect on its Consolidated Financial Statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets," ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. A defensive intangible asset shall be assigned a useful life in accordance with paragraph 11 of Statement 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is not permitted. The Company will be required to adopt EITF 08-7 on January 1, 2009. The Company does not expect the adoption of EITF 08-7 to have a material effect on its Consolidated Financial Statements.

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 was 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 would need to 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.

In November 2008, the Company announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result the Company ceased development of Bicifadine for the treatment of diabetic neuropathic pain.

NOTE 2 - BICIFADINE TRANSACTION (continued)

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

In January 2007, XTL Development entered into a binding term sheet whereby it committed to pay a transaction advisory fee to certain third party intermediaries in connection with the DOV Transaction. In October 2008, the Company and XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the "Definitive Agreements"). Under the terms of the Definitive Agreements, the transaction advisory fee is structured in the form of Stock Appreciation Rights, or 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 on the "Date of Milestone Event." The "Date of Milestone Event" shall mean the earlier to occur of (i) positive (i.e., a statistically significant difference between the placebo arm and (x) at least one drug arm in the trial, or (y) the combined drug arms in the trial in the aggregate) results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by the Company or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain (regardless of indication or whether the study is the first such pivotal trial for Bicifadine conducted thereby), (ii) the filing of a New Drug Application for Bicifadine by the Company or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to the Company or XTL Development whereby persons or entities holding a majority of the equity interests of the Company or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. 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 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 American Depositary Receipt ("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. As of December 31, 2008, the 3% tranche was vested and the 7% tranche was not vested. In the event of the termination of the Company's license agreement for the Bicifadine compounds, any unvested SARs will expire.

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, 2008 and 2007: expected volatility of: 87% and 59%; risk-free interest rates (in dollar terms) of 2.9% and 4.2%; dividend yield of 0% and 0%; and remaining contractual life of 8 and 9 years, respectively.

NOTE 3 –VIVOQUEST AND PRESIDIO TRANSACTIONS

a. 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 (the Diversity Oriented Synthesis, or DOS program). 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. See also b. below, for the out-licensing of the DOS program in 2008.

NOTE 3 - VIVOQUEST AND PRESIDIO TRANSACTIONS (continued)

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

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

For the years ended December 31, 2008, 2007 and 2006, amortization of the assembled workforce was $11,000, $14,000 and $14,000, respectively. As of December 31, 2008, the assembled workforce was fully amortized.

b. License Agreement with Presidio Pharmaceuticals, Inc.

In March 2008, and as revised in August 2008, the Company signed an agreement to out-license the 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, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to the Company's DOS program. The Company has no further development responsibilities relating to the DOS Program. In accordance with the terms of the license agreement, the Company received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. Presidio is also obligated to pay the Company for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement. 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. The $5.94 million payment from Presidio was recorded as license revenue for the year ended December 31, 2008.

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 and $454,000 was recorded as revenue in the years ended December 31, 2007 and 2006, 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 and $54,000 was recorded as cost of revenues in 2007 and 2006, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

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

	December 31	
	2008	2007
	($ in thousands)	
Property and equipment Cost:		
Laboratory equipment	—	119
Computers	101	220
Leasehold improvements	141	141
Furniture and office equipment	61	98
	303	578
Accumulated depreciation and amortization:		
Laboratory equipment	—	115
Computers	83	172
Leasehold improvements	141	141
Furniture and office equipment	38	44
	262	472
	41	106

NOTE 5 - PROPERTY AND EQUIPMENT (continued)

b. In 2007 the Company downsized its facilities in Rehovot, Israel, and 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. 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. Subsequent to out-licensing the DOS program to Presidio, the Company completed the disposition of certain assets (primarily lab equipment) associated with the DOS program during 2008, with $327,000 in proceeds from disposals of those assets in 2008. As of December 31, 2008 and 2007, there were no assets held for sale.

c. Depreciation totaled $28,000, $94,000 and $229,000 for the years ended December 31, 2008, 2007 and 2006, 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.

b. The Subsidiary and XTL Development

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

NOTE 6 - EMPLOYEE SEVERANCE OBLIGATIONS (continued)

c. Severance

Gain (loss) on employee severance pay funds in respect of employee severance obligations totaled ($4,000), $2,000 and $1,000 for the years ended December 31, 2008, 2007 and 2006, respectively. See also Note 10 – Restructuring, regarding severance expenses incurred in 2008.

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

For the years ended December 31, 2008, 2007 and 2006, the Company contributed to insurance companies, in respect of its severance obligations to its Israeli employees, $35,000, $57,000 and $82,000, respectively, and expects to contribute, in 2009, $15,000 to insurance companies in respect of its severance obligations to its Israeli employees.

NOTE 7 - SHAREHOLDERS' EQUITY

a. Share Capital and Warrants

As of December 31, 2008, 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, 2008, 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 August 15, 2008, the Company filed a shelf registration statement on Form F-3 with the SEC that was declared effective by the SEC on September 11, 2008. When legally in effect, the registration statement provides for the offering of up to 80 million ordinary shares, which can be offered from time to time in response to market conditions or other circumstances. Due to SEC rules, the Company may no longer utilize the shelf registration statement described in this paragraph.

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.

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, 2008, 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.

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

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, 2008, the Company has granted to employees, directors and consultants options that are outstanding to purchase up to 30,825,178 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. All of the options granted under this plan expired during the year ended December 31, 2008. There are no options available for grant under this plan.

(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 4,200 are outstanding and exercisable as of December 31, 2008, 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) 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 89,800 are outstanding and exercisable as of December 31, 2008, 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.

(d) 2001 Share Option Plan
Under a share option plan established in 2001 ("the 2001 Plan"), the Company has granted options during 2001-2008, 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 7,446,177 are outstanding as of December 31, 2008. 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 three to four year period. As of December 31, 2008, 3,681,952 options are fully vested. As of December 31, 2008, the remaining number of options available for future grants under the 2001 Plan is 2,872,273.

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(e) Non-Plan Share Options
In addition to the options granted under the Company's share option plans, there are 23,285,001 outstanding options, and 10,725,010 exercisable options, as of December 31, 2008, which were granted by the Company to employees, directors and consultants not under an option plan during 1997-2008. The options were granted at an exercise price between $0.198 and $2.110 per ordinary share. The options expire between 2009 and 2018.

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					
	2008		2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$		$
Balance outstanding at beginning of year	28,434,947	0.62	32,475,238	0.63	24,268,975	0.59
Changes during the year:						
Granted[1]	9,565,300	0.26	9,620,000	0.36	11,740,000	0.70
Exercised[2]	(32,833)	0.11	(45,416)	0.11	(277,238)	0.35
Cancelled	—	—	(9,250,000)	0.35	—	—
Reclassified[3]	—	—	—	—	(125,000)	0.25
Expired	(4,523,822)	0.62	(3,947,536)	0.70	(2,074,505)	0.60
Forfeited	(3,259,441)	0.41	(417,339)	0.60	(1,056,994)	0.57
Balance outstanding at year end[4]	30,184,151	0.53	28,434,947	0.62	32,475,238	0.63
Balance exercisable at year end[4]	14,084,935	0.59	12,477,311	0.72	14,145,370	0.72

1 In 2008, the exercise price of the options granted to employees and directors was equal to the share price on the grant date. In 2007, 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 2006, 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).

2 The total intrinsic value of options exercised during 2008, 2007 and 2006 was $12,000, $14,000 and $167,000, respectively.

3 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.

4 The aggregate intrinsic value as of December 31, 2008 is $0 for outstanding options, and $0 for exercisable options.

The following table summarizes information about stock options granted to employees and directors outstanding and exercisable at December 31, 2008:

	Options outstanding			Options exercisable		
Range of exercise prices	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	4,878,301	9.5	$ 0.206	3,344,420	9.4	$ 0.198
$0.300-$0.399	14,195,559	1.7	$ 0.347	5,153,834	1.5	$ 0.349
$0.400-$0.499	54,200	2.3	$ 0.497	54,200	2.3	$ 0.497
$0.500-$0.699	2,170,291	2.7	$ 0.600	1,507,791	2.1	$ 0.600
$0.700-$0.899	7,199,400	7.1	$ 0.776	2,338,290	6.8	$ 0.781
$0.900-$1.100	411,400	0.9	$ 0.968	411,400	0.9	$ 0.968
$2.110	1,275,000	1.7	$ 2.110	1,275,000	1.7	$ 2.110
	30,184,151	4.3	$ 0.528	14,084,935	4.3	$ 0.590

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(a) In December 2007, the Company canceled 9,250,000 options that were granted to its then 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, 2008, 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). With the resignation of the Chairman in March 2009, the remaining unvested options were forfeited in 2009 (see also Note 13 – Subsequent Events).

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 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 options were to 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, 2008, 666,667 options that were granted to one of the Company's non-executive directors were vested (the first market condition milestone was reached and therefore 1/3 of the options were vested). With the resignation of the non-executive director in November 2008, the remaining unvested options were forfeited, and the remaining vested portion expired in February 2009. The compensation expenses were 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.

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, 2008, 2,138,890 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. Upon the imminent departure of the CEO, the unvested market and performance condition options shall be forfeited.

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 October 2008, the Company's shareholders granted options to directors to purchase 4,700,000 ordinary shares, at an exercise price equal to $0.198 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten) of which 2,916,668 options were vested immediately on issuance. The options are exercisable for a period of ten years from date of grant.

In August 2008, the Company granted options to a non-executive director to purchase 20,000 ordinary shares, at an exercise price equal to $0.368 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 July 2008, the Company's shareholders granted options to a non-executive director to purchase 300,000 ordinary shares, at an exercise price equal to $0.350 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 March 2008, the Company's board of directors granted options to an employee to purchase a total of 250,000 ordinary shares at an exercise price equal to $0.319 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.

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

In January 2008, the Company's board of directors granted options to its employees to purchase a total of 4,295,300 ordinary shares at an exercise price equal to $0.315 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 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.

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, 2008, 2007 and 2006: weighted average expected volatility of: 72%, 51% and 48%, respectively; weighted average risk-free interest rates (in dollar terms) of 2.4%, 4.6% and 5.0%, respectively; dividend yield of 0%, respectively; and weighted average expected life of 3.7, 6.0 and 5.7 years, respectively. The weighted average fair value of options granted during the years ended December 31, 2008, 2007 and 2006 using the model was $0.13, $0.20 and $0.27 per option, respectively.

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

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, 2008, 2007 and 2006, non-cash compensation relating to options granted to employees and directors was $1,885,000 (of which $78,000 was charged to research and development costs, $1,722,000 was charged to general and administrative expenses and $85,000 was charged to business development costs), $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), and $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), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2008 was $2,469,000, and the weighted average period over which it is expected to be recognized is 1.3 years.

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					
	2008		2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$		$
Balance outstanding at beginning of year	732,708	0.35	760,000	0.31	525,000	0.33
Changes during the year:						
Granted[1]	360,000	0.31	150,000	0.37	120,000	0.29
Exercised	(117,708)	0.25	—	—	—	—
Reclassified[2]	—	—	—	—	125,000	0.25
Expired	(150,000)	0.20	—	—	(10,000)	0.50
Forfeited	(183,973)	0.34	(177,292)	0.20	—	—
Balance outstanding at year end[3]	641,027	0.38	732,708	0.35	760,000	0.31
Balance exercisable at year end[3]	416,027	0.42	507,708	0.35	448,334	0.36

1 The options exercise price was equal to the share price on the grant date.

2 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.

3 The aggregate intrinsic value as of December 31, 2008 is $0 for outstanding options, and $0 for exercisable options.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	Options outstanding			Options exercisable		
Range of exercise prices	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	57,056	1.0	$ 0.286	57,056	1.0	$ 0.286
0.300-0.399	388,971	7.2	$ 0.322	163,971	4.6	$ 0.331
0.500-0.699	195,000	3.0	$ 0.538	195,000	3.0	$ 0.538
	641,027	5.4	$ 0.384	416,027	3.4	$ 0.422

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 2008: weighted average expected volatility of 67%; weighted average risk-free interest rates (in dollar terms) of 2.8%, dividend yield of 0%, and weighted average expected life of 3.8 years. The weighted average fair value of options granted during the year using the model was $0.16 per option. 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, 2008, 2007 and 2006, non-cash compensation relating to options granted to consultants were $13,000 (of which $0 was charged to research and development costs, $13,000 was charged to general and administrative expenses and $0 was charged to business development costs), $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), and $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), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2008 was $0, and the weighted average period over which it is expected to be recognized is 0 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. In November 2008, the Company announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result the Company ceased development of Bicifadine.

XTL Development is also committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction (see also 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. Pursuant to the Company's out-licensing agreement, Presidio is obligated to pay the Company for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement (see also Note 3).

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").

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 Office of the Chief Scientist of the Government of Israel (the "OCS"). As of December 31, 2007, the maximum amount of the contingent liability in respect of royalties related to those projects to the OCS was $17,426,000. As of December 31, 2008, there were no further contingent liability owed to the OCS.

b. Operating lease commitments

1) The Company leases its office space in Israel and the United States under lease agreements that expire through 2009. Future minimum rental payments under these agreements are $440,000 in 2009 (See also Note 13 – Subsequent Events).

To secure the lease agreement in Israel, the Company provided a bank guarantee in the amount of $68,000 linked to the Israeli Consumer Price Index ("CPI"). As of December 31, 2008, the guarantee is secured by a pledge on restricted deposits amounting to $71,000 (December 31, 2007 - $61,000), renewing automatically on a quarterly and semi-annual basis at a weighted average rate of 2.1%, which is included in the balance sheet as restricted deposits.

Rental expenses for the years ended December 31, 2008, 2007 and 2006 were $500,000, $607,000 and $755,000, respectively.

2) The Company leases two vehicles under the terms of certain operating lease agreements that expire in 2010, aggregating $24,000 ($17,000 in 2009 and $7,000 in 2010). Vehicle lease expense for the years ended December 31, 2008, 2007 and 2006 were $26,000, $15,000 and $41,000, respectively.

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"). Through December 31, 2007, the Company was taxed under this law. Results for tax purposes were measured on a real basis and were 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).

Under the Israel Income Tax Law (Adjustments for Inflation) (Amendment No. 20), 2008 (hereinafter - the Amendment), the provisions of the Adjustments Law will no longer apply to the Company in the 2008 tax year and thereafter, and therefore, the results of the Company will be measured for tax purposes in nominal terms. The amendment includes a number of transition provisions regarding the end of application of the Adjustments Law, which applied to the company through the end of the 2007 tax year.

NOTE 9 - INCOME TAXES (continued)

Tax rates in Israel applicable to income

For the years ended December 31, 2008, 2007, and 2006, the corporate rates were 27%, 29% and 31%, respectively. The corporate tax rates thereafter are as follows: 2009 – 26% and for 2010 and thereafter – 25%.

US Federal Income Tax Consequences

As of December 31, 2008, the Company had a "permanent establishment" in the US, which began in 2005 due to the residency of the former Chairman of the Board of Directors and the Chief Executive Officer in the US. Any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if the Company was 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. As of the signing date of the these financial statements, there was a change in the Company's Board and senior management composition, such that the residence of the Company's newly appointed Chairman of the Board and its Co-Chief Executive Officer were outside of the United States as of the end of the first quarter of 2009.

As of December 31, 2008, the Company did not earn any taxable income for US federal 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, subject to limitation in the case of shifts in ownership of the Company, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period. For the year ended December 31, 2008, the Company was subject to a State franchise tax of $10,000 in regards to the 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, 2008 are approximately $153.5 million, 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 and, possibly, branch profit taxes. If this is the case, the Company may not be able to utilize any of the accumulated Israeli loss carryforwards as of December 31, 2008, since these losses were not attributable to the US permanent establishment.

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 2008, the group will file a carryback claim for those losses to the year ended December 31, 2004 in order to receive a refund for US federal income taxes paid for that year. Similarly, because the group consisting of the Subsidiary and XTL Development had incurred net operating losses for 2007, the group filed a carryback claim for those losses to the years ended December 31, 2006 and 2005, and in 2008 received a refund for US federal income taxes paid for those years. These refunds are reflected on the Company's consolidated balance sheet in "other receivables and prepaid expenses."

Prior to 2007, the Subsidiary had incurred taxable income and recorded tax expenses. As of December 31, 2008, Subsidiary and XTL Development have consolidated net operating losses of $13.4 million, expiring through 2028.

The following tables summarize the taxes on income for the Company and its subsidiaries for 2008, 2007 and 2006:

	2008 ($ in thousands)		2007 ($ in thousands)		2006 ($ in thousands)	
	Company	Subsidiaries[1]	Company	Subsidiaries[1]	Company	Subsidiaries[1]
Net loss (income) before income taxes	514	8,763	10,354	14,791	15,363	(458)
Income taxes (benefit)	10	(41)	—	(206)	—	227
Net loss (income) for the year	524	8,722	10,354	14,585	15,363	(231)

[1]Subsidiaries include Subsidiary and XTL Development for the years ended December 31, 2008 and 2007, and includes Subsidiary for the year ended December 31, 2006.

Subsidiaries[2]	2008	2007	2006
	($ in thousands)		
Income taxes for the reported year:			
Current	(41)	(254)	275
Deferred (in respect of the reporting period)	—	48	(48)
	(41)	(206)	227

[2]Subsidiaries include Subsidiary and XTL Development for the years ended December 31, 2008 and 2007, and includes Subsidiary for the year ended December 31, 2006.

d. Deferred income taxes

The composition of the deferred tax assets at balance sheets dates are as follows:

	December 31, 2008	December 31, 2007
	($ in thousands)	
Deferred tax assets:		
In respect of tax loss carryforwards	43,818	38,003
Research and development	749	2,206
Intangible assets due to different amortization methods	2,778	2,890
Stock appreciation rights compensation	3	624
Property and equipment	56	63
Employee related provisions	889	380
Other temporary differences	8	3
Net deferred tax asset, excluding valuation allowance	48,301	44,169
Less valuation allowance	(48,301)	(44,169)
Net deferred tax assets	$ —	$ —

NOTE 9 - INCOME TAXES (continued)

The changes in the valuation allowances for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
		($ in thousands)	
Balance at the beginning of the year	44,169	32,700	25,239
Change during the year	4,132	11,469	7,461
Balance at end of year	48,301	44,169	32,700

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:

	2008	2007	2006
		($ in thousands)	
Loss before income taxes as reported in the consolidated statement of operations	9,277	25,145	14,905
Computed "expected" tax benefit	(2,505)	(7,292)	(4,621)
Increase (decrease) in income taxes resulting from:			
Change in the balance of the valuation allowance for deferred tax assets allocated to income tax expense (mainly in respect of carryforward tax losses)	4,132	11,469	7,461
Permanent differences	405	761	1,284
Differences in the basis of measurement for tax purposes (Israeli CPI) and for financial reporting purposes (dollar) and other	(1,450)	(4,404)	(3,911)
Effect of foreign operations	(613)	(740)	14
Income taxes as reported	(31)	(206)	227

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 2004 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 Subsidiary tax returns, the general three year statute of limitations has expired for years prior to and including 2004. Tax years 2005 through 2008 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process, and the Company and Subsidiary have 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.

NOTE 10 - RESTRUCTURING

During the first half of 2008, the Company terminated the employment of 11 research and development employees in the DOS program, which was out-licensed to Presidio in 2008. As a result, the Company incurred a charge of $191,000 in research and development during 2008 related to employee dismissal costs, all of which were paid in 2008.

In December 2008, the Company implemented a restructuring plan following the failure of the Bicifadine Phase 2b clinical trial. The Company notified nine of its remaining employees (six in research and development, two in general and administrative and one in business development) that they will be terminated, representing approximately 75% of its remaining workforce. In addition, in December 2008, the Company announced that its Chief Executive Officer would be departing the Company in 2009. The remaining employees were tasked with seeking potential assets or a company to merge into XTL, or for assisting in the liquidation and/or disposition of XTL's remaining assets. As a result, the Company took a charge of $420,000 in 2008 relating to employee dismissal costs, $110,000 of which was included in research and development costs, $305,000 of which was included in general and administrative expenses and $5,000 was included in business development expenses.

As of December 31, 2008, 5 employees left the Company under the 2008 Restructuring and $0 of dismissal costs were paid. As of December 31, 2008 approximately $420,000 in employee dismissal obligations were included in liability in respect to employee severance obligations, which were all subsequently paid in the first quarter of 2009.

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Short-term bank deposits

There were no short-term bank deposits as of December 31, 2008. For the year ended December 31, 2007, the short-term deposits were denominated in dollars and bore a weighted average annual interest rate of 4.89%.

b. Other receivables and prepaid expenses:

	December 31	
	2008	2007
	($ in thousands)	
Prepaid expenses (research and development)	73	440
Prepaid expenses (general and administrative)	138	113
Value added tax authorities	69	21
Interest receivable	**	61
Income taxes receivable	49	270
Other	25	19
	354	924

** Represents an amount less than $1,000

c. Accrued expenses:

Accrued expenses	899	1,116
Accrued compensation and related liabilities	159	549
	1,058	1,665

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued)

d. Financial and other income - net

	Year ended December 31			March 9, 1993 to December 31,
	2008	2007	2006	2008
	($ in thousands)			
Interest income	317	668	1,058	11,271
Interest expense	(3)	(4)	—	(381)
Foreign exchange differences-gain (loss)	14	(10)	2	(1,751)
Gain (loss) from trading securities*	—	(48)	2	(47)
Other income*	—	—	100	100
Other expense	(14)	(16)	(21)	(4)
	314	590	1,141	9,188

* 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, Oragenics Inc. ("Oragenics") 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 Oragenics shares outstanding). Oragenics' 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 Oragenics at December 31, 2006 was recorded on the Company's balance sheet under trading securities. During 2007, the Company disposed of the Oragenics stock.

NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Linkage terms of balances in non-dollars currency

1) As follows:

	December 31, 2008	
	Israeli currency Unlinked	Other
	($ in thousands)	
Assets	97	2
Liabilities	161	2

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:

	Year ended December 31		
	2008	2007	2006
Devaluation (evaluation) of the Israeli currency against the dollar	(1.1)%	(9.0)%	(8.2)%
Changes in the Israeli CPI	3.8%	3.4%	(0.1)%
Exchange rate of one dollar (at end of year)	NIS 3.802	NIS 3.846	NIS 4.225

b. 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.

NOTE 13 - SUBSEQUENT EVENTS

On April 6, 2009, the Company's wholly owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. The Company believes that the notice provided a clear indication of the termination of XTL Biopharmaceuticals, Inc.'s obligations under the lease, effective as of the date of the notice. In addition, XTL Biopharmaceuticals, Inc. informed Suga Development that upon receipt of the notice, they should use their best effort to re-rent the premises and to mitigate any damages. There can be no assurance that the landlord will not dispute the termination of the lease, and attempt to hold XTL Biopharmaceuticals, Inc. responsible for the full amount of all future unpaid lease payments, approximately $335,000.

On March 18, 2009, the Company announced that it had entered into an asset purchase agreement with Bio-Gal Ltd, a Gibraltar private company, for the rights to a use patent on Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. In accordance with the terms of the asset purchase agreement, XTL will issue Bio-Gal Ltd. ordinary shares representing just under 50% of the then current issued and outstanding share capital of the Company. In addition, XTL will make milestone payments of approximately $10 million in cash upon the successful completion of a Phase 2 clinical trial. The Company's Board of Directors may, in its sole discretion, issue additional ordinary shares to Bio-Gal Ltd in lieu of such milestone payment. XTL is also obligated to pay 1% royalties on net sales of the product. The closing of the transaction is subject to certain conditions including XTL's and Bio-Gal's shareholders' approvals, as well as completion of a financing. Closing is expected to take place in the second or third quarter of 2009. The Company is currently evaluating the impact of the transaction on its financial results.

On March 18, 2009, at an Extraordinary General Meeting (the "Meeting"), a new slate of board members was elected to the Company's Board of Directors. Following the first Meeting, the Company's former Board members all resigned from XTL's Board of Directors.

As a result of the resignation of the former directors, 1,443,874 options that were granted to the former directors in 2008 were forfeited, and the remaining 3,576,126 vested options granted to the former directors in 2008 will expire three months thereafter. Similarly, with the resignation of the Company's former Chairman on March 18, 2009, 3,083,333 options that were granted to him in December 2007 at an exercise price of $0.36 per option will expire three months thereafter and the remaining 6,166,667 unvested options granted to him in December 2007 at an exercise price of $0.36 per option were forfeited.

In addition, the Company's shareholders approved the following resolutions at the Meetings:

1. THAT the share capital of the Company be consolidated and re-divided so that each five (5) shares of NIS 0.02 nominal value shall be consolidated into one (1) share of NIS 0.1 nominal value.

2. THAT the registered share capital of the Company be increased from NIS 10,000,000 divided into 100,000,000 ordinary shares, NIS 0.1 nominal value, to NIS 70,000,000 divided into 700,000,000 ordinary shares, NIS 0.1 nominal value.

3. THAT the ADR ratio be amended from one (1) ADR representing two (2) ordinary shares, NIS 0.1 nominal value, to one (1) ADR representing twenty (20) ordinary shares, NIS 0.1 nominal value.

With the approval of the shareholders, the Company will take the necessary steps to implement and effect the reverse split, increase in registered share capital and the ratio change of the Company's ADRs.

NOTE 13 - SUBSEQUENT EVENTS (continued)

On January 27, 2009, the Company received a Staff Determination Letter (the "Letter") from The Nasdaq Stock Market ("Nasdaq") notifying the Company that the staff of Nasdaq's Listing Qualifications Department determined, using its discretionary authority under Nasdaq Marketplace Rule 4300, that the Company's American Depository Shares ("ADRs") would be delisted from Nasdaq. The Letter further stated that Nasdaq would suspend trading in the Company's ADRs at the opening of trading on February 5, 2009 and then file a Form 25-NSE with the Securities and Exchange Commission ("SEC") to deregister the Company's ADRs, unless the Company appeals Nasdaq's delisting determination. Nasdaq's determination to delist the ADRs was based on Nasdaq's belief that the Company was a public shell and that the Company does not meet the stockholder's equity requirement or any of its alternatives. The Letter also indicated that, in accordance with the procedures set out in Marketplace Rule 4800 Series, the Company would have seven (7) calendar days, or until February 3, 2009, to appeal the delisting from Nasdaq to a Listing Qualifications Panel. On February 3, 2009, the Company appealed the determination by the Nasdaq Listing Qualification Staff to delist the Company’s American Depository Shares from the Nasdaq Capital Market. On March 19, 2009, the Company participated in an oral hearing before the Nasdaq Hearings Panel (the “Panel”). Nasdaq’s delisting action has been stayed, pending a final written determination by the Panel following the hearing. At the hearing, the Company presented its plan to remedy its “public shell” determination and for future compliance with all other applicable Nasdaq listing requirements.

CONFIDENTIAL TREATMENT REQUESTED . Confidential portions of this document have been redacted and have been separately filed with the Commission.

Exhibit 10.37

Execution Version

AMENDED AND RESTATED

LICENSE AGREEMENT

By and Between

PRESIDIO PHARMACEUTICALS, INC.

And

XTL BIOPHARMACEUTICALS LTD.

TABLE OF CONTENTS

* *****Confidential material redacted and filed separately with the Commission.

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Exhibits:

Exhibit A – Assigned Contracts
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 Original Effective Date and the Restatement Date
Exhibit E – Series 2-4 Patent Rights as of the Original Effective Date and the Restatement Date
Exhibit F – Press Release
*****

* *****Confidential material redacted and filed separately with the Commission.

AMENDED AND RESTATED LICENSE AGREEMENT

This Amended and Restated License Agreement (this "Agreement"), dated the 4th day of August, 2008 (the "Restatement 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. Effective as of March 19, 2008 (the "Original Effective Date"), XTL and PRESIDIO entered into a License Agreement (the "Original License Agreement") pursuant to which XTL granted to PRESIDIO certain rights and licenses to the Licensed Compounds, Licensed Patent Rights and Licensed Technology to develop and commercialize certain products.

4. XTL and PRESIDIO now desire to amend and restate the Original License Agreement in its entirety with this Agreement to reflect the matters contemplated by XTL and PRESIDIO as hereinafter set forth.

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.

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 *****.

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 the Original License Agreement or 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 the Original License Agreement or this Agreement) of the ability to grant access to, or a license or sublicense of, such rights or property as contemplated under the Original License Agreement or this Agreement, as applicable.

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.

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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 "EMEA". EMEA 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 Original Effective Date or during the term of the Original License Agreement or 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 Original Effective Date or during term of the Original License Agreement or 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;

(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 ***** after PRESIDIO notifies XTL of such determination. If XTL notifies PRESIDIO that XTL disagrees with such determination within such ***** 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 ***** 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 *****.

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.

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* *****Confidential material redacted and filed separately with the Commission.

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.

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.

* *****Confidential material redacted and filed separately with the Commission.

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"), attached hereto as Exhibit B.

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, attached hereto as Exhibit B.

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:

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* *****Confidential material redacted and filed separately with the Commission.

Definitions	Section
Agreement	Preamble
Apath License Agreement	Exhibit A
Breaching Party	9.2
Combination Product	1.28
CPR	10.2
ICDR	10.3(a)
Indemnified Party	11.1(c)
Indemnifying Party	11.1(c)
Invalidity Claim	6.4
Knowledge	8.5
Original Effective Date	Preamble
Original License Agreement	Preamble
PRESIDIO	Preamble
Restatement Date	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 Original 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 period commencing as of the Original Effective Date and continuing through 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 period commencing as of the Original Effective Date and continuing through 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 Original 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.

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 Original Effective Date and the Restatement 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 acknowledges and agrees that XTL was obligated under the Original License Agreement to deliver, and to cause XTL's Affiliates to deliver, to PRESIDIO, commencing promptly following the Original 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 was obligated to complete, and to 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 Original Effective Date (the "Technology Transfer Period"). XTL was obligated to make ***** reasonably available to PRESIDIO until May 31, 2008, and ***** reasonably available to PRESIDIO *****, 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 were obligated to 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 Original 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 under the Original License Agreement or under this Agreement or amend any other contractual rights or obligations of either Party under the Original License Agreement or 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.

* *****Confidential material redacted and filed separately with the Commission.

(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 six (6) month 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.

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

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(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. The Parties acknowledge and agree that a one-time, non-refundable license payment of Three Million Nine Hundred Forty Thousand Dollars ($3,940,000) was previously paid by PRESIDIO to XTL pursuant to Section 5.1 of the Original License Agreement. In addition to the foregoing payment, in consideration of the execution and delivery of this Agreement, PRESIDIO shall make the following non-refundable payments to XTL on or before the dates indicated for payment: (i) within seven (7) days following the Restatement Date, PRESIDIO shall pay XTL Five Hundred Thousand Dollars ($500,000), and (ii) on or before September 26, 2008, PRESIDIO shall pay XTL One Million Five Hundred Thousand Dollars ($1,500,000).

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 ***** 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 ***** 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 ***** after the achievement of the relevant milestone event. *****

* *****Confidential material redacted and filed separately with the Commission.

	*****	*****	*****
*****		*****	*****
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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.

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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) *****

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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 and not, *****. 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 ***** 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 fifty percent (50%) 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 Sixty Thousand Dollars ($60,000) required to be paid under the Apath License Agreement as a "Retroactive Fee" (as defined in the Apath License Agreement), it being understood that the amount of such Retroactive Fee has been accounted for in the calculation of the upfront license payment set forth in Section 5.1.

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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, (i) *****

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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* *****Confidential material redacted and filed separately with the Commission.

(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 ***** 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.

* *****Confidential material redacted and filed separately with the Commission.

(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 at any time during the period commencing as of the Original Effective Date and continuing through 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.

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(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:

(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.

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Article VII
Confidentiality

Section 7.1 Confidential Information. All Confidential Information disclosed by a Party to the other Party during the period commencing on the Original Effective Date and continuing through 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 a mutually agreed joint press release announcing the execution of this Agreement, a copy 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.

(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 ***** years 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 it had, as of the Original Effective Date, and has, as of the Restatement Date, full right, power and authority to enter into the Original License Agreement and this Agreement, respectively, and to perform its respective obligations under the Original License Agreement and this Agreement, respectively.

Section 8.2 Consents. PRESIDIO and XTL each represents and warrants that, as of the Original Effective Date and the Restatement 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 the Original License Agreement and this Agreement, respectively, have been obtained.

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* *****Confidential material redacted and filed separately with the Commission.

Section 8.3 No Conflict. PRESIDIO and XTL each represents and warrants that, as of the Original Effective Date and the Restatement Date, the execution and delivery of the Original License Agreement and 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 Original Effective Date or the Restatement Date, as applicable.

Section 8.4 Employee, Director, Consultant and Advisor Obligations. PRESIDIO and XTL each represents and warrants that, as of the Original Effective Date and the Restatement 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, as of the Original Effective Date and the Restatement Date (unless otherwise specifically stated below):

(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 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 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, 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;

(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 was a party as of the Original Effective Date (or, solely with respect to the Assigned Contracts, immediately prior to the Original 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 the Original Effective Date (or, solely with respect to the Assigned Contracts, immediately prior to the Original Effective Date) and the Restatement Date, was or is, as applicable, 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 were as of the Original Effective Date and are as of the Restatement Date, and all Assigned Contracts were as of the Original Effective Date, in full force and effect, and XTL and/or its Affiliates were or are, as applicable, in full compliance with the terms of such agreements *****, no dispute existed or presently exists, as applicable, 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 was and is, as applicable, no basis for any such claim of breach or dispute;

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* *****Confidential material redacted and filed separately with the Commission.

(o) During the period commencing on the Original Effective Date and ending continuing through 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) As of the Original Effective Date, XTL and its Affiliates had obtained all necessary consents to assign the Assigned Contracts to PRESIDIO hereunder;

(q) To the Knowledge of XTL, all written statements and other writings furnished by XTL or its Affiliates pursuant to or in connection with the Original License Agreement or this Agreement or the transactions contemplated thereby and hereby are complete and accurate in all material respects. No representation or warranty by XTL in the Original License Agreement contained, and 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 Original Effective Date and ***** as of the Restatement Date, as the case may be. 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.

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Article IX
Term and Termination

Section 9.1 Term. This Agreement became effective as of the Original 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.

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.

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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).

(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:

* *****Confidential material redacted and filed separately with the Commission.

(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.

(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:

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* *****Confidential material redacted and filed separately with the Commission.

(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 ***** following such referral. If the Senior Executives cannot resolve such dispute within such ***** period, then either Party may make a written demand for formal dispute resolution pursuant to Section 10.2.

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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 ***** 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 ***** 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 ***** 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 ***** 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 ***** 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 ***** 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.

(d) The arbitrator shall use his or her best efforts to rule on each disputed issue within ***** 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.

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* *****Confidential material redacted and filed separately with the Commission.

(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 Original Effective Date, 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.

(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 Original Effective Date (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 ***** 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.

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* *****Confidential material redacted and filed separately with the Commission.

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, including without limitation the Original License Agreement (except as set forth in Section 11.10 below). 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

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 ***** 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. For purposes of clarity, except as expressly set forth hereunder, nothing in this Agreement (including without limitation the execution or performance hereof) shall be construed as a waiver by either Party of any rights or claims that such Party may have under the Original License Agreement arising during the period commencing as of the Original Effective Date and ending on the Restatement Date.

* *****Confidential material redacted and filed separately with the Commission.

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 Amended and Restated License Agreement as of the Restatement Date.

PRESIDIO PHARMACEUTICALS, INC.

By: _____

Name: _____

Title: _____

XTL BIOPHARMACEUTICALS LTD.

By: _____

Name: _____

Title: _____

Exhibit A

Assigned Contracts

*****

*****

*****

Copies of the foregoing contracts have been provided by XTL to PRESIDIO as of the Original Effective Date.

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* *****Confidential material redacted and filed separately with the Commission.

Exhibit B

VivoQuest Agreements

Copies of the VivoQuest License Agreement and the VivoQuest Asset Purchase Agreement have been provided by XTL to PRESIDIO as of the Original Effective Date.

Exhibit C

Series 1, 2, 3 and 4 Compounds in XTL Database and Other Records

*****.

* *****Confidential material redacted and filed separately with the Commission.

Exhibit D

Series 1 Patent Rights as of the Original Effective Date and the Restatement Date

*****

* *****Confidential material redacted and filed separately with the Commission.

Exhibit E

Series 2-4 Patent Rights as of the Original Effective Date and the Restatement Date

*****

* *****Confidential material redacted and filed separately with the Commission.

Exhibit F

Press Release

See attached.

Exhibit G

*****

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* *****Confidential material redacted and filed separately with the Commission.

CONFIDENTIAL TREATMENT REQUESTED . Confidential portions of this document have been redacted and have been separately filed with the Commission.

Exhibit 10.43

ASSET PURCHASE AGREEMENT

dated as of

March 18, 2009

between

XTL BIOPHARMACEUTICALS LTD

as Buyer,

and

BIO-GAL LIMITED

as Seller

TABLE OF CONTENTS

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement"), entered into as of March 18, 2009, is by and between XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel ("Buyer"), and Bio-Gal Limited, a private company limited by shares organized under the laws of Gibraltar ("Seller"). Capitalized terms used in this Agreement shall have the meanings ascribed to them in Article VII.

WHEREAS, Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, certain of the assets of Seller on the terms and subject to the conditions set forth herein;

WHEREAS, Seller is party to the Research and License Agreement, dated as of January 7, 2002, as amended from time to time (the "Yeda License"), between Mor Research Applications Ltd., an Israeli corporation and Yeda Research and Development Company Ltd., an Israeli corporation (collectively, "Yeda") ;

WHEREAS, Seller has performed certain research and development studies in relation to the subject matter of the Yeda License, as more fully detailed in Appendix A attached hereto (the "Clinical Studies"; the Yeda License and the Clinical Studies shall herein after collectively be referred to herein as the "Seller's Assets");

WHEREAS, Seller wishes to transfer, convey and assign all of its rights and benefits under the Acquired Assets, and Buyer wishes to acquire the Acquired Assets and assume all of Seller's obligations under the Yeda License; and

NOW, THEREFORE, in consideration of the premises, and the covenants, promises, representations and warranties set forth herein, and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by the parties), intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.1 Purchase and Sale of Assets. At the Closing, upon and subject to the terms and conditions of this Agreement, (a) Buyer shall purchase from Seller, and Seller shall sell, transfer, convey, assign and deliver to Buyer, all of its right, title and interest in, to and under the Acquired Assets, in each case free and clear of all Liens, by delivery of one or more Bills of Sale in substantially the form set forth in Exhibit B hereto, and an Assignment and Assumption Agreement in substantially the form set forth in Exhibit C hereto and such other instruments of transfer and title as Buyer may otherwise reasonably request, in each case in form and substance reasonably acceptable to Buyer and Seller, and (b) Seller shall deliver to Buyer, or otherwise put Buyer in possession and control of, all of the Acquired Assets of a tangible nature.

1.2 Assumption of Liabilities. At the Closing, on the terms and subject to the conditions set forth in this Agreement, Buyer shall assume, effective as of the Closing, those Liabilities that arise out of the ownership or use by Buyer and its Subsidiaries of, or the exercise by Buyer and its Subsidiaries of rights under, the Acquired Assets (and that relate to periods) after the Closing (collectively, the "Assumed Liabilities") and no other Liabilities.

1.3 Retained Liabilities. Buyer shall not assume or be liable for any Retained Liabilities. "Retained Liabilities" mean all Liabilities of Seller and its Subsidiaries other than Assumed Liabilities, including all Liabilities in the following categories:

(a) Liabilities that arise out of or relate to the ownership or use of, or the exercise of rights under, the Acquired Assets by Seller and its Subsidiaries prior to the Closing;

(b) Liabilities in respect of any and all products sold and/or services performed by Seller and its Subsidiaries prior to the Closing;

(c) Liabilities in respect of a breach or nonperformance by or default of Seller or any of its Subsidiaries occurring prior to the Closing;

(d) Liabilities arising out of, under or in connection with any Indebtedness of Seller or any of its Subsidiaries;

(e) Liabilities of Seller and its Subsidiaries in respect of any pending or threatened Action or Proceeding or claim to the extent arising out of, relating to, or otherwise in respect of the ownership or use of, or the exercise of rights under, the Acquired Assets prior to the Closing; and

(f) Liabilities relating to amounts required to be paid by Seller hereunder.

1.4 Purchase Price.

(a) The aggregate purchase price to be paid by Buyer for the Acquired Assets shall be as follows: (i) upon the Closing - the issuance to the Seller of ***** Ordinary Shares, NIS 0.10 each, of the Buyer, representing *****% of the current issued and outstanding share capital of the Buyer , for no consideration, and subject to the terms and conditions herein (the "Initial Shares"), and (ii) upon the Successful Completion of Phase 2 – the payment of an amount of US$10,000,000 to the Seller (the "Milestone Payment"). The Milestone Payment shall be paid by the Buyer to the Seller within thirty (30) days from the Successful Completion of the Phase2. Notwithstanding the aforesaid, the Buyer may decide, at its sole and absolute discretion, to issue to the Seller an additional amount of ***** Ordinary Shares, NIS 0.10 each of the Buyer, for no consideration, in lieu for the payment of the Milestone Payment (the "Additional Shares"). In the event that the Buyer did not issue the Additional Shares to the Seller within such thirty (30) days from the Successful Completion of the Phase2, then the Buyer will be obligated to make the Milestone Payment.

* *****Confidential material redacted and filed separately with the Commission.

(b) Seller acknowledges that the Shares are being acquired pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act") and that the Shares may be transferred only pursuant to an effective registration statement or an exemption from registration under the Securities Act. Seller represents that it is familiar with Rule 144 under the Securities Act. Seller shall not be permitted to transfer any Shares in the absence of an effective registration statement unless Seller has furnished Parent with an opinion of counsel, reasonably satisfactory to Parent, that such disposition does not require registration of such Shares under the Securities Act. It is agreed that Parent will not require opinions of counsel for transfers made pursuant to Rule 144 if Parent is provided with any certificates or other evidence of compliance with Rule 144 reasonably required by it in connection with such transfer (including without limitation a copy of the relevant Form 144). In connection with a resale of Shares pursuant to Rule 904 under the Securities Act, Purchaser shall provide reasonable assistance to Seller in addressing any questions that may arise as to the mechanics of transferring Shares in accordance with the requirements of such rule and in issuing appropriate instructions to the transfer agent for the Shares. Seller acknowledges that securities transferred pursuant to said Rule 904 continue to have the status of "restricted securities" and that the certificates representing Shares transferred pursuant to such rule shall continue to bear a restrictive legend.

(c) It is understood that the certificates evidencing the Shares may bear a legend to the following effect:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT THERETO OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTES OF SUCH ACT.

(d) The certificates evidencing the Shares may also bear any legends required by applicable blue sky laws.

(e) The Buyer shall prepare and, as soon as practicable, but in no event later than ***** days from the Closing, file with the Commission a Registration Statement covering the resale of all of the Initial Shares for an offering to be made on a continuous basis pursuant to Rule 415. In the event that the Buyer shall issue to the Seller the Additional Shares, the Buyer shall prepare and, as soon as practicable, but in no event later than ***** days from such issuance, file with the Commission a Registration Statement covering the resale of all of the Additional Shares for an offering to be made on a continuous basis pursuant to Rule 415.

1.5 The Closing. The Closing shall take place at the offices of Kantor & Co. in Ramat Gan, Israel, within three (3) days from the date all the conditions to Closing set out in Article IV have been fulfilled. All transactions at the Closing shall be deemed to take place simultaneously, and no transaction shall be deemed to have been completed and no documents or certificates shall be deemed to have been delivered until all other transactions are completed and all other documents and certificates are delivered. In the event that the conditions to closing set out in Article IV are not met or waived by September 30, 2009, unless extended by mutual agreement of the parties, this Agreement shall be deemed terminated and shall cease to have any legal effect as between the parties hereto.

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* *****Confidential material redacted and filed separately with the Commission.

1.6 Further Assurances. At any time and from time to time after the Closing, without further consideration Seller shall execute and deliver such other instruments of sale, transfer, conveyance and assignment and take such actions as Buyer may reasonably request to more effectively transfer, convey and assign to Buyer, and to confirm Buyer's rights to, title in and ownership of, the Acquired Assets and to place Buyer in actual possession and operating control thereof, including the furnishing of information and execution of any documents the filing or recordation of which with governmental authorities, including the United States Patent and Trademark Office, is prerequisite to the statutory establishment or recordation of assignment of the Patent Rights.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer that, except as set forth in the Disclosure Schedule, the statements contained in this Article II are true and correct as of the Closing, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties will be true and correct as of such date). The Disclosure Schedule shall be arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Article II; *provided* that an item disclosed in any Section or subsection of the Disclosure Schedule shall be deemed to have been disclosed for each other Section or subsection of this Agreement to the extent the relevance is reasonably inferable on the face of such disclosure.

2.1 Organization, Qualification and Corporate Power. Seller is a private company limited by shares duly organized and validly existing under the laws of Gibraltar. Seller has all requisite corporate power and authority to carry on the businesses in which it is engaged and to own and use the properties owned and used by it. Seller is duly qualified, licensed or admitted to do business and is in good standing as a foreign corporation in each jurisdiction in which the ownership, use, licensing or leasing of the Acquired Assets held by it, or the conduct of its business, makes such qualification, licensing or admission necessary.

2.2 Authorization of Transaction. Seller has all requisite power and authority to execute and deliver this Agreement and each Ancillary Agreement to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by Seller of this Agreement and each Ancillary Agreement to which it is a party, the performance by Seller of obligations under this Agreement and each Ancillary Agreement to which it is a party and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action on the part of Seller. This Agreement and each Ancillary Agreement to which Seller is a party has been duly and validly executed and delivered by Seller and constitutes a valid and binding obligation of Seller, enforceable against Seller in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity.

2.3 Noncontravention. Neither the execution and delivery by Seller of this Agreement or any Ancillary Agreement to which Seller is a party, nor the consummation by Seller of the transactions contemplated hereby or thereby, following the obtaining the approval of the Seller's Shareholders and the Seller's directors, will (a) conflict with or violate any provision of the certificate or articles of incorporation, bylaws or other organizational or charter documents of Seller, (b) require on the part of Seller any notice to or filing with, or any permit, authorization, consent or approval of, any Governmental Entity, (c) conflict with, result in a breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party the right to terminate, modify or cancel, or require any notice, consent or waiver under, any Contract or instrument to which Seller is a party or by which Seller is bound or to which any of the Acquired Assets is subject, (d) result in the imposition of any Lien upon any Acquired Assets or (e) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller or any of the Acquired Assets.

2.4 Absence of Changes. As of the date of this Agreement, except as required by this Agreement or the Ancillary Agreements:

(a) no Bankruptcy Event has occurred with respect to Seller or any of its Subsidiaries;

(b) neither Seller nor any Subsidiary of Seller has entered into, terminated, amended in any material respect, or granted any material waiver (or agreed or made any commitment to enter into terminate, amend in any material respect or grant any material waiver) under any Contract that constitutes (or would, but for such action, constitute) part of the Acquired Assets;

(c) neither Seller nor any Subsidiary of Seller has entered into, approved or resolved to enter into any Contract involving (i) the sale, disposition, license or transfer of any of the Acquired Assets or (ii) any material restriction on the future use of the Acquired Assets;

(d) neither Seller nor any Subsidiary of Seller has sold, transferred, disposed of, waived any right to, or leased to any other Person, mortgaged, pledged or incurred or suffered to exist any Lien on any asset and property that constitutes or, but for such action, would constitute an Acquired Asset;

(e) Seller nor any Subsidiary of Seller has failed to pay or otherwise satisfy any material Liability presently due and payable, except such Liabilities which are being contested in good faith by appropriate means or procedures and which, both individually and in the aggregate, are immaterial in amount;

(f) except as otherwise set forth in Section 2.8(c), Seller and each of its Subsidiaries has taken all action reasonably necessary or appropriate to procure, maintain, renew, extend or enforce all Patent Rights, including submission of required documents or fees during the prosecution of patent applications for such Patent Right; and

(g) neither Seller nor any Subsidiary of Seller has entered into or approved any agreement, commitment, arrangement or understanding, to do, permit, engage in or cause or having the effect of any of the foregoing.

2.5 Legal Proceedings. There is no Action or Proceeding pending or, to Seller's knowledge, threatened against, relating to or affecting any of the Acquired Assets or which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement or any of the Ancillary Agreements. Seller and its Subsidiaries have not received any written notice and otherwise do not have any knowledge of any writ, judgment, decree, injunction or similar requirement or binding obligation or order of any governmental or regulatory authority (in each such case whether preliminary or final) relating to or affecting, in any material respect, any of the Acquired Assets.

2.6 Tax Matters. Seller is not delinquent in the payment of any material Tax related to the Acquired Assets or for which liability would be imposed on Buyer and no deficiencies for any such Tax have been threatened, claimed, proposed or assessed against Acquired Assets. Seller has not received any written notification from any Taxing Authority regarding any issues that: (a) are currently pending before such Taxing Authority (including any sales or use Tax Authority) regarding the Acquired Assets, or (b) have been raised by such Taxing Authority and not yet finally resolved, in each case relating to the Acquired Assets. No Tax Return of Seller relating to the Acquired Assets is under audit by any Taxing Authority, and any such past audits (if any) have been completed and fully resolved and all Taxes and any penalties or interest determined by such audit to be due from Seller have been paid in full to the applicable Taxing Authorities. No Tax Liens are currently in effect against any Acquired Assets other than liens that arise by operation of law for Taxes not yet due and payable.

2.7 Title to and Condition of Acquired Assets. Seller owns or has an exclusive license to each of the Acquired Assets to be sold, transferred, conveyed, assigned or delivered by Seller hereunder, free and clear of all Liens. Upon execution and delivery by Seller to Buyer of the instruments of sale, assignment, transfer and conveyance, Buyer will become the true and lawful licensee of, and will receive exclusive license rights or ownership, the Acquired Assets, free and clear of all Liens.

2.8 Intellectual Property.

(a) Section 2.8(a) of the Disclosure Schedule provides a complete and accurate listing of all Patent Rights that are registered or filed or assigned or owned in the name of Seller, alone or jointly with others, in each case, enumerating specifically the applicable filing or registration number, title, jurisdiction in which filing was made or from which registration issued, date of filing or issuance, names of all current applicant(s) and registered owners(s), as applicable. All assignments of Patent Rights to Seller or any of its Subsidiaries have been properly executed and recorded. None of Seller or any of its Subsidiaries own or have any rights to any Patent Rights other than the Patent Rights listed on Section 2.8(a) of the Disclosure Schedule that claim or disclose any Related Know-How.

(b) To Seller's best knowledge (i) all issued patents in the Patent Rights are valid and enforceable, (ii) there are no material defects of form in the preparation or filing of the Patent Rights, (iii) the patent applications in the Patent Rights are being diligently prosecuted, and (iv) all necessary registration, renewal, maintenance and other payments that are or have become due with respect to Patent Rights have been timely paid by or on behalf of Seller. None of the Patent Rights procured by Seller or any of its Subsidiaries and, to Seller's knowledge, none of the Patent Rights procured by any third party was fraudulently procured from the relevant governmental patent granting authority.

(c) To Seller's best knowledge, each patent and patent application included within the Patent Rights sets forth a complete and accurate list of all inventors. There are no inventorship challenges, opposition or nullity proceedings or interferences declared, commenced or provoked with respect to any Patent Rights, or to Seller's knowledge, threatened. Seller has complied with its duty of candor and disclosure to the United States Patent and Trademark Office and any relevant foreign patent office with respect to all patent and trademark applications filed by or on behalf of Seller and Seller has not made any material misrepresentation in such applications. Seller does not have knowledge of any information that would (i) preclude Seller from having clear title to any Patent Right, (ii) adversely affect the validity or enforceability of any issued patents included in the Patent Rights, or (iii) adversely affect the patentability of any pending patent applications included in the Patent Rights.

(d) Seller has the sole and exclusive license to the Patent Rights under the Yeda License and is the sole and exclusive owner of the Related Know-How, free and clear of any Liens.

(e) Seller has taken reasonable measures to protect the proprietary nature of Patent Rights and Related Know-How, and to maintain in confidence all trade secrets and confidential information comprising a part thereof. Seller has complied in all material respects with all applicable contractual and legal requirements pertaining to information privacy and security. No complaint relating to an improper use or disclosure of, or a breach in the security of, any such information has been made or, to Seller's knowledge, threatened against Seller. To Seller's knowledge, there has been no: (i) unauthorized disclosure of any material third party proprietary or confidential information in the possession, custody or control of Seller, or (ii) material breach of the security procedures of Seller wherein confidential information has been disclosed to a third person.

(f) To Seller's best knowledge, neither the practice of the Patent Rights and Related Know-How, nor the development or commercialization of a product based on the Patent Rights and Related Know-How, infringes or violates, or constitutes a misappropriation of, any intellectual property rights of any third party. To Seller's knowledge, 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 any of the Patent Rights or Related Know-How. Section 2.8(f) of the Disclosure Schedule lists any complaint, claim or notice, or threat of any of the foregoing (including any notification that a license under any patent is or may be required), received by Seller or any of its Subsidiaries alleging any such infringement, violation or misappropriation and any request or demand for indemnification or defense received by Seller or any of its Subsidiaries from any third party; and Seller has provided to Buyer copies of all such complaints, claims, notices, requests, demands or threats, as well as any legal opinions, studies, market surveys and analyses relating to any alleged or potential infringement, violation or misappropriation.

(g) To Seller's best knowledge, none of the Patent Rights are being infringed or violated, nor is any Related Know-How being misappropriated, by any Person (including, without limitation, any current or former employee or consultant of Seller or any of its Subsidiaries). Seller has provided to Buyer copies of all correspondence, analyses, legal opinions, complaints, claims, notices or threats concerning the infringement, violation or misappropriation of any of the Patent Rights or Related Know-How.

(h) Section 2.8(h) of the Disclosure Schedule provides a complete and accurate list of all third party agreements to which Seller or any of its Subsidiaries is a party as of the date hereof relating to the Patent Rights and/or Related Know-How. Except for the agreements listed on Section 2.8 (h) of the Disclosure Schedule, neither Seller nor any of its Subsidiaries 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 a product based on the Patent Rights and Related Know-How, or any ownership rights in any of the Patent Rights and/or Related Know-How.

(i) Section 2.8(i) of the Disclosure Schedule identifies each license, covenant or other agreement pursuant to which Seller (or any Subsidiary described in Section 2.8(e)) has assigned, transferred, licensed, distributed or otherwise granted any right or access to any Person, or covenanted not to assert any right, with respect to the Patent Rights or Related Know-How.

(j) Seller's and each of its Subsidiaries' current and former employee, directors, consultants and contractors has executed a valid and binding written agreement expressly assigning to Seller or Subsidiary all right, title and interest in any inventions, whether or not patentable, and works of authorship, invented, created, developed, conceived and/or reduced to practice in the course of his or her employment or engagement with Seller or such Subsidiary, and all intellectual property rights therein, and has waived all moral rights therein to the extent legally permissible.

(k) All Seller's representations and warranties set out in this Section 2.8 above relate to the period from January 7, 2002 and until the Closing.

2.9 Brokers' Fees. Seller has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements contained in this Article III are true and correct as of the date of this Agreement.

3.1 Organization and Corporate Power. Buyer is a public company limited by shares duly organized and validly existing under the laws of the State of Israel. Buyer has all requisite corporate power and authority to carry on the businesses in which it is engaged and to own and use the properties owned and used by it.

3.2 Authorization of the Transaction. Buyer has all requisite power and authority to execute and deliver this Agreement and the Ancillary Agreements and to perform its obligations hereunder and thereunder, subject to the Shareholders Approval. The execution and delivery by Buyer of this Agreement and the Ancillary Agreements and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action on the part of Buyer, subject to the Shareholders Approval. This Agreement has been duly and validly executed and delivered by Buyer and constitutes a valid and binding obligation of Buyer, enforceable against it in accordance with its terms.

3.3 Noncontravention. Neither the execution and delivery by Buyer of this Agreement or the Ancillary Agreements, nor the consummation by Buyer of the transactions contemplated hereby or thereby, subject to the the Shareholders Approval, will (a) conflict with or violate any provision of the Articles of Incorporation by laws or other organizational or charter documents of Buyer, (b) require on the part of Buyer any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (c) conflict with, result in breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party any right to terminate, modify or cancel, or require any notice, consent or waiver under, any Contract or instrument to which Buyer is a party or by which it is bound or to which any of its assets is subject, or (d) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer or any of its properties or assets.

3.4 SEC Reports; Financial Statements. Buyer has filed all reports required to be filed by it under the Securities Act of 1933 and the Securities Exchange Act of 1934, including pursuant to Section 13(a) or 15(d) thereof, for the twelve months preceding the date hereof (or such shorter period as Seller was required by law to file such reports) (the "SEC Reports"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted 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 of Seller included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Securities and Exchange Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of Seller and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended subject to, in the case of any unaudited interim financials, normal year-end adjustments.

3.5 Legal Proceedings. There is no Action or Proceeding pending or, to Buyer's knowledge, threatened against, relating to or affecting any of the Buyer's material assets or which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement or any of the Ancillary Agreements. Buyer and its Subsidiaries have not received any written notice and otherwise do not have any knowledge of any writ, judgment, decree, injunction or similar requirement or binding obligation or order of any governmental or regulatory authority (in each such case whether preliminary or final) relating to or affecting, in any material respect, any of its material assets.

3.6 Tax Matters. Buyer is not delinquent in the payment of any material Tax related to its material assets and no deficiencies for any such Tax have been threatened, claimed, proposed or assessed against any of its material assets. Buyer has not received any written notification from any Taxing Authority regarding any issues that: (a) are currently pending before such Taxing Authority (including any sales or use Tax Authority) regarding any of its material assets, or (b) have been raised by such Taxing Authority and not yet finally resolved, in each case relating to any of its material assets. No Tax Return of Seller relating to any of its material assets is under audit by any Taxing Authority, and any such past audits (if any) have been completed and fully resolved and all Taxes and any penalties or interest determined by such audit to be due from Seller have been paid in full to the applicable Taxing Authorities. No Tax Liens are currently in effect against any of Buyer's material assets other than liens that arise by operation of law for Taxes not yet due and payable.

3.7 Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

3.8 Financial Capability. Upon the fulfillment of the Financial Condition (defined below), Buyer will have sufficient funds required in order to perform the current plan in relation to the Acquired Assets, limited to the Phase 2a trial in Israel.

3.9 Limitation on Representation. The Buyer is acquiring the Acquired Assets AS IS, subject only to the representations and warranties set out herein and any documents provided by Seller to Buyer prior hereto.

ARTICLE IV

CONDITIONS TO CLOSING

4.1 Conditions to Obligations of Buyer. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions:

(a) the representations and warranties of Seller set forth in Article II shall be true and correct in all material respects as of the date of the Closing.;

(b) Seller shall have performed or complied with its agreements and covenants required to be performed or complied with under this Agreement as of or prior to the Closing;

(c) no Action or Proceeding shall be pending or threatened wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of the transactions contemplated by this Agreement, (ii) cause the transactions contemplated by this Agreement to be rescinded following consummation or (iii) affect adversely the right of Buyer to own, operate or control any of the Acquired Assets;

(d) Seller shall have delivered to Buyer documents evidencing the release or termination of all Liens on the Acquired Assets, if any;

(e) Seller shall have executed and delivered to Buyer each Ancillary Agreement to which it is a party;

(f) Seller shall have received the consent of Yeda to the transfer and assignment of all the rights and obligations under the Yeda License (the "Yeda Consent");

(g) Buyer shall have completed a fundraising of an amount not less than ***** (the "Financing Condition");

(h) Buyer's shareholders shall have approved the grant of the Shares to the Seller (the "Shareholders Approval"); and

(i) Buyer shall have received such other certificates and instruments as it shall reasonably request in connection with the Closing.

4.2 Conditions to Obligations of Seller. The obligation of Seller to consummate the transactions contemplated by this Agreement to be consummated at the Closing is subject to the satisfaction of the following conditions:

(a) the representations and warranties of Buyer set forth in Article II shall be true and correct in all material respects as of the date of this Agreement;

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* *****Confidential material redacted and filed separately with the Commission.

(b) no Action or Proceeding shall be pending wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of the transactions contemplated by this Agreement or (ii) cause the transactions contemplated by this Agreement to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect; and

(c) Buyer shall have provided to the Seller, or counsel to the Seller, written confirmation of (i) fulfillment of the Financing Condition, and (ii) receipt of the Shareholders Approval.

(d) Buyer shall have delivered to Seller each Ancillary Agreement to which it is a party.

(e) Seller Shareholders shall have approved the consummation of this Agreement.

ARTICLE V

COVENANTS

5.1 Proprietary Information. From and after the Closing, Seller shall not disclose or make use of (except to pursue their rights under this Agreement or the Ancillary Agreements), and shall cause all of their respective Affiliates not to disclose or make use of, any knowledge, information or documents of a confidential nature or not generally known to the public with respect to the Acquired Assets, Buyer or its business, except to the extent that such knowledge, information or documents shall have become public knowledge other than through improper disclosure by Seller or any of its Affiliates.

5.2 Tax Matters. Each party to this Agreement shall pay any Taxes, including without limitation value-added Taxes, deed excise stamps and similar charges, relevant to its part in the purchase and sale of the Acquired Assets in exchange for the issuance of the Shares contemplated by this Agreement. Notwithstanding the aforesaid, Seller shall be liable for any withholding tax, if applicable, on the issuance of the Shares to the Seller.

5.3 Sharing of Data. Promptly upon request by Buyer made at any time following the date hereof, Seller shall authorize the release to Buyer of all files pertaining to the Acquired Assets that are held by any federal, state, county or local authorities, agencies or instrumentalities.

5.4 Certain Actions. Neither Seller nor any of its Affiliates shall intentionally initiate, or encourage or knowingly provide assistance to any third party with respect to, any action seeking a determination that any of the Patent Rights in any country are invalid, unenforceable and/or not infringed (including without limitation a request for reexamination of any Patent Rights or the institution of or participation in any opposition, interference or similar administrative proceeding adverse to the validity or enforceability of any Patent Rights).

5.5 Phase 2 Clinical Trial. The Buyer shall utilize reasonable best efforts to commence a Phase 2 clinical trial using the Acquired Assets.

ARTICLE VI

DEFINITIONS

For purposes of this Agreement, each of the following terms shall have the meaning set forth below.

"Action or Proceeding" means any action, suit, complaint, petition, investigation, proceeding, arbitration, litigation or governmental or regulatory authority investigation, audit or other proceeding, whether civil, regulatory, quasi-criminal or criminal, in law or in equity, or before any arbitrator or governmental or regulatory authority, including any Bankruptcy Event.

"Acquired Assets" shall mean all of the following, which shall be set out in Exhibit A:

(a) Assignment of any and all rights under the Yeda License;

(b) Laboratory Books; and

(c) Related Know-How

"Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by or under common control with, that Person, whether through ownership of voting securities or by Contract or otherwise.

"Ancillary Agreements" shall mean the Bills of Sale and Assignment and Assumption Agreement, substantially in form of Exhibits B and C, respectively, and other transfer documents executed and delivered pursuant to Section 1.1.

"Assumed Liabilities" shall have the meaning given to such term in Section 1.2.

"Bankruptcy Event" shall mean, with respect to any Person, any of the following:

(1) the taking of any of the following actions by such Person pursuant to or within the meaning of:

(A) the commencement of a voluntary case;

(B) the consent to the entry of an order for relief against it in an involuntary case;

(C) the consent to the appointment of a Custodian of it or for any substantial part of its property; or

(D) the making of a general assignment for the benefit of its creditors;

(2) the entry by a court of competent jurisdiction of an order or decree under any Bankruptcy Law that:

(A) is for relief against such Person in an involuntary case;

(B) appoints a Custodian of such Person or for any substantial part of its property; or

(C) orders the winding up or liquidation of such Person.

"Bankruptcy Law" means any Israeli, US or Gibraltar law for the relief of debtors.

"Buyer" shall have the meaning set forth in the first paragraph of this Agreement.

"Closing" shall mean the closing of the transactions contemplated by this Agreement as of the date hereof, following achievement of all the conditions to Closing set out in Article IV.

"Contract" shall mean any contract (including leases, subleases, licenses, sublicenses), commitment, agreement or other business arrangement (whether oral or written).

"Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

"Damages" shall mean any and all losses, Liabilities, damages (including, without limitation, consequential, special, indirect, exemplary or punitive damages, lost profits or any multiple of damages), claims, awards, judgments, diminution in value, costs and expenses.

"Disclosure Schedule" shall mean the disclosure schedule provided by Seller to Buyer on the date hereof and accepted in writing by Buyer.

"Governmental Entity" shall mean any court, arbitrational tribunal, administrative agency or commission or other governmental or regulatory authority or agency.

"Indebtedness" of any Person means all obligations of such Person (a) for borrowed money, (b) evidenced by notes, bonds, debentures or similar instruments, (c) for the deferred purchase price of goods or services, (d) under capital leases, and (e) in the nature of a guarantee of any of the obligations described in clauses (a) through (d) above of any other Person.

"Laboratory Notebooks" means all scientific and technical records primarily related to the Clinical Studies including, without limitation, laboratory notebooks, logs, reports, documentation, databases, data collections, non-clinical or pre-clinical data, raw or experimental data, analytical results and research records.

"Liability" means all Indebtedness, obligations and other liabilities of a Person, whether absolute or contingent (or based upon any contingency), known or unknown, fixed or otherwise, due or to become due, whether or not accrued or paid, and whether required or not required to be reflected in financial statements under U.S. generally accepted accounting principles.

"Lien" means any mortgage, pledge, assessment, security interest, lease, lien, easement, license, covenant, condition, levy, charge, option, equity, adverse claim or restriction or other encumbrance of any kind, or any conditional sale Contract, title retention Contract or other Contract to give any of the foregoing, except for any restrictions on transfer generally arising under any applicable federal or state securities law.

"Phase 2" means either (i) a regulated by the Ministry of Health in Israel clinical trial in Israel, or (ii) an FDA regulated clinical trial, with Erythropoietin for the treatment of multiple myeloma patients which has the purpose of assessing efficacy as well as safety.

"Patent Rights" means the rights and interest in and to all issued patents and pending patent applications in any country, 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, all in relation to the patents which are under the Yeda License.

"Parties" shall mean Buyer and Seller.

"Person" shall mean (i) any individual, (ii) any corporation, general partnership, limited partnership, limited liability partnership, trust, company (including any limited liability or joint stock company) or other organization or entity, or (iii) any Governmental Entity.

"Related 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, clinical and pre-clinical data, databases, designs, assays, protocols, analytical systems, discovery tools, reports, filings and applications with regulatory authorities and manufacturing documentation, in each case, owned by Seller (or any of its Subsidiaries party to an Ancillary Agreement) and primarily relating to any product based on the Patent Rights and the Clinical Studies, and all intellectual property rights therein.

"Seller" shall have the meaning given to such term in the first paragraph of this Agreement

"Seller Patent Rights" means (a) the Patent Rights described in Section 2.8(a) of the Disclosure Schedule, (b) counterparts of the Patent Rights set forth in Section 2.8(a) of the Disclosure Schedule in any country, (c) all Patent Rights claiming priority from the Patent Rights described in the foregoing clauses (a) and (b), and (d) any other Patent Rights owned by Seller or any of its Subsidiaries that claim or disclose any Related Know-How, or the development or commercialization of any compound or product based on the Patent Rights and Related Know-How.

"Subsidiary", with respect to any Person, means any other Person, whether or not existing on the date hereof, in which the specified Person directly or indirectly through subsidiaries or otherwise, beneficially owns at least fifty percent (50%) of either the equity interest or voting power of or in such other Person or otherwise controls such other Person.

"Successful Completion of Phase2" means that the results from the Phase 2 clinical trial in Israel enable the filing for a higher follow-on clinical trial with Erythropoietin for the treatment of multiple myeloma patients.

"Taxes" shall mean all taxes, charges, fees, levies or other similar assessments or liabilities, including income, gross receipts, ad valorem, premium, value-added, excise, real property, personal property, sales, use, transfer, withholding, employment, unemployment, insurance, social security, business license, business organization, environmental, workers compensation, payroll, profits, license, lease, service, service use, severance, stamp, occupation, windfall profits, customs, duties, franchise and other taxes imposed by the United States of America or any state, local or foreign government, or any agency thereof, or other political subdivision of the United States or any such government, and any interest, fines, penalties, assessments or additions to tax resulting from, attributable to or incurred in connection with any tax or any contest or dispute thereof.

"Taxing Authority" shall mean the United States Internal Revenue Service, the Israeli taxing authority, or the taxing authority of any other jurisdiction.

"Tax Returns" shall mean all reports, returns, declarations, statements or other information required to be supplied to a Taxing Authority in connection with Taxes.

ARTICLE VII

MISCELLANEOUS

7.1 Survival of Representations and Warranties; Limitations. All of the representations and warranties of Seller and Buyer contained in this Agreement or the Ancillary Agreements or contained or incorporated or referred to in the certificates and instruments delivered in connection herewith or therewith shall survive until the second anniversary of the Closing. Notwithstanding anything to the contrary set forth in this Agreement, in no event shall the maximum aggregate Liability of a party hereto under this Agreement for any Damages arising from, relating to or otherwise in connection with any misrepresentation hereunder, breach of any warranty hereunder, breach of any covenant hereunder or otherwise (other than Damages arising from, relating to or otherwise in connection with such party's fraud, willful misconduct or knowing misrepresentation) exceed the Purchase Price.

7.2 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any person other than the Parties and their respective successors and permitted assigns.

7.3 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, with respect to the subject matter hereof.

7.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign any of its rights or delegate any of its performance obligations hereunder without the prior written approval of the other Party. Any purported assignment of rights or delegation of performance obligations in violation of this Section 7.4 is void.

7.5 Counterparts and Facsimile Signature. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. This Agreement may be executed by facsimile signature.

7.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

7.7 Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing. Any notice, request, demand, claim or other communication hereunder shall be deemed duly delivered four business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, or one business day after it is sent for next business day delivery via a reputable nationwide overnight courier service, in each case to the intended recipient as set forth below:

If to Buyer:

XTL Biopharmaceuticals Ltd.
Building 3, Kiryat Weizmann Science Park, Rehovot, Israel 76100
Attention: Chief Executive Officer
Facsimile No.: +972-8-930-0659

Copy to:

Kantor & Co., 14 Abba Hillel Silver, Ramat Gan 52506, Israel

Attention: Ronen Kantor, Adv.
Facsimile No.: +972-3-6133372

If to Seller:

Bio- Gal Limited

Valmet Nominees Ltd.
Suites 7B & 8B, 50 Town Range
Gibraltar
Attention: President and Chief Executive Officer
Facsimile No.: [_____]

Copy to:

Salomon Tessone, Adv.
Beit America
37 King Shaul Avenue
Tel-Aviv
Attention: Salomon Tessone, Adv.
Facsimile No.: +972-3-6969705.

Any Party may give any notice, request, demand, claim or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telecopy, ordinary mail, or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the Party for whom it is intended. Any Party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

7.8 Governing Law. All matters arising out of or relating to this Agreement and the transactions contemplated hereby (including without limitation its interpretation, construction, performance and enforcement) shall be governed by and construed in accordance with the laws of the State of Israel, without giving effect to any choice or conflict of law provision or rule.

7.9 Amendments and Waivers. The Parties may mutually amend any provision of this Agreement at any time prior to the Closing. No amendment or waiver of any provision of this Agreement shall be valid unless the same shall be in writing and signed by each of the Parties. No waiver by any Party with respect to any default, misrepresentation, or breach of warranty or covenant hereunder shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

7.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

7.11 Expenses. Each Party shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

7.12 Specific Performance. Each Party acknowledges and agrees that the other Party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each Party agrees that the other Party shall be entitled to an injunction or other equitable relief to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having jurisdiction over the Parties and the matter, in addition to any other remedy to which it may be entitled, at law or in equity.

7.13 Confidentiality. This Agreement, the Ancillary Agreements and the contents hereof and thereof are confidential and, except for the disclosure hereof or thereof on a confidential basis to a Party's officers, directors, employees, accountants, attorneys and other professional advisors retained by such Party in connection with the transactions contemplated hereby or as otherwise required by law, may not be disclosed in whole or in part to any Person without the prior written consent of the other Party.

[***remainder of page intentionally left blank***]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

BUYER:

XTL Biopharmaceuticals Ltd.

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLER:

Bio Gal Limited

By: _____
Name:
Title:

Signature Page to Asset Purchase Agreement

EXHIBIT A

List of Acquired Assets

1. Assumption of the Research and License Agreement dated as of January 7, 2002, as amended from time to time, between Mor Research Applications Ltd., Yeda Research and Development Company Ltd., and Bio-Gal Limited.

2. Clinical Research Data and Publications set out below:

   Lifshitz L, Prutchi-Sagiv S, Avneon M, Gassmann M, Mittelman M, Neumann D. Non-erythroid activities of erythropoietin: Functional effects on murine dendritic cells. Mol Immunol. 2008 Nov 21.

   Prutchi Sagiv S, Lifshitz L, Orkin R, Mittelman M and Neumann D. Dendritic Cells as a Novel Target for Immuno-modulation by Erythropoietin; Exp Hematol. 2008 Dec;36(12):1682-90.

   Katz O, Yeyni L, Lifshitz L, Pruchi-Sagiv S, Gassmann M, Mittelman M, Neumann D. Erythropoietin enhances immune responses in mice. Eur J Immunol; 2007; 37(6): p. 1584-93.

   Prutchi-Sagiv S, Golishevsky N, Oster H, Katz O, Cohen A, Naparstek E, Neumann D, and Mittelman M.; Erythropoietin treatment in advanced multiple myeloma is associated with improved immunological functions: could it be beneficial in early disease? Br J Haematol; 2006; 135:660-672.

   Katz O, Barzilay E, Skaat A, Herman A, Mittelman M, Neumann D.Erythropoietin induced tumour mass reduction in murine lymphoproliferative models. Acta Haematol. 2005;114(3):177-9.

   Mittelman M, Zeidman A, Kanter P, Katz O, Oster H, Rund D, Neumann D.Erythropoietin has an anti-myeloma effect - a hypothesis based on a clinical observation supported by animal studies. Eur J Haematol. 2004 Mar;72(3):155-65.

   Mittelman M., Neumann D., Peled A., Kanter P. and Haran- Ghera N. (2001).Erythropoietin induces tumor regression and antitumor immune responses in murine myeloma models. PNAS, vol. 98 : 9 . 5181 - 5186

Prutchi-Sagiv S, Neumann D, and Mittelman M. Erythropoietin as an Immunotherapeutic Agent: New Uses for an Old Drug? Med Hypotheses Res; 2005; 2: 587-596.

Prutchi Sagiv S., Mittelman M., Neumann D. Erythropoietin – a hematopoietic hormone with emerging diverse activities; 2005 The Handbook of Biological Active Peptides. Abba J Kastin, Elsevier, p 1393-1400

Oster H, Hoffman M, Prutchi-Sagiv S, Neumann D, Mittelman M. Erythropoietin in clinical practice: current use, effect on survival, and future directions. Isr Med Assoc J.; 2006 Oct;8(10):703-6.

Mittelman M, Oster H, Katz O, Prutchi Sagiv S, Hoffman M, Neumann D. Does erythropoietic treatment influence the survival of patients with multiple myeloma? Focus on Anaemia in Cancer; 2006; vol 7, issue 1, 25-27.

EXHIBIT B

Form of Bill of Sale

This Bill of Sale dated March ___, 2009 is executed and delivered by Bio Gal Limited, a private company limited by shares organized under the laws of Gibraltar ("Seller"), to XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel ("Buyer") pursuant to the Asset Purchase Agreement, dated March __, 2009, by and between Seller and Buyer (the "Agreement"). Capitalized terms used herein but not defined herein shall have the meanings given such terms in the Agreement.

WHEREAS, pursuant to the Agreement, Seller has agreed to sell, transfer, convey, assign and deliver to Buyer certain assets of Seller, and Buyer has agreed to assume certain of the liabilities of Seller, in each case as set forth in the Agreement.

NOW, THEREFORE, in consideration of the mutual promises set forth in the Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby agrees as follows:

1. Seller hereby sells, transfers, conveys, assigns and delivers, as of the Closing, to Buyer, its successors and assigns, to have and to hold forever, all right, title and interest in, to and under all of the Acquired Assets.

2. Seller hereby covenants and agrees that it will, at any time and from time to time after the Closing, without further consideration , execute and deliver such other instruments of sale, transfer, conveyance and assignment and take such actions as Buyer may reasonably request to more effectively transfer, convey and assign to Buyer, and to confirm Buyer's rights to, title in and ownership of, the Acquired Assets and to place Buyer in actual possession and operating control thereof, to assist Buyer in exercising all rights with respect thereto and to carry out the purpose and intent of the Agreement.

3. Seller does hereby irrevocably constitute and appoint Buyer, its successors and assigns, its true and lawful attorney, with full power of substitution, in its name or otherwise, and on behalf of Seller, or for its own use, to claim, demand, collect and receive at any time and from time to time any and all of the applicable Acquired Assets, and to prosecute the same at law or in equity and, upon discharge thereof, to complete, execute and deliver any and all necessary instruments of satisfaction and release.

4. Seller, by its execution of this Bill of Sale, and Buyer, by its acceptance of this Bill of Sale, each hereby acknowledges and agrees that neither the representations and warranties nor the rights, remedies or obligations of any party under the Agreement shall be deemed to be enlarged, modified or altered in any way by this instrument.

5. Nothing in this Bill of Sale, whether expressed or implied, is intended or shall be construed to confer upon or give any person, other than the parties hereto and the parties entitled to indemnification pursuant to the Agreement, any rights, remedies or other benefits under or by reason of this Bill of Sale.

6. This Bill of Sale is being delivered pursuant to the Agreement and shall be construed consistently therewith.

IN WITNESS WHEREOF, Seller and Buyer have caused this instrument to be duly executed under seal as of and on the date first above written.

Bio Gal Limited.

By: _____
Name:
Title:

By: _____
Name:
Title:

ACCEPTED:

XTL Biopharmaceuticals Ltd.

By: _____
Name:
Title:

EXHIBIT C

Form of Assignment and Assumption Agreement

This Assignment and Assumption Agreement dated March _____, 2009, is made by XTL Biopharmaceuticals Ltd., a public company limited by shares organized under the laws of the State of Israel ("Buyer"), in favor of Bio Gal Limited, a private company limited by shares organized under the laws of Gibraltar ("Seller") pursuant to the Asset Purchase Agreement, dated March _____, 2009, by and between Buyer and Seller (the "Agreement"). Capitalized terms used herein but not defined herein shall have the meanings given such terms in the Agreement.

WHEREAS, pursuant to the Agreement, Seller has agreed to sell, transfer, convey, assign and deliver to Buyer the Acquired Assets; and

WHEREAS, in partial consideration therefore, the Agreement requires Buyer to assume the Assumed Liabilities;

NOW, THEREFORE, in consideration of the mutual promises set forth in the Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer hereby agrees as follows:

1. Buyer hereby assumes the Assumed Liabilities.

2. Buyer does not hereby assume or become liable for any liabilities or obligations (whether known or unknown, whether absolute or contingent, whether liquidated or unliquidated, whether due or to become due, and whether claims with respect thereto are asserted before or after the Closing) of Seller and its Subsidiaries which are not Assumed Liabilities.

3. Nothing herein shall be deemed to deprive Buyer of any defenses, set-offs or counterclaims which Seller may have had or which Buyer shall have with respect to any of the Assumed Liabilities (the "Defenses and Claims"). Seller hereby transfers, conveys and assigns to Buyer all Defenses and Claims and agrees to reasonably cooperate with Buyer to maintain, secure, perfect and enforce such Defenses and Claims, including the signing of any documents, the giving of any testimony or the taking of any such other action as is reasonably requested by Buyer in connection with such Defenses and Claims.

4. Buyer, by its execution of this Assignment and Assumption Agreement, and Seller, by its acceptance of this Assignment and Assumption Agreement, each hereby acknowledges and agrees that neither the representations and warranties nor the rights, remedies or obligations of either party under the Agreement shall be deemed to be enlarged, modified or altered in any way by this instrument.

5. Nothing in this Assignment and Assumption Agreement, whether express or implied, is intended or shall be construed to confer upon or give to any person, other than the parties hereto and the parties entitled to indemnification pursuant to the Agreement, any rights, remedies or other benefits under or by reason of this Assignment and Assumption Agreement.

6. This Assignment and Assumption Agreement is being delivered pursuant to the Agreement and shall be construed consistently therewith. In the event of any conflict, inconsistency or discrepancy between this Assignment and Assumption Agreement and the Agreement, the Agreement shall govern, control and prevail.

IN WITNESS WHEREOF, Buyer and Seller have caused this instrument to be duly executed under seal as of and on the date first above written.

XTL Biopharmaceuticals Ltd.

By: _____
Name:
Title:

ACCEPTED:

Bio Gal Limited.

By: _____
Name:
Title:

By: _____
Name:
Title:

DISCLOSURE SCHEDULES

See Attached.

CONFIDENTIAL TREATMENT REQUESTED . Confidential portions of this document have been redacted and have been separately filed with the Commission.

Exhibit 10.44

RESEARCH AND LICENSE AGREEMENT

Between

YEDA RESEARCH AND DEVELOPMENT COMPANY LIMITED

a company duly registered under the laws of Israel
of P.O. Box 95, Rehovot 76100, Israel ("**Yeda**")

and

MOR RESEARCH APPLICATIONS LTD.

a company duly registered under the laws of Israel
of 23 Hasivim Street., Kiryat Matalon, P.O. Box 7590
Petach Tikva 49170 ("**Mor**")

and

HAVERFIELD LTD.

a company duly registered under the laws of Gibraltar and
having its principal place of business at Valmet Nominees
Limited Suites 7B & **8B** 50 Town Range Gibraltar

(the "**Company"**)

and

BIOGAL ADVANCED BIOTECHNOLOGY LTD

A company duly registered under the laws of the State of
Israel and having its principal place of business at 3 Hayezira
St. Shap House, Ramat Gan, Israel 52521 ("**Biogal Israel")**

WHEREAS:

A. In the course of conducting research and primary clinical observations, Professor Moshe Mittleman of Rabin Medical Center, Hasharon Hospital, Petach- Tikva ("**RMC**") and Professor Nechama Haran-Ghera of the department of Immunology of the Weizmann Institute of Science, Rehovot (the "Institute"), have discovered the positive effects of the use of recombinant human erythropoietin ("**EPO**") as a factor that may lead to tumor regression in the treatment of myeloma cancer, all as more particularly described in the patent abstract entitled "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer", attached hereto as **Attachment A**, and forming the basis of certain patent applications submitted in different jurisdictions and listed in an appendix attached hereto as **Attachment B** (the "**Existing Patent Applications**", as further defined below). The inventions covered by the Existing Patents Applications, and all associated discoveries, products, materials, methods, processes, procedures, techniques, know-how, data, formulas, clinical and preclinical results (if any), analytical reference materials, chemical substance and other information shall be collectively referred to as the "**Existing Technology**".

B. Yeda and Mor are the joint owners, in accordance with the Ownership Breakdown (as described in Section 6 below) of the Existing Technology (Yeda and Mor shall be collectively referred to as the "**Licensors**");

C. The Licensors are interested in entering into an agreement with a party having an ability and willingness to (i) finance the performance of certain initial research ("**the Initial Research**") under the leadership of Professor Nechama Haran-Ghera ("**Prof. Haran-Ghera**") and Professor Moshe Mittleman ("**Prof. Mittelman**") (Prof. Haran-Ghera and Prof. Mittelman shall be collectively referred to as "**the Chief Investigators**") as more fully described in the research programs attached hereto as **Attachment Cl** for the Research at the Institute (as defined below) and **Attachments C2** for the Initial Clinical Research (as defined below) ("**the Initial Research Program**") and any further research that will be needed to accomplish the objectives hereunder (collectively called the "**Research**"); and to (ii) pursue clinical studies in order to obtain approval from appropriate governmental agencies for marketing drugs based upon EPO for the treatment in human patients of certain types of cancer that are covered by the license(s) granted to the Company hereunder, as further detailed in Section 8 herein (the "**Product**" or "**Products**"); and (iii) to the extent to which such rights are covered by an applicable Patent, to manufacture and market the Products; and

D. The Company represents and warrants that it has such ability and wishes to enter into an agreement as aforesaid with the Licensors, according to which the Licensors shall grant the Company and the Company shall accept from the Licensors a worldwide, exclusive license to use the Licensed Information (as such term is hereinafter defined) for the manufacture, production, marketing and sale of the Products, all in accordance with, and subject to, the terms and conditions set forth in this Agreement; and

E. Yeda and Mor are willing to procure the performance of the Initial Research, each with respect to that portion of the Initial Research as is detailed in Section 2 below, and subject to and in accordance with the terms and conditions of this Agreement; and

F. By operation of Israeli law and/or under the terms of employment of Prof. Haran-Ghera at the Institute and/or pursuant to an agreement between the Institute, Yeda and Prof. Haran-Ghera, all right, title and interest of Prof. Haran-Ghera's or the Institute's in and to the Licensed Information, and in any results deriving from the performance of the Research at the Institute (as defined below in Section 2.2) are and shall be the sole property of Yeda; and

G. By operation of Israeli law and/or under the terms of employment of Prof. Mittleman, all right, title and interest of Prof. Mittleman's in and to the Licensed Information, and in any results deriving from the performance of the Initial Clinical Research (as defined below in Section 2.3) are and shall be the sole property of Mor.

NOW THEREFORE IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. **Preamble, Appendices and Interpretation**

1.1 The Preamble and Attachments hereto form an integral part of this Agreement.

1.2. In this Agreement the terms below shall bear the meanings assigned to them below, unless the context shall indicate a contrary intention:

1.2.1 "**Affiliated Entity**" - shall mean a person, company, corporation, partnership or other entity (hereinafter collectively (an "Entity") which directly or indirectly, is controlled by, or controls, or is under common control with, another entity. For the purposes of this definition, "control" shall mean the ability, directly or indirectly, to direct the activities of the relevant entity and includes without limitation the holding, directly or indirectly, of 50% (fifty percent) or more of the issued share capital or of the voting power of the relevant entity or the holding, directly or indirectly, of a right to appoint 50% (fifty percent) or more of the directors of such entity;

1.2.2 The "**Biogal Group**" shall mean the Company and Biogal Israel.

1.2.3 The "**Effective Date**" shall mean the date of execution of this Agreement and the Founders Agreement by all of the parties hereto.

1.2.4 An "**Entitling Event**" - shall mean any of the following: (i) the issuance of shares of any class (including securities convertible to shares) of the Company which grant the holder(s) thereof 50% or more of the issued and outstanding share capital of the Company or of any means of control of the Company; or (ii) a consolidation, merger or reorganization of the Company with or into another entity, or (iii) a sale or an assignment (other than to an Affiliated Entity) of all or substantially all of the Company's assets, or substantially all of the Company's issued and outstanding capital stock, or the granting of an exclusive license in all or substantially all of the Company's strategic assets (other than the granting of such license to an entity within the Biogal Group or an Affiliated Entity thereof) in which the consideration for the granting of such license is payable in whole or in part in one or more payments in cash or cash equivalent (provided that a bona fide transaction with a third party in which the sole consideration for the granting of such a license shall be royalties based upon future sales of Products shall not be deemed an "Entitling Event" hereunder). For the purposes of this definition, references to the Company shall include any member of the Biogal Group and/or any successor or assign thereof and/or an Affiliated Entity thereof that is a Sublicensee pursuant to Section 9 below.

1.2.5 "**First Commercial Sale**" shall mean the first commercial sale of a Product in any country. For the purposes of this definition, "commercial sale" shall not include a sale for an experiment or for test market purposes or for the purposes of use at a clinical trial.

1.2.6 "**Founders Agreement**" shall mean the founders agreement executed concurrently with this Agreement by the founders of the Company, including among others, Mor.

1.2.7 The "**Initial Research Budget**" - shall mean the research budgets, expressed in U.S. Dollars, attached hereto as Attachment DI for the Research at the Institute (as defined below) and Attachment D2 for the Initial Clinical Research (as defined below), as such budgets may be amended, if amended, by written agreement between the parties;

1.2.8 The "**Initial Research Period**" - shall mean, with respect to the Research at the Institute (as defined below) the period commencing on the date hereof and ending thirteen (13) months thereafter, or as extended or shortened by written agreement of the parties hereto and with respect to the Initial Clinical Research (as defined below) the period commencing on the date hereto and ending eighteen (18) month thereafter, or as extended or shortened by written agreements of the parties hereto;

1.2.9 The "**License**" - shall mean the license granted to the Company by Yeda and Mor pursuant to Section 8 below;

1.2.10 The "**Licensed Information**" - shall mean the Existing Patent Applications, the Existing Technology and all and any inventions, discoveries, products, materials, methods, formulas, processes, procedures, techniques, know-how, trade secrets, data, information and other results whatsoever, which are discovered or developed in the course of the Research and any development activities financed or performed by the Company or by any other member of Biogal Group during the period of the License, and any patent application filed or issued in respect of the above and any drawings, plans, diagrams, specification and other documents or files including computer files containing any of the above.

1.2.11 The "**Patents**" - shall mean the Existing Patents Applications and other patent applications or applications for certificates of invention covering any portion of the Licensed Information, as well as all continuations, continuations-in-part, patents of addition, divisions and renewals thereof, and all patents or certificates of invention which may be granted on any of the foregoing, and all reissues and extensions thereof.

1.2.13 "**Product Approval**" - shall mean an approval given by the U.S. Food and Drug Administration for the marketing of the Product.

1.2.14 "**Sublicensee**" - shall mean any permitted sublicensee under the License, in accordance with the provisions of Section 9.

1.3 The headings in this Agreement are intended solely for convenience or reference and shall be given no effect in the interpretation of this Agreement.

2. **The Research**

2.1 The Company undertakes to fund and pursue the Initial Research in accordance with the terms contained herein, and to make its reasonable commercial efforts to actively pursue the performance of the Research, and to secure funding for the Research. The parties hereto acknowledge that the administration of the Company's research and development activities in Israel shall be performed by Biogal Israel, as a sublicensee of the Company, pursuant to the terms and conditions of the Sublicense Agreement executed concurrently with this Agreement by and between the Company and Biogal Israel, attached hereto as **Attachment E**. The Parties hereto acknowledge that the financing of the Company's research and development activities in Israel shall be performed by the Company and that the Company and Biogal Israel shall be jointly and severally liable for such financing. The Initial Research shall be performed at the Institute and certain hospitals and medical institutes as set forth in the Initial Research Program, and within the framework of the Initial Research Budget. The Initial Research Budget with regard to the Research at the Institute shall consist of one thirteen (13) month period and payments for the performance of the Research at the Institute shall be made in four installments, as follows (i) for the first nine-month period of the Initial Research, payment shall be made for each three month period in advance; and (ii) for the last four month period of the Initial Research, payment shall be made in one installment in advance. The Initial Research Budget with regard to the Initial Clinical Research shall consist of one eighteen (18) month period, and payments for the performance of the Initial Research Budget shall be made for each three (3) month period in advance.

2.2 Subject to the terms and conditions hereof, Yeda undertakes to procure the performance of the laboratory portion of the Initial Research designated to be performed at the Institute according to the Initial Research Program (the "**Research at the Institute**"), under the supervision of Prof. Haran-Ghera provided however that the fact that Prof. Haran-Ghera shall cease to be available for the supervision of the performance of the Research at the Institute shall not constitute a breach of this Agreement by Yeda. In such event, Yeda shall make its reasonable effort to find from amongst the scientists of the Institute a replacement scientist acceptable to the Company (such acceptance to be in writing, and not to be unreasonably withheld) to continue the supervision of the Research at the Institute, provided however that Yeda does not undertake to find such a replacement. If no replacement scientist acceptable to both parties is found within 30 (thirty) days of the date on which Prof. Haran-Ghera ceases to supervise the Research at the Institute, the Company shall be entitled, by written notice to Yeda, to terminate the Research at the Institute, and the Initial Research Period shall terminate with respect to the Research at the Institute upon the expiration of 60 (sixty) days from the date of receipt by Yeda of such written notice. Upon such termination, Yeda shall be released from any obligation to procure the performance of the Research at the Institute and the Company shall be released from any obligation to finance the Research at the Institute with respect to the period following such termination. The termination of the provisions relating to the performance and financing of the Research at the Institute shall not affect the validity of the remaining terms and provisions of this Agreement, including, without limitation, with respect to the License granted to the Company pursuant to Section 8 hereto, the Company's obligation to pay Compensation pursuant to Section 10 below, and the continuation of the Initial Clinical Research (as defined in Section 2.3 below). To avoid doubt, in the event that the provisions relating to the performance and financing of the Research at the Institute have been terminated as provided herein, the Company shall be entitled to freely pursue such research as it deems fit outside of the Institute.

2.3 Subject to the terms and conditions hereof, Mor undertakes to procure the conduct of the clinical portion of the Initial Research at hospitals or medical institutes, as set forth in the Initial Research Program (the "**Initial Clinical Research**"), and under the supervision of Prof. Mittleman, provided however that the fact that Prof. Mittleman shall cease to be available for the supervision of the performance of the Initial Clinical Research shall not constitute a breach of this Agreement by Mor. In such event, Mor shall attempt to find a replacement scientist acceptable to the Company (such acceptance to be in writing, and not to be unreasonably withheld) to continue the supervision of the Initial Clinical Research, provided however that Mor does not undertake to find such a replacement. If no replacement scientist acceptable to both parties is found within 30 (thirty) days of the date on which Prof. Mittleman has ceased to supervise the Research at the Institute, the Company shall be entitled, by written notice to Mor, to terminate the Initial Clinical Research, and the Initial Research Period shall terminate with respect to the Initial Clinical Research upon the expiration of 60 (sixty) days from the date of receipt by Mor of such written notice. Upon such termination, Mor shall be released from any obligation to procure the performance of the Initial Clinical Research and the Company shall be released from any obligation to finance the Initial Clinical Research with respect to the period following such termination. The termination of the provisions relating to the performance and financing of the Initial Clinical Research shall not affect the validity of the remaining terms and provisions of this Agreement, including, without limitation, with respect to the License granted to the Company pursuant to Section 8 hereto, the Company's obligation to pay Compensation pursuant to Section 10 below, the continuation of the Research at the Institute and the continuation of the clinical portion of the Research in other medical institutes or hospitals under the supervision of another scientist.

2.4 The Company shall make payments to Yeda and Mor in consideration of the performance of the Research at the Institute and the Initial Clinical Research in accordance with the Initial Research Budget. All such payments shall be made in US Dollars at such times and in such amounts as are set forth in the Initial Research Budget or in the Research Budget (as defined in Section 2.5. below), as applicable

2.5 It is agreed that at the request from time to time of the Chief Investigators or any party hereto, the parties shall consult with a view to considering the advisability of variations in the Initial Research Program and/or in the Initial Research Budget. Such variations approved by the parties in writing shall constitute amendments to the Initial Research Program and/or in the Initial Research Budget, as applicable. Without limiting the generality of the foregoing, the parties agree, no fewer than thirty (30) days prior to the end of the Initial Research Period, to consult in good faith concerning an extension of the Initial Research Period for a further one-year period. If, as a result of such consultation, the parties agree to extend the Initial Research Period, and agree upon a research program and a budget in respect thereof, the Initial Research Period shall be extended by such one-year period (the "**Extended Research Period**"), and such research program and budget shall be deemed the "Research program" and the "Research Budget" for such year. This process shall thereafter be repeated annually for each of the following one-year periods after the termination of each one-year period of the Extended Research Period. Nothing herein contained shall be interpreted as imposing on either party any obligation to agree to any such amendment, extension, research program or budget.

2.6 Charges in respect of research expenditures made by the Licensors shall be made in accordance with the procedures then prevailing at the Institute or at Mor, as applicable, for charging research expenditures to individual projects of applied research. The Company acknowledges and is aware that the Institute's internal regulations and procedures and the internal regulations and procedures of Mor and its affiliated medical institutions require that a portion of research funding received from external sources be allocated to cover overhead expenses, and that amounts to paid to the Institute and Mor in connection with the Initial Research (and any subsequent research performed by them) will be subject to such regulations and procedures, as set forth in the Initial Research Budget.

3. **Reporting**

3.1 Yeda shall procure the submission by Prof. Haran-Ghera to the Company of an interim written report on the progress and the results deriving from the Research at the Institute covering each ***** period during the Initial Research Period and any Extended Research Period thereafter, within ***** of the end of each such ***** period, and of a written report summarizing the final results of the Research at the Institute within ***** of the end of the Initial Research Period or any Extended Research Periods thereafter (as applicable). Yeda will notify the Company of any significant event or results of which it shall become aware (including, without limitation, any invention) arising out of the Research at the Institute during the course of any such ***** period. In addition, Yeda shall submit to the Company, with respect to each ***** period of the Initial Research Period and any Extended Research Period thereafter, a separate financial report setting forth the monies received and expended by it in connection with the Research at the Institute during such ***** period. Each report as aforesaid shall be submitted to the Company not later than ***** after the end of the period covered by such report. In the event of a delay exceeding ***** of the submission of any of the reports mentioned above, the Company shall have the right to postpone the payments for the Research at the Institute, as set forth in the Initial Research Budget or in the Research Budget (as applicable), until such delayed report shall be submitted to the Company in full.

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* *****Confidential material redacted and filed separately with the Commission.

3.2 Mor shall procure the submission by Prof. Mittleman to the Company of an interim written report on the progress and the results deriving from the Initial Clinical Research covering each ***** period of the Initial Research Period and any Extended Research Period thereafter, within ***** of the end of each such ***** period, and of a written report summarizing the final results of the Initial Clinical Research within ***** of the end of the Initial Research Period or any Extended Research Period thereafter (as applicable). Mor will notify the Company of any significant event or results of which it shall become aware (including, without limitation, any invention) arising out of the Initial Clinical Research during the course of any such ***** period. In addition, Mor shall submit to the Company, with respect to each ***** period of the Initial Research Period and any Extended Research Period thereafter, a separate financial report setting forth the monies received and expended by it in connection with the Initial Clinical Research during such ***** period. Each report as aforesaid shall be submitted to the Company not later than ***** after the end of the period covered by such report. In the event of a delay exceeding ***** of the submission of any of the reports mentioned above, the Company (or any other company in the Bio-Gal Group) shall have the right to postpone the payments for the Initial Clinical Research, as set forth in the Initial Research Budget or in the Research Budget (as applicable), until such delayed report shall be submitted to the Company in full.

4. **No Warranties**

4.1 The Licensors make no warranties whatsoever as to the Licensed Information, including, without limitation, regarding the success or results of the Initial Research, or the scope and validity of the Existing Patent Applications and/or the Patents (if any) and/or the chances of receiving approval for Existing Patent Application or future application in any jurisdiction and/or that the use and exploitation of the Licensed Information and the exercise of any rights of the License under this Agreement, including the development of any Product as contemplated hereunder, will not infringe any third party's rights and/or with respect to the technical or commercial feasibility of developing any Product on the basis of the Licensed Information and/or receiving Product Approval for any such Product.

4.2 Without derogating from the foregoing, the parties hereto acknowledge that Johnson & Johnson and Hoffman Laroche currently possess one or more patents covering the manufacture of EPO (which the Company believes will expire prior to 2005), and that the production and marketing of the Products may be dependent, upon securing an arrangement with Johnson & Johnson and Hoffman Laroche for the purchase and/or production of EPO for incorporation in the Products.

5. **Development and Commercialization**

5.1 The Company will use reasonable efforts to develop, manufacture, produce, market and sell the Products throughout the world during the term of the License. For such purpose, and without derogating from the generality of the foregoing, the Company undertakes to use reasonable efforts to perform the activities described in the development program attached hereto as Attachment F, (the "Development Program", including all additions or amendments made by written agreement of the parties hereto) with respect to the development, for the purpose of manufacture and marketing, of the Products, including the timetable for the completion of the various stages of such development.

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* *****Confidential material redacted and filed separately with the Commission.

5.2 The Company shall provide the Licensors with written reports on the progress and results of the Development Program with respect to each Product. Prior to the First Commercial Sale of each such Product, such reports shall be made once every six (6) months. The Company shall notify the Licensors as soon as practicable of any significant results arising out of the said Development Program during any six (6) month period.

5.3 For the removal of doubt, nothing contained in this Agreement shall be construed as a warranty by the Company that the Development Program to be carried out by it as aforesaid will achieve its aims and the Company makes no warranties whatsoever as to any results to be achieved in consequence of the carrying out of such Development Program.

6. **Title**

6.1 Subject only to the License, all right, title and interest in and to the Licensed Information and in and to the Patents, and all right, title and interest in and to any drawings, plans, diagrams, specifications, other documents, models or any other physical matter in any way containing, representing or embodying any of the Licensed Information, is and shall be the exclusive property of the Licensors, whose respective rights, title and interest in the same, as between themselves, shall be divided as follows: ***** (the "**Ownership Breakdown**").

For the avoidance of doubt, the Licensors shall retain exclusive ownership (according to the Ownership Breakdown) of all right, title and interest in any and all discoveries, inventions, results, and works of authorship made during the Research by any person or entity, as well as any modifications, applications and derivates thereof.

7. **Patents; Patent Infringements**

7.1 At the initiative of any party hereto, the parties shall consult with one another in good faith regarding the filing of patent applications (such term herein to include any applications for continuations, continuations-in-part, divisions, patents of addition or renewals) in respect of any portion of the Licensed Information including, but without limitation, the jurisdictions in which such applications should be filed, the timing of the filing of such applications and the contents thereof and regarding any other applications or filings giving similar statutory protection to such Licensed Information. Following such consultations, the Licensors shall, at the Company's written request, prepare, file and prosecute patent applications as aforesaid in such jurisdiction or jurisdictions as shall be specified in the Company's said request and, in addition, the Licensors shall make reasonable efforts to prosecute the Existing Patent Applications and maintain and protect at the applicable patent office the existing patents, if any, all the above provided that the Company shall have previously secured, to the satisfaction of the Licensors, the payment by the Company of the amounts of all costs and fees involved with such preparation, filing, prosecution, maintenance and protection. The Parties agree that their joint policy will be to seek a comprehensive patent protection for all Licensed Information licensed to the Company hereunder.

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7.2 All applications to be filed by the Licensors in accordance with the provisions of Section 7.1 above, shall be filed in the name of the Licensors or, should the law of the relevant jurisdiction so require, in the name of the inventor and then assigned to the Licensors. As of April 2001, the Company shall bear all costs and fees incurred by the Licensors in the preparation, filing, prosecution, and the like of all patent applications filed in accordance with the provisions of Section 7.1 above and in the maintenance, protection at the appropriate patent office and the like of all patents issuing therefrom, as well as of the existing patents, if any, or, if so instructed by the Licensors, shall pay all costs and fees relating to such patent applications directly to the third parties to whom they are due, as they come due. The Company agrees to pay any amounts due to the Licensors or third parties pursuant hereto within 30 (thirty) days of the Licensors' first written request. Upon request by the Company, the Licensors shall submit to the Company receipts or other appropriate documents evidencing such costs and fees. For the avoidance of doubt, other than amounts already paid by the Company the Licensors shall not be entitled for reimbursement for out-of-pocket costs and fees incurred prior to the Effective Date in connection with the Existing Patent Applications and the existing patents included in the Patents.

7.3 In the event that, following such consultations between the parties regarding the filing of patent applications pursuant to Section 7.1 above, the Company shall not wish to file and/or continue to prosecute a patent application in relation to any part of the Licensed Information, then the Licensors may file and/or continue to prosecute such specific patent application at their own cost and expense. In such event, the License shall automatically expire with respect to the subject matter of such patent application (or patent) in the country or countries in which it is being filed and/or prosecuted, and the Licensors shall be entitled to freely exploit such patent application and associated portions of the Licensed Information in such country or countries as they see fit, including by granting licenses with respect thereto to third parties in such country or countries. The Company shall be entitled to subsequently renew the License with respect to any such patent application (or patent) in any such country or countries, provided that the Licensors have not granted rights with respect to such patent application or patent to a third party, by reimbursing the Licensors for the Licensors' aggregate out-of-pocket costs and fees (as supported by receipts or other appropriate documents evidencing such costs and fees) incurred in connection with the said patent application (in the preparation, filing, prosecution, maintenance and the like of such application) and in connection with the patent received as aforesaid as a result of such application (in the maintenance, protection and the like of such patent), such costs and fees to be expressed in the currency in which paid by the Licensors and to be reimbursed by the Company to the Licensors in US Dollars , as well as interest thereupon for the period from the date of such payments by the Licensors until the date on which they are reimbursed, in accordance with the provisions relating to late payments set forth in Section 14 below. The Company shall bear all additional and future expenses relating to such patent application or patent, and the provisions of Section 7.2 shall apply as if the relevant patent application had been filed in accordance with Section 7.1 above.

7.4 Nothing herein contained shall be deemed to be a warranty by the Licensors that they can or will be able to obtain any patent or patents on any Patent Application or applications relating to the Licensed Information or any portion thereof, or that the Patents or any patents obtained on any of the said patent applications, if obtained, are or will be valid or will afford proper protection.

7.5 (a) Each party shall promptly notify the other in writing of any alleged infringement or misappropriation by third parties of the Licensed Information and provide any information available to that party relating to such alleged infringement or misappropriation

(b) Should the Company (i) determine that a third party is infringing one or more of the Patents, by manufacturing, using or selling any Product; or (ii) be sued on the grounds that the manufacture, use or sale of a Product by it or by a Sublicensee infringes upon the patent rights of a third party, then the Company shall be entitled to sue for such infringement or defend such action (as the case may be), and, to the extent required by the relevant law, the Licensors shall consent to being named as a party in any such litigation and shall cooperate with the Company, its attorneys and its agents, and upon request, provide the Company with the complete copies of any and all documents or other materials that the Company may reasonably deem necessary in order to undertake such responsibilities and shall use its best efforts to cause the Chief Investigators to cooperate with the Company in prosecuting or defending such litigation, provided that any expenses or costs incurred in connection with such litigation (including, without limitation, legal costs and other sums awarded to the counter party in such action) shall be borne by the Company, who (without derogating from the provisions of Section 13 below) shall indemnify the Licensors against any such expenses or costs.

(c) In the event that the Company receives any monetary awards due to action or a suit, then such monetary awards shall be allocated to defray the costs and expenses (including reasonable attorneys' fees) incurred by the Company, and any remaining balance will be divided as follows: *****.

(d) Notwithstanding that stated in subsection (b) above, the Company shall not be entitled to oblige the Licensors to take any action whatsoever for the protection of or against infringement of any Patents. In the event that the Company shall not exercise its right under this Section 7.6, any action of the Licensors shall be entirely at the Licensors' discretion, and the costs of any such action, as well as any costs or other sums awarded to any counter-party in such action, shall be paid by the Licensors exclusively, and any recovery in any such action shall be retained exclusively by the Licensors.

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* *****Confidential material redacted and filed separately with the Commission.

8. **License**

8.1 The Licensors hereby grants to the Company and the Company hereby accepts from the Licensors, an exclusive worldwide license under the Patents and the Licensed Information for the development, use, marketing, distribution and sale of the Products, and, to the extent to which such rights are covered by an applicable Patent, to manufacture the Products ("the License"), all for such period, for such consideration and upon such terms and conditions as are set forth in this Agreement. The License granted herein, and the use of the terms "Product" or "Products" in connection therewith, shall apply to the treatment in human patients of myeloma, and to any other additional cancer indications within the scope of the Patents and the Licensed Information with respect to which the Company has submitted to the Licensors a satisfactory detailed research and development plan including a timetable and budget substantially similar to Attachments C and D hereto (each an "Additional Indication"). The term of the License with respect to such Additional Indication shall commence upon the confirmation by the Licensors that an appropriate research and development program has been submitted by the Company and extend for the period set forth in Section 8.2 below and all undertakings, obligations, liabilities and responsibilities hereunder shall apply also to such Additional Indication (myeloma and any Additional Indication shall be referred to hereunder as an "Indication"). For the avoidance of any doubt, the Licensors shall be entitled to freely grant licenses to third parties under the Patents and the Licensed Information relating to the treatment of any medical indication that is not an Indication.

8.2 The License shall remain in force with respect to any of the Products for each particular Indication in any country (if not previously terminated according to the provisions of this Agreement) as follows:

8.2.1 In a country where a Patent or Patents has been issued relating to such Product, until the latter of (i) the date of expiry of the Patent (or the last of the Patents) covering such Product in such country or (ii) the fifteenth (15th) anniversary of the date of the First Commercial Sale by the Company (or a Sublicensee) in such country;

8.2.2 In any other country, upon the fifteenth (15th) anniversary of the date of the First Commercial Sale (with respect to such Indication) by the Company (or a Sublicensee) in such country.

8.2.3 The Company shall promptly notify the Licensors in writing upon the occurrence of a First Commercial Sale for any given Product, specifying the date, the country in which such sale took place and the type of Product sold.

9. **Sublicense**

9.1 A sublicense to all or any portion of the rights granted under the License (a "**Sublicense**") may be granted by the Company only if: (1) the proposed sublicense is for monetary consideration or its equivalent (ii) the proposed sublicense is to be granted in a bona fide arms-length commercial transaction, including, for the avoidance of doubt, a bona fide subcontracting agreement for the manufacture of a Product by a third party on the Company's behalf (to the extent that the Company has received a license to manufacture such Product from the Licensors) , and (iii) the proposed sublicense is made by written agreement, whose provisions are consistent with the terms of the License and contain, inter alia, the following terms and conditions:

9.1.1 The Sublicense shall expire automatically on the termination of the License for any reason;

9.1.2 The Sublicensee shall undertake in writing to the Licensors to be bound by provisions substantially similar to those contained in Sections 11 and 13 below;

9.1.3 Such terms necessary to enable performance by the Company of its obligations hereunder;

9.1.4 Any act or omission by the Sublicensee which would have constituted a breach of this Agreement by the Company had it been committed (or failed to be performed) by the Company, shall constitute a breach of the sublicense agreement with the Company entitling the Company to terminate the sublicense.

9.1.5 The sublicense shall not be assignable, transferable or subject to further sublicensing without the express prior written consent of the Licensors;

9.2 Sublicenses under the License may be granted by the Company to Affiliated Entities of the Company, provided that, in addition to the terms and conditions listed in Sections 9.1.1. to 9.1.5 above, the sublicense agreement shall stipulate that the sublicense shall automatically expire in the event that the Sublicensee ceases to be an Affiliated Entity of the Company;

9.3 A copy of the proposed agreement granting a sublicense pursuant to Sections 9.1 or 9.2 above shall be submitted to each of the Licensors for review at least twenty-one (21) days prior to its execution, and an executed copy shall be provided to each of the Licensors promptly upon execution thereof.

9.4 The Company hereby undertakes to promptly inform the Licensors upon receipt of knowledge by the Company of any breach of the sublicense agreement by a Sublicensee, and, if so requested by the Licensors, to exercise the Company's right of termination under said agreement with the Sublicensee.

10. **Consideration**

10.1.1 The Company shall pay to Yeda a license grant fee of ***** (the "**License Grant Fee**").

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* *****Confidential material redacted and filed separately with the Commission.

10.1.2. The License Grant Fee shall be payable in four installments, the first of which shall be in the amount of *****, due and payable upon completion of three months from the Effective Date; the second of which shall be in the amount of *****, due and payable upon completion of four months from the Effective Date; the third of which shall be in the amount of *****, due and payable upon the completion of eight months from the Effective Date; and the fourth of which shall be in the amount of *****, due and payable upon the completion of twelve (12) months from the Effective Date. The first and second installments (in the total amount of ***** shall be payable regardless of the prior termination of this agreement for any reason whatsoever, however the payment of the third and fourth installments shall not apply in the event that this Agreement has been terminated in accordance with the terms and conditions of this Agreement prior to the date upon which such payment is due. All payments of the License Grant Fee hereunder shall be made in US dollars.

10.2 **Annual License Fees.**

10.2.1 In addition to the License Grant Fee, the Company shall pay to Yeda an annual license fee of ***** per year ("**Annual License Fee**"), subject to the terms and conditions set out in this Section 10.2 and Section 14 below.

10.2.2 The initial payment of Annual License Fees shall be due and payable upon the first anniversary of the Effective Date.

10.2.3 Subsequent Annual License Fees shall be payable on each anniversary of the Effective Date thereafter, for the duration of the period in which the License is in effect.

10.2.4 Upon receipt of Product Approval, during the term of the License, the Annual License Fees shall be increased to ***** per year.

10.3 Payment Upon Approval of Patents. In addition, the Company shall pay to Yeda a one-time payment of ***** upon the later of (i) the first anniversary of the Effective Date or (ii) within fourteen (14) days of issuance or registration of the first Patent registered hereunder. For the removal of doubt, Yeda shall not be entitled to receive any payment upon the approval of any subsequent Patent.

10.4 Payment upon Product Approval. In addition, the Company shall pay to Yeda a onetime payment of *****, within fourteen (14) days of receipt of the Product Approval for the first Product. To remove doubt, Yeda shall be entitled to payment under this Section 10.4 once, for the first Product to receive Product Approval only.

10.5 Payment upon an Entitling Event. In addition, within fourteen (14) days of receipt of the proceeds from an Entitling Event, Yeda shall be entitled to receive from the Company an/or other member(s) of the Biogal Group and/or its/their shareholders (as the case may be) *****. Notwithstanding the aforesaid, if the consideration paid in the Entitling Event is in the form of securities of a third party, Yeda will be entitled to receive such number of the same type of securities being offered in the Entitling Event having equal value to the cash consideration to which Yeda is entitled hereunder for such Entitling Event. In the event that the consideration received in the context of an Entitling Event is payable in installments, Yeda shall be entitled to receive payments from each installment paid in accordance with the provisions of this Section 10.5, until its entitlement to payment hereunder has been fully satisfied.

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* *****Confidential material redacted and filed separately with the Commission.

10.6 Acknowledgement by Mor. Mor acknowledges and confirms that it has been issued an equity interest in the Company in consideration of the granting of the License, and accordingly, shall not be entitled to any additional fee or payment for the granting of the License. The foregoing shall not derogate in any manner from Mor's entitlement to receive funds hereunder in connection with the Initial Research (or in connection with any further Research or services it may provide to a member of the Biogal Group).

11. **Confidentiality**

11.1 Each member of the Biogal Group shall maintain in confidence of all confidential information relating to the Research and all technical, medical, financial or other information or data relating to the Licensed Information, or to any patent applications included in the Patents, except and to the extent that :(a) any such information or data is in the public domain at the date of the signing hereof or becomes part of the public domain thereafter (other than through a violation by the Company or a Sublicensee of this obligation of confidentiality); or (b) such confidential information (or any portion thereof) that is expressly released by the Licensors from this obligation of confidentiality by notice in writing to the Company to such effect; or (c) the Licensed Information was received by the Company from a third party legally entitled to disclose it without breach of a confidentiality undertaking to Yeda. Notwithstanding the foregoing, the Company may disclose to its personnel and other third parties (including Sublicensees) the Licensed Information to the extent necessary for the exercise by it of its rights hereunder or in the fulfillment of its obligations hereunder, provided that such personnel and other third parties shall be subject to written confidentiality undertakings no less strict than those contained herein.

11.2 The Licensors shall maintain in confidence of all information and data received from the Company and explicitly identified in writing as confidential, except and to the extent that: (a) any such information or data is in the public domain at the date of the signing hereof or becomes part of the public domain thereafter (other than through a violation by the Licensors of this obligation of confidentiality); or (b) any such information or data is expressly released by the Company from this obligation of confidentiality by notice in writing to the Licensors to such effect; or (c) the information was rightfully received by the Licensors from a third party without any restrictions on disclosure or use. Notwithstanding the foregoing, the Licensors may disclose to its personnel any such confidential information or data to the extent necessary for the exercise by it of its rights hereunder or in the fulfillment of its obligations hereunder, provided that such personnel shall be subject to written confidentiality undertakings no less strict than those contained herein.

11.3 In addition to and without derogating from the foregoing, the Company undertakes not to make mention of the names of Yeda, Mor, the Institute or any scientists or other employee thereof in any manner or for any purpose whatsoever in relation to this Agreement, its subject matter and any matter arising from this Agreement or otherwise, without the prior written approval of Yeda or Mor (as applicable) which will not be unreasonably withheld.

11.4 Notwithstanding the provisions of Sections 11.1, 11.2 and 11.3 above, the Company shall not be prevented from mentioning the name of Yeda, Mor, the Institute, or any hospital or medical institute which was involved in the Research and/or any scientists or other employees thereof or from disclosing any information:

(a) If, and to the extent that such mention or disclosure (i) is to competent authorities for the purposes of obtaining approval or permission for the exercise of the License, or is in the fulfillment of any legal duty owed to any competent authority (including, without limitation, a duty to make regulatory filings); or (ii) is the fact of the execution of this Agreement to any third party; or (iii) relates to any information relating to this Agreement (to the extent necessary and to the extent such information does not constitute Licensed Information or any other information that the Company is obliged to maintain in full confidence pursuant to clause 11.1 above); or

(b) In the event of (i) a private placement; or (ii) an initial public offering of shares of the Company; or (iii) a merger or acquisition of the Company, the Company will be authorized to disclose any information to any prospective investor or any other relevant party, subject to the written undertaking of confidentiality addressed to the Company in a form reasonably acceptable to the Licensors, of such prospective investor or recipient of such information (and provided that it shall be clearly indicated any document so provided to such a party, that Yeda has not reviewed or approved the information so provided); or

(c) The Company shall be entitled to mention that the Company is a Licensee of Yeda and Mor to develop, use, market, manufacture (if applicable), sell and distribute the Products, in any business presentations, press interviews, brochures and company profiles, copies of which shall be provided to the Licensors within a reasonable time of printing, publication or disclosure thereof.

11.5 The termination of this Agreement for any reason whatsoever, shall not release the Company from any of its obligations under this Section 11 and such obligations shall survive any such termination.

11.6 Yeda, the Institute and the scientists of the Institute may publish articles relating to the Licensed Information in scientific journals or posters or to give lectures or seminars to third parties relating to the Licensed Information, or in any other way to publish the Research or the results thereof, on condition that, to the extent that the information to be published or disclosed is not in the public domain, a draft copy of the said contemplated publication or disclosure shall have been furnished to the Company at least sixty (60) days before the making of any such publication or disclosure and the Company shall have failed to notify Yeda in writing, within thirty (30) days from receipt of the said draft publication or disclosure, of its opposition to the making of the contemplated publication or disclosure. Should the Company notify Yeda in writing within thirty (30) days from the receipt of the draft contemplated publication or disclosure that it opposes the making of such publication or disclosure because it includes material information (which has been specified in said notice), in respect of which there are reasonable grounds, such grounds also to be specified in the said-notice, requiring the preventing or postponement, as the case may be, of such publication or disclosure so as not adversely to affect the patentability of the Licensed Information, then Yeda shall not permit such publication or disclosure unless there shall first have been filed an appropriate patent application in respect of the material information to be published or disclosed as aforesaid, and if this cannot reasonably be undertaken, then Yeda shall not permit such publication or disclosure unless the material information specified in the Company's notice as aforesaid has been deleted therefrom. The Company acknowledges that it is aware of the importance to the researchers of publishing their work and, accordingly, the Company will use its best efforts not to oppose such publications.

12. **No Assignment**

The Company may assign, transfer or encumber all or any of its rights or obligations under this Agreement or arising therefrom, provided it has received the prior written consent of both of the Licensors, which shall not be unreasonably withheld. A Licensor opposing such assignment, transfer or encumbrance of rights, shall provide the Company with a written explanation of the grounds for its opposition. The Licensors shall be entitled to condition their consent to an assignment inter alia on the receipt of written assurances and/or guarantees (including an undertaking by the Company to guarantee payment of all fees and payments due hereunder to Yeda).

Notwithstanding the foregoing, the Company shall be entitled to make an assignment of all (but not part) of its rights and obligations under this Agreement to an Affiliated Entity without prior written consent of the Licensors, provided that: (i) prior written notice of such intended assignment, together with the copy of the agreement of the proposed assignment shall be submitted to the Licensors at least 30 (thirty) days before signing; (ii) the terms of the assignment shall ensure that it shall be consistent with the provisions of this Agreement and will not derogate in any manner from the rights of the Licensors hereunder; (iii) the assignment shall expire automatically if the assignee ceases to be an Affiliated Entity of the Company; (iv) the Affiliated Entity shall assume all obligations of the Company under this Agreement without releasing the Company of its obligations hereunder. Any assignment or attempted assignment contrary to the provisions hereof shall be null and void.

13. **Exclusion of Liability and Indemnification**

13.1 Yeda, Mor, the Institute, RMC and the directors, officers and employees thereof (hereinafter collectively "**the Indemnitees**") shall not be liable for any claims, demands, liabilities, costs, losses, damages or expenses (including legal costs and attorney's fees) of whatever kind or nature caused to or suffered by any person or entity (including, without limitation, to the Company or any Sublicensee) that directly or indirectly arises out of or result from or are encountered in connection with this Agreement or the exercise of the License, including, without limiting the generality of the foregoing, directly or indirectly arising out of or resulting from or encountered in connection with the development, manufacture, sale or use of any Product by any member of the Biogal Group, any Sublicensee or any person acting in the name of or on behalf of any of the foregoing, or acquiring any of the Products from any of the foregoing, or directly or indirectly arising out of or resulting from or encountered in connection with the exploitation or use by any member of the Biogal Group or any Sublicensee of the Licensed Information or any part thereof, including, without limitation, of any data or information given, if given, in accordance with this Agreement.

13.2 In the event that any of the Indemnitees should suffer any damages, claim, demand, liability, loss, cost or expense as aforesaid in Section 13.1, or shall be requested or obliged to pay to any person or entity any amount whatsoever as compensation for any damages, demand, claim, liability, cost, loss or expense as aforesaid, then the Company, the Biogal Group and/or each of their successors or assigns (each jointly and severally) shall defend, indemnify and hold harmless such Indemnitees from and against any and all such damages, claim, demand, liability, cost, loss or expense (including attorney fees and legal costs) of whatever kind or nature as aforesaid. Without limiting the generality of the foregoing, the foregoing indemnification and the exclusion of liability set forth in Section 13.1 above shall extend to product liability claims and to damages, claims, demands, liabilities, losses, costs and expenses attributable to death, personal injury or property damage or to penalties imposed on account of the violation of any law, regulations or governmental requirement. Notwithstanding the foregoing, the Company, the Biogal Group shall have no obligation to indemnify an Indemnitee in the event and to the extent that any damages, claim, liability, demand, loss, cost or expense as aforesaid results from the fraudulent misconduct of such Indemnitee.

13.3 The Company and Biogal Israel shall each, at its own expense, insure its liability pursuant to Section 13.2 above during the period beginning on the date of (i) the commencement of the clinical trials of a Product in any country or in-vivo research, in the case of Products which are drugs, or (ii) the first sale by a member of the Biogal Group (whether commercial or for experimental or test-market purposes) in the case of any other Product, for the entire period that the License is in force, and for an additional ***** thereafter. Such insurance shall be in reasonable amounts and on reasonable terms in the circumstances, having regard, in particular, to the nature of the Products, and shall be subscribed for from a reputable insurance company. The beneficiaries of such insurance shall be the Company, Yeda and Mor. The policy or policies so issued shall include a "cross-liability" provision pursuant to which the insurance is deemed to be separate insurance for each insured party (without right of subrogation as against any of the insured under the policy, or any of their representatives, employees, officers, directors or anyone in their name) and shall further provide that the insurer will be obliged to notify each insured in writing at least 60 days in advance of the expiry or cancellation of the policy or policies. The Company hereby undertakes to comply with all obligations imposed upon it under such policy or policies and in particular, without limiting the generality of the foregoing, to pay in full all premiums and other payments for which it is liable pursuant to such policy or policies. The Company shall be obliged to submit to the Licensors, upon issuance, copies of the aforesaid insurance policy or policies.

13.4 The provisions of this Section 13 shall survive the termination of this Agreement for any reason whatsoever.

14. **Term and Termination**

14.1 Term. Unless previously terminated in accordance with the provisions hereof, this Agreement shall terminate upon the expiration of the License.

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[*] *****Confidential material redacted and filed separately with the Commission.

14.2 **Termination**

14.2.1 Without derogating from the parties' rights hereunder or by law, to any other or additional remedy or relief, it is agreed that each of the Licensors or the Company may terminate this Agreement and the License hereunder by serving a written notice, effective immediately, on the infringing party upon the occurrence of:(a) a material breach hereof by the other (which breach cannot be cured or, if curable, has not been cured by the party in breach within ***** or, in the case of failure by the Company to pay any amount due by the Company to Yeda pursuant to or in connection with this Agreement on or before due date of payment, thirty (30) days after receipt of a written notice from the other party in respect of such breach, and in such event this Agreement and the License hereunder shall be terminated forthwith upon receipt of notice as aforesaid.

14.2.2 Without derogating from the provisions of Section 14.2.1 above, each of the Licensors shall be entitled to cancel this Agreement (including the License hereunder) with immediate effect, by delivery of a written notice to such effect to the Company:

14.2.2.1 If the Company (or a permitted Sublicensee) shall not within ***** of the date of expiry of the Initial Research Period have received a Product Approval and/or commenced the commercial sale or manufacture, of a Product, or shall cease such manufacture or sale for a period of more than twelve (12) months, provided however, that such period shall be extended if the cessation of the manufacture or sale results solely from an act or omission of a third party, which the Company cannot remedy or repair by other means, and of which the Company has informed the Licensors in writing not less than three months from its occurrence or non-occurrence (the "Preventing Event"), for as long as the Preventing Event exists, but not to extend more than twenty-four (24) months.

14.2.2.2 If the Company shall not have received additional funding for the continued development of the Products of at least ***** of the Effective Date, at least ***** of which shall be allocated to research and development activities of the Company.

14.2.2.3 Upon the filing of a petition in bankruptcy, liquidation, insolvency, reorganization or receivership that is not dismissed within sixty (60) days of the date on which it is filed against or by the Company and/or Biogal Israel and/or an Affiliated Entity Sublicensee thereof, or if any of the foregoing shall be subject to an arrangement with creditors, whether by law or agreement, or shall otherwise becoming insolvent.

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* *****Confidential material redacted and filed separately with the Commission.

14.2.2.4 Upon the assignment or transfer of this Agreement or any rights or obligations hereunder by the Company and/or Biogal Israel and/or an Affiliated Entity Sublicensee thereof in contravention of the provisions of this Agreement.

14.2.2.5 Upon termination of the Founders Agreement for any reason, or upon the occurrence of an event which would entitle either Licensor to terminate the Founders Agreement.

14.2.3 For the purposes of this Section 14.2, a notice of termination of this Agreement sent by either Yeda or Mor to the Company shall be deemed in all circumstances to have been jointly issued by both of the Licensors.

14.3 The Company shall be entitled, on the giving to the Licensors of one hundred and twenty (120) days prior written notice to such effect, to terminate this Agreement, in the event that the Company considers that for scientific, medical, or commercial reasons, the development of any Product is not feasible, provided that: (1) such termination shall not take effect prior to the termination of the Initial Research Period, provided however, that the Company may terminate this Agreement for sufficient scientific, medical or commercial grounds upon the completion of a period of ***** from the Effective Date, with three (3) months prior written notice to the Licensors, if no Product is being marketed, distributed or sold at such time and (ii) the Company shall continue, after termination of this Agreement in accordance with the foregoing, to be liable for all expenses and costs incurred by the Licensors prior to the termination of the Agreement, in respect of the Initial Research Program or the Research Program within the scope of the Initial Research Budget or the Research Budget (or any mutually agreed upon extension thereof) which Yeda or Mor is not entitled to cancel (pursuant to law or contract) and all costs and expenses incurred by either of the Licensors, prior the termination of this Agreement in connection with the Patents pursuant to Section 7.1 above. The provisions of Section 14.3(ii) shall survive termination of this Agreement.

14.4 Upon the termination of this Agreement for whatever reason, all of the Company's rights hereunder in and to the Licensed Information shall revert to the Licensors and the Company or other members of Biogal Group shall not be entitled to make any further use of the Licensed Information and the Company and other members of the Biogal Group shall deliver to the Licensors all drawings, plans, diagrams, specifications, other documentation, models or any other physical matter in their possession in any way containing, representing or embodying the Licensed Information. Notwithstanding the foregoing, the Company may retain copies of all such documentation relating to any development and other work performed by the Company in connection with the Products provided that: (i) such documentation may be used by the Company for the sole purpose of defending itself in any future claims relating to the exercise by the Company (prior to termination) of its rights hereunder; (ii) the Company shall otherwise maintain such documentation in strict confidence as long as the obligation of confidentiality under Section 11 shall continue to apply thereto; and (iii) the retention of such documentation shall in no way be deemed to establish any right to the further exercise of the License or of the Licensed Information.

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* *****Confidential material redacted and filed separately with the Commission.

14.5 The termination of this Agreement for any reason shall not relieve the parties of any obligations, which shall have accrued prior to such termination.

15. **Late Payments**

Any amount payable hereunder by one of the parties to another, that has not been paid by its due date of payment shall bear interest from its due date of payment until the date of actual payment, at the average LIBOR rate for Dollar deposits for a period of 3 (three) months prevailing from time to time during the period of arrears, *****.

16. **Notices.**

Any notice to be given pursuant to or in connection with this Agreement shall be given, in writing, by facsimile or by prepaid registered mail, to the following address (or such other address in Israel as a party may from time to time notify the other parties hereto in writing shall serve as its address for this purpose):

For Yeda: To the address set forth in the Preamble,
Fax: 08-9470739.

For Mor: To the address set forth in the Preamble.
Fax: 03-9233228

For the Company and/or Biogal Israel:

and shall be deemed to be received by such party: (a) if sent by courier, upon receipt; (b) if sent by facsimile, on the first business day after the date of transmission or (c) if by registered letter (or nearest equivalent), four (4) days after the time at which it was posted.

17. **Guarantee.**

The Company hereby undertakes to serve as guarantor for the full and timely performance by the Company and/or Biogal Israel of all of its/their obligations hereunder, including without limitation, the full and prompt payment of all fees and payments (including license fees and payments, payment of the Research Budget and the reimbursement of costs and expenses) due to Yeda and Mor under this Agreement.

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* *****Confidential material redacted and filed separately with the Commission.

18. **Value Added Tax.**

Each party shall reimburse the other party against submission of appropriate tax invoices, all amounts of Value Added Tax imposed on such other party in connection with the transactions under this Agreement.

19. **Miscellaneous.**

19.1 Entire Agreement. This Agreement and the Founders Agreement constitutes the entire agreement between the parties hereto in respect of the subject matter hereof, and supersedes all prior agreements or understandings between the parties relating to the subject matter hereof, and this Agreement may be amended only by a written document signed by both parties hereto.

19.2 Counterparts. This Agreement may be signed in any number of counterparts, no one of which need be signed by more than one party, and all such copies, when duly executed, shall be considered an original of one and the same document.

19.3 Waiver. No waiver by any party hereto, whether express or implied, of its rights under any provision of this Agreement shall constitute a waiver of such party's rights under such provisions at any other time or a waiver of such party's rights under any other provision of this Agreement. No failure by any party hereto to take any action against any breach of this Agreement or default by another party hereto shall constitute a waiver of the former party's rights to enforce any provision of this Agreement or to take action against such breach or default or any subsequent breach or default by such other party.

19.4 Governing Law; Venue. This Agreement shall be governed in all respects by the laws of Israel, and the courts of Israel shall have exclusive jurisdiction over all disputes arising hereunder

19.5 Independent Contractors. Nothing contained in this Agreement shall be construed to place the parties in relationship of partners or parties to a joint venture or to constitute either party an agent, employee or legal representative of the other party and neither party shall have power or authority to act on behalf of the other party or to bind the other party in any manner whatsoever.

19.6 Severability. In the event that any provision of this Agreement is held invalid or unenforceable in any circumstances by a court of competent jurisdiction, the remainder of this Agreement, and the application of such provision in any other circumstances, shall not be affected thereby.

19.7 No Set-Off. All payments to be made to the Licensors hereunder shall be made free and clear of and without any deduction for or on account of any set-off, counterclaim or tax.

IN WITNESS WHEREOF the parties hereto have set their signatures as of this 7th day of January, 2002.

YEDA RESEARCH AND DEVELOPMENT COMPANY LTD

By: _____

Title: _____

MOR RESEARCH APPLICATIONS LTD.

By: _____

Title: _____

HAVERFIELD LTD.

By: _____

Title: _____

BIOGAL ADVANCED BIOTECHNOLOGY LTD

By: _____

Title: _____

CONFIDENTIAL TREATMENT REQUESTED . Confidential portions of this document have been redacted and have been separately filed with the Commission.

Exhibit 10.45

AMENDMENT TO THE RESEARCH AND LICENSE AGREEMENT

This Amendment effective as of April 1 2008 (the "**Effective Date**") of the Research and License Agreement dated January 7, 2002 (the "**Research and License Agreement")** entered into by and between Yeda Research And Development Company Ltd., a company duly registered under the laws of Israel of P.O. Box 95, Rehovot 76100, Israel ("**Yeda**"), Mor Research Applications Ltd. a company duly registered under the laws of Israel and having its principal place of business at 23 Hasivim Street., Kiryat Matalon, P.O. Box 7590 Petach Tikva 49170 ("**Mor**") (Yeda and Mor shall be collectively referred to as the "**Licensors**"); Biogal Ltd. (under its previous name HaverfieId Ltd)., a company duly registered under the laws of Gibraltar and having its principal place of business at Valmet Nominees Limited Suites 7B & 8B 50 Town Range Gibraltar (the "**Company**") and Biogal Advanced Biotechnology Ltd., a company duly registered under the laws of the State of Israel and having its principal place of business at 3 Hayezira St. Shap House, Ramat Gan, Israel 52521 ("**Biogal Israel**").

WHEREAS, the Licensors, Biogal Israel and the Company desire to amend the Research and License Agreement (as has been several times amended during the years), in accordance with the terms and conditions contained herein.

All terms used herein and not defined shall have the meaning ascribed to them in the Research and License Agreement.

NOW THEREFORE, the Parties hereto hereby agree as follows:

1. As of date, the principal amount of the Annual License Fee due to be paid to Yeda consist of ***** (the "**Accumulated Annual Fee**"). As previously agreed by Yeda and Company, such Accumulated Annual Fee bears an accumulated interest at the rate of ***** (the "**Interest**"). The Accumulated Annual Fee plus accrued Interest was due to be paid to Yeda by the Company no later than *****.

2. Commencing upon the Effective Date hereof, the Accumulated Annual Fee plus accrued Interest thereon (the "**Due Payment**") shall be paid to Yeda within ***** of recipe of the proceeds from an Entitling Event, as such term is defined in the Research and License Agreement.

   The Due Payment shall be paid in addition to any other amount payable to Yeda upon the closing of an Entitling Event, as specified in Section 10.5 of the Research and License Agreement.

3. Commencing upon the Effective Date hereof, Section 10.2 of the Research and License Agreement, as amended from time to time, shall be replaced in its entirety with the following provisions;

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* *****Confidential material redacted and filed separately with the Commission.

(i) the then current market conditions for such sale or, in the absence of such current market conditions, according to market conditions for sale of products similar to the Products; and

(ii) with respect to sales by the Company and for a Sublicensee, as applicable, to any Affiliated Entity of the Company or of such Sublicensee, as the case may be, the term, "**Net Sales**" shall mean the higher of (A) "**Net Sales**", as defined in paragraph (a) above; and (B) the total amount invoiced by such Affiliated Entity on resale to an independent third party purchaser after the deductions specified in subparagraphs (i) and (ii) above, to the extent applicable

4. The Royalty Payment as aforesaid shall be paid in lieu of the Annual Licensee Fees referred to in Section 10.2 of the Research and License Agreement, which shall not be payable as of the Effective Date. The Royalty Payment shall be made by the Company (also on behalf of Sublicensees) for as long as the License under the Research and License Agreement is in force.

5. The Company undertakes that all sales of Products by the Company and each Sublicensee shall be for cash consideration only.

6. In calculating Net Sales all amounts shall be expressed in US Dollars and any amount received in a currency other than US Dollars shall be translated into US Dollars, for the purposes of calculation, in accordance with the applicable exchange rate between the US Dollar and such currency on the date of such receipt.

"10.2 In consideration for the grant of the License, the Company shall pay Yeda, 1% (one percent) of Net Sales by or on behalf of the Company or by or on behalf of any Sublicensee (the "**Royalty Payment**").

The term "**Net Sales**" shall mean the total amount invoiced by the Company and the total amount invoiced by each Sublicensee in connection with the sale of Products (for the removal of doubt, whether such sales are made before or after the First Commercial Sale of any Product in any country); in all cases after deduction of:

(a) sales taxes (including value added taxes) to the extent applicable to such sale and included in the invoice in respect of such sale;

(b) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejections or returns of Products previously sold;

(c) Bad Debts, meaning invoices which have been recognized by the Company as bad debts and which amounts the Company's accountants have agreed to include as bad debts in the Company's financial statements in according with generally accepted accounting principles and in accordance with Israeli income tax regulations, and which derive from Net Sales in respect of which royalties were paid by the Company pursuant hereunder provided that:

(i) with respect to sales which are not at arms-length and/or are not in the ordinary course of business and/or are not according to then current market conditions for such a sale, the term "**Net Sales**" shall mean the total amount that would have been due in an arms-length sale made in the ordinary course of business and according to

7. The Royalty payment shall be paid to Yeda in US Dollars no later than 45 (forty five) days after the end of each calendar quarter, commencing with the first calendar quarter in which any Net Sales are made by the Company.

8. Failure by the Company to fulfill its obligations under the terms of this Amendment shall be considered as a material breach of the Research and License Agreement, and Yeda shall be entitled, notwithstanding clause 14.2.1 to the Research and License Agreement, to immediately terminate the Research and License Agreement and the License by serving a letter of termination on the Company.

9. For the avoidance of doubt, Biogal Advanced Biotechnology Ltd. hereby undertakes to serve as guarantor for the full and timely performance by the Company of all of its obligations hereunder, including without limitation, the full and prompt payment of the total sum of the Due Payment and the Royalty Payments.

10. This Amendment shall be effective upon execution by all those signatories thereof, effective as of the Effective Date.

11. Except for those provisions, which are amended in accordance with the terms of this Amendment, the remainder of the terms and conditions of the Research and License Agreement, as has been amended from time to time, shall continue in full force and effect and shall, mutatis mutandis, apply to this Amendment.

12. In any event of a conflict between and conditions contained in this Amendment and the Research and License Agreement, as has been amended from time to time, the terms contained in this Amendment shall govern.

13. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original and enforceable against the parties actually executing such counterpart, and all of which together shall constitute one and the same instrument. Facsimile signatures shall be binding as original signatures

IN WITNESS WHEREOF the parties have signed this Agreement as of the date first hereinabove set forth.

YEDA RESEARCH AND DEVELOPMENT COMPANY LTD.

By: _____

Title: _____

MOR RESEARCH APPLICATIONS LTD.

By: _____

Title: _____

BIOGAL LTD.

By: _____

Title: _____

BIOGAL ADVANCED BIOTECHNOLOGY LTD.

By: _____

Title: _____

Exhibit 21.1

SUBSIDIARIES OF XTL BIOPHARMACEUTICALS LTD.

Name of Subsidiary	Jurisdiction of Incorporation
XTL Biopharmaceuticals, Inc.	Delaware
XTL Development, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (File No. 333-141529, File No. 333-147024 and File No. 333-153055), the Registration Statements on Form S-8 (File No. 333-148085, File No. 333-148754 and File No. 333-154795) and related Prospectuses of XTL Biopharmaceuticals Ltd. of our report dated April 6, 2009 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
April 6, 2009

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
XTL Biopharmaceuticals Ltd.

We consent to the incorporation by reference in the registration statements (File No. 333-141529, File No. 333-147024 and File No. 333-153055) on Form F-3 and the registration statements (File No. 333-148085, File No. 333-148754 and File No. 333-154795) 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, 2008, 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
April 6, 2009

Exhibit 31.1

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 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
Ron Bentsur
Co-Chief Executive Officer

Date: April 6, 2009

Exhibit 31.2

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 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

Bill Kessler
Director of Finance
Principal Finance and Accounting Officer

Date: April 6, 2009

Exhibit 32.1

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, 2008 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
Co-Chief Executive Officer

/s/ Bill Kessler
Bill Kessler
Director of Finance
Principal Finance and Accounting Officer

Date: April 6, 2009

Exhibit 99.1

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, 2008, 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, 2008, 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, 2008 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

Ron Bentsur
Co-Chief Executive Officer
April 6, 2009

/s/ Bill Kessler

Bill Kessler
Director of Finance
April 6, 2009