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, 2013

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)

Herzliya Business Park
85 Medinat Hayehudim St., Building G, PO Box 4033
Herzliya Pituach 46140, Israel

(Address of principal executive offices)

Josh Levine
Chief Executive Officer
85 Medinat Hayehudim St., Building G, PO Box 4033
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Tel: +972-9-955-7080
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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 Receipts, each representing twenty Ordinary Shares, par value NIS 0.1	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.

1,978,930 American Depositary Receipts 232,894,900 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

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:

£ US 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

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, including matters discussed under the caption "Item 5. Operating and Financial Review and Prospects," 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. In some instances, you can identify these forward-looking statements by words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plan," "potential," "will," "should," "would," or similar expressions, including their negatives. These forward-looking statements include, without limitation, statements relating to our expectations and beliefs regarding:

- fluctuations in the market price of our securities;
- the possibility that our securities could be delisted from Nasdaq or the Tel-Aviv Stock Exchange ("**TASE**");
- potential dilution to the holders of our securities as a result of future issuances of our securities;
- fluctuations in our results of operations;
- the accuracy of our financial forecasts in our drug development activity as well as in our medical device activity and the uncertainty regarding the adequacy of our liquidity to pursue our complete business objectives;
- the timing and cost 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 candidates that we have acquired – hCDR1 for the treatment of Lupus, rHuEPO for the treatment of Multiple Myeloma, SAM-101 for the treatment of Schizophrenia, and those that may be in-licensed, partnered or acquired;
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- other risks and uncertainties described in this prospectus.

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.

Forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Therefore, you should not place undue reliance on any forward-looking statement as a prediction of future results. Forward-looking statements made in this report and the documents incorporated by reference are made as of the date of the respective documents, and we undertake no obligation to update them in light of new information or future results. 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," "the Company," "we," "us" and "our" refer to XTL Biopharmaceuticals Ltd, an Israeli company and our consolidated subsidiaries. We have prepared our consolidated financial statements in United States, or US, dollars and in accordance with International Financial Reporting Standards, or IFRS. 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

A. Selected Financial Data

The tables below present selected financial data for the fiscal years ended as of December 31, 2013, 2012, 2011, 2010 and 2009. We have derived the selected financial data for the fiscal years ended December 31, 2013, 2012 and 2011, and as of December 31, 2013 and 2012, from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The selected financial data for the fiscal years ended as of December 31, 2013, 2012, 2011, 2010 and 2009 are presented in accordance with IFRS. 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."

Consolidated Statements of Comprehensive income:

	Year ended December 31,				
	2013	2012	2011	2010	2009
	U.S Dollars in thousands				
Revenues	2,369	938	-	-	-
Cost of revenues	(741)	(380)	-	-	-
Gross profit	1,628	558	-	-	-
Research and development costs	(113)	(99)	(158)	(64)	-
Selling and marketing expenses	(1,691)	(848)	-	-	-
General and administrative (expenses) income	(2,048)	(2,769)	(1,078)	(1,222)	2,429)*
Impairment loss of intangible assets	(1,729)	-	-	-	-
Other gains, net	1,059	802	12	30	139
Operating income (loss)	(2,894)	(2,356)	(1,224)	(1,256)	2,568
Finance income	61	60	24	6	6
Finance costs	(35)	(15)	(7)	(7)	(10)
Financial income (costs), net	26	45	17	(1)	(4)
Earnings (losses) from investment in associate	(845)	569	-	-	-
Income (loss) before taxes on income	(3,713)	(1,742)	(1,207)	(1,257)	2,564
tax benefit	-	-	-	-	23
Net income (loss) for the year	(3,713)	(1,742)	(1,207)	(1,257)	2,587
Other comprehensive income (loss):					
Items that might be classified to profit or loss:					
Foreign currency translation adjustments	108	114	-	-	-
Reclassification of foreign currency translation adjustments to Other gains, net	(221)	-	-	-	-
Total other comprehensive income	(113)	114	-	-	-
Total comprehensive income (loss) for the year	(3,826)	(1,628)	(1,207)	(1,257)	2,587
Income (loss) for the year attributable to:					
Equity holders of the Company	(2,476)	(1,390)	(1,207)	(1,257)	2,587
Non-controlling interests	(1,237)	(352)	-	-	-
	(3,713)	(1,742)	(1,207)	(1,257)	2,587
Total comprehensive income (loss) for the year attributable to:					
Equity holders of the Company	(2,589)	(1,276)	(1,207)	(1,257)	2,587
Non-controlling interests	(1,237)	(352)			
	(3,826)	(1,628)	(1,207)	(1,257)	2,587
Basic and diluted earnings (loss) per share (in US dollars)	(0.011)	(0.006)	(0.006)	(0.011)	0.044

Weighted average number of issued ordinary shares	223,605,181	217,689,926	201,825,645	113,397,846	58,561,065

* Including reduced expenses which result from forfeiture of shares that were contingent on the performance of the former chairman and former CEO.

Consolidated Statements of Financial Position Data:

	Year ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	U.S Dollars in thousands				
Cash, cash equivalents and bank deposits	4,165	3,312	1,495	1,066	412
Working capital	3,870	2,143	955	259	(151)
Total assets	8,015	11,086	4,073	3,797	715
Long term liabilities	11	13	-	-	-
Total shareholders' equity	6,265	7,353	3,444	2,834	7
Non-controlling interests	520	2,071	-	-	-

B. Capitalization And Indebtedness

Not applicable.

C. Reasons For Offer And Use Of Proceeds

Not applicable.

D. Risk Factors

Before you invest in our ordinary shares or American Depositary Receipts, 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 in our drug development activity and may incur losses in our medical device activity 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, 2013, we had an accumulated accounting deficit of approximately $146 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.

In addition, in July 2012 we acquired the control over InterCure Ltd. ("InterCure"), a public company whose shares are traded on the Tel-Aviv Stock Exchange and which develops a home therapeutic device for non-medicinal and non-invasive treatment of various diseases such as hypertension, heart failure, sleeplessness and mental stress and markets and sells a home therapeutic device for hypertension. As of the date hereof, we hold approximately 54.72% of the issued and outstanding shares of InterCure. In the year ended December 31, 2013, InterCure's revenues amounted to approximately $2,369,000 and losses attributable to the investment in InterCure amounted to approximately $2,600,000 (including InterCure's operating losses, as well as losses recorded by the Company for amortization of identifiable intangible assets in the amount of approximately $292,000 and impairment of said intangible assets in the amount of approximately $1,729,000). InterCure has had recurring losses and presently does not have sufficient cash and other resources to meet its future plans beyond July 2015.

If our competitors develop and market products that are less expensive, more effective or safer than our products, our revenues and results may be harmed and 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. 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. Development of new drugs, medical technologies and competitive medical devices may damage the demand for our products without any certainty that we will successfully and effectively contend with those competitors.

Development of new drugs, medical technologies and competitive medical devices may damage the demand for our products without any certainty that we will successfully and effectively contend with those competitors.

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

As of the date hereof, XTL had three full-time employees and three part-time service providers (one of whom is an officer). As of the same date InterCure had six full-time employees and service providers and two part-time service providers.

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.

Our failure to retain and/or recruit such professionals might impair our performance and materially affect our technological and product development capabilities and our product marketing ability.

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 may be significantly diluted. If we complete one or more such transactions in which the consideration includes cash, we may be required to use a substantial portion of our available cash.

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

- difficulty and expense of assimilating the operations, technology or personnel of the business;
- our inability to attract and retain management, key personnel and other employees necessary to conduct the business;
- our inability to maintain relationships with key third parties, such as alliance partners, associated with the business;
- exposure to legal claims for activities of the business prior to the acquisition;
- the diversion of our management's attention from our other drug development and medical device businesses; 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. We may also be required to pay third parties substantial transaction fees, in the form of cash or ordinary shares, in connection with such transactions.

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

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

The use of our drug candidates and technologies in clinical trials, and the sale of any approved products (drugs or medical devices), exposes us to liability claims. 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;
- damage 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 drug development business

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 and stages as we are studying. 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 will have to 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 will have to depend on independent clinical investigators, and other third-party service providers to conduct the clinical trials of our drug candidates and technologies. We also may, from time to time, engage a clinical research organization for the execution of our clinical trials. We will rely heavily on these parties for successful execution of our clinical trials, but we will 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 Food and Drug Administration ("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 ready to enter into clinical stages. Specifically, our lead product candidates, hCDR1 and Recombinant Human Erythropoietin (rHuEPO) are each planned for and/or ready for a Phase 2 clinical study. In order for our candidates to proceed to later stage clinical testing or marketing approval, they must show positive clinical and/or preclinical data.

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 or marketing approval, 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 hCDR1, rHuEPO or SAM-101. We currently do not have any drug candidates 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 and/or our potential partners will have to conduct "adequate and well-controlled" clinical trials.

Clinical development is a long, expensive and uncertain process. 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 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 and competing clinical studies;
- 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 any 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 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.

Additionally, the regulators could determine that the studies indicate the drugs may have serious side effects. In the US, this is called a black box warning, which is a type of warning that appears on the package insert for prescription drugs indicating that they 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.

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 all 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 any of our drug candidates and technologies. We have licensed the rights, patent or otherwise, to our drug candidates from third parties. We have licensed hCDR1, a phase 2 clinical stage asset for the treatment of Systemic Lupus Erythematosus ("SLE") from Yeda Research and Development Company Ltd. ("Yeda"). We licensed a use patent for the use of Recombinant Human Erythropoietin (rHuEPO) for the prolongation of Multiple Myeloma patients' survival and improvement of their quality of life from Bio-Gal Ltd., or Bio-Gal, who in turn licensed it from Mor Research Applications Ltd., an Israeli corporation and licensing arm of Kupat Holim Clalit, one of the largest HMOs in Israel ("Mor") and Yeda. We have licensed a patent on SAM-101 for the treatment of psychotic disorders from MinoGuard Ltd., or MinoGuard, who in turn licensed it from Mor.

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.

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.

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 may be 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 pay or reimbursement for our products;
- the side effects of our products which may lead to unfavorable publicity concerning our products or similar products; and
- the effectiveness of our and/or partners' sales, marketing and distribution efforts.

Specifically, each of hCDR1, rHuEPO or SAM-101, if successfully developed and commercially launched for the treatment of SLE, Multiple Myeloma or Schizophrenia, respectively, 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. 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.

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 will be 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.

Risks related to our Medical Device business:

InterCure's products are manufactured by a single manufacturer, which has limited production capacity. In the case of a sharp increase in demand for InterCure's products, it may take a few months to adjust the production capacity to demand.

As of the date hereof, InterCure meets all its production needs through subcontractors and particularly a major subcontractor in China which has been manufacturing the RESPeRATE Ultra versions since November 2008. In 2013, InterCure manufactured an average of less than 1,000 product units a month. The Chinese production line's monthly manufacturing capacity is about 10,000. In the event of increased demand, it may take a few months to increase the manufacturing capacity. The time needed to prepare for increased production mainly depends on the ability of the component suppliers to respond to increased order volumes and the availability of components with variable manufacturing technology.

There is no certainty as to whether we will be capable of developing additional medical device applications based on InterCure's intellectual property.

Based on its intellectual property and the technologies it developed, InterCure aims to develop additional products in the future in order to broaden its product offering. It is uncertain whether InterCure will be capable of fulfilling the technological, clinical and regulatory or other requirements applicable during the process of developing new products. Additionally, there is no certainty that InterCure will have the required financing resources available to fund such development.

Failure or delay in submission or revoking the approvals, permits and licenses required for marketing our medical devices products may significantly damage our results of operations and financial condition.

Marketing InterCure products worldwide is subject to receiving and maintaining the validity of the permits and regulatory accreditation from a variety of international bodies such as the FDA. InterCure has already received regulatory approvals for marketing its products in the US, Europe, Canada, South Korea and Israel. Processes for receiving certification and permits, as mentioned, for marketing in additional territories, specifically in Japan, and the receipt of approvals and permits for marketing future InterCure products, to the extent required, is an intensive and costly process that stretches over a period of between three months to several years. Changes in legislation and/or the policies of the regulatory bodies or new legislation may delay the process of receiving the required permits, a delay that may cause the Company additional expenses or result in revoking the existing ones. Additionally, there is no certainty that InterCure will receive the permits required for marketing its future products. Should InterCure fail to receive the aforementioned certificates and permits or existing certificates or permits be revoked, there may be an adverse impact on our results of operations and financial condition.

Risks Related to Our Financial Condition

The Company's revenues from operations derive from InterCure's business, and are not sufficient at this stage to support the financing of our entire operations. We fund our operations from our own capital and from external sources by way of issuing equity securities. If we need to raise additional capital and are unable to do so on terms favorable to us, or at all, we may not be able to continue our operations.

The Company has incurred continuing losses and its entire income at this stage originates from InterCure. The Company depends on external financing resources to continue its activities. The actual amount of cash that the Company will need to fund its operations is subject to many factors, including, but not limited to, the timing, design and conduct of the clinical trials of our existing drug candidates, any future projects which may be in-licensed or any other business development activities. For example, changing circumstances and/or in-licenses of new technologies may cause us to consume capital significantly faster than we currently anticipate, and we may need to spend more money than currently expected because of circumstances beyond our control.

The Company will incur additional losses in 2014 from research and development activities and from current operations which will be reflected in negative cash flows from operating activities. Accordingly, in order to complete the clinical trials to bring a product to market, the Company will be required to raise additional cash through the issuance of equity securities. However, if the Company is not able to raise additional capital at acceptable terms, the Company may be required to sell tradable securities held by it or reduce operations or sell or out-license to third parties some or all of its technologies. If the Company is unable to raise capital, the Company will be required to delay some of its planned research and development activities as well as curtail or discontinue operations. InterCure has had recurring losses and presently does not have sufficient cash and other resources to meet its future plans beyond July 2015. If InterCure is unsuccessful in raising additional financing, it may need to curtail or discontinue operations.

The financial condition of our drug development business depends on a number of factors, some of which are beyond our control. These factors include, among other things:

- 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;
- the costs and timing of the clinical trials according to regulatory requirements;

- rHuEPO patent expiration in 2019 and failure to obtain orphan drug designation in Europe;

- hCDR1 patent expiration in 2024 and failure to obtain patent term extension or obtain data exclusivity in the US and Europe;
- SAM-101 patent expiration in 2027; and
- The costs and timing of regulatory approvals.

The financial condition of our medical device business depends on a number of factors, some of which are beyond our control. These factors include, among other things:

- Maintaining InterCure's patents;
- Technological advantage - since the hypertension market is very large and plays host to numerous multinational pharmaceutical companies, any new entity interested in entering and operating in the market will need, among other things, a proven technological advantage that separates it from competitors;
- Recognition by the medical community;
- Obtaining regulatory approvals from the FDA in the US or the CE Mark in Europe;
- Branding - An important parameter in deciding whether to acquire a therapeutic device is consumer confidence that the product is efficient and safe;
- Our ability to set up a marketing, advertising and sales system for effectively increasing activity;
- The grant of a reimbursement code by an insurer or healthcare authority that offer participation in the cost of purchase of our products.

The global capital markets have been experiencing extreme volatility and disruption for the last several years. Given recent market conditions, additional financing may not be available to us when we need it. In order to complete the clinical trials to bring a product to market we will need to raise additional capital. However we may be unable to do so on terms favorable to us, or at all, and we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our technologies. 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.

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. 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 force 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 at least 18 months. 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 be required to challenge competing patent rights, 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 protect our trade secrets or other proprietary information adequately. 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 protect our proprietary information will be at risk.

Litigation or third-party claims of intellectual property infringement could require us to spend substantial time, money and other resources 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 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 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 various factors, many of which are beyond our control. These factors include:

- developments concerning our drug candidates or medical devices;
- announcements of technological innovations by us or our competitors;
- introductions or announcements of new products by us or our competitors;
- developments in the markets of the field of activities and changes in customer attributes;
- announcements by us of significant acquisitions, in/out license transactions, 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 as well as failure to raise required funds for the continued development and operations of the company;
- expiration or termination of licenses, patents, research contracts or other collaboration agreements;
- conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;
- failure to obtain orphan drug designation status for the relevant drug candidates in the relevant regions;
- increase in costs and lengthy timing of the clinical trials according to regulatory requirements;
- failure to increase awareness to our non-medicinal non-invasive therapy and its benefits;
- changes in reimbursement policy by governments or insurers in markets we operate or may operate in the future;
- any changes in the regulatory environment relating to the Company's products may impact our ability to market and sell our products;
- failure to obtain renewal of the required licenses for marketing and sales of the Company's products in the main markets in which the Company's products are sold;

- 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 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 ADRs could depress the market for our ADRs.

Future issuances of a substantial number of our ADRs, 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. Also, if we make one or more significant acquisitions in which the consideration includes ordinary shares or other securities, your portion of shareholders' equity in us may be significantly diluted.

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

There are three shareholders (Mr. Alexander Rabinovitch, Mr. David Bassa and Mr. Shalom Manova), who each hold more than 5% of our outstanding ordinary shares (approximately 34.34% cumulative, as of the date hereof). As a result, these persons, either acting alone or together, may have the ability to significantly influence the outcome of all matters submitted to our shareholders 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 alone or 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.

Notwithstanding the aforesaid, in connection with Section 239 of the Israeli Companies Law that focuses on the number of votes required to appoint external directors, and in connection with Section 121(c) of the Israeli Companies Law that focuses on the number of votes required to authorize the Chairman of the Board in a company to act also as the Chief Executive Officer of such company, the Company will deem these three shareholders as controlling shareholders in the Company, for as long as such individuals are interested parties in the Company. In addition, any contractual arrangement as detailed in Section 270 (4) of the Israeli Companies Law with any of these three shareholders and/or their relatives will be presented for approval in accordance with the provisions of Section 275 of the Israeli Companies Law. In all of these situations, the Company will consider any of these three parties, who are not part of the transaction presented for approval, as individual interested parties in such transaction so that their vote will not be included in the quorum comprising a majority (50%) of the votes who are not interested parties in such transaction.

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 ("Nasdaq") and our ordinary shares are traded on the 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.

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 years ended December 31, 2009, 2010, 2011 and 2012. 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 were likely not a PFIC for the taxable year ended December 31, 2013, but we may be a PFIC 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.

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 depress the price of our ADRs and 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.

Finally, in general, Israeli tax law treats specified acquisitions less favorably than does US tax law.

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

The Bank of New York Mellon, as depositary, executes and delivers our ADRs on our behalf. Each ADR is a certificate evidencing a specific number of ADRs. 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 prescribed by Israeli law. Israeli law and our Articles of Association, or Articles, govern such 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 their 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 far 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 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.

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, Israel is facing political tension in its relationships with Iran and other Arab neighbor countries. Specifically, the hostilities along Israel's border with the Gaza Strip have increased, escalating to wide scale military operations by Israel in December 2008 and November 2012 and continuous rocket attacks into the south and center of Israel. In addition, recently in some Arab countries in the Middle East and North Africa there have been violent uprisings against the regimes in these countries. Consequently, there is a concern for the stability in the region which may affect the political and security situation in Israel. We cannot ensure that the political and security situation will not impact our business. 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, 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 most of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. Until 2008, a substantial amount of our operating expenses were in US dollars (approximately 96% in 2008). In 2009 the Company's head office moved back to Israel, and thus the portion of our expenses in New Israeli Shekels ("NIS") and our cash held in NIS has increased, mainly due to payment to Israeli employees and suppliers. As a result, we could be exposed to the risk that the US dollar will be devalued against the NIS or other currencies, and consequentially our financial results could be harmed. To protect against currency fluctuations we may decide to hold a significant portion of our cash, cash equivalents, bank deposits and marketable securities in NIS, as well as to enter into currency hedging transactions. 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 US dollar or that the timing of any devaluation may lag behind inflation in Israel.

Our results of operations may be adversely affected by changes in tax policy by the Israeli government.

The income of the Company is subject to corporate tax at the regular rate; the guidance of the amendment to the Income Tax Ordinance, 2005 from August 2008 prescribes a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting 2008 are as follows: 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

On July 14, 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the corporate tax rates starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

On December 6, 2011 the reduction in the corporate tax rates outlined above was revoked by the Knesset and it was also resolved that the corporate tax rate will be 25% for the tax year 2012 and thereafter.

On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013-2014), 2013 (the "Law") was published in the Government's records. Among other things, the Law prescribes from the 2014 tax year and thereafter, an increase in the Israeli corporate tax rate to 26.5% (instead of 25%).

We cannot guarantee that there will be no additional changes in the corporate tax rate in the future that may adversely affect our results of operations and financial condition.

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, most of whom reside outside the US, may be difficult to obtain within the US. In addition, because substantially all of our assets and most 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.

ITEM 4. INFORMATION ON THE COMPANY

A. 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, currently for the treatment of SLE, Multiple Myeloma and Schizophrenia. Also, through InterCure, we research, develop, market and sell home therapeutic devices for non-medicinal and non-invasive treatment of various diseases such as hypertension, heart failure, sleeplessness and mental stress.

Recent Developments

License for hCDR1

On January 7, 2014, the Company entered into a licensing agreement with Yeda to research, develop and commercialize hCDR1, a Phase II-ready asset for the treatment of SLE, among other indications. Lupus is a debilitating disease affecting approximately five million people worldwide, according to the Lupus Foundation of America. hCDR1 is a peptide, short chains of amino acid monomers, and acts as a disease-specific treatment to modify the SLE-related autoimmune process. It does so by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. More than 40 peer-reviewed papers have been published on hCDR1.

Prior to being licensed to the Company by Yeda, hCDR1 was licensed to Teva Pharmaceutical Industries Ltd. ("Teva"), who performed two placebo controlled Phase I trials and a placebo controlled Phase II trial (the "PRELUDE trial"). The studies consisted of over 400 patients, demonstrating that hCDR1 is well tolerated by patients and has a favorable safety profile. The PRELUDE trial did not achieve its primary efficacy endpoint based on the SLEDAI scale, resulting in Teva returning the asset to Yeda. However, the PRELUDE trial showed encouraging results in its secondary clinical endpoint, the BILAG index, and, in fact, the 0.5 mg weekly dose showed a substantial effect. Multiple post-hoc analyses also showed impressive results for this dose using the BILAG index. It is currently planned by the Company that such dose will be the focus of the clinical development plan moving forward. Following Teva's return of the program to Yeda, the FDA directed that the primary endpoint in future trials for Lupus therapies, including those for hCDR1, should be based on either the BILAG index or the SLE Responder Index (SRI). Given the FDA's recommendation and the positive findings from the PRELUDE trial (which showed a substantial effect in the BILAG index), the Company intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose of hCDR1.

Investment in Proteologics

On September 11, 2013, the Company entered into an agreement for the purchase of another 14.13% of the shares of Proteologics from Aurum Ventures MKI Ltd. ("Aurum") in consideration for the issuance of 3,031,299 shares of NIS 0.1 par value each of the Company to Aurum. On September 12, 2013, the Company signed an agreement with Zmiha Investment House Ltd. ("Zmiha") for the sale of its entire investment in Proteologics, representing 44.95% of Proteologics' issued and outstanding share capital as of the date of the agreement in consideration of approximately $ 3.4 million (approximately NIS 12 million). According to the agreement, on the consummation date, the Company received an amount of approximately $ 2.7 million (approximately NIS 9.6 million) and the balance is held in escrow until the completion of an inspection process by an inspector and the execution of a stay of proceedings pursuant to section 350 to the Companies Law. As of the date hereof, the entire consideration has been delivered to the Company.

Agreement with Giboov Ltd., a Provider of Online Marketing and Sales Services

On January 20, 2014, InterCure announced that it had entered into an agreement with Giboov to terminate the Strategic Service Agreement, effective as of January 31, 2014. Consequently, all 20,185,184 non-marketable stock options for the purchase of InterCure shares, which were granted to Giboov under the Strategic Service Agreement, expired on March 1, 2014. Following said expiration, Giboov holds no such non-marketable stock options.

Agreement with Universal McCann Israel, Ltd., a Provider of Online Marketing and Sales Services

On January 23, 2014, InterCure announced that it had retained the services of Universal McCann Israel, Ltd. ("McCann") to provide professional services relating to the promotion and marketing of InterCure's products via the internet for a period of three years effective February 1, 2014. According to the new agreement, InterCure will pay McCann a monthly fee in exchange for online marketing services, ranging between $8,000 and $13,000, and contingent upon achievement of sales targets.

Relisting our ADRs

On June 1, 2012, the Company filed an application for relisting its ADRs on The Nasdaq Stock Exchange. On July 10, 2013, the Company received a notice from Nasdaq stating that the admission committee had approved the Company's application to relist its ADRs for trading on the Nasdaq Capital Market. Accordingly, on July 15, 2013, the Company's ADRs began trading on Nasdaq under the ticker symbol "XTLB".

Company Information and History

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.

In January 2007, XTL Development, Inc., our wholly-owned subsidiary ("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 "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, and all rights under the agreement reverted to DOV. Since the failure of the Bicifadine phase 2b clinical trial, XTL Development has ceased the prosecution and maintenance of those patents relating to Bicifadine, in coordination with DOV. In March 2010, the agreement was formally terminated.

In 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, Presidio became 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 were to receive up to an additional $59 million upon reaching certain development and commercialization milestones. In addition, we were to receive royalties 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. On August 22, 2012, Presidio requested to terminate its engagement with us effective as of August 24, 2012. Following a notice of the termination of the agreement, Presidio's entire DOS technology (including all the patents maintained by Presidio) reverted back to the Company. The Company intends to assess opportunities to maximize the value of the DOS technology but has no plans for continued development of the program.

In March 2009 we signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of Multiple Myeloma in exchange for the issuance of ordinary shares of XTL representing approximately 69.44% of our then issued and outstanding ordinary share capital. Under the agreement we are obligated to pay 1% royalties on net sales of rHuEPO, as well as a fixed royalty payment in the total amount of $350,000 upon the success of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the successful completion of Phase 2 or (ii) the completion of a successful fundraising by XTL at any time after the completion of Phase 2 of at least $2 million.

On March 24, 2011, we entered into a Memorandum of Understanding with MinoGuard, pursuant to which we shall acquire the exclusive rights to SAM-101 by obtaining an exclusive license to use MinoGuard's entire technology. SAM-101 is based on a combination of anti-psychotic drugs with minocycline, a recognized medicinal compound. On November 30, 2011, we received a worldwide exclusive license from MinoGuard under which we shall develop and commercialize MinoGuard's technology for the treatment of psychotic disorders focusing on schizophrenia. Under the agreement, we are to conduct clinical trials, develop, register, market, distribute and sell the drugs that will emerge from MinoGuard's technology, with no limitations for a specific disorder. In consideration, we shall pay MinoGuard accumulated clinical development and marketing approvals milestone-based payments of approximately $2.5 million. In addition, we will pay MinoGuard royalty-based payments on products that are based on the technology, equal to 3.5% of its net sales and/or percentage from the Company third-party out–license receipts in the range of 7.5%-20% according to the clinical phase of the drug at the time of an out-license transaction. It should be noted that the Company has the sole discretion to pay any of the above amounts in cash or by way of issuing ordinary shares of the Company to MinoGuard. In addition to the above payments, and in accordance with the above agreement, as of June 30, 2013, XTL had not commenced a phase 2 clinical trial, had paid MinoGuard an annual license fee, by way of the issuance of 175,633 ordinary shares of the Company, representing a value of $45,000, for the 12 month period between July 1, 2013 and June 30, 2014. Such annual payments will increase by $90,000 per annum, up to $675,000 for the eighth year of license.

On January 7, 2014, the Company entered into a licensing agreement with Yeda to research, develop and commercialize hCDR1, a Phase II-ready asset for the treatment of SLE, among other indications. Lupus is a debilitating disease affecting approximately five million people worldwide, according to the Lupus Foundation of America. hCDR1 is a peptide, short chains of amino acid monomers, and acts as a disease-specific treatment to modify the SLE-related autoimmune process. It does so by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. More than 40 peer-reviewed papers have been published on hCDR1.

Our ADRs are traded on the Nasdaq Capital Market under the symbol "XTLB." Our ordinary shares are traded on the TASE under the symbol "XTL." We operate under the laws of the State of Israel under the Israeli Companies Law, and in the US, the Securities Act and the Exchange Act.

Our principal offices are located at Herzliya Business Park, 85 Medinat Hayehudim Street, Building G, PO Box 4033, Herzliya 46140, Israel, and our telephone number is +972-9-955-7080. 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, Delaware 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 herein.

B. Business Overview

Introduction

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical drugs for the treatment of unmet medical needs, currently for the treatment of SLE, Multiple Myeloma and Schizophrenia.

Our lead program is hCDR1, a Phase II-ready asset for the treatment of SLE. Only one new treatment, Benlysta, has been approved in the last 50 years for SLE. Lupus is a chronic autoimmune disease involving many systems in the human body, including joints, kidneys, the central nervous system, heart, the hematological system and others. The biologic basis of the disease is a defect in the immune (defense) system, leading to production of self (auto) antibodies, attacking the normal organs and causing irreversible damage. According to the Lupus Foundation of America, at least 1.5 million Americans have the disease (more than 5 million worldwide) with more than 16,000 new cases diagnosed each year. The majority of patients are women of childbearing years.

hCDR1, is a peptide that is administered subcutaneously and acts as a disease-specific treatment to modify the SLE-related autoimmune process by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. More than 40 peer-reviewed papers have been published on hCDR1. Two placebo controlled Phase I trials and a placebo controlled Phase II trial, the PRELUDE trial, were conducted by Teva, which had previously in-licensed hCDR1 from Yeda. The studies consisted of over 400 patients, demonstrating that hCDR1 is well tolerated by patients and has a favorable safety profile. The PRELUDE trial did not achieve its primary efficacy endpoint based on the SLEDAI scale, resulting in Teva returning the asset to Yeda. However, the PRELUDE trial showed encouraging results in its secondary clinical endpoint, the BILAG index, and, in fact, the 0.5 mg weekly dose showed a substantial effect. Multiple post-hoc analyses also showed impressive results for this dose using the BILAG index. Such dose will be the focus of the clinical development plan moving forward. Subsequent to Teva's return of the program to Yeda, the FDA directed that the primary endpoint in future trials for Lupus therapies, including those for hCDR1, should be based on either the BILAG index or the SLE Responder Index (SRI). Given the FDA's recommendation and the positive findings from the PRELUDE trial (which showed a substantial effect in the BILAG index), XTL intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose of hCDR1.

Our second compound is rHuEPO, which we intend to develop for the extension of survival of patients with advanced/end-stage Multiple Myeloma.

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.

Currently incurable, Multiple Myeloma 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.

The median overall survival duration today with chemotherapy and other novel treatments is about five years. These treatments have severe side effects, including the suppression of the immune system, susceptibility to infections, nausea, vomiting and bleeding disorders.

A clinical observation confirmed the high success rate of rHuEPO in treating the anemia in patients with Multiple Myeloma. Six patients with very poor prognostic features of Multiple Myeloma, whose expected survival was less than six months continued treatment with rHuEPO beyond the initial designed 12 week period, and they lived for 45–133 months cumulatively with the Multiple Myeloma diagnosis and 38–94 months with rHuEPO (with a good quality of life).

Our third program, SAM-101, is based on the technology we in-licensed from MinoGuard - the development of combination drugs for psychotic diseases, with focus on Schizophrenia. MinoGuard completed a phase 2a study on SAM-101 in accordance with the Helsinki guidelines under the Shalvata Medical Center in Israel, which was a unique proprietary combination of antipsychotic drugs and a known medicinal compound (minocycline). Schizophrenia is a chronic disorder that requires lifelong medication. While most of the available drugs are effective in remitting Schizophrenia's "positive symptoms" (hallucinations, delusions, agitation), even the best available drug is only partially effective in remitting several of the most disturbing features of the disease, referred to as "negative symptoms" (apathy, poverty of speech, emotional withdrawal, depression) and severe cognitive impairment. This deficiency results in schizophrenic patients' poor quality of life. In addition, noncompliance results in aggravation in symptoms, which frequently causes lengthy hospitalization periods.

Following in-vivo studies demonstrating the efficacy of minocycline treatment in a Schizophrenia murine mode, MinoGuard demonstrated in a successful phase 2a clinical study that the combination of atypical antipsychotic drugs and minocycline improves treatment efficacy and reduces side effects associated with current therapy as compared to antipsychotic treatment alone. Two independent clinical research groups in Manchester, UK and Japan have replicated these results, further supporting MinoGuard's hypothesis.

We also have some activity in the medical device field through our subsidiary InterCure, which operates as a medical device company and manufactures and sells personal therapeutic devices. InterCure's main field of activity since its establishment is the research and development of technologies and devices for the non-medicinal non-invasive treatment of chronic diseases, including hypertension, congestive cardiac failure, insomnia and stress. The Company's products include RESPeRATE®, a non-drug and non-invasive hypertension treatment device.

The RESPeRATE product harnesses the natural power of breathing to lower blood pressure. High blood pressure is generally caused by your blood vessels tightening up and narrowing, this then causes your heart to pump harder. RESPeRATE's unique breathing exercise relaxes constricted blood vessels to reduce high blood pressure.

Our Strategy

Our objective is to be a leading biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet clinical needs, currently for the treatment of SLE, Multiple Myeloma and Schizophrenia. We continuously identify and in-license therapeutic candidates in order to maximize our potential for commercial success.

Under our current strategy with respect to our pharmaceutical and biopharmaceutical products, we plan to:

- initiate an international, prospective phase 2 clinical study intended to assess the safety and efficacy of hCDR1 when given to patients with SLE;

- initiate a prospective phase 2 clinical study intended to assess the safety and efficacy of rHuEPO when given to patients with advanced Multiple Myeloma;

- following the initiation of the clinical studies for our two lead compounds and necessary formulation work on SAM-101, initiate a prospective clinical study intended to assess the safety and efficacy of the combination drug when given to patients with Schizophrenia;

- continually build our pipeline of therapeutic candidates, and

- develop collaborations with large pharmaceutical companies to sublicense/develop, and market our hCDR1, rHuEPO and SAM-101 programs.

With regard to our medical device business, we plan to maximize the value of our asset and focus on our core business.

Products Under Development

hCDR1 for the treatment of Systemic Lupus Erythematosus

Market Opportunity

hCDR1 is a Phase II-ready asset for the treatment of SLE. Lupus is a debilitating disease affecting approximately five million people worldwide. hCDR1 is a peptide, is given by subcutaneous administration, and acts as a disease-specific treatment to modify the SLE-related autoimmune process. It does so by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. The approval of GlaxoSmithKline's Benlysta in 2011, the first product to gain marketing approval for patients with SLE in more than 50 years, paved the way for the introduction of new disease-modifying therapies and reignited the interest of pharmaceutical developers in this therapy area. GlobalData estimates the drug sales for SLE in 2012 were over $473 million across the seven major markets covered in its forecast: US, France, Germany, Italy, Spain, UK and Japan. By the end of the forecast period of 2022, sales are estimated to grow to over $1.1 billion with a CAGR of 9.36%. This growth will be driven by improved uptake of Benlysta, and the introduction of new biological therapies and the overall increase in prevalent cases of SLE, mainly due to the increasing population in these markets.

Regarding products in the pipeline, there are five advanced biological therapies. Eli Lilly, Anthera Pharmaceuticals and Merck Serono are developing anti-BLyS therapies to directly compete with Benlysta (also an anti-BLyS therapy). All new anti-BLyS therapies are being developed for subcutaneous administration. Benlysta is currently given intravenously, even though GSK is currently developing a version for subcutaneous administration. UCB and ImmuPharma are developing biologic drugs with novel MOAs (UCB's drug is an antibody which is given intravenously). In addition, Bristol-Myers Squibb is developing its RA drug Orencia for the treatment of patients with Lupus Nephritis.

Development Status

Prior to being licensed to the Company by Yeda, hCDR1 was licensed to Teva which performed two placebo controlled Phase I trials and a placebo controlled Phase II trial (the "PRELUDE trial"). The Phase I and Phase II studies consisted of over 400 patients, demonstrating that hCDR1 is well tolerated by patients and has a favorable safety profile. The PRELUDE trial did not achieve its primary efficacy endpoint based on the SLEDAI scale, resulting in Teva returning the asset to Yeda. However, the PRELUDE trial showed encouraging results in its secondary clinical endpoint, the BILAG index, and, in fact, the 0.5 mg weekly dose showed a substantial effect. Multiple post-hoc analyses also showed impressive results for this dose using the BILAG index. It is currently planned by the Company that such dose will be the focus of the clinical development plan moving forward. Subsequent to Teva's return of the program to Yeda, the FDA directed that the primary endpoint in future trials for Lupus therapies, including those for hCDR1, should be based on either the BILAG index or the SRI. Given the FDA's recommendation and the positive findings from the PRELUDE trial (which showed a substantial effect in the BILAG index), the Company intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose of hCDR1.

rHuEPO for the treatment of Multiple Myeloma

Market Opportunity

We intend to develop the use of rHuEPO for the prolongation of Multiple Myeloma patients' survival. In the United States alone, there are approximately 74,800 people living with Multiple Myeloma. Multiple Myeloma 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 65-70 and it is also more common in men than women, and in African Americans than Caucasians.

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 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 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 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 confirmed the high success rate of rHuEPO in treating the anemia in patients with Multiple Myeloma. Six patients continued treatment with rHuEPO beyond the initial designed 12 week period with very poor prognostic features of Multiple Myeloma, whose expected survival was less than six months, and they lived for 45–133 months cumulatively with the Multiple Myeloma diagnosis and 38–94 months with rHuEPO (with a good quality of life).

Development Status

As of the date hereof, the Company is in stages of planning and preparing for the implementation of a phase 2 clinical trial of rHuEPO for treating Multiple Myeloma patients. As part of those preparations, the Company conducted a study which consists of collecting preliminary data on the existence of specific proteins in the blood of a group of Multiple Myeloma patients. The data which was collected in the framework of the preliminary study will be combined, as necessary, in planning and preparing for the implementation of the phase 2 clinical trial which the Company expects to obtain the approval to commence in the second half of 2014.

We plan on performing a prospective, multi-center, double blind, placebo controlled phase 2 study intended to demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We have begun regulatory work and have held preliminary discussions with potential clinical sites and third party vendors for the planned study.

Given that we intend to develop a new indication for rHuEPO, which is already approved for other uses, and we intend to use a commercially available rHuEPO as part of the study, and the fact that the pre-clinical and phase 1 phases are intended to assess drug toxicity and safety, we may be exempted from carrying out these steps and the drug development process may begin with a Phase 2 clinical trial.

SAM-101 for Schizophrenia

Market Opportunity

SAM-101 is our third program in order of priority, and while development may not start in the near-term, we intend to develop a patent-protected combination of minocycline and antipsychotic drugs for the treatment of Schizophrenia. According to the US National Institute of Mental Health (NIMH), Schizophrenia affects 1.1% of the adult population.

Schizophrenia is a chronic disorder that requires lifelong medication. While most of the available drugs are effective in remitting schizophrenia's "positive symptoms" (hallucinations, delusions, agitation), even the best available drug is only partially effective in remitting several of the most disturbing features of the disease, known as "negative symptoms" (apathy, poverty of speech, emotional withdrawal, depression) and severe cognitive impairment. SAM-101 is expected to overcome major limitations of currently available treatments for schizophrenia by providing an effective treatment, affecting both negative and positive symptoms as well as cognition, therefore preventing further deterioration in schizophrenic patients. In addition, SAM-101 showed lower side effects in the clinical trial mentioned below, which is expected to allow for higher compliance and improved patient quality of life.

The global Schizophrenia market in 2010 reached $6.4 billion. The market declined thereafter owing to the launch of generic versions of the leading antipsychotics – risperidone, olanzapine, quetiapine and ziprasidone, in 2011. According to Datamonitor, pipeline products in phase 3 and 2 clinical trials are not expected to drive market growth, since most of them offer no or little significant advantage over current medications, which will shortly become generic. Nevertheless, a number of new companies will enter the Schizophrenia market during the upcoming years. Combination therapies are recognized for clinical advantages including facilitated patient compliance and convenience, along with increased efficacy. Such developments play a key role in terms of pharmaceutical market contenders' business strategy, allowing for extended exclusivity rights.

Development Status

We in-licensed SAM-101 after it successfully completed a Phase 2a prospective, randomized, double-blind, placebo-controlled clinical trial conducted on about 70 schizophrenics in accordance with the Helsinki guidelines under the Shalvata Medical Center in Israel. The trial met its endpoints showing that SAM-101 maintains the positive symptoms of the disease as well as the patients' cognitive state, stabilizes the negative symptoms (social parameters and patient cognition) and reduces weight gain side effects among patients all as compared to placebo.

Following in-vivo studies demonstrating the efficacy of minocycline treatment in a Schizophrenia murine mode, MinoGuard demonstrated in a successful phase 2a clinical study that the combination of atypical antipsychotic drugs and minocycline maintains treatment efficacy and reduces side effects associated with current therapy as compared to antipsychotic treatment alone. At least two independent clinical research groups (Manchester, UK and Japan) have replicated these results, further supporting MinoGuard's hypothesis.

Since minocycline and antipsychotics have been approved in the United States, a combination of the two should be eligible for market approval using the 505(b)(2) route. This allows the FDA to rely on their own previous finding of safety and efficacy of the active pharmaceutical ingredients for the purposes of marketing approval of SAM-101.

Subject to prioritizing our drug development activities and some formulation work in creating a fixed dose combination, we plan to perform a multi-center phase 2 clinical trial under the FDA, using our proprietary combination, in order to confirm the scope of work required for a new drug application, or NDA, and to identify the specific requirements for filing an Investigational New Drug, or IND, application with the FDA.

Revenues

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. The table below shows our consolidated revenues by geographic market in 2013 for our medical device business operated through InterCure:

	Year ended December 31, 2013
	Audited
	U.S dollars in thousands
United States	2,076
United Kingdom	278
Israel	15
Total	2,369

Purchasing and Raw Materials

Since 2003, InterCure has been manufacturing the RESPeRATE device (and its different versions) on a turnkey basis by an independent subcontractor (the "Subcontractor"). InterCure orders some of the device's raw materials for the Subcontractor from time to time, mainly the more expensive ones, or negotiates with suppliers of raw materials due to profit considerations and offsets the price paid by it to the Subcontractor.

Intellectual Property and Patent

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 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 at least 18 months. 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 challenge competing patent rights, 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.

hCDR1 for the treatment of SLE

The basic patent family (WO 2002/067848) covers the active pharmaceutical agent, the Edratide peptide. The patent has been granted in a large number of jurisdictions: US, Europe (validated in 13 countries), Australia, Canada, Hong Kong, Hungary, India, Israel, Korea, Mexico, Norway, and Russia. The patent expires on February 26, 2022. The basic patent for Edratide, in the US, did receive a patent term adjustment of 213 days (to September 27, 2022). The patent family for the formulation (WO 2004/064788) covers a very specific pharmaceutical composition comprising Edratide. It has been granted in the US, China, India, Israel, Japan, and Mexico, and is under examination in Europe and Canada. The formulation patent expires on January 14, 2024.

rHuEPO for the treatment of Multiple Myeloma

A main use patent, United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer," was filed by Mor and Yeda in Israel on April 8, 1998. The patent was granted in the United States, Europe (Austria, Belgium, France, Germany, Great Britain, Ireland, Italy, the Netherlands, Spain, Sweden and Switzerland), Israel, Japan, Hong Kong and Canada. The issued patent will expire in 2019 (See "Government and Industry Regulation" regarding our granted orphan drug designation). Pursuant to our agreement with Bio-Gal, we have exclusive worldwide rights to the above patent for the use of rHuEPO in Multiple Myeloma.

The main claims of this US issued patent are directed to: A method for the treatment of a Multiple Myeloma patient, comprising the administration of Erythropoietin or Recombinant Human Erythropoietin, for the inhibition of tumor growth, triggering of tumor regression or inhibition of Multiple Myeloma cell metastasis in the said patient.

SAM-101 for the Treatment of Schizophrenia

An international patent application entitled "Combined therapies of antipsychotic drugs and tetracyclines in the treatment of psychiatric disorders" was filed by Mor on October 18, 2007 (International application number PCT/IL2007/001251). The patent is currently pending in National Phase in the US, Canada, Europe, India, and Israel.

The main claims of this patent include a pharmaceutical composition comprising as active ingredients at least one tetracycline and at least one antipsychotic drug, the pharmaceutical composition with modified release formulation, and a method for treating a psychotic disorder comprising administering the pharmaceutical composition to a patient in need.

The patent applications are pending as National Phase in Israel, US, Canada, Europe, and India. The table below details the current status of the patent applications:

Countries in which application was filed	Filing Date	Application No.	Patent No.	Status	Expiration Date*
Canada	18.10.2007	2666796	-	Filed	18.10.2027
Europe	18.10.2007	07827225.9	-	Examination	18.10.2027
India	18.10.2007	3100/DELNP/2009	-	Filed	18.10.2027
Israel	18.10.2007	198134	-	Examination	18.10.2027
PCT	29.03.2007	PCT/IL2007/000414	-	Expired	
PCT-1	18.10.2007	PCT/IL2007/001251	-	Expired	
US Prov.	19.10.2006	60/852646	-	Expired	
USA	18.10.2007	13/733130	-	Examination	18.10.2027

* assuming that the patent will be registered on the basis of the PCT.

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

hCDR1

On January 7, 2014, the Company entered into a licensing agreement with Yeda to research, develop, and commercialize hCDR1, a Phase II-ready asset for the treatment of SLE, among other indications. In consideration, the Company is responsible for a patent expense reimbursement in six installments totaling approximately $400,000. The Company is required to make milestone payments of $2.2 million: $200,000 upon starting Phase III, $1 million upon U.S. Food and Drug Administration approval and $250,000 for regulatory approval in each of China and three of the European Union's Group of Six. In addition, the Company will pay 2-3% royalties of annual net sales and sublicense fees of 15-20% of whatever the Company receives from any sub-licensee.

Lupus is a debilitating disease affecting approximately five million people worldwide. hCDR1, is a peptide and acts as a disease-specific treatment to modify the SLE-related autoimmune process. It does so by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. Prior to being licensed to the Company by Yeda, hCDR1 was licensed to Teva Pharmaceutical Industries ("Teva"), which performed two placebo controlled Phase I trials and a placebo controlled Phase II trial called the PRELUDE trial. The studies consisted of over 400 patients, demonstrating that hCDR1 is well tolerated by patients and has a favorable safety profile. The PRELUDE trial did not achieve its primary efficacy endpoint based on the SLEDAI scale, resulting in Teva returning the asset to Yeda. However, the PRELUDE trial showed encouraging results in its secondary clinical endpoint, the BILAG index, and, in fact, the 0.5 mg weekly dose showed a substantial effect. Multiple post-hoc analyses also showed impressive results for this dose using the BILAG index. It is currently planned by the Company that such dose will be the focus of the clinical development plan moving forward. Subsequent to Teva's return of the program to Yeda, the FDA directed that the primary endpoint in future trials for Lupus therapies, including those for hCDR1, should be based on either the BILAG index or the SRI. Given the FDA's recommendation and the positive findings from the PRELUDE trial (which showed a substantial effect in the BILAG index), the Company intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose of hCDR1. We estimate that the trial will take approximately one year to enroll patients, another year for the treatment phase, and additional time to analyze the results for a total of approximately two and a half years. We intend to request that an interim analysis be conducted as well. We estimate the cost for development at between $12 and $15 million.

Bio-Gal/XTEPO

In March 2009 we signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of Multiple Myeloma. We are obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. Such payment of $350,000 is payable to Yeda upon the earlier of (i) six months from the successful completion of Phase 2 or (ii) the completion of a successful fundraising by XTL at any time after the completion of the Phase 2 of at least $2 million.

MinoGuard License

In November 2011, the Company acquired the assets of MinoGuard by an exclusive license to use MinoGuard's entire technology in return for royalties on sales and milestone payments throughout the clinical development process, without any other payments. MinoGuard was founded in 2007 in order to commercialize combination therapies for treating psychotic diseases, focusing on Schizophrenia. Under the terms of the license agreement we shall pay MinoGuard accumulated clinical development and marketing approvals milestone-based payments of approximately $2.5 million. In addition, we will pay MinoGuard royalty-based payments on products that are based on the technology, equal to 3.5% of net sales and/or a percentage of our third-party out–license receipts in the range of 7.5%-20% according to the clinical

phase of the drug at the time of an out-license transaction. It should be noted that the Company has the sole discretion to pay any of the above amounts in cash or by way of issuing of its shares to MinoGuard. In addition to the above payments, since as of June 30, 2013, XTL had not commenced a phase 2 clinical trial, we have paid MinoGuard an annual license fee, by way of issuance of 175,633 ordinary shares of the Company, representing a value of $45,000, for the 12 month period between July 1, 2013 and June 30, 2014. Such annual payments will increase by $90,000 per annum, up to $675,000 for the eighth year of the license.

The term of the license commenced upon the signing of the license agreement and will be effective for an unlimited time. Upon the expiration of the last payment obligation of XTL the license will be considered perpetual and fully paid up.

Trademarks

InterCure and InterCure Inc. have the following registered trademarks:

Registered trademark details	International classification	Country
RESPeRATE	10	Israel
InterCure	10	US
RESPeRATE	10, 42	US
InterCure	10, 42	EU
RESPeRATE	10	EU
RESPeRATE	10	South Korea
RESPeRATE	10	China
RESPeRATE	10	Japan

URL addresses

XTL maintains the www.xtlbio.com URL address. InterCure has different registered URL addresses, including www.resperate.com, and a variety of domain suffixes, including of the main countries in which it operates. The expenses incurred in registering URL addresses are immaterial. InterCure renews them on an ongoing basis.

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 SLE

There is only one product that has been approved for SLE in the last 50 years, GlaxoSmithKline's Benlysta which was approved in 2011. There are five potential biological therapies in advanced clinical development. Eli Lilly, Anthera Pharmaceuticals and Merck Serono are developing anti-BLyS therapies to directly compete with Benlysta (also an anti-BLyS therapy). All new anti-BLyS therapies are being developed for subcutaneous administration. Benlysta is currently given intravenously, even though GSK is currently developing a version for subcutaneous administration. UCB and ImmuPharma are developing biologic drugs with novel Mechanism of Actions (UCB's drug is an antibody which is given intravenously). In addition, Bristol-Myers Squibb is developing its Rheumatoid Arthritis drug, Orencia, for the treatment of patients with Lupus Nephritis.

Competing Products for Treatment of Multiple Myeloma

Although there are commercially available drugs for the treatment of Multiple Myeloma, we plan to conduct our clinical trial so that rHuEPO will be tested and given only to patients who have been treated with and either failed treatment or need to stop taking, all standard therapy. Thus, the drugs below are not in direct competition to our drug. However, rHuEPO may improve the current treatments and therefore may be supplementary to them, as follows:

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 revlimid 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.

Lenalidomide (Revlimid) is used with dexamethasone to treat patients with Multiple Myeloma who have already had another treatment. It is a small molecular analog of thalidomide that was originally found based on its ability to effectively inhibit tumor necrosis factor production. Lenalidomide is 50,000 times more potent than thalidomide in inhibiting tumor necrosis factor-alpha, and has less severe adverse drug reactions. Nonetheless, lenalidomide, like its parent compound thalidomide, causes venous thromboembolism (VTE), a potentially serious complication with their use.

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 on phase 2 clinical results. The drug has several serious side effects, including neuropathy.

Carfilzomib (Kyprolis): This is a new generation or a novel derivative of proteasome-inhibitor, i.e. the new modern "Bortezomib". It was already approved by the FDA as a second or third line therapy for relapsed or resistant myeloma. This was based on phase 2 clinical trials, and trials, including in Israel, are ongoing. According to the information gained so far, it appears that some of the previously resistant Multiple Myeloma patients to Velcade (Bortezomib) might respond to Carfilzomib. It is still too early to determine whether the novel drug indeed prolongs life (overall survival) or only prolongs the progression-free survival.

Pomalidomide (Pomalyst) has been approved by the FDA just recently, also for the treatment of relapsed/resistant Multiple Myeloma, as a second-third line treatment. This agent belongs to the INIDs family of drugs, and in essence, is considered the novel lenalidomide.

It is important to emphasize that studies with Carfilzomib and Pomalidomide are ongoing and their real role in the treatment of Multiple Myeloma has not been completely clarified.

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 seem to survive over a decade in remission ("operational cure"). Maintenance treatment after transplantation with corticosteroids or 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.

Competing Products for Treatment of Schizophrenia

SAM-101, if approved, will compete with currently available marketed atypical anti-psychotics from Eli Lilly, Johnson & Johnson, Bristol-Myers Squibb/Otsuka Pharmaceutical Co., Ltd., Pfizer Inc., AstraZeneca and others, as well as with generic brands of typical and atypical anti-psychotics. In addition there are a number of potentially competitive compounds under development, which include: Cariprazine, which is being developed by Forest Laboratories, Inc.; Bifeprunox, which is being developed by Solvay Pharmaceuticals, Inc., and Lurasidone, which is being developed by Dainippon Sumitomo Pharma Co., Ltd.

Supply and Manufacturing

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

hCDR1 for the treatment of SLE

We believe that we will be able to outsource production to a contract manufacturer in order to obtain sufficient inventory to satisfy the clinical supply needs for our future development for the treatment of SLE.

rHuEPO for the treatment of Multiple Myeloma

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 Multiple Myeloma.

SAM-101 for the Treatment of Schizophrenia

We believe that we will either be able to purchase the selected antipsychotic and minocycline 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 future development for the treatment of Schizophrenia.

General

At the time of commercial sale, to the extent that it is 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. According to the FDA, 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 Company was granted an Orphan-drug designation from the FDA in May 2011, for rHuEPO. In the US, Orphan-drug designation is granted by the FDA Office of Orphan Drug Products to novel drugs or biologics that treat a rare disease or condition affecting fewer than 200,000 patients in the US. The designation provides the drug developer with a seven-year period of US marketing exclusivity if the drug is the first of its type approved for the specified indication or if it demonstrates superior safety, efficacy, or a major contribution to patient care versus another drug of its type previously granted the designation for the same indication, as well as with tax credits for clinical research costs, the ability to apply for annual grant funding, clinical research trial design assistance and waiver of Prescription Drug User Fee Act filing fees.

The Company may apply to the European Medicines Agency in order to obtain Orphan-drug designation for its Recombinant Erythropoietin in Europe. Orphan designation is granted by the European Medicines Agency, following a positive opinion from the Committee for Orphan Medicinal Products, to a medicinal product that is intended for the diagnosis, prevention or treatment of a life-threatening or a chronically debilitating condition affecting not more than five in 10,000 persons in the European Community when the application for designation is submitted. Orphan drug designation provides the sponsor with access to the Centralized Procedure for the application for marketing authorization, protocol assistance, up to a 100% reduction in fees related to a marketing authorization application, pre-authorization inspection and post-authorization activities, and could provide ten years of market exclusivity in the EU, once approved for the treatment of Multiple Myeloma.

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, and the number of sites participating in the trial;
- 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 bring 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 in countries other than the US, we must receive marketing authorization from the appropriate 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 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 in countries other than the United States.

Failure to comply with applicable laws and regulations would likely have a material adverse effect on our business. In addition, 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.

Organizational structure

Our wholly-owned subsidiary, XTEPO, is an Israeli privately-held company incorporated in November 2009 for the execution of the Bio-Gal transaction and which holds the exclusive license of the use patent of the rHuEPO drug for Multiple Myeloma.

Our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc. and its wholly-owned subsidiary XTL Development, Inc., are each incorporated in Delaware. Since November 2008, these companies have not been active.

Our subsidiary, InterCure Ltd., is an Israeli public company, incorporated in November 1994. As of the date hereof, we hold approximately 54.72% of InterCure's issued and outstanding ordinary shares.

Property, Plant and Equipment

Since August 2010 we lease offices of approximately 255 square meters, in Herzliya, Israel. The basic lease period is for 36 months with an option for an additional 24-month period. In April 2013 the company signed on the additional 24 month option as per the agreement until August 2015. In addition, the Company has the right to terminate the agreement after 12 months and/or upon introducing an alternative tenant in its place, pursuant to approval of the landlord.

InterCure's listed domicile is at 16 Hatidhar Street, Raanana 43652 Israel, at CFO Direct Ltd. InterCure Inc. operates out of its Manhattan offices in New York. In May 2010, InterCure Inc. signed an office lease agreement for a period of three years. In May 2013, InterCure Inc. signed a revised lease agreement for an additional 12 months. The monthly lease fees are approximately $1,000.

To our knowledge, there are no environmental issues that affect our use of the properties that we lease.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the related notes, prepared in accordance with IFRS (International Financial Reporting Standards) for the years ended December 31, 2013, 2012 and 2011, and as of December 31, 2013 and 2012, contained in "Item 18. Financial Statements" and with any other selected financial data included elsewhere in this annual report or incorporated by reference herein.

Selected Financial Data -

The tables below present selected financial data for the fiscal years ended as of December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012. We have derived this selected financial data from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with IFRS issued by the IASB. You should read the selected financial data in conjunction with "Item 3. Key Information" and "Item 8. Financial Information" and "Item 18. Financial Statements."

Consolidated Statements of Comprehensive Income:

	Year ended December 31,		
	2013	**2012**	**2011**
	U.S dollars in thousands (except per share data)		
Revenues	2,369	938	-
Cost of sales	(741)	(380)	-
Gross profit	1,628	558	-
Research and development costs	(113)	(99)	(158)
Selling and marketing expenses	(1,691)	(848)	-
General and administrative expenses	(2,048)	(2,769)	(1,078)
Impairment of intangible assets	(1,729)	-	-
Other gains, net	1,059	802	12
Operating loss	(2,894)	(2,356)	(1,224)
Finance income	61	60	24
Finance expenses	(35)	(15)	(7)
Financial income, net	26	45	17
Earnings (losses) from investment in associate	(845)	569	-
Loss for the year	(3,713)	(1,742)	(1,207)
Other comprehensive income (loss):			
Items that might be classified to profit or loss:			
Foreign currency translation adjustments	108	114	-
Reclassification of foreign currency translation adjustments to Other gains, net	(221)	-	-
Total other comprehensive income (loss)	(113)	114	-
Total comprehensive loss for the year	(3,826)	(1,628)	(1,207)
Loss for the year attributable to:			
Equity holders of the Company	(2,476)	(1,390)	(1,207)
Non-controlling interests	(1,237)	(352)	-

	(3,713)	(1,742)	(1,207)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company	(2,589)	(1,276)	(1,207)
Non-controlling interests	(1,237)	(352)	-
	(3,826)	(1,628)	(1,207)
Basic and diluted loss per share (in US dollars)	(0.011)	(0.006)	(0.006)
Weighted average number of issued ordinary shares	223,605,181	217,689,926	201,825,645

Consolidated Statements of Financial Position Data:

	As of December 31,		
	2013	2012	2011
	U.S dollars in thousands		
Cash, cash equivalents and bank deposits	4,165	3,312	1,495
Working capital	3,870	2,143	955
Total assets	8,015	11,086	4,073
Long term liabilities	11	13	-
Total shareholders' equity	6,265	7,353	3,444
Non-controlling interests	520	2,071	-

Overview

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment of SLE, Multiple Myeloma and Schizophrenia. Also, through our consolidated subsidiary, InterCure, we develop a home therapeutic device for non-medicinal and non-invasive treatment of various diseases such as hypertension, heart failure, sleeplessness and mental stress and market and sell a home therapeutic device for hypertension. To date, our revenues were generated only from the medical device activity (since July 25, 2012) and 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 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. We have had no drug product sales to date and the sales of our medical devices are as yet insufficient to generate operating income. Our major sources of working capital have been proceeds from various private placements of equity securities, option and warrant exercises, our initial public offering, our placing and open offer transaction, and private investments in public equities.

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, our marketing efforts of our medical devices and potential in-licensing and acquisition opportunities.

We started to generate revenues in medical device activity in 2012 through our subsidiary, InterCure which we acquired on July 25, 2012 (InterCure has been generating revenues for the sale of medical devices since 2000). Cost of sales is related to the sale of medical devices.

Our research and development expenses in 2013, 2012 and 2011 primarily consisted of expenses related to the preparations for the rHuEPO drug clinical trial development plan. As part of the preparations, the Company conducted research which includes collection of data relating to the level of specific proteins in the blood of a group of patients with Multiple Myeloma, which will assist in focusing the Phase 2 clinical trial protocol. This collected research data will be integrated in the Phase 2 clinical trial. The costs of such preparations comprise of, among other things, costs in connection with medical regulation, patent registration costs, medical consulting costs and payments to medical centers. Additionally, we had expenses for the amortization of the exclusive right to examine a medical technology in the field of the immune system in 2010 and 2011.

Our selling and marketing expenses, which are wholly derived from our medical device operation through InterCure, consist primarily of advertising, mainly direct/online advertising, salaries, sales promotions and fees. We expense our selling and marketing expenses as incurred.

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

Our results of operations include non-cash compensation expense as a result of the grants of XTL and InterCure stock options. Compensation expense for awards of options granted to employees and directors represents the fair value of the award (measured using the Black-Scholes valuation model) recorded over the respective vesting periods of the individual stock options. We expect a decrease in the non-cash compensation in the future, primarily due to the fact that most expenses related to options granted in 2012 are recorded using the graded vesting method (see details below).

For awards of options and warrants to consultants and other third-parties, according to IFRS 2, the treatment of such options and warrants is the same as employee options compensation expense (see note 2p to the consolidated financial statements). We record compensation expense based on the fair value of the award at the grant date according to the Black-Scholes valuation model. According to the IFRS 2, in non-performance-based options, the Company recognizes options expenses using the graded vesting method (accelerated amortization). Graded vesting means that portions of a single option grant will vest on several dates, equal to the number of tranches. The Company treats each tranche as a separate share option grant; because each tranche has a different vesting period, and hence the fair value of each tranche is different. Therefore, under this method the compensation cost amortization is accelerated to earlier periods in the overall vesting period.

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 in our drug development activity 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.

On November 21, 2012 we acquired from Teva its entire stake in Proteologics representing 31.35% of the share capital of Proteologics, which is accounted for using the Equity method of accounting in accordance with International Accounting Standard 28 *Investment in Associates*. In 2012, Proteologics contributed to our results of operations a loss in the amount of approximately $144,000 which was offset by a gain on bargain purchase in the amount of approximately $713,000, included in "Earnings from investment in associate" in our statement of comprehensive income. In 2013, Proteologics' contribution to our results of operations amounted to approximately $845,000, which was offset by a gain from the sale of our investment in Proteologics, effective on September 17, 2013, in the amount of $1,051,000.

Results of Operations

Years Ended December 31, 2013 and 2012

Revenues. Sales for the years ended December 31, 2013 and 2012 totaled approximately $2,369,000 and $938,000, respectively, originating from the subsidiary InterCure whose financial statements were consolidated starting July 25, 2012. The majority of InterCure's sales are generated in the U.S., which for the year ended December 31, 2013, totaled approximately $2,076,000. From the date of consummation of the transaction (July 25, 2012) through December 31, 2012, sales in the U.S. totaled approximately $766,000.

Cost of Sales. Cost of sales for the years ended December 31, 2013 and 2012, originating entirely from InterCure, totaled approximately $741,000 and $380,000, respectively (or $529,000 and $225,000, respectively, excluding the amortization of identifiable intangible assets and other purchase price allocation ("PPA") adjustments).

Gross profit. Gross profit derives entirely from InterCure whose average gross margin excluding amortization of identifiable intangible assets ranges between 76% and 78%. The percentage of gross profit out of revenues is affected by the mix of direct/online sales which provide relatively higher gross profit margins and sales by resellers which generally provide lower gross profit margins. For the years ended December 31, 2013 and 2012, gross margin (including amortization of identifiable intangible assets related to technology and other PPA adjustments totaling approximately $212,000 and $155,000) was 69% and 60%, respectively. Difference in gross margin between 2013 and 2012 is due to amortization of identifiable intangible assets and other PPA adjustments in 2012, as gross margin in the same periods, excluding such adjustments was approximately 78% and 76%, respectively.

Research and Development Expenses. Research and development expenses in the years ended December 31, 2013 and 2012 totaled approximately $113,000 and $99,000, respectively. Research and development expenses are comprised mainly of expenses related to preparations for initiating the phase 2 clinical trials of the rHuEPO drug designed to treat cancer patients with Multiple Myeloma and include, among other things, research costs incurred in tracing blood proteins in Multiple Myeloma patients, costs in connection with medical regulation, clinical insurance costs and other medical consulting costs. The increase in expenses in 2013 compared to 2012 is mainly due to expenses related to the Company's rHuEPO and SAM-101 drugs. Research and development expenses in InterCure for the year ended December 31, 2013 totaled approximately $30,000, and are mainly employee-related expenses. Research and development expenses relating to InterCure from the date of consummation of the transaction through December 31, 2012 were immaterial.

Selling and Marketing Expenses. Selling and marketing expenses in the years ended December 31, 2013 and 2012 totaled approximately $1,691,000 and $848,000, respectively, originating entirely from InterCure whose financial statements were consolidated as of July 25, 2012. Selling and marketing expenses in the years ended December 31, 2013 and 2012 include advertising expenses (mainly direct/online advertising expenses) totaling approximately $1,067,000 and $415,000, respectively, expenses relating to a service agreement with Giboov of approximately $300,000 and $77,000, respectively, and share-based payment expenses of $132,000 for options granted to Giboov in 2012, which were fully reversed in 2013 due to termination of the Giboov agreement.

General and Administrative Expenses. General and administrative expenses for the years ended December 31, 2013 and 2012 totaled approximately $2,048,000 and $2,769,000, respectively (approximately $1,329,000 and $2,448,000 without InterCure). The decrease in 2013 compared to 2012 (without InterCure) is mainly due to a $1.1 million decrease in share-based payments to directors, service providers and employees, originating from lower stock option grants in 2013, as well as reversal of expenses due to forfeitures of stock options by a Director who resigned from the Company. General and administrative expenses attributable to InterCure for the year ended December 31, 2013 totaled approximately $719,000. For the period from July 25, 2012 through December 31, 2012, such expenses incurred by InterCure totaled approximately $321,000 and consisted mainly of salary expenses, professional service fees, rent expenses, insurance costs and share-based payments to directors and employees.

Impairment of intangible assets. Impairment of intangible assets originates from identifiable intangible assets recognized in the purchase of InterCure on July 25, 2012. As the Company identified indicators of impairment with regard to InterCure, namely a significant decline in InterCure's share price on the TASE, it hired the services of an external expert in order to establish whether or not such an impairment charge should be recorded. The total impairment loss in the approximate amount of $1,729,000 was allocated pro rata to the Technology and Brand Name assets in the amounts of approximately $1,372,000 and $357,000, respectively.

Other gains (losses), net. Other gains in the year ended December 31, 2013 totaled approximately $1,059,000, primarily originating from a gain from the sale of the Company's investment in Proteologics which totaled approximately $1,051,000. In the year ended December 31, 2012, the other gains in the amount of $802,000 were mainly due to a bargain purchase in connection with the InterCure transaction totaling $795,000. Bargain purchase gain is the excess of the fair value of the investment acquired over the fair value of the consideration provided for such purchase in accordance with IFRS 3R, "Business Combinations (Revised)" ("IFRS3R"), as further detailed below.

Finance income, net. Finance income, net for the years ended December 31, 2013 and 2012 totaled approximately $26,000 and $45,000, respectively. The decrease in finance income in 2013 compared to 2012 derives mainly from lower interest income on short-term bank deposits whose carrying amount during 2012 was significantly higher compared to 2013 as a result of the capital raising completed by the Company in March 2012 in a private placement and from the exercise of warrants (series 2) in the period. This decrease was partially offset by an increase in finance income from exchange rate differences, owing to larger NIS-denominated balances originating from proceeds from the sale of the investment in Proteologics.

Earnings (losses) from investment in associate. Earnings (losses) from investment in associate totaling approximately ($845,000) and $569,000 in the years ended December 31, 2013 and 2012, respectively, arose from the Company's investment in Proteologics which was accounted for according to the equity method. During 2013, the Company recognized such losses due to operational losses in Proteologics. From the acquisition date of November 21, 2012 through December 31, 2012, the Company's share in Proteologics' losses totaled approximately $144,000. On the date of acquisition, the Company recorded a gain from a bargain purchase totaling approximately $713,000.

"Income Taxes" We had no income tax expense for the years ended December 31, 2013 and 2012 due to losses incurred and we did not recognize any deferred tax benefits, since it is not "more likely than not" that we will be able to generate profits in the future to realize the deferred taxes.

Years Ended December 31, 2012 and 2011

Revenues. Sales in the year ended December 31, 2012 totaled approximately $938,000, originating from the subsidiary InterCure whose financial statements were consolidated starting July 25, 2012. InterCure's main sales are in the U.S. and the UK, which totaled approximately $766,000 and $167,000 respectively, from the date of consummation of the transaction (July 25, 2012) through December 31, 2012. We had no sales in 2011.

InterCure's sales in the year ended December 31, 2012 (including sales prior the acquisition by us in July 25, 2012) totaled approximately $2,267,000, compared to approximately $3,171,000 in the year ended December 31, 2011.

Cost of Sales. Cost of sales for the year ended December 31, 2012 totaled approximately $380,000 (or $225,000 excluding the amortization of identifiable intangible assets and other PPA adjustments). We had no cost of sales for the year ended December 31, 2011 as we did not generate revenues in that year.

Gross profit. Gross profit derives entirely from InterCure whose average gross margin ranges between 74% and 78%. The percentage of gross profit out of revenues is affected by the mix of direct/online sales which provide relatively higher gross profit margins and sales by resellers which generally provide lower gross profit margins. The gross profit for the year ended December 31, 2012 (including amortization of identifiable intangible assets related to technology and other PPA totaling approximately $ 155,000) was 60%. The gross margin in the period, excluding the amortization of identifiable intangible assets related to technology and other PPA adjustments, was approximately 76%. We had no gross profit for the year ended December 31, 2011 as we did not generate revenues in that year.

Research and Development Costs. Research and development expenses in the year ended December 31, 2012 totaled approximately $99,000, compared to approximately $158,000 in 2011. Research and development expenses are comprised mainly from expenses related to preparations for initiating the phase 2 clinical trial of the rHuEPO drug designed to treat cancer patients with Multiple Myeloma and include, among others, research costs incurred in tracing blood proteins in Multiple Myeloma patients, costs in connection with medical regulation, clinical insurance costs and other medical consulting costs. The decrease in expenses compared to last year is mainly due to the termination of the exclusive right to examine a medical technology relating to the immune system in late 2011. Research and development expenses relating to InterCure from the date of consummation of the transaction through December 31, 2012 were immaterial.

Selling and Marketing Expenses. Sales and marketing expenses in the year ended December 31, 2012 totaled approximately $848,000, originating entirely from InterCure whose financial statements were consolidated with ours as of July 25, 2012. We measure "average contribution" as the ratio between gross profit less direct/online advertising expenses divided by direct/online advertising expenses. Selling and marketing expenses include advertising expenses totaling approximately $415,000 (mainly direct/online advertising expenses) and gross profit amounted to approximately $713,000 (net of amortization of identifiable intangible assets and other PPA), resulting in an average contribution of 72%. Selling and marketing expenses also include expenses relating to a service agreement signed with Giboov of approximately $77,000 and share-based payment of $132,000 for options granted to Giboov. We had no sales and marketing expenses in 2011.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2012 totaled approximately $2,769,000 compared to approximately $1,078,000 for the year ended December 31, 2011. The increase is mainly due to an increase in share-based payments to directors, service providers and employees and expenses related to service providers including, among others, legal, professional and technological consulting fees in connection with the InterCure transaction and filing an application for relisting the ADRs on Nasdaq indicated above. General and administrative expenses attributable to InterCure for the period from the date of consummation of the transaction through December 31, 2012 totaled approximately $321,000 and consist mainly of salary expenses, professional service fees, rent expenses, insurance costs and share-based payments to directors and employees.

Other gains (losses), net. Other gains in the year ended December 31, 2012 totaled approximately $802,000, primarily originating from a gain from a bargain purchase in connection with the InterCure transaction totaling $795,000. Bargain purchase gain is the excess of the fair value of the investment acquired over the fair value of the consideration provided for such purchase in accordance with IFRS 3R, "Business Combinations (Revised)" ("IFRS3R"), as further detailed below. In the year ended December 31, 2011, we derived other gains totaling approximately $12,000.

Finance income, net. Finance income, net for the years ended December 31, 2012 and 2011 totaled approximately $45,000 and $17,000, respectively. The increase in finance income in 2012 compared to 2011 derives mainly from interest income on short-term bank deposits whose carrying amount during 2012 was significantly higher compared to 2011 as a result of the capital raising we completed in March 2012 in a private placement and from the exercise of warrants (series 2) in the period.

Earnings from investment in associate. Earnings from investment in associate totaling approximately $569,000 for the year ended December 31, 2012, arise from our investment in Proteologics which is accounted for according to the equity method. As at December 31, 2012, we held approximately 31.24% of Proteologics' issued and outstanding share capital. On the date of acquisition, we recorded a gain from a bargain purchase totaling approximately $713,000. From the acquisition date November 21, 2012 through December 31, 2012, our share in Proteologics' losses totaled approximately $144,000. There were no earnings from investment in associate in 2011.

"Income Taxes" We had no income tax expense for the years ended December 31, 2012 and 2011 due to losses incurred and we did not recognize any deferred tax benefits, since it is not "more likely than not" that we will be able to generate profits in the future to realize the deferred taxes.

Critical Accounting Policies

Basis of presentation of the financial statements. The financial statements of the Company and its subsidiaries ("the Group") as of December 31, 2013 and for each of the three years in the period ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards which are standards and interpretations issued by the International Accounting Standards Board ("IFRS").

The significant accounting policies described below are consistent with those of all periods presented, unless indicated otherwise.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise its judgment in the process of applying the Group's accounting policies. The areas that involve judgment which has significant effect or complexity or where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 to the annual consolidated financial statements. Actual results could significantly differ from the estimates and assumptions used by the Group's management.

The Company analyzes the expenses recognized in the statement of comprehensive income by classification based on the function of expense.

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:

Subsidiaries consolidation and business combinations

The consolidated financial statements include the accounts of the Company and entities controlled by the Company. Control exists when the Company has the power over the investee, has exposure, or rights, to variable returns from involvement in the investee, and has the ability to use its power over the investee to affect its returns.

The Company examines whether it controls another entity even when it does not hold more than 50% of the voting rights, but can control the entity's financial and operating policies by de-facto control. De-facto control can be created under circumstances in which the ratio of the Company's voting rights in the entity to the percentage and dispersion of the holdings of the other shareholders grants the Company the power to control the entity's financial and operating policies.

Subsidiaries are fully consolidated starting from the date on which control therein is attained by the Company. Their consolidation ceases when such control is discontinued.

The Company's accounting treatment of business combinations uses the acquisition method. The consideration transferred for the acquisition of a subsidiary (the "Acquiree") is calculated as the total of fair values of the assets transferred by the Company, the liabilities incurred against the Acquiree's previous owners and the equity rights issued by the Company. The transferred consideration includes the fair value of each asset or liability arising from a contingent consideration arrangement. The acquisition related costs are recognized in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed by the Company in a business combination (excluding certain exceptions prescribed in IFRS 3R, "Business Combinations (Revised)" ("IFRS3R") are initially measured at fair value on the acquisition date. For each business combination, the Company decides whether to recognize non-controlling interests in the Acquiree which represent existing ownership rights and entitle their holders to a relative portion of the entity's net assets upon liquidation at their fair value or at the relative portion of the existing ownership instruments in amounts recognized for the Acquiree's net identifiable assets. This decision is individually made for each business combination. All the other components of non-controlling interests are measured at fair value on the acquisition date unless another measurement basis is required by IFRS.

The excess of the overall amount of the transferred consideration, the amount of any non-controlling interests in the Acquiree, and the fair value of any previous equity rights in the Acquiree on the acquisition date in excess of the net amount of identifiable assets acquired and liabilities assumed on the acquisition date, all measured as above, is recognized as goodwill.

In the event that the net amount of identifiable assets acquired and liabilities assumed on the acquisition date exceeds the overall amount of the transferred consideration, the amount of any non-controlling interests in the Acquiree, and the fair value of any previous equity rights in the Acquiree on the acquisition date as discussed above, the difference is recognized directly in profit or loss on the acquisition date.

Intercompany balances and transactions, including revenues, expenses and dividends in respect of transactions between the Group companies, are eliminated. Gains and losses arising from intra-group transactions that have been recognized as assets (such as inventories and property, plant and equipment) are also eliminated. Such intra-group losses may point to the impairment of assets which is tested and accounted for as specified in g below.

Transactions with non-controlling interests which do not result in loss of control

Transactions with non-controlling interests in subsidiaries which do not result in loss of control in the subsidiaries are accounted for as transactions with owners. In these transactions, the difference between the fair value of any consideration paid or received and the amount of adjustment of the non-controlling interests to reflect the changes in their relative rights in the subsidiaries is directly recognized in equity and attributed to the equity holders of the parent.

Associate

An associate is an entity over which the Group exercises significant influence, but not control, which is usually expressed in holding 20%-50% of the voting rights. The investment in an associate is presented using the equity method of accounting. According to the equity method of accounting, the investment is initially recognized at cost and its carrying amount varies to the extent that the Group recognizes its share of the associate's earnings or losses from the acquisition date.

The Group's share in the earnings or losses of associates after the acquisition date is carried to profit or loss and its share in the other comprehensive income movements after the acquisition date is carried to other comprehensive income against the carrying amount of the investment.

Intangible assets

1. Brand name and technology

   Brand name and technology acquired in a business combination are recognized at fair value on the acquisition date. Brand name and technology have a finite useful life and are presented at cost net of accumulated amortization and impairment losses. The amortization is calculated using the straight-line method over the expected useful life (9-10 years).

2. Computer software

   Acquired licenses to use computer software are capitalized based on costs incurred in acquiring the specific software and preparing it for use. These costs are amortized using the straight-line method over the estimated useful life (five years). Costs relating to computer software upkeep are recognized as expenses as incurred.

3. Exclusive technology testing right

   An acquired exclusive immune system technology testing right has a finite life of 15 months in effect from September 1, 2010 and is amortized using the straight-line method over its useful life. On November 30, 2011, the amortization of this right was concluded. See details in Note 14d to the consolidated financial statements.

4. Unamortized intangible assets (licenses and patent rights)

   The amortization of an asset on a straight-line basis over its useful life begins when the development procedure is completed and the asset is available for use. These assets are reviewed for impairment once a year or whenever there are indicators of a possible impairment, in accordance with the provisions of IAS 36, "Impairment of Assets".

5. Research and development

   Research expenditures are recognized as expenses when incurred. Costs arising from development projects are recognized as intangible assets when the following criteria are met:

   - it is technically feasible to complete the intangible asset so that it will be available for use;
   - management intends to complete the intangible asset and use or sell it;
   - there is an ability to use or sell the intangible asset;
   - it can be demonstrated how the intangible asset will generate probable future economic benefits;
   - adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
   - the expenditure attributable to the intangible asset during its development can be reliably measured.

   Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs that were previously recognized as an expense are not recognized as an asset in a later period. During the reporting period, the Group did not capitalize development costs to intangible assets.

Impairment of non-financial assets

Intangible assets which are not yet available for use are not depreciated and impairment in their respect is tested every year. Depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that sustained impairment are reviewed for possible reversal of the impairment at each date of the statement of financial position.

As for testing impairment of acquired intangible assets, see *intangible assets* above.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method.

Purchased merchandise and products - using the "first-in, first-out" method.

Share capital

The Company's Ordinary shares are classified as share capital. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the issuance proceeds.

When we purchase Company shares (treasury shares), the consideration paid, including incremental costs directly attributable to the purchase (less the effect of taxes on income), is deducted from the equity attributable to equity holders of the parent until the shares are eliminated or reissued. When these shares are reissued in subsequent periods, the consideration received, less incremental costs directly attributable to the transaction and less the effect of taxes on income, is included in equity with allocation to the equity attributable to equity holders of the parent and non-controlling interests.

Share-based payment

We operate a number of share-based payment plans to employees and to other service providers who render services that are similar to employees' services that are settled with the Company’s equity instruments. In this framework, we grant employees, from time to time, and at our sole discretion, options to purchase our common shares. The fair value of services received from employees in consideration of the grant of options is recognized as an expense in the statement of comprehensive income (loss) and correspondingly carried to equity. The total amount recognized as an expense over the vesting term of the options (the term over which all pre-established vesting conditions are expected to be satisfied) is determined by reference to the fair value of the options granted at grant date, except the effect of any non-market vesting conditions.

Non-market vesting conditions are included in the assumptions used in estimating the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions of the share-based payment arrangement are to be satisfied.

In each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income (loss) with a corresponding adjustment in equity.

When the options are exercised, the Company issues new shares. The proceeds net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share-based payment transactions in which the Company acquired assets as consideration for the Company's equity instruments are measured at the value of the assets acquired.

Provisions

A provision in accordance with IAS 37 is recognized when we have a present obligation (legal or constructive) as a result of past events, likely to be required to use economic resources to settle the obligation and can be reliably estimated. The group recognizes a provision for warranty when the product is sold to the customer or when the service is provided to the customer. Initial recognition is based on past experience. The estimated provision is re-tested every year.

Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from sale of goods to retail customers:

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date to the customer is usually the date on which ownership passes.

Revenues from sale of goods to distributors:

InterCure sells its products to distributors as well. Revenues from such sales are recognized when InterCure or its subsidiaries deliver the goods to the distributor, when sales channel and selling price are at the distributor's sole discretion, and when there are no ongoing obligations to prevent the distributor from receiving the goods. Revenue is only recognized when goods were delivered to the designated site, risks of loss and damage are transferred to the distributor and distributor had received the goods in accordance with the sales agreement, conditions for receipt of goods had expired or InterCure holds objective evidence that goods receipt criteria had been met.

Sales do not include a finance component, as they are made with a 60 days credit period, considered as consistent with the market in which InterCure operates.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1. Critical accounting estimates and assumptions

   The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

   - Intangible assets

(i) In determining the fair value of assets acquired in share-based payment transactions and in testing impairment of these research and development assets, the Company's management is required to estimate, among other things, the probable endpoints of trials conducted by the Company, the commercial technical feasibility of the development and the resulting economic benefits. Actual results and estimates to be made in the future may significantly differ from current estimates.

(ii) The Company is required to determine at the end of each reporting period whether there is any indication that an asset may be impaired. If indicators for impairment are identified, the Company estimates the assets' recoverable amount, which is the higher of an asset's fair value less costs to sell and its value-in-use. The value-in-use calculations require management to make estimates of the projected future cash flows. Determining the estimates of the future cash flows is based on management's past experience and best estimate for the economic conditions that will exist over the remaining useful economic life of the asset.

- Share-based payments - in evaluating the fair value and the recognition method of share-based payment, the Company's management is required to estimate, among other things, different parameters included in the computation of the fair value of the options and the Company's results and the number of options that will vest. Actual results and estimates to be made in the future may significantly differ from current estimates.

2. Judgments that have a critical effect on the adoption of the entity's accounting policies

- The existence of control over InterCure - the Company's management has estimated the degree of effect it has in InterCure and has determined that it is able to govern InterCure's financial and operating policies. As of the date hereof, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital.

Impact of Inflation and Currency Fluctuations

We generate most 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 a result our financial results could be harmed if we are unable to protect 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. The Company's treasury's risk management policy, excluding InterCure, is to hold NIS-denominated cash and cash equivalents and short-term deposits in the amount of the anticipated NIS-denominated liabilities for nine to twelve consecutive months from time to time in line with the directives of the Company's Board. InterCure focuses on actions to reduce to a minimum the negative effects arising from this risk and therefore holds cash and cash equivalents in currencies in which it operates, in accordance with management's assessments. 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 US Dollar or that the timing of any devaluation may lag behind inflation in Israel. Future activities may lead us to perform a clinical trial in Israel, which may lead us to reassess our use of the US dollar as our functional currency.

As of December 31, 2013, if our functional currency had weakened by 10% against the NIS with all other variables remaining constant, post-tax loss for the year would have been approximately $157,000 higher (2012 - post-tax loss approximately $89,000 lower; 2011 - post-tax loss approximately $30,000 higher), mainly as a result of exchange rate changes on translation of other accounts receivable, net and exchange rate changes on NIS-denominated cash and cash equivalents and short-term deposits. Loss was more sensitive to fluctuations in the exchange rate in relation to the NIS in 2013 than in 2012 mainly due to an increase in NIS-denominated cash and receivable balances related to proceeds from the sale of the Company's investment in Proteologics, late in the third quarter of 2013.

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

The income of the Company is subject to corporate tax at the regular rate; the guidance of the amendment to the Israeli Income Tax Ordinance, 2005 from August 2005 prescribes a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting 2009 are as follows: 2009 - 26% and 2010 and thereafter - 25%.

On July 14, 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the corporate tax rates starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

In December 2011, following the enactment of the Law for the Changing the Tax Burden (Legislative Amendments), 2011 (hereafter - "Tax Burden Distribution Law"), the phased reduction in the corporate tax was eliminated, and corporate tax rate in 2012 and thereafter was set to 25%.

On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013-2014), 2013 (the "Law") was published in the Government's records. The Law prescribes, among other things, from the 2014 tax year and thereafter, an increase in the Israeli corporate tax rate to 26.5% (instead of 25%).

As of December 31, 2013, XTL Biopharmaceuticals Ltd. did not have any taxable income, except for a capital gain from the sale of the investment in Proteologics, which was offset against capital loss carryforwards and current operating losses. As of December 31, 2013, our net operating loss carry forwards for Israeli tax purposes registered on behalf of XTL Biopharmaceuticals Ltd. amounted to approximately $28 million. Under Israeli law, these net-operating losses may be carried forward indefinitely and offset within XTL Biopharmaceuticals Ltd only, against future taxable income, including capital gains from the sale of assets used in the business, with no expiration date. Also, InterCure has carryforward business losses and capital losses which total approximately $17 million as of December 31, 2013.

In order to obtain tax exemption for the share swap transaction with Bio-Gal pursuant to Sections 104 and 103 of the Israeli Income Tax Ordinance (Revised), 1961, we signed an agreement with the Israeli Tax Authority on July 15, 2010. Below is the summary of the principal conditions for the share swap and the transfer of the intangible asset:

1. The balance of the Company's business losses and capital losses for tax purposes was reduced to approximately NIS 80 million (approximately $ 23 million) and approximately NIS 0.7 million (approximately $ 0.2 million), respectively. This item is not to derogate from the Tax Assessing Officer's authority to establish that the balance of losses is actually lower than the abovementioned amounts.

2. Any losses incurred by the Company prior to the share swap, after their reduction as discussed in paragraph 1 above, will not be offset against any income originating from Xtepo (the transferred company) or against a capital gain from the sale of shares of Xtepo.

3. Xtepo shareholders will not be allowed to sell their shares in the Company for a period of two years from the end of the year of completion of the transaction ("the Lock-up Period"), subject to any changes in legislation.

4. The Company and Xtepo both undertake to maintain their main economic activity as it was prior to the transaction during the Lock-up Period.

5. The Company will not be permitted to sell its holdings in Xtepo for the duration of the Lock-up Period.

The Lock-up Period ended on December 31, 2012.

It is indicated that the guidance to Sections 104 and 103 to the Israeli Income Tax Ordinance, which deal with restructuring and mergers, impose statutory limitations and various conditions on the entities participating in the change in structure/merger, among other things, restrictions on dilution of holdings from raising by a prospectus or by private placements. The summary of the principles detailed above does not constitute a substitute to the overall articles.

Additionally, on January 1, 2013, Xtepo shareholders decided to engage in a new voluntary lock-up agreement ("New Lock-Up Agreement") for an additional period of 3 years ("New Restriction Period"), according to which selling restrictions shall apply to the shares held by them. Hereunder are the principle restrictions regarding the quantities eligible for sale during the agreement period:

1. During the first year of the New Restriction Period (starting on January 1, 2013 up to December 31, 2013) 15% of the total shares held by Xtepo shareholders shall be eligible for sale in a manner that every month each shareholder shall be entitled to sell up to 1.25% (15%*1/12) of the total restricted shares.

2. During the second year of the New Restriction Period (starting on January 1, 2014 up to December 31, 2014) shares that constitute 25% of the total amount of shares held by Xtepo shareholders shall be eligible for sale in a manner that every month each shareholder shall be entitled to sell up to 2.08333% (25%*1/12) of the total restricted shares.

3. During the third year of the New Restriction Period (starting on January 1, 2015 up to December 31, 2015) the remaining shares held by Xtepo shareholders shall be eligible for sale in a manner that every month each shareholder shall be entitled to sell up to 5% (60%*1/12) of the total restricted shares.

The New Lock-up Agreement terminates upon the occurrence of one of the following events: (1) the end of the New Restriction Period as defined above; (2) the shareholders receipt of written notification from the Trustee that the Trustee wishes to terminate their position under the New Lock-Up Agreement within 30 days, and the Company has not found a replacement trustee within the said period; or (3) a majority of the shareholders who are party to the New Lock-Up Agreement agree to terminate the agreement.

Since April 7, 2009, we have not had a “permanent establishment” or activity in the US, and our subsidiaries do not perform any activities in the US. Our board of directors consists of a majority of Israeli residents and our management is domiciled in Israel.

B. 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, option and warrant exercises, and private investments in public equities. As of December 31, 2013, we had received net proceeds of approximately $80.2 million from various private placement transactions, including net proceeds of approximately $1.5 million from the Bio-Gal transaction in August 2010, net proceeds of approximately $45.7 million from our initial public offering in September 2000, net proceeds of approximately $15.4 million from the 2004 placing and open offer transaction, net proceeds of approximately $1.75 million from our public offering on TASE in March 2011 and proceeds of approximately $4.0 million from the exercise of options and warrants.

As of December 31, 2013, we had approximately $4.2 million in cash, cash equivalents, and short-term bank deposits (approximately $3.9 million excluding cash in InterCure), an increase of $0.9 million ($1.6 million excluding cash in InterCure) from December 31, 2012.

Cash flows used in operating activities for the year ended December 31, 2013 totaled approximately $2.5 million, compared to cash flows used in operating activities of approximately $1.5 million for the year ended December 31, 2012. InterCure's share in the cash flows used in operating activities in the years ended December 31, 2013 and 2012 totaled approximately $1 million and $0.4 million, respectively. The increase in cash used in operating activities (excluding InterCure) compared to the corresponding period last year mainly arises from payments made in the period to professional service providers and the payment of bonuses to officers.

Cash flows provided by (used in) investing activities in the year ended December 31, 2013 totaled approximately $3.3 million compared to cash flows provided by (used in) investing activities of approximately $1.2 million in the previous year. The changes between the periods mostly reflect the sale of the investment in an associate and the movement in short-term deposits in the periods.

Cash flows provided by financing activities in the year ended December 31, 2013 totaled approximately $0.3 million, originating from the sale of treasury shares by InterCure and the exercise of warrants (series 2) and non-marketable options in the period. Cash flows provided by financing activities in the year ended December 31, 2012 totaled approximately $4.2 million, originating from the private placement of March 2012 and the exercise of warrants (series 2).

Continuation of our current operations is dependent upon the generation of revenues including revenues from our medical device activity through our consolidated subsidiary InterCure, or additional financial resources through agreements for the monetization of our rHuEPO for Multiple Myeloma, SAM-101 for Schizophrenia, hCDR1 for Lupus or through external financing. The Company has no revenues from drug development operations at this stage and it is dependent on external financing sources. The Company has incurred continuing losses and its entire income at this stage originates from InterCure, a subsidiary which was consolidated for the first time in the 2012 financial statements (following the completion of the transaction of July 2012, see also Note 5 to the consolidated financial statements for the year ended December 31, 2013). In the opinion of the Company's management and based on its business plans, the balances of cash and cash equivalents with the balances of short-term deposits will enable the Company to fund its activities through at least the fourth quarter of 2015. However, the actual amount of cash the Company will need to fund its operations is subject to many factors, including, but not limited to, the timing, design and execution of the clinical trials of its existing drug candidates, any future projects which may be in-licensed or any other business development activities. For example, changing circumstances and/or acquisition of new technologies may cause the Company to consume capital significantly faster than management's current anticipation and the Company may need to spend more money than currently expected because of, among other things, circumstances beyond its control. InterCure has had recurring losses and presently does not have sufficient cash and other resources to meet its future plans beyond July 2015. If InterCure is unsuccessful in raising additional financing, it may need to curtail or discontinue operations.

The Company will incur additional losses in 2014 from research and development activities, examination of additional technologies and from current operation which will be reflected in negative cash flows from operating activities. Accordingly, in order to complete the clinical trials to bring a product to market, the Company will be required to raise additional cash in the future through the issuance of securities. However, if the Company is not able to raise additional capital at acceptable terms, the Company may be required to exercise tradable securities held by it or reduce operations or sell or out-license to third parties some or all of its technologies.

C. Research and Development, Patents and Licenses

Research and development costs in 2013, 2012 and 2011 substantially derived from costs related to the preparations for the rHuEPO drug clinical trial development plan. As part of those preparations, the Company conducted a study which consists of collecting preliminary data on the existence of specific proteins in the blood of a group of Multiple Myeloma patients. The Company has expanded the study to additional centers in order to collect additional data beyond the original study plan. The data which was collected in the framework of the preliminary study will be combined, as necessary, in planning and preparing for the implementation of the phase 2 clinical trial which the Company expects to obtain the approval to commence it in the second half of 2014. The costs of such preparations comprise of, among other things, costs in connection with medical regulation, patent registration costs, medical consulting costs and payments to medical centers. Additionally, we had amortization expenses of the exclusive right to examine a medical technology in the field of the immune system in 2011.

hCDR1 for the Treatment of SLE

The Company intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose. We estimate that the trial will take one year to enroll patients, another year to conduct treatment, and additional time to analyze the results for a total of approximately two and a half years. We estimate the cost for that period at between $12 and $15 million.

rHuEPO for the Treatment of Multiple Myeloma

According to the clinical trial's preliminary plan received as part of the Bio-Gal transaction, we are planning on performing a prospective, multi-center, double blind, placebo controlled, phase 2 study intended to assess safety of rHuEPO when given to patients with advanced Multiple Myeloma and demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We intend to receive approval to commence such trial in the second half of 2014 and we expect it to last two-and-a-half years and its cost is estimated at approximately $2.0 million. We have not yet submitted the preliminary plan, which may be updated, to the authorities and/or the applicable IRB.

While we have begun preliminary discussions with potential clinical sites and third party vendors for the planned study, we have not yet determined the final size and scope of the study, and as a result, we cannot certify the above estimations regarding the clinical trial period and cost to complete the study.

SAM-101 for the Treatment of Schizophrenia

According to the preliminary development plan received as part of the MinoGuard transaction, we plan to perform a multi-center phase 2b clinical trial under the FDA, using our proprietary combination. This preliminary plan is subject to changes in accordance with our regulatory advisors and the FDA/other regulatory agencies, requirements.

The information above provides estimates regarding the costs associated with the current estimated range of time that will be necessary to complete the development phase for hCDR1 for the treatment of SLE, rHuEPO for the treatment of Multiple Myeloma and develop SAM-101 for the treatment of Schizophrenia.

The following table sets forth the research and development costs for the years 2013, 2012 and 2011 including all costs related to the clinical-stage projects, our pre-clinical activities, and all other research and development. We started preparations for rHuEPO clinical development in the last quarter of 2010 (after the completion of the Bio-Gal transaction on August 2010). We in-licensed SAM-101 in November 2011 and we estimate that we will incur significant costs on its development in the upcoming years. Whether or not and how quickly we commence and 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 will probably increase significantly.

	Research and development Expenses in thousand US$		
	Years ended December 31,		
	2013	**2012**	**2011**
hCDR1	9	-	-
rHuEPO	58	93	70
SAM-101	16	-	-
Anti TNF (Yeda Option)	-	-	88
Other (RESPeRATE, through InterCure)	30	6	-
Total Research and Development	113	99	158

D. Trend Information

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

E. 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.

F. Tabular disclosure of contractual Obligations

As of December 31, 2013, we had known contractual obligations, commitments and contingencies of approximately $154,000 which relate to our offices and vehicle operating lease obligations, of which approximately $94,000 is due within the next year, with the remaining balance due as per the schedule below.

According to certain vehicle operating lease agreements, we have the sole right to terminate these agreements with 1-2 months paid notice. We also had the sole right to extend the office lease period by additional 24 months. In April 2013 we notified our offices' landlord that we wished to extend the lease agreement, according to the option given to us. The table below reflects our obligations under the extension of the lease period.

We do not carry any contractual obligations, commitments or contingencies relates to research and development operation.

	Payment due by period as of December 31, 2013 (in thousands of US$)				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	154	94	60	-	-
Total	154	94	60	-	-

Pursuant to our asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of Multiple Myeloma from Bio-Gal Ltd., we are obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. The payment of $350,000 is to be made to Yeda upon the earlier of (i) six months from the successful completion of Phase 2 or (ii) the completion of a successful fundraising by XTL at any time after the completion of the Phase 2 in an amount of at least $2 million.

According to the agreement with MinoGuard we are obligated to pay milestone payments to MinoGuard of up to $2.5 million based on development and marketing milestones as well as a 3.5% royalty of our net sales of the product and 7.5%-20% from our third-party out-license receipts, depending on the phase of the drug at the time of an out-license transaction. It should be noted we have the sole discretion to pay any of the above amounts in cash or through an issuance of our shares to MinoGuard.

According to our strategic collaboration master agreement with the Institute and Mor, we are obligated to pay the Institute for the services provided by them the cost basis related to the Institute's activity in the framework of any project plus an additional 10% of the total royalties to which Mor is entitled pursuant to its agreements with the Company in connection with each technology for which rights were granted to the Company.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

B. The following sets forth information with respect to our directors and executive officers as of the date hereof.

Name	Age	Position
Amit Yonay	44	Chairman of the Board of Directors
Dafna Cohen	44	Non-Executive and External Director
Jaron Diament	46	Non-Executive and External Director
Marc Allouche	40	Non-Executive Director
David Bassa	52	Non-Executive Director
Josh Levine	49	Chief Executive Officer
David Kestenbaum	49	Chief Financial Officer
Prof. Moshe Mittelman	61	Medical Director

Amit Yonay has served as a director of our company since March 2009. Mr. Yonay has also served as the Chairman of the Board of Directors of InterCure Ltd. since July 2012. 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. From 2000 to January 2007, Mr. Yonay served as the Head Israeli Sell-Side Analyst with ING Financial Markets (NYSE: ING, Euronext: INGA) in Israel. Mr. Yonay received a BSc in Electrical Engineering from Binghamton University and a MBA from Tel Aviv University in Finance and International Business.

Dafna Cohen has served as a director of our company since March 2009. From 2010 until 2011, she served as director of Global Treasury at Mediamind Technologies (NASDAQ: MDMD). From 2005 to 2009 she served as Director of Investment and Treasurer of Emblaze Ltd. (LSE: BLZ). From 2000 to December 2004, Ms. Cohen was an Investment Manager for Leumi Partners. From 1994-2000, Ms. Cohen worked in the derivatives sector of Bank Leumi. In addition, Ms. Cohen serves as a director of Formula Systems Ltd (Nasdaq: FORTY, TASE: FORTY) since November 2009. Ms. Cohen has served as a Director at Europort (TASE: ERPT.B1) since January 2012. From March 2011 to July 2012 Ms. Cohen was a director of Inventech Central (TASE: IVTC). Ms. Cohen received a BA in economics and political science and a MBA in finance and accounting from Hebrew University, Jerusalem.

Jaron Diament has served as a director of our company since March 2009. He has served as the Chief Executive Officer of Tagor Capital Ltd., a public real estate investment company (TASE: TGCP), and a board member of all of its non-Israel real estate investments since December 2009. From September 2006 to December 2009, Mr. Diament served as Chief Financial Officer of Tagor Capital Ltd. In addition, Mr. Diament has served as an external director of Mega Or Holdings Ltd. (TASE: MGOR) since September 2007 and served as an independent director in Jobookit Holdings Ltd. (TASE: JBKT) from May 2011 until July 2012. Mr. Diament received a BA in economics and accounting from Tel Aviv University.

Marc Allouche has served as a director of our company since March 2009. He is the founder and managing partner of NFI Blue Consulting, an investment banking & business advisory firm. NFI focuses on creating and advising Israel-related investment and business opportunities on a world wide scale, with particular expertise on the Israel-Europe axis, and this notably within two asset classes: private equity and real estate. Previously, he served as the head of the Alternative Investments Division of Harel Insurance Investments & Financial Services Ltd., from 2008 to 2009, focusing on private equity and real estate investments. From 2006 to 2007, Mr. Allouche served as Executive Vice President of investments & strategic development of SGPA, a French private equity group and, concurrently, was CEO of one of its portfolio companies, operating in the retail sector in France, for turnaround purposes. From 2002 to 2005, Mr. Allouche was founder and managing director of the Private Equity Advisory Group of Russel Bedford International, in charge of international corporate finance, transaction services and restructuring advisory services. From 2000 to 2001, Mr. Allouche served as Vice President at Nessuah Zannex Venture Capital Company Ltd., in strategic alliance with US Bancorp Piper Jaffray, managing a life sciences venture capital fund and, concurrently, was also managing director of one of its med-tech portfolio companies for turnaround purposes. From 1998 to 2000, Mr. Allouche was involved in the creation and the management of the Technology Group of KPMG International - Somekh Chaikin in Israel, a corporate finance division dedicated to high-tech and biotech companies. From 1996 to 1998, Mr. Allouche was a Senior Consultant at the Audit and the Transaction Services divisions of Price Waterhouse in Paris. Mr. Allouche received a BA in economics and a MBA with a major in corporate finance and accounting from Dauphine University, Paris. He is also a Chartered Public Accountant in France.

David Bassa has served as a director of our company since November 2013. He is the CEO and co-founder of Sela Software Ltd., a leading knowledge center and software house for the high-tech and IT industry, since 1990. In 2000, Mr. Bassa founded Bio-Gal, a biopharmaceuticals company which subsequently merged into XTL, for the purpose of developing Erythropoietin (EPO) for the treatment of Multiple Myeloma. Mr. Bassa graduated with a B.A in Economics from Bar-Ilan University and an M.Sc in Computer Science studies (without thesis), also from Bar-Ilan University. Mr. Bassa was twice awarded the President Excellency Award (1981, 2002) and managed the Israeli branch of the international AIESEC organization, of which he is a Hall of Fame member.

Josh Levine was appointed Chief Executive Officer of XTL in October 2013. Mr. Levine was the Chief Executive Officer of Proteologics Ltd. (TASE: PRTL) from January 2011 until October 2013. Previously, from September 2008 until September 2010, he was Chairman of the Board of Proteologics Ltd. Concurrently, he was Senior Director at Teva Innovative Ventures responsible for, among other things, business development as well as alliance management for the unit. He had also held several executive positions within venture capital funds and boutique investment banks. Previously, he was a corporate attorney at a large New York City law firm. Mr. Levine holds a JD degree from Columbia University Law School and a BA degree in Chemistry from Yeshiva University.

David Kestenbaum was appointed Chief Financial Officer of our Company in January 2014. Before joining XTL, he served as CFO of Zenith Solar Ltd., a start-up company involved in the development and deployment of innovative solar energy technology from 2010 to 2012. Prior positions include Finance Director of Colbar Lifescience Ltd., a medical device/biotech company and division of Johnson and Johnson (NYSE:JNJ) from 2007 to 2010, CFO of ZAG Industries Ltd., a division of The Stanleyworks (NYSE:SWK) from 2003 to 2007, and CFO and other senior financial positions at affiliates of Unilever NV (NYSE: UN) in the US and Israel. He worked in public accounting at PriceWaterhouseCoopers in NY from 1986 to 1990. Mr. Kestenbaum is a US Certified Public Accountant and holds a BSc in Accounting from Yeshiva University (NY), and a MBA in Finance and International Business from Columbia University (NY).

Prof. Moshe Mittelman has served as the Medical Director of our company since August 2010. He is also a Hematology consultant and Director of the Department of Medicine at the Tel Aviv Sourasky (Ichilov) Medical Center, Israel. Since 1997, Moshe has been Clinical Associate Professor of Medicine at the Sackler School of Medicine, Tel Aviv University. A well-known hematologist focusing on cancer and erythropoietin (EPO) research, Prof. Mittelman was one of the first hematologists to apply rHuEPO in the clinical practice, which allowed him to make the pioneering observation of prolonged survival in Multiple Myeloma rHuEPO-treated patients. This led to extensive research both in the lab as well as with patients, showing previously unrecognized immune effects to EPO. This research project has resulted in a series of scientific papers published in prestigious journals. Prof. Mittelman is also a well-known speaker in international conferences. Prof. Mittelman's work led to the founding of Bio-Gal, Ltd. which has now merged with XTL. Prof. Mittelman has also served as President of the Israel Society of Internal Medicine, Secretary of the Israel Society of Hematology and a Hematology Consultant for the Israel Ministry of Health. Prof. Mittelman is also a consultant to various biotech companies. From 2008-2010, he served as a member of the national committee of the Health Basket in Israel. From 2007 until 2013, Prof. Mittelman served as a director of Gaon Holdings Ltd. (TASE: GAON), a public holding company.

Employment Agreements

Joshua Levine

We have an agreement dated as of September 11, 2013, as amended on January 30, 2014, between the Company and Mr. Joshua Levine, our Chief Executive Officer ("CEO"). The agreement shall take effect from the date of approval at the Company's general meeting of shareholders on March 10, 2014, and will continue for a three-year term as of that date. Mr. Levine commenced his term as CEO on October 15, 2013 and will be entitled to a monthly gross base salary of NIS 40,000 (NIS 480,000 annually), which shall be paid retroactively, effective from said commencement date. Either party may terminate the agreement upon three months' advance written notice during the first year of the agreement and 4 months' advance written notice thereafter.

Upon the successful completion of cash fund raising of at least US$3 million in a public offering or private placement of equity securities, including securities convertible or exercisable into equity of the Company or any entity under its control (which for this purpose means ownership by the Company of greater than 50% of the outstanding voting securities), as long as Mr. Levine is appointed as such entity's CEO, during the thirty six month period from the date of the agreement, the Company will pay Mr. Levine a bonus equal to 1% of the above the fund raising amount, up to a maximum aggregate amount of US$200,000 in any calendar year. In the event the Company or any of its wholly-owned subsidiaries or any entity under its control, as long as Mr. Levine is appointed as such entity's CEO, receives payment in connection with any collaboration or other transaction relating to their respective products or technologies, excluding payments made to finance specific research and development activity and royalty payments, Mr. Levine shall be entitled to payment of 1% of the cash actually received by the Company in such transaction, up to an aggregate maximum amount of US$200,000 in any calendar year. In the event the Company or any of its wholly-owned subsidiaries or any entity under its control, as long as Mr. Levine is appointed as such entity's CEO, receives payment in connection with payments made to finance specific research and development activity, Mr. Levine shall be entitled to receive payment of 0.5% of such funding actually received by the Company up to an aggregate maximum of US$200,000 in any calendar year and per single research and development funding. The aggregate of all such bonuses paid to Mr. Levine in any calendar year cannot exceed US$300,000.

In consideration for his service as the Company's CEO, Mr. Levine will be entitled to benefits such as convalescence pay, managers' insurance, a study fund and a Company vehicle. He will also be entitled to an allotment of 1,500,000 non-marketable stock options, without charge, exercisable into 1,500,000 ordinary shares of the Company, NIS 0.1 par value each, subject to the adjustments specified in the Company's option plan (the "Options"). Assuming that the full amount of options is exercised, the shares deriving from the said exercise will constitute 0.64% of the issued and paid up capital, and 0.58% on a fully diluted basis. It should be noted that Mr. Levine does not hold any securities of the Company. The exercise price of 600,000 of the Options is NIS 0.60 each, non-linked, reflecting a price higher than the average share price in the 30 days preceding the date of the Board of Directors' resolution. The exercise price of 900,000 of the Options is NIS 0.90 each. Mr. Levine will be entitled to receive the Options and exercise them within a maximum period of 120 months from the date of allotment, subject to the terms and conditions contained herein, and based on a maturity period of 36 months, such that 1/12 of the Options granted to him will mature at the end of each consecutive calendar quarter following the grant date. Following the lapse of 36 months, all the Options may be exercised by him, subject to Mr. Levine continuing to serve in his position as CEO during that period.

Ronen Twito

On December 30, 2013, the Company received notification from Mr. Ronen Twito that he wished to cease his service as the Company's CFO and Deputy CEO. Mr. Twito's employment with the Company ends on April 5, 2014.

David Kestenbaum

We have an agreement dated as of January 9, 2014, effective as of January 5, 2014, between the Company and Mr. David Kestenbaum, our Chief Financial Officer ("CFO"). At a time to be determined by the CEO and at the CEO's discretion, Mr. Kestenbaum shall be responsible for the financial and accounting management of the Company. The agreement shall remain in effect for a three-year term as of the effective date. Mr. Kestenbaum is entitled to a monthly gross base salary of NIS 33,000 (NIS 396,000 annually). The agreement may be terminated by either party without cause at any time upon 60 days' prior written notice.

Upon the successful completion of fund raising of at least US$ 3 million in a public offering or private placement of equity securities, including securities convertible or exercisable into equity by the Company within a period of three years as of the effective date and, as long as Mr. Kestenbaum is employed by the Company as CFO, Mr. Kestenbaum shall be granted with a one-time bonus payment equal to 0.6% of the funds raised, and up to maximum aggregate payment of US$120,000 per year. Upon the successful completion of a transaction made by the Company or any of its fully owned subsidiaries or any entity in its control receives payment in connection with any collaboration or other transaction relating to their respective products or technologies, excluding payments made to finance specific research and development activity and royalty payment, as long as the Mr. Kestenbaum is employed by the Company as CFO, Mr. Kestenbaum shall be granted with a one-time payment equal to 0.5% of the transaction amount actually received by the Company in such Transaction, whether as upfront payments, milestone payments or payments of any other form, and up to maximum aggregate payment of US$100,000 per year. Upon the successful completion of a research and development funding in the Company, Mr. Kestenbaum shall be granted a one-time bonus payment equal to 0.4% of the funding amount, and up to a maximum aggregate payment of US$75,000 per year. The aggregate of all such bonuses paid to Mr. Kestenbaum in any calendar year cannot exceed US$150,000.

Mr. Kestenbaum is entitled to pension and severance benefits, managers' insurance as commonly acceptable for office holders and use of a Company car. There is a non-compete clause surviving one year after the termination for any reason of his employment. Mr. Kestenbaum shall be issued 750,000 options to purchase 750,000 ordinary shares of the Company of nominal value of NIS 0.1 each, available through the Company's ESOP, at an exercise price of NIS 0.5328 per share. The Options shall vest and become exercisable on a quarterly basis, over a period of 36 months thereafter for as long as Mr. Kestenbaum's employment with the Company has not terminated.

David Grossman

On September 11, 2013, the Company's Board received notification from Mr. David Grossman that he wished to terminate his position as the Company's CEO. A non-complete clause for a period of one year survives Mr. Grossman's termination. On November 7, 2013, the Company was notified of Mr. David Grossman's resignation from the Company's Board. On November 10, 2013, InterCure reported that on November 7, 2013, Mr. David Grossman announced the termination of his tenure as director of InterCure. Mr. Grossman's employment with the Company ended on February 15, 2014.

Moshe Mittelman

We have an agreement dated July 12, 2010, and effective as of August 27, 2010, with Prof. Moshe Mittelman, our Medical Director. Prof. Mittelman is entitled to a monthly fee of $2,500. His entitlement began 90 days after the date of completion of the Bio-Gal transaction, i.e., November 3, 2010. The agreement is limited to the date of successful completion of the phase 2 clinical trial of rHuEPO. A "successful completion of the phase 2 clinical trial" is defined as: six (6) months after the trial of rHuEPO on the last patient in accordance with trial protocol, or on an earlier date if XTL notifies Yeda of XTL's desire to discontinue the trial. In August 2010, our Board of Directors approved the agreement as well as the grant of options to Prof. Mittelman to purchase a total of 640,000 ordinary shares at an exercise price of NIS 0.1 per share. These options were vested over a twenty four-month period, on a monthly basis, commencing from August 27, 2010.

C. Compensation

The aggregate compensation paid by us to all persons who served as directors or officers for the year 2013 (9 persons) was approximately $0.6 million. This amount includes payments of approximately $0.1 million made for social security, pension, disability insurance and health insurance premiums, 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. This amount also includes a bonus payment totaling approximately $35,000 to Mr. Ronen Twito, the former CFO and Deputy CEO of the Company, based on agreements signed with him regarding fundraising during the period.

All members of our Board of Directors who are not our employees are reimbursed for their expenses for each meeting attended. Our directors 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 2012, we granted to our external directors, Mr. Diament Jaron and Ms. Dafna Cohen, 150,000 options each to purchase our ordinary shares of NIS 0.1 par value, pursuant to the shareholder meeting of March 19, 2012, exercisable at an exercise price of NIS 0.58633 (which is the average of the three-day closing price on TASE prior to the issuance). 33% of the options are vested and the remaining 67% shall vest and be exercisable on a monthly basis, commencing from the date of the mentioned shareholders meeting, for the duration of two years.

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, $187.5 for unanimous board resolutions and reimbursement of reasonable out-of-pocket expenses. Mr. Grossman served as the Company's Chief Executive Officer from February 11, 2009 until his effective resignation in October 2013 and was entitled to a compensation package as detailed above in the Employment Agreements paragraph, and therefore was not entitled to a director's fee.

We granted to three of our directors, Mr. Yonay, Mr. Shweiger (former director) and Mr. Allouche, 150,000 options each, to purchase our ordinary shares of NIS 0.1 par value, pursuant to the shareholder meeting of March 2, 2010, exercisable at an exercise price of NIS 0.298 (which is the average of the three-day closing price on TASE prior to the issuance). 33% of the options are vested and the remaining 67% shall vest and be exercisable on a monthly basis, commencing from March 2, 2010, for the duration of two years. On November 22, 2010, Mr. Shweiger ceased his directorship in the Company and therefore 63,747 of the total options granted to him were forfeited. Upon his departure, Mr. Shweiger exercised the vested 86,253 options. As of the date hereof, all options granted to Mr. Yonay and Mr. Allouche have vested, and have yet to be exercised. Vested options may be exercised until March 1, 2020.

On September 3, 2012, in a special meeting of InterCure's shareholders, 75,000 share options to purchase 75,000 InterCure ordinary shares were allocated to Mr. Yonay. The exercise price of these share options is NIS 0.54. These options shall vest over a three-year period on a quarterly basis (12 quarters), commencing the effective date for as long as Mr. Yonay's directorship in InterCure is not terminated.

For further details regarding share options granted to our employees, directors and service providers, see Note 20 to the consolidated financial statements for the year ended December 31, 2013.

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

- first, our compensation committee reviews the proposal for compensation.
- second, provided that the compensation 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.

D. Board practices

Election of Directors and Terms of Office

Our Board of Directors currently consists of five members, including our non-executive Chairman. Other than our two external directors, our directors are elected by an ordinary resolution at the annual general meeting of our shareholders. The nomination of our directors is proposed by a nomination committee of our Board of Directors, whose proposal is then approved by the board. The current members of the nomination committee are Amit Yonay (chairman of the nomination committee), Jaron Diament (chairman of the audit committee) 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 July 2011, at an annual general meeting of our shareholders, Amit Yonay, Marc Allouche, and David Grossman were re-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. On March 19, 2012 at an annual general meeting of our shareholders, Amit Yonay, Marc Allouche and David Grossman were re-elected to serve as directors of our company until the next shareholders meeting and our external directors, Dafna Cohen and Jaron Diament, were re-elected to serve as external directors of our company for an additional period of three years. After this date, the external directors term of service may be renewed for an additional three-year term. On November 7, 2013, David Grossman resigned from his position as a director and Mr. David Bassa was appointed in his stead.

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

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.

There are no service contracts or similar arrangements with any director that provide for benefits upon termination of a directorship.

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-half of the shares held by non-controlling shareholders or other shareholders who have a personal interest in such election 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 two percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for two additional three-year terms. 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. Both external directors 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 committee for the approval of financial statements, our nomination committee and our compensation committee.

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 serve as members 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 Marc Allouche as members. The audit committee meets at least four times 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.

We have adopted a written charter for our audit committee, setting forth its responsibilities as outlined by 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, SEC 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 the SEC rules.

Financial Statement Examination Committee

The Israeli Companies Law regulations require each public company to appoint a committee that examines the financial statements (the "Committee") which shall be compounded from at least three (3) members, of which the majority among them shall be independent directors and the Committee's Chairman shall be an external director. The Committee's duties are, among other things, to examine the Company's financial statements and to recommend and report to the board of directors of the Company regarding any problem or defect found in such financial statements.

In addition to the above-said, all of the Committee's members must meet the following requirements:

- All members shall be members of the board of directors of the Company.
- At least one of the Committee's members shall have financial and accounting expertise and the rest of the Committee's members must have the ability to read and understand financial statements.

The Company is in full compliance with the requirements outlined above.

According to a resolution of our Board of Directors, the Audit Committee has been assigned the responsibilities and duties of a financial statements examination committee, as permitted under relevant regulations promulgated under the Companies Law. From time to time as necessary and required to approve our financial statements, the Audit Committee holds separate meetings, prior to the scheduled meetings of the entire Board of Directors, regarding financial statement approval. The function of a financial statements examination committee is to discuss and provide recommendations to its board of directors (including the report of any deficiency found) with respect to the following issues: (i) estimations and assessments made in connection with the preparation of financial statements; (ii) internal controls related to the financial statements; (iii) completeness and propriety of the disclosure in the financial statements; (iv) the accounting policies adopted and the accounting treatments implemented in material matters of the Company; (v) value evaluations, including the assumptions and assessments on which evaluations are based and the supporting data in the financial statements. Our independent auditors and our internal auditors are invited to attend all meetings of the Audit Committee when it is acting in the role of the financial statements examination committee.

Compensation Committee

Amendment no. 20 to the Companies Law was published on November 12, 2012 and became effective on December 12, 2012 ("Amendment no. 20"). In general, Amendment no. 20 requires public companies to appoint a compensation committee and to adopt a compensation policy with respect to its officers (the "Compensation Policy"). In addition, Amendment no. 20 addresses the corporate approval process required for a public company's engagement with its officers (with specific reference to a director, a non-director officer, a chief executive officer and controlling shareholders and their relatives who are employed by the company).

The compensation committee shall be nominated by the board of directors and be comprised of its members. The compensation committee must consist of at least three members. All of the external directors must serve on the compensation committee and constitute a majority of its members. The remaining members of the compensation committee must be directors who qualify to serve as members of the audit committee (including the fact that they are independent) and their compensation should be identical to the compensation paid to the external directors of the company. The approval of the compensation committee is required in order to approve terms of office and/or employment of office holders. The Company's Compensation Policy was duly approved on November 19, 2013.

Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by the company, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to the company, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee's meetings other than to present a particular issue; provided, however, that an employee that is not a controlling shareholder or relative may participate in the committee's discussions, but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and votes if requested by the committee.

The roles of the compensation committee are, among other things, to: (i) recommend to the board of directors the Compensation Policy for office holders and recommend to the board once every three years the extension of a Compensation Policy that had been approved for a period of more than three years; (ii) recommend to the directors any update of the Compensation Policy, from time to time, and examine its implementation; (iii) decide whether to approve the terms of office and of employment of office holders that require approval of the compensation committee; and (iv) decide, in certain circumstances, whether to exempt the approval of terms of office of a chief executive officer from the requirement of shareholder approval.

The Compensation Policy requires the approval of the general meeting of shareholders with a "Special Majority", which requires a majority of the shareholders of the company who are not either a controlling shareholder or an "interested party" in the proposed resolution, or the shareholders holding less than 2% of the voting power in the company voted against the proposed resolution at such meeting. However, under special circumstances, the board of directors may approve the Compensation Policy without shareholder approval, if the compensation committee and thereafter the board of directors decided, based on substantiated reasons after they have reviewed the compensation policy again, that the Compensation Policy is in the best interest of the company.

Amendment no. 20 details the considerations that should be taken into account in determining the Compensation Policy and certain issues which the Compensation Policy should include.

Mr. Jaron Diament is the chairman of our compensation committee. Mr. Marc Allouche and Mrs. Dafna Cohen serve as the other members of our compensation committee.

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.

As detailed above, our compensation committee consists of three independent directors: Mr. Jaron Diament, Mr. Marc Allouche and Mrs. Dafna Cohen. 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 directors, officers and the Chief Executive Officer.

The objectives of the compensation committee's policies are that such individuals 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, an internal auditor may not be:

- a person (or a relative of a person) who holds more than 5% of the company's shares;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an executive officer or director of the company; or
- a member of the company's independent accounting firm.

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.

E. Employees

As of the date hereof, the Company had three full-time employees, and three part-time service providers (one of whom is an officer). As of the same date InterCure had five full-time employees and service providers and one part-time service provider. We and our Israeli employees are subject, by an extension order of the Israeli Ministry of Welfare, to 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.

For the years ended December 31, 2013, 2012 and 2011, the number of our full-time employees engaged in the specified activities, by geographic location, are presented in the table below.

	Years ended December 31,		
	2013*	**2012***	**2011**
Research and Development			
Israel	-	-	-
US	-	-	-
	-	-	-
Selling and Marketing			
Israel	3	-	-
US	1	-	-
	4	-	-
Financial and general management			
Israel	7	3	3
US	1	-	-
	8	3	3
Total	12	3	3
Average number of full-time employees	12	3	3

* Includes the employees in InterCure, which was consolidated for the first time since July 25, 2012. The average number was calculated based on InterCure's employees during the full year.

E. Share Ownership

The following table sets forth certain information as of March 31, 2014, regarding the beneficial ownership of our directors and executive officers.

	Amount and nature of beneficial ownership			
	Ordinary shares beneficially owned excluding options	**Options[1] exercisable within 60 days of March 31, 2014**	**Total ordinary shares beneficially owned including options**	**Percent of ordinary shares beneficially owned**
Amit Yonay *Chairman of the Board*	—	150,000[2]	150,000	*
Marc Allouche *Director*	—	150,000[2]	150,000	*
Dafna Cohen *External Director*	—	150,000[3]	150,000	*
Jaron Diament *External Director*	—	150,000[3]	150,000	*
David Bassa *Director*	21,705,987	—	21,705,987	8.45%
Josh Levine *Chief Executive Officer*	—	250,000[4]	250,000	*
David Kestenbaum *Chief Financial Officer*	—	62,500[5]	62,500	*
Moshe Mittelman *Medical Director*	5,562,715	640,000[6]	6,202,715	2.46%
All directors and executive officers as a group (8 persons)	27,268,702	1,740,000	29,008,702	11.1%

(1) Options to purchase ordinary shares

(2) 150,000 options at an exercise price of NIS 0.298 per ordinary share of NIS 0.1 par value, exercisable until March 1, 2020.

(3) 150,000 options at an exercise price of NIS 0.58633 per ordinary share of NIS 0.1 par value, exercisable until March 18, 2022.

(4) 100,000 options at an exercise price of NIS 0.6 per ordinary share of NIS 0.1 par value, and 150,000 options at an exercise price of NIS 0.9 per ordinary share of NIS 0.1 par value, all exercisable until January 29, 2024.

(5) 62,500 options at an exercise price of NIS 0.5328 per ordinary share of NIS 0.1 par value, exercisable until December 29, 2023.

(6) 640,000 warrants (series 2) at an exercise price of NIS 0.1 per ordinary share of NIS 0.1 par value, exercisable until August 26, 2020.

* 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 20 of our consolidated financial statements for the year ended December 31, 2013.

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, 2013, we have granted to employees, directors and consultants options that are outstanding to purchase up to 8,038,000 ordinary shares of NIS 0.1 par value, pursuant to two share option plans and pursuant to certain grants apart from these plans also discussed below under Non-Plan Share Options.

2001 Share Option Plan

Under a share option plan established in 2001, referred to as the 2001 Plan, we granted options during 2001-2011, at an exercise price between $0.0198 and $4.655 per ordinary share of NIS 0.1 par value. Up to 2,200,000 options of NIS 0.1 par value were available to be granted under the 2001 Plan. On July 29, 2009, the option pool was increased by 5,000,000 unissued additional ordinary shares of NIS 0.1 par value, as well as forfeited and expired options that reverted to the pool due to departure of employees. As of December 31, 2013, 60,000 options were 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 three or two year period. As of December 31, 2013, 60,000 options were fully vested. On May 2, 2011, the 2001 Share Option Plan expired and no options may be granted under this plan.

2011 Share Option Plan

On August 29, 2011, the Company's Board of Directors approved the adoption of an employee stock option scheme for the grant of options exercisable into shares of the Company according to section 102 to the Israeli Tax Ordinance ("2011 Plan"), and to maintain up to 10 million shares in the framework of the 2011 Plan, for options allocation to employees, directors and Company consultants.

The 2011 Plan shall be subject to section 102 of the Israeli Tax Ordinance. According to the Capital Gain Track, which was adopted by the Company and the abovementioned section 102, the Company is not entitled to receive a tax deduction that relates to remuneration paid to its employees, including amounts recorded as salary benefit in the Company's accounts for options granted to employees in the framework of the 2011 Plan, except the yield benefit component, if available, that was determined on the grant date. The terms of the options which will be granted according to the 2011 Plan, including option period, exercise price, vesting period and exercise period, shall be determined by the Company's Board of Directors on the date of the actual allocation. As of December 31, 2013, we have granted 7,858,000 share options under the 2011 Plan at an exercise price between $0.15 and $0.36 per ordinary share of NIS 0.1 par value.

Non-Plan Share Options

In addition to the options granted under our share option plans, there are 120,000 of NIS 0.1 par value outstanding options as of December 31, 2013, which were granted to consultants and a member of our Scientific Advisory Board, not under an option plan during 2011. The options were granted at an exercise price of $0.15. As of December 31, 2013, 120,000 options of NIS 0.1 par value were fully vested.

For further details regarding share options granted to our employees, directors and service providers, see Note 20 to the consolidated financial statements for the year ended December 31, 2013.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

As of December 31, 2013, there were 1,978,930 ADRs outstanding, held by 4 record holders, whose holdings represented approximately 16.99% of the total outstanding ordinary shares, of which 2 record holders were in the US.

The following table sets forth the number of our ordinary shares owned by any person known to us to be the beneficial owner of 5% or more of our ordinary shares as of the date hereof. The information in this table is based on 232,894,900 outstanding ordinary shares as of such date. The number of Ordinary Shares beneficially owned by a person includes Ordinary Shares subject to options held by that person that were currently exercisable. None of the holders of the Ordinary Shares listed in this table have voting rights different from other holders of the Ordinary Shares.

Name	Number of shares owned	Percent of ordinary shares
Alexander Rabinovitch[(1)(2)(3)]	41,139,256	17.66%
David Bassa[(2)]	21,705,987	9.32%
Shalom Manova[(2)]	17,136,242	7.36%

(1) 22,152,007 of our ordinary shares are held through Green Forest Ltd., which to the best of our knowledge is held jointly by Alexander Rabinovitch and Sagit Rabinovitch.

(2) Alexander Rabinovitch, David Bassa and Shalom Manova hold our shares since August 3, 2010 as part of the completion of the Bio-Gal transaction.

(3) In addition to his holding as stated in the table above, Mr. Alexander Rabinovitch, through Green Forest Ltd., holds 573,750 warrants (series 2). Each warrant (series 2) is exercisable into one ordinary share of NIS 0.1 par value from the date of registration for trade on the Tel-Aviv Stock Exchange (March 9, 2011) until October 28, 2014, at an exercise price equal to NIS 1.0 per share, linked to the US dollar. On a fully diluted basis, assuming exercise of all outstanding warrants, the total holding shall represent 16.21% of the share capital of the Company.

B. Related Party Transactions

To our knowledge, there are no related party transactions existing as of March 31, 2014.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Our audited consolidated financial statements appear in this annual report on Form 20-F. See “Item 18. Financial Statements.”

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

On February 21, 2013 and after the reporting date, the Company's special general meeting of shareholders and the general meeting of holders of warrants (series 2) of the Company decided to extend the exercise period of said warrants from February 27, 2013 to December 31, 2013. This decision is subject to the approval of the District Court pursuant to Section 350 to the Israeli Companies Law, 1999. On March 12, 2013 the Court approved the decision to extend the exercise price of the warrants. On January 14, 2014, the general meeting of shareholders and the general meeting of holders of warrants (series 2) of the Company resolved to approve the extension of the term of warrants (series 2) of the Company until October 28, 2014, in accordance with the request for a settlement filed with and granted by the Tel-Aviv-Jaffa district court.

ITEM 9. THE OFFER AND LISTING

Markets and Share Price History

On June 1, 2012, the Company filed an application for relisting its ADRs on The Nasdaq Stock Exchange. On July 10, 2013, the Company received a notice from Nasdaq stating that the admission committee had approved the Company's application to relist its ADRs for trading on the Nasdaq Capital Market. Accordingly, on July 15, 2013, the Company's ADRs began trading on Nasdaq under the ticker symbol “XTLB”.

American Depositary Shares

The following table presents, for the periods indicated, the high and low market closing prices for our ADRs as reported on the Nasdaq Stock Market from September 1, 2005 until April 16, 2009, on the Pink Sheets from April 17, 2009 until July 14, 2013, and on Nasdaq from July 15, 2013 to the present. For convenience of the readers of this report, the data below was adjusted so that all the quotes of our ADRs price would represent the current ADR-NIS 0.1 par value ordinary share ratio, meaning 1:20.

	US Dollar	
	High	**Low**
Last Six Calendar Months		
March 2014 (until March 28, 2014)	4.01	3.55
February 2014	4.30	3.43
January 2014	3.80	2.73
December 2013	4.00	2.24
November 2013	5.37	3.80
October 2013	5.49	4.93
Financial Quarters During the Past Two Full Fiscal Years		
First Quarter of 2014 (until March 28, 2014)	4.30	2.73
Fourth Quarter of 2013	5.49	2.24
Third Quarter of 2013	7.00	5.28
Second Quarter of 2013	6.35	4.95
First Quarter of 2013	7.42	5.80
Fourth Quarter of 2012	7.80	5.66
Third Quarter of 2012	8.50	5.15
Second Quarter of 2012	6.90	4.7
First Quarter of 2012	6.95	3.00
Full Five Financial Years		
2013	7.42	2.24
2012	8.50	3.00
2011	5.40	2.00
2010	4.70	0.55

2009		3.10	0.55

The following table sets forth, for the periods indicated, the high and low closing prices of the NIS 0.1 par value ordinary shares (after the 1:5 share consolidation which was resolved on June 22, 2009) on the Tel-Aviv Stock Exchange. For comparative purposes only, we have also provided such figures translated into US Dollars at an exchange rate of 3.498 New Israeli Shekel per US Dollar, as of March 28, 2014 according to the Bank of Israel.

	New Israeli Shekel		US Dollar	
	High	Low	High	Low
Last Six Calendar Months				
March 2014 (until March 28, 2014)	0.725	0.590	0.207	0.169
February 2014	0.733	0.584	0.210	0.167
January 2014	0.640	0.469	0.183	0.134
December 2013	0.651	0.383	0.186	0.109
November 2013	0.857	0.652	0.245	0.186
October 2013	0.974	0.866	0.278	0.248
Financial Quarters During the Past Two Full Fiscal Years				
First Quarter of 2014 (until March 28, 2014)	0.733	0.469	0.210	0.134
Fourth Quarter of 2013	0.974	0.383	0.278	0.109
Third Quarter of 2013	1.259	0.978	0.360	0.280
Second Quarter of 2013	1.143	0.905	0.327	0.259
First Quarter of 2013	1.348	1.079	0.385	0.308
Fourth Quarter of 2012	1.439	1.118	0.411	0.320
Third Quarter of 2012	1.675	0.989	0.479	0.283
Second Quarter of 2012	1.218	0.858	0.348	0.245
First Quarter of 2012	1.230	0.521	0.352	0.149
Full Five Financial Years				
2013	1.348	0.383	0.385	0.109
2012	1.675	0.521	0.479	0.149
2011	0.950	0.414	0.272	0.118
2010	0.681	0.193	0.195	0.055
2009	0.594	0.020	0.170	0.006

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 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 Related Party Transactions under the Israeli Companies Law

Fiduciary duties of the office holders

The Israeli Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care of an office holder is based on the duty of care set forth in connection with the tort of negligence under the Israeli Torts Ordinance (New Version) 5728-1968. This duty of care requires an office holder to act with the degree of proficiency with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means, in light of the circumstances, to obtain:

- information on the advisability of a given action brought for his or her approval or performed by virtue of his or her position; and

- All other important information pertaining to these actions.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, and includes the duty to:

- refrain from any act involving a conflict of interest between the performance of his or her duties in the company and his or her other duties or personal affairs;

- refrain from any activity that is competitive with the business of the company;

- refrain from exploiting any business opportunity of the company for the purpose of gaining a personal advantage for himself or herself or others; and

- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

We may approve an act performed in breach of the duty of loyalty of an office holder provided that the office holder acted in good faith, the act or its approval does not harm the company, and the office holder discloses his or her personal interest, as described below.

Disclosure of personal interests of an office holder and approval of acts and transactions

The Israeli Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information or documents relating to any existing or proposed transaction by the company. An interested office holder's disclosure must be made promptly and in any event no later than the first meeting of the board of directors at which the transaction is considered. An office holder is not obligated to disclose such information if the personal interest of the office holder derives solely from the personal interest of his or her relative in a transaction that is not considered as an extraordinary transaction.

The term personal interest is defined under the Israeli Companies Law to include the personal interest of a person in an action or in the business of a company, including the personal interest of such person's relative or the interest of any corporation in which the person is an interested party, but excluding a personal interest stemming solely from the fact of holding shares in the company. A personal interest furthermore includes the personal interest of a person for whom the office holder holds a voting proxy or the interest of the office holder with respect to his or her vote on behalf of the shareholder for whom he or she holds a proxy even if such shareholder itself has no personal interest in the approval of the matter. An office holder is not, however, obligated to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction.

Under the Israeli Companies Law, an extraordinary transaction which requires approval is defined any of the following:

- a transaction other than in the ordinary course of business;

- a transaction that is not on market terms; or

- a transaction that may have a material impact on the company's profitability, assets or liabilities.

Under the Israeli Companies Law, once an office holder has complied with the disclosure requirement described above, a company may approve a transaction between the company and the office holder or a third party in which the office holder has a personal interest, or approve an action by the office holder that would otherwise be deemed a breach of duty of loyalty. However, a company may not approve a transaction or action that is adverse to the company's interest or that is not performed by the office holder in good faith.

Under the Companies Law, unless the articles of association of a company provide otherwise, a transaction with an office holder, a transaction with a third party in which the office holder has a personal interest, and an action of an office holder that would otherwise be deemed a breach of duty of loyalty requires approval by the board of directors. Our Articles of Association do not provide otherwise. If the transaction or action considered is (i) an extraordinary transaction, (ii) an action of an office holder that would otherwise be deemed a breach of duty of loyalty and may have a material impact on a company's profitability, assets or liabilities, (iii) an undertaking to indemnify or insure an office holder who is not a director, or (iv) for matters considered an undertaking concerning the terms of compensation of an office holder who is not a director, including, an undertaking to indemnify or insure such office holder, then approval by the audit committee is required prior to approval by the board of directors. Arrangements regarding the compensation, indemnification or insurance of a director require the approval of the audit committee, board of directors and shareholders, in that order.

A director who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may generally not be present at the meeting or vote on the matter, unless a majority of the directors or members of the audit committee have a personal interest in the matter or the chairman of the audit committee or board of directors, as applicable, determines that he or she should be present to present the transaction that is subject to approval. If a majority of the directors have a personal interest in the matter, such matter would also require approval of the shareholders of the company.

Disclosure of personal interests of a controlling shareholder and approval of transactions

Under the Israeli Companies Law and a recent amendment thereto, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. See "Audit Committee" for a definition of controlling shareholder. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, as well as transactions for the provision of services whether directly or indirectly by a controlling shareholder or his or her relative, or a company such controlling shareholder controls, and transactions concerning the terms of engagement of a controlling shareholder or a controlling shareholder's relative, whether as an office holder or an employee, require the approval of the audit committee, the board of directors and a majority of the shares voted by the shareholders of the company participating and voting on the matter in a shareholders' meeting. In addition, such shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or

- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2% of the voting rights in the company.

To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years, unless the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto.

Duties of shareholders

Under the Israeli Companies Law, a shareholder has a duty to refrain from abusing its power in the company and to act in good faith and in an acceptable manner in exercising its rights and performing its obligations to the company and other shareholders, including, among other things, voting at general meetings of shareholders on the following matters:

- an amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger;
- an increase in the company's authorized share capital; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

The remedies generally available upon a breach of contract will also apply to a breach of the above mentioned duties, and in the event of discrimination against other shareholders, additional remedies are available to the injured shareholder.

In addition, any controlling shareholder, any shareholder that knows that its vote can determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or has another power with respect to a company, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness, taking the shareholder's position in the company into account.

ORDINARY SHARES

Rights Attached to Ordinary Shares

Through March 18, 2009, our authorized share capital was 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 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 consisted 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. The share consolidation was effected in June 22, 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 an 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.

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 most 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.

AMERICAN DEPOSITARY RECEIPTS

We have issued and deposited ordinary shares with Bank Hapoalim B.M., The Bank of New York's custodian in Tel Aviv, Israel. The Bank of New York in turn issued American Depositary Receipts, or ADRs, representing American Depositary Shares, or ADSs. One ADR represents an ownership interest in twenty of our ordinary shares. Each ADR also represents securities, cash or other property deposited with The Bank of New York but not distributed to ADR holders. The Bank of New York's Corporate Trust Office is located at 101 Barclay Street, New York, NY 10286, U.S.A. Their principal executive office is located at One Wall Street, New York, NY 10286, U.S.A.

You may hold ADRs either directly or indirectly through your broker or other financial institution. If you hold ADRs directly, you are an ADR holder. This description assumes you hold your ADRs directly. If you hold the ADRs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because The Bank of New York will actually hold the ordinary shares, you must rely on it to exercise the rights of a shareholder. The obligations of The Bank of New York are set out in a deposit agreement among us, The Bank of New York and you, as an ADR holder. The agreement and the ADRs are generally governed by New York law.

The following is a summary of the agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire agreement and the ADR. Directions on how to obtain copies of these are provided in the section entitled "Where You Can Find More Information."

Share Dividends and Other Distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADRs represent.

Cash. The Bank of New York will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the U.S. If that is not possible or if any approval from any government or agency thereof is needed and cannot be obtained, the agreement allows The Bank of New York to distribute the foreign currency only to those ADR holders to whom it is possible to do so. It 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 the interest.

Before making a distribution, any withholding taxes that must be paid under U.S. law will be deducted. The Bank of New York will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when The Bank of New York cannot convert the foreign currency, you may lose some or all of the value of the distribution.

Shares. The Bank of New York may distribute new ADRs representing any shares we may distribute as a dividend or free distribution, if we furnish it promptly with satisfactory evidence that it is legal to do so. The Bank of New York will only distribute whole ADRs. It will sell shares which would require it to use a fractional ADR and distribute the net proceeds in the same way as it does with cash. If The Bank of New York does not distribute additional ADRs, each ADR will also represent the new shares.

Rights to receive additional shares. If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, The Bank of New York may make these rights available to you. We must first instruct The Bank of New York to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or give these instructions, and The Bank of New York decides it is practical to sell the rights, The Bank of New York will sell the rights and distribute the proceeds, in the same way as it does with cash. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. If The Bank of New York makes rights available to you, upon instruction from you, it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the shares and issue ADRs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADRs issued after exercise of rights. For example, you may not be able to trade the ADRs freely in the U.S. In this case, The Bank of New York may issue the ADRs under a separate restricted deposit agreement which will contain the same provisions as the agreement, except for the changes needed to put the restrictions in place.

Other Distributions. The Bank of New York will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York has a choice. It may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash or it may decide to hold what we distributed, in which case the ADRs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register ADRs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. This means that you may not receive the distribution we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

The Bank of New York will issue ADRs if you or your broker deposit shares or evidence of rights to receive shares with the custodian upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees. The Bank of New York will register the appropriate number of ADRs in the names you request and will deliver the ADRs at its office to the persons you request.

You may turn in your ADRs at The Bank of New York's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will deliver (1) the underlying shares to an account designated by you and (2) any other deposited securities underlying the ADR at the office of the custodian; or, at your request, risk and expense, The Bank of New York will deliver the deposited securities at its office.

Voting Rights

You may instruct The Bank of New York to vote the shares underlying your ADRs but only if we ask The Bank of New York to ask for your instructions. Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

If we ask for your instructions, The Bank of New York will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you, on a certain date, may instruct The Bank of New York to vote the shares or other deposited securities underlying your ADRs as you direct. For instructions to be valid, The Bank of New York must receive them on or before the date specified. The Bank of New York will try, as far as practical, subject to Israeli law and the provisions of our Articles of Association, to vote or to have its agents vote the shares or other deposited securities as you instruct. The Bank of New York will only vote or attempt to vote as you instruct. However, if The Bank of New York does not receive your voting instructions, it will deem you to have instructed it to give a discretionary proxy to vote the shares underlying your ADRs to a person designated by us provided that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which we inform The Bank of New York that (x) we do not wish such proxy given, (y) substantial opposition exists, (z) such matter materially affects the rights of the holders of the shares underlying the ADRs.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

Rights of Non-Israeli Shareholders to Vote

Our ADRs may be freely held and traded pursuant to the General Permit and the Currency Control Law. The ownership or voting of ADRs by non-residents of Israel are not restricted in any way by our Articles of Association or by the laws of the State of Israel.

Fees and Expenses

ADR holders must pay:	*For:*
$5.00 (or less) per 100 ADRs (or portion thereof)	Each issuance of an ADR, including as a result of a distribution of shares or rights or other property.
	Each cancellation of an ADR, including if the agreement terminates.
$0.05 (or less) per ADR	Any cash payment.
Registration or Transfer Fees	Transfer and registration of shares on the share register of the Foreign Registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw shares.
Expenses of The Bank of New York	Conversion of foreign currency to U.S. dollars.
	Cable, telex and facsimile transmission expenses.
	Servicing of shares or deposited securities.
$0.02 (or less) per ADR per calendar year (if the depositary has not collected any cash distribution fee during that year)	Depositary services.
Taxes and other governmental charges	As necessary The Bank of New York or the Custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes.
A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the ordinary shares had been deposited for issuance of	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADRs or on the deposited securities underlying your ADRs. The Bank of New York may refuse to transfer your ADRs or allow you to withdraw the deposited securities underlying your ADRs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADRs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADRs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:	*Then:*
Change the nominal or par value of our shares; Reclassify, split up or consolidate any of the deposited securities; Distribute securities on the shares that are not distributed to you; or Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or takes any similar action.	The cash, shares or other securities received by The Bank of New York will become deposited securities. Each ADR will automatically represent its equal share of the new deposited securities. The Bank of New York may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also issue new ADRs or ask you to surrender your outstanding ADRs in exchange for new ADRs, identifying the new deposited securities.

Amendment and Termination

We may agree with The Bank of New York to amend the agreement and the ADRs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADR holders, it will only become effective thirty days after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADRs and the agreement is amended.

The Bank of New York will terminate the agreement if we ask it to do so. The Bank of New York may also terminate the agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depositary bank within ninety days. In both cases, The Bank of New York must notify you at least ninety days before termination.

After termination, The Bank of New York and its agents will be required to do only the following under the agreement: (1) advise you that the agreement is terminated, and (2) collect distributions on the deposited securities and deliver shares and other deposited securities upon cancellation of ADRs. After termination, The Bank of New York will, if practical, sell any remaining deposited securities by public or private sale. After that, The Bank of New York will hold the proceeds of the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and will have no liability for interest. The Bank of New York's only obligations will be to account for the proceeds of the sale and other cash. After termination our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York.

Limitations on Obligations and Liability to ADR Holders

The agreement expressly limits our obligations and the obligations of The Bank of New York, and it limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obligated to take the actions specifically set forth in the agreement without negligence or bad faith;
- are not liable if either is prevented or delayed by law or circumstances beyond their control from performing their obligations under the agreement;
- are not liable if either exercises discretion permitted under the agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the agreement on your behalf or on behalf of any other party; and
- may rely upon any documents they believe in good faith to be genuine and to have been signed or presented by the proper party.

In the agreement, we and The Bank of New York agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before The Bank of New York will issue or register transfer of an ADR, make a distribution on an ADR, or make a withdrawal of shares, The Bank of New York may require payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the:

- transfer of any shares or other deposited securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary, and
- compliance with regulations it may establish, from time to time, consistent with the agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADRs generally when the books of The Bank of New York or our books are closed, or at any time if The Bank of New York or we think it advisable to do so. You have the right to cancel your ADRs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (1) The Bank of New York or we have closed its transfer books; (2) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on the shares; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADRs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the agreement.

Pre-Release of ADRs

In certain circumstances, subject to the provisions of the agreement, The Bank of New York may issue ADRs before deposit of the underlying shares. This is called a pre-release of the ADR. The Bank of New York may also deliver shares upon cancellation of pre-released ADRs (even if the ADRs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to The Bank of New York. The Bank of New York may receive ADRs instead of shares to close out a pre-release. The Bank of New York may pre-release ADRs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to The Bank of New York in writing that it or its customer owns the shares or ADRs to be deposited; (2) the pre-release must be fully collateralized with cash or other collateral that The Bank of New York considers

appropriate; and (3) The Bank of New York must be able to close out the pre-release on not more than five business days' notice. In addition, The Bank of New York will limit the number of ADRs that may be outstanding at any time as a result of prerelease, although The Bank of New York may disregard the limit from time to time, if it thinks it is appropriate to do so.

Inspection of Books of the Depositary

Under the terms of the agreement, holders of ADRs may inspect the transfer books of the depositary at any reasonable time, provided that such inspection shall not be for the purpose of communicating with holders of ADRs in the interest of a business or object other than either our business or a matter related to the deposit agreement or ADRs.

Book-Entry Only Issuance - The Depository Trust Company

The Depository Trust Company, or DTC, New York, New York, will act as securities depository for the ADRs. The ADRs will be represented by one global security that will be deposited with and registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. This means that we will not issue certificates to you for the ADRs. One global security will be issued to DTC, which will keep a computerized record of its participants (for example, your broker) whose clients have purchased the ADRs. Each participant will then keep a record of its clients. Unless it is exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global security will be shown on, and transfers of the global security will be made only through, records maintained by DTC and its participants.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act . DTC holds securities that its participants (direct participants) deposit with DTC. DTC also records the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participant's accounts. This eliminates the need to exchange certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC's book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, or DTCC. DTCC is, in turn, owned by a number of DTC's direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

When you purchase ADRs through the DTC system, the purchases must be made by or through a direct participant, who will receive credit for the ADRs on DTC's records. Since you actually own the ADRs, you are the beneficial owner and your ownership interest will only be recorded on the direct (or indirect) participants' records. DTC has no knowledge of your individual ownership of the ADRs. DTC's records only show the identity of the direct participants and the amount of ADRs held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You will receive these from your direct (or indirect) participant. Thus the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers like you.

We will wire dividend payments to DTC's nominee, and we will treat DTC's nominee as the owner of the global security for all purposes. Accordingly, we will have no direct responsibility or liability to pay amounts due on the global security to you or any other beneficial owners in the global security.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact you as a beneficial holder.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the ADRs held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

ADRs represented by a global security will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or

- we determine not to require all of the ADRs to be represented by a global security.

If the book-entry only system is discontinued, the transfer agent will keep the registration books for the ADRs at its corporate office.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources we believe to be reliable, but we take no responsibility for the accuracy thereof.

Material Contracts

Bio-Gal Ltd.

On March 18, 2009, we announced that we had entered into an asset purchase agreement with Bio-Gal Ltd. ("Bio-Gal"), 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. On December 31, 2009, we amended the asset purchase agreement with Bio-Gal, so that XTL could acquire XTEPO Ltd., a special purpose company that was established by Bio-Gal's shareholders who received from Bio-Gal all of Bio-Gal's rights on rHuEPO and raised approximately $1.5 million. We intend to develop rHuEPO for the prolongation of Multiple Myeloma patients' survival and improvement of their quality of life. Multiple Myeloma is a severe and incurable malignant hematological cancer of plasma cells. In accordance with the terms of the amended asset purchase agreement, we issued to XTEPO's shareholders ordinary shares representing approximately 69.44% of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda Research and Development Company Ltd. ("Yeda") upon the earlier of (i) six months from the successful completion of the Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of the Phase 2 of at least $2 million. On August 3, 2010, the Bio-Gal transaction was completed according to the outline signed by the parties to the agreement on December 31, 2009, after all the prerequisites had been met, including, among other things, the signing of an agreement with the Israeli Tax Authority regarding the tax exemption granted to the share swap transaction pursuant to article 104 and 103 to the Israeli tax ordinance (Revised), 1961. (See note 14c to the consolidated financial statements: Intangible Asset).

MinoGuard Ltd.

On March 24, 2011, we entered into a Memorandum of Understanding with MinoGuard, pursuant to which we shall acquire the exclusive rights to SAM-101 by obtaining an exclusive license to use MinoGuard's entire technology. SAM-101 is based on a combination of anti-psychotic drugs with minocycline, a recognized medicinal compound. On November 30, 2011, we received a worldwide exclusive license from MinoGuard under which we shall develop and commercialize MinoGuard's technology for the treatment of psychotic disorders focusing on Schizophrenia. Under the agreement, we are to conduct clinical trials, develop, register, market, distribute and sell the drugs that will emerge from MinoGuard's technology, with no limitations for a specific disorder. In consideration, we shall pay MinoGuard accumulated clinical development and marketing approvals milestone-based payments of approximately $2.5 million. In addition, we will pay MinoGuard royalty-based payments on products that are based on the technology, equal to 3.5% of its net sales and/or percentage from the Company third-party out–license receipts in the range of 7.5%-20% according to the clinical phase of the drug at the time of an out-license transaction. It should be noted that the Company has the sole discretion to pay any of the above amounts in cash or by way of issuing ordinary shares of the Company to MinoGuard. In addition to the above payments, and in accordance with the above agreement, since as of June 30, 2013, XTL had not commenced a phase 2 clinical trial, we have paid MinoGuard an annual license fee, by way of the issuance of 175,633 ordinary shares of the Company, representing a value of $45,000, for the 12 month period between July 1, 2013 and June 30, 2014. Such annual payments will increase by $90,000 per annum, up to $675,000 for the eighth year of license.

The term of the license commenced upon the signing of the license agreement will be an unlimited period. Upon the expiration of the last payment obligation of XTL the license will be considered perpetual and fully paid up.

The license may be terminated by either XTL without cause upon 30 days' notice, or by the licensor for no commercial progress in the event that by the date of June 30, 2013 commencement of phase 2 clinical trial with respect to the licensed product has not occurred, we have not entered into a Sublicense Agreement with a substantial third party or we have not paid the annual license fee.

hCDR1

On January 7, 2014, the Company entered into a licensing agreement with Yeda to research, develop, and commercialize hCDR1, a Phase II-ready asset for the treatment of SLE, among other indications. In consideration, the Company is responsible for a patent expense reimbursement in six installments totaling approximately $400,000. The Company is required to make milestone payments of $2.2 million: $200,000 upon starting Phase III, $1 million upon U.S. Food and Drug Administration approval and $250,000 for regulatory approval in each of China and three of the European Union's Group of Six. In addition, the Company will pay 2-3% royalties of annual net sales and sublicense fees of 15-20% of whatever the Company receives from any sub-licensee.

Lupus is a debilitating disease affecting approximately five million people worldwide. hCDR1, is a peptide and acts as a disease-specific treatment to modify the SLE-related autoimmune process. It does so by specific upstream immunomodulation through the generation of regulatory T cells, reducing inflammation and resuming immune balance. Prior to being licensed to the Company by Yeda, hCDR1 was licensed to Teva Pharmaceutical Industries ("Teva"), which performed two placebo controlled Phase I trials and a placebo controlled Phase II trial called the PRELUDE trial. The studies consisted of over 400 patients, demonstrating that hCDR1 is well tolerated by patients and has a favorable safety profile. The PRELUDE trial did not achieve its primary efficacy endpoint based on the SLEDAI scale, resulting in Teva returning the asset to Yeda. However, the PRELUDE trial showed encouraging results in its secondary clinical endpoint, the BILAG index, and, in fact, the 0.5 mg weekly dose showed a substantial effect. Multiple post-hoc analyses also showed impressive results for this dose using the BILAG index. It is currently planned by the Company that such dose will be the focus of the clinical development plan moving forward. Subsequent to Teva's return of the program to Yeda, the FDA directed that the primary endpoint in future trials for Lupus therapies, including those for hCDR1, should be based on either the BILAG index or the SRI. Given the FDA's recommendation and the positive findings from the PRELUDE trial (which showed a substantial effect in the BILAG index), the Company intends to initiate a new Phase II clinical trial, which will include the 0.5 mg (and a 0.25 mg) weekly dose of hCDR1. We estimate that the trial will take one year to enroll patients, another year to conduct treatment, and additional time to analyze the results for a total of approximately two and a half years. We estimate the cost for that period at between $12 and $15 million.

InterCure Ltd.

On June 13, 2012, we entered into an agreement with InterCure under which, subject to carry out a contemplated debt settlement before the transaction, InterCure will convert all of its debts into Ordinary shares of InterCure based on the distribution mechanism determined in conjunction with its debtors (including its employees). The Company will acquire control over InterCure in consideration for investing in InterCure an aggregate amount of approximately $ 2.7 million, subject to adjustments, as detailed below. Also, in addition to the Company's investment in InterCure, Medica Fund will invest approximately $ 630,000 in InterCure (subject to adjustments).

InterCure is a public company whose shares are traded on the TASE and which develops a home therapeutic device for non-medicinal and non-invasive treatment of various diseases such as hypertension, heart failure, sleeplessness and mental stress and markets and sells a home therapeutic device for hypertension.

The transaction was consummated on July 25, 2012. The Company acquired 16,839,532 Ordinary shares of InterCure with no par value in consideration of a private placement of 7,165,662 Ordinary shares of the Company of NIS 0.1 par value each whose value on the date of signing the agreement, measured based on the quoted market price of the Company's shares on the TASE, approximated $2.2 million (the market value of such shares on the InterCure closing date was approximately $2.47 million), which represented a pre-money valuation of InterCure of $1.75 million, after all of InterCure's debts were converted as described above ("InterCure's adjusted value").

In addition, the Company provided InterCure an amount of approximately $150,000 in cash on the basis of InterCure's adjusted value. After effecting the above allocation, the Company held about 50.79% of the issued and outstanding share capital of InterCure. The investment of Medica Fund on the date of closing on the basis of InterCure's adjusted value amounted to approximately $460,000.

Further, the Company and Medica Fund provided InterCure a loan of $500,000 (the Company's share is $ 330,000) for a period of up to ten months at an overall interest rate of 15%. The Company and Medica Fund have the right to convert the loan into an additional 11,546,507 shares of InterCure (the Company's share is 7,620,695 shares) which will constitute, upon conversion and assuming full dilution on the date of closing, approximately 24.47% of the issued and outstanding share capital of InterCure (the Company's share in the convertible loan is 16.15% of the issued and outstanding share capital of InterCure). On August 6, 2012, Medica Fund converted the loan it provided InterCure into shares and its stake in InterCure rose to approximately 23.69% of the issued and outstanding share capital of InterCure (about 18.61% on a fully diluted basis, as of the date of the loan's conversion). On May 16, 2013, the Company converted the loan it provided InterCure into 7.620,695 ordinary shares of Intercure, as predetermined in the acquisition agreement. Following said conversion, and as of the date of this report, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital (36.69% on a fully diluted basis).

In October 2012, InterCure granted 20,185,184 performance contingent options (exercisable into 20,185,184 Ordinary shares with no par value) to Giboov (see details below).

Agreement with Giboov Ltd., a Provider of Online Marketing and Sales Services

On September 24, 2012, InterCure announced the signing of a three-year non-exclusive strategic service agreement with Giboov, a private company wholly-owned by Messrs. Shay Ben-Yitzhak and Avner Yassur, for the provision of online marketing and sales services of InterCure's products.

In the context of the strategic agreement, Giboov will be allocated up to 20,185,184 unlisted stock options that are exercisable into shares of InterCure for an exercise price (dividend adjusted) of NIS 0.54 per stock option which will vest according to Giboov's compliance with annual sales targets. In the context of the strategic agreement, Giboov's shareholders were given a put option to sell to InterCure Giboov's entire share capital for a period of 18 months from the effective date of the strategic agreement. On the date of signing the strategic agreement, InterCure was granted a call option to purchase Giboov's entire share capital for a period of one year from the effective date of the strategic agreement. The agreement's allocation items were approved by the general meeting of InterCure's shareholders on October 28, 2012. InterCure will be able to cancel the agreement if Giboov fails to meet the sales targets prescribed in the strategic agreement effective from March 2014 or in the event of a material breach of the agreement, fraud, damage etc. For further details regarding the agreement with Giboov, see note 18(a) to the consolidated financial statements.

On January 20, 2014, InterCure announced that it had entered into an agreement with Giboov to terminate the Strategic Service Agreement, effective as of January 31, 2014. Consequently, all 20,185,184 non-marketable stock options for the purchase of InterCure shares, which were granted to Giboov under the Strategic Service Agreement, had expired on March 1, 2014. Following said expiration, Giboov holds no such non-marketable stock options.

Agreement with Universal McCann Israel, Ltd., a Provider of Online Marketing and Sales Services

On January 23, 2014, InterCure announced that it has agreed to retain the services of Universal McCann Israel, Ltd. ("**McCann**") in which McCann will provide professional services relating to the promotion and marketing of InterCure's products via the internet for a period of three years effective February 1, 2014. According to the new agreement, InterCure shall pay McCann a monthly fee in exchange for online marketing services, ranging between $8,000 and $13,000, and contingent upon achievement of sales targets.

Manufacturing agreement with a subcontractor

As of the date of this report, the Chinese manufacturer of the device is the exclusive supplier of the Ultra versions. The Chinese manufacturer is a company registered in Hong Kong which holds manufacturing plants in Shenzhen, China. According to the turnkey manufacturing agreement, the entire manufacturing process is performed by the Chinese manufacturer, including the purchase of raw materials and components from suppliers, and the supply of a finished product to InterCure. The Chinese manufacturer is restricted to entering into engagements with suppliers approved by InterCure only and is in charge of supervising the quality of the raw materials and components supplied by it in accordance with InterCure's specifications. The Chinese manufacturer manufactures according to order forecasts delivered by InterCure from time to time and is committed to providing InterCure reasonable advance notice if any shortage of raw materials and/or components is expected in the market or in a specific supplier. The timeframe in which the Chinese manufacturer can respond to increased device demands and increased manufacturing is derived from the rate of the change in demand.

Proteologics

On November 21, 2012, in an off-market transaction, we purchased from Teva 4,620,356 Ordinary shares of NIS 1.0 par value each of Proteologics, representing Teva's entire stake in Proteologics and approximately 31.35% of Proteologics' issued and outstanding share capital, for approximately NIS 6.5 million (approximately $ 1.7 million). Proteologics is a public company whose shares are listed on the TASE and is engaged in the discovery and development of drugs comprised of various components of the UBIQUITIN system, which was discovered by Dr. Avram Hershko and Dr. Aaron Ciechanover, both 2004 Nobel Prize laureates in Chemistry for the discovery of the UBIQUITIN system.

On August 22, 2013, Proteologics' board of directors resolved to terminate Proteologics' operations effective immediately.

On September 11, 2013, the Company entered into an agreement for the purchase of another 14.13% of the shares of Proteologics from Aurum Ventures MKI Ltd. ("Aurum") in consideration for the issuance of 3,031,299 shares of NIS 0.1 par value each of the Company to Aurum. On September 12, 2013, the Company signed an agreement with Zmiha Investment House Ltd. ("Zmiha") for the sale of its entire investment in Proteologics, representing 44.95% of Proteologics' issued and outstanding share capital as of the date of the agreement in consideration of approximately $ 3.4 million (approximately NIS 12 million). According to the agreement, on the consummation date, the Company received an amount of approximately $ 2.7 million (approximately NIS 9.6 million) and the balance is held in escrow until the completion of an inspection process by an inspector and the execution of a stay of proceeding pursuant to Section 350 to the Israeli Companies Law in Proteologics. As of the date of this report the entire considerations has been delivered to the Company and no amount remains in escrow.

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 summarizes certain Israeli and US federal income tax consequences that may be material to the holders of our ordinary shares and ADRs, respectively, but is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations that may be relevant to holders of our ordinary shares. This discussion is based on existing law, judicial authorities and administrative interpretations, all of which are subject to change or differing interpretations, possibly with retroactive effect. This summary does not purport to be a complete analysis of all potential tax consequences of owning our ordinary shares. In particular, this discussion does not take into account the specific circumstances of any particular holder or holders who may be subject to special rules, such as tax-exempt entities, 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 partnerships or other passthrough entities.

We urge shareholders to consult their own tax advisors as to the potential 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.

Corporate Tax Rate

The income of the Company is subject to corporate tax at the regular rate; the guidance of the amendment to the Income Tax Ordinance, 2005 from August 2008 prescribes a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting 2008 are as follows: 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

On July 14, 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the corporate tax rates starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

In December 2011, following the enactment of the Law for the Changing the Tax Burden (Legislative Amendments), 2011 (hereafter - "Tax Burden Distribution Law"), the phased reduction in the corporate tax was eliminated, and the corporate tax rate in 2012 and thereafter was set to 25%.

On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013-2014), 2013 (the "Law") was published in the Government's records. Among other things, the Law prescribes from the 2014 tax year and thereafter, an increase in the Israeli corporate tax rate to 26.5% (instead of 25%).

Capital gains in the hands of the Company and its Israeli subsidiaries are taxable according to the corporate tax rate applicable in the tax year.

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.

Israeli Estate and Gift Taxes

Israel does not currently impose taxes on inheritance or bona fide gifts. For transfers 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 Sales 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.

The capital gains tax imposed on Israeli tax resident individuals on the sale of securities was 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%. In December 2011, following the enactment of the Tax Burden Distribution Law, the tax rates mentioned above were increased to 25% and 30%, respectively, from 2012 and thereafter. 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, 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.

The tax rate imposed on dividends distributed by an Israeli company to Israeli tax resident individuals or to non-Israeli residents was set at a rate of 20%. With respect to "substantial shareholders," as defined above, the applicable tax rate was 25%. In December 2011, following the enactment of the Tax Burden Distribution Law, the tax rates mentioned above were increased to 25% and 30%, respectively, from 2012 and thereafter. The taxation of dividends distributed by an Israeli company to another Israeli corporate tax resident is generally exempt from tax.

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

Notwithstanding, dividends distributed by an Israeli company to Israeli tax resident individuals or to non-Israeli residents were subject to a 20% withholding tax, which was increased to 25% from 2012 and thereafter, following the enactment of the Tax Burden Distribution Law (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 sourced in Israel, in which case such dividends are taxed at a rate of 25%.

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 a 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

TO ENSURE COMPLIANCE WITH US TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS OF ORDINARY SHARES ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES IN THIS MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF ORDINARY SHARES FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS OF ORDINARY SHARES SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion applies only to a holder of our ordinary shares who qualifies as a "US holder". For purposes of this discussion a "US holder" is a beneficial owner of our ordinary shares that is for US federal income tax purposes:

- an individual who is a US citizen or US resident alien;
- a corporation (or other entity taxable as a corporation for US federal income tax purposes) that was created or organized under the laws of the US, any state thereof or the District of Columbia;
- an estate whose income is subject to US federal income taxation regardless of its source; or
- a trust (i) if a US court is able to exercise primary supervision over the administration of the trust and one or more "United States persons" (as defined in the Code) have the authority to control all substantial decisions of the trust, or (ii) if the trust has a valid election in effect under applicable Treasury Regulations to be treated as a "United States person."

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 or differing interpretation, 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.

EACH PROSPECTIVE SHAREHOLDER IS URGED TO 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 Distributions 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 from sources outside of the US 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 with respect to the stock. 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 (including, for this purpose, ADRs traded on a securities market in the United States with respect to the foreign corporation's shares). However, a foreign corporation will not be treated as a "qualified foreign corporation" 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 in effect on the day the distribution is received by the US holder (or, in the case of ADRs, on the day the distribution is received by the depository). 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 those 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 federal income 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 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, 2012, 2011, 2010 and 2009. 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 were likely not classified as a PFIC for the taxable year ended December 31, 2013. Notwithstanding the above, we may be a PFIC in subsequent years. In addition, even though we may not be a PFIC in any one particular year, if we have qualified as a PFIC in a prior year, 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 would be determined as follows: (i) the amount of the excess distribution or gain would be allocated ratably over the US holder's holding period for our ordinary shares; (ii) US federal income tax would be determined for the amounts allocated to the first year in the holding period in which we were classified as a PFIC and for 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 would beadded 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 would be taxed as ordinary income but without the imposition of an interest charge.

A US holder may generally avoid the PFIC "excess distribution" 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. As a prerequisite to the validity of a US holder's QEF Election, we will be required tocomply with certain record-keeping and reporting requirements. While we historically have and 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.

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.

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 information reporting and back-up withholding on dividends paid in the US on ordinary shares and on proceeds from the disposition of ordinary shares unless the US holder provides IRS Form W-9 or otherwise establishes an exemption..

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 April 7, 2009, we did not have a "permanent establishment" in the US. Our board of directors consists of a majority of Israeli residents and our CEO is domiciled in Israel. However, for the period we did have a "permanent establishment" 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 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 December 31, 2013, we did not earn any taxable income for US federal tax purposes and we have not had a permanent establishment in the US since 2009. If we eventually earn taxable income attributable to a 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, 2013, the net operating tax losses ("NOL") of the US subsidiaries amounted to approximately $20 million. These losses of the U.S. subsidiaries expire through 2029, are limited in use, and it is probable that they will be even significantly further reduced due to tax laws that apply in cases where "change of control" of sufficient equity of certain shareholders occurs, which is we believe to have occurred in connection with the Bio-Gal transaction. See "Item 10 Financial Information -Material Contracts"). These losses may be subject to further limitations in the case of future offerings or capital raises that result in additional "change of control" equity shifts.

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 voluntarily 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 on a voluntary basis 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 read and copy any document we file or furnish with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can review our SEC filings and the registration statement by accessing the SEC's internet site at http://www.sec.gov.

We also maintain a website at http://www.xtlbio.com, but information contained on our website does not constitute a part of this report and is not incorporated by reference into this report.

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 bank deposits in accordance with our investment policy. As of December 31, 2013, our portfolio of financial instruments consists of cash and cash equivalents, short-term bank deposits with multiple institutions. The average duration of all of our investments held as of December 31, 2013, 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 most 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 our head office is located in Israel. 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 a 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. The Company's treasury risk management policy, excluding InterCure, is to hold NIS-denominated cash and cash equivalents and short-term deposits in the amount of the anticipated NIS-denominated liabilities for nine to twelve consecutive months from time to time and this in line with the directives of the Company's Board. InterCure focuses on actions to minimize the negative effects arising from this risk and therefore holds cash and cash equivalents in currencies in which it operates, in accordance with management's assessments. 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.

As of December 31, 2013, if the Group's functional currency had weakened by 10% against the NIS with all other variables remaining constant, post-tax loss for the year would have been approximately $157,000 thousand lower (2012 - post-tax loss approximately $ 89 thousand lower; 2011 - post-tax loss approximately $ 30 thousand higher), mainly as a result of exchange rate changes on translation of other accounts receivable, net and exchange rate changes on NIS-denominated cash and cash equivalents and short-term deposits. Loss was more sensitive to fluctuations in the exchange rate in relation to the NIS in 2013 than in 2012 mainly due to an increase in NIS-denominated cash and receivable balances related to proceeds from the sale of the Company's investment in Proteologics, late in the third quarter of 2013.

Credit Risk. Credit risks are managed at the Group level. The Group has no significant concentrations of credit risk. The Group has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history and through retail sales in cash or by credit card.

The Group extends a 30-day term to its customers. The Group regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables. The Group provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information. Credit risks arise from cash and cash equivalents, restricted bank deposits as well as outstanding receivables.

The Group, excluding InterCure, engages with banks and financial institutions which are independently rated at least A.

Liquidity Risk. Cash flow forecasting is performed by the Group's management both in the entities of the Group and aggregated by the Group. The Group's management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operations. The Group currently does not use credit facilities. Forecasting takes into consideration several factors such as raising capital to finance operations and certain liquidity ratios that the Group strives to achieve.

Surplus cash held to finance operating activities is invested in interest bearing current accounts, time deposits and other similar channels. These channels were chosen by reference to their appropriate maturities or liquidity to provide sufficient cash balances to the Group as determined by the abovementioned forecasts.

As of December 31, 2013 and 2012, the maturity of the Group's financial liabilities is less than one year from each of the reporting dates.

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, 2013, 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, 2013 were effective.

(b) *Internal controls over financial reporting*. Our management is responsible for establishing and maintaining adequate control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992)*. Based on that evaluation, our management believes our internal control over financial reporting was effective as of December 31, 2013.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurances with respect to the preparation and presentation of financial statements.

(c) *Internal controls*. There have been no significant changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

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 regulations.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct applicable 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 be obtained, without charge, upon a written request addressed to our investor relations department, XTL Biopharmaceuticals Ltd., PO Box 4033, Herzliya 46140, Israel.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

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 firm 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, 2013 and 2012.

	2013	2012
	US dollars in thousands	
Audit fees	52	70
Audit-related fees	4	12
Tax fees	-	-
All Other fees	-	5
Total	56	87

The audit fees for the years ended December 31, 2013 and 2012, respectively, were for professional services rendered for the audit of our annual consolidated financial statements, review of interim consolidated financial statements and statutory audits, including Israeli tax reports. Audit fees include also fees for the audit of InterCure's annual consolidated financial statements.

The audit-related fees for the year ended December 31, 2012 were for the professional services rendered for the audit of Proteologics' statement of financial position as of the acquisition date (November 21, 2012).

Other fees for the year ended December 31, 2012 were for professional services rendered for obtaining ruling from the Israeli Securities Authority.

For the fiscal years ended December 31, 2013 and 2012, 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 16F. CHANGE IN REGISTRANT'S REGISTERED ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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 our audit committee. Our board of directors and our audit have adopted a written charter for the audit committee setting forth the responsibilities of the audit committee as required by the SEC and Nasdaq. Also as noted above, we currently have a nomination committee to identify, review and recommend to the Board of Directors individuals believed to be qualified to become directors. We have adopted a written charter for the nomination committee, as required by Nasdaq. We currently have in place a compensation committee, as discussed in more detail above. We have adopted a written charter for the compensation committee.

In August 2005, our board of directors adopted a Code of Conduct 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 may be obtained, without charge, upon a written request addressed to our investor relations department, XTL Biopharmaceuticals Ltd., PO Box 4033, Herzliya 46140, Israel.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

INDEX

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Report of Independent Registered Public Accounting Firm
XTL BIOPHARMACEUTICALS LTD.

We have audited the consolidated Statements of Financial Position of XTL Biopharmaceuticals Ltd. (hereafter - the "Company") and its subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of Comprehensive Income (Loss), changes in equity and cash flows for each of the three years ended December 31, 2013. These 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). 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 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 consolidated financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and the consolidated comprehensive income (loss), changes in equity and cash flows for each of the three years ended December 31, 2013, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

As discussed in Note 1 to the financial statements, the Company's 54.72% owned subsidiary, InterCure Ltd., has had recurring losses and presently does not have sufficient cash and other resources to meet its future plans beyond July 2015. If the subsidiary is unsuccessful in raising additional financing, it may need to curtail or discontinue operations. See Note 11 for InterCure's summarized consolidated balance sheet as of December 31, 2013 and its summarized consolidated income statements and cash flow for the year then ended.

Tel-Aviv, Israel
March 31, 2014

Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2013	December 31, 2012
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	2,887	1,696
Short-term deposits	7	1,278	1,616
Trade receivables	8	126	76
Other accounts receivable	9	473	153
Restricted deposits		23	22
Inventories	10	302	229
		5,089	3,792
NON-CURRENT ASSETS:			
Investment in associate	12	-	2,336
Property, plant and equipment, net	13	61	72
Intangible assets, net	14	2,865	4,886
		2,926	7,294
Total assets		8,015	11,086

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2013	December 31, 2012
		U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	15	615	743
Other accounts payable	16	604	906
		1,219	1,649
NON-CURRENT LIABILITIES:			
Employee benefit liabilities		11	13
		11	13
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	19		
Share capital - ordinary shares of NIS 0.01 par value: authorized – December 31, 2012 and 2013 – 700,000,000 shares; issued and outstanding:			
December 31, 2012 – **222,306,007			
December 31, 2013 – **226,826,957		6,093	5,997
Share premium and options		148,327	147,475
Accumulated deficit		(146,073)	(143,560)
Treasury shares, at cost:			
December 31, 2012 – 7,165,662			
December 31, 2013 – 6,067,943		(2,091)	(2,469)
Currency translation differences		-	114
Reserve from transactions with non-controlling interests		9	(204)
		6,265	7,353
Non-controlling interests		520	2,071
Total equity		6,785	9,424
Total liabilities and equity		8,015	11,086

** Net of treasury shares

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

Amit Yonay	Josh Levine	David Kestenbaum
Chairman of the Board	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements by the Company's Board: March 31, 2014.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Note	Year ended December 31, 2013	2012	2011
		U.S. dollars in thousands (except per share data)		
Revenues		2,369	938	-
Cost of sales	21	(741)	(380)	-
Gross profit		1,628	558	-
Research and development expenses	22	(113)	(99)	(158)
Selling and marketing expenses	23	(1,691)	(848)	-
General and administrative expenses	24	(2,048)	(2,769)	(1,078)
Impairment of intangible assets	14	(1,729)	-	-
Other gains, net	25	1,059	802	12
Operating loss		(2,894)	(2,356)	(1,224)
Finance income	26	61	60	24
Finance expenses	26	(35)	(15)	(7)
Finance income, net		26	45	17
Earnings (loss) from investment in associate	12	(845)	569	-
Loss for the year		(3,713)	(1,742)	(1,207)
Other comprehensive income (loss):				
Items that might be classified to profit or loss:				
Foreign currency translation adjustments		108	114	
Reclassification of foreign currency translation adjustments to Other gains, net		(221)	-	-
Total other comprehensive income (loss)		(113)	114	-
Total comprehensive loss for the year		(3,826)	(1,628)	(1,207)
Loss for the year attributable to:				
Equity holders of the Company		(2,476)	(1,390)	(1,207)
Non-controlling interests		(1,237)	(352)	-
		(3,713)	(1,742)	(1,207)
Total comprehensive loss for the year attributable to:				
Equity holders of the Company		(2,589)	(1,276)	(1,207)
Non-controlling interests		(1,237)	(352)	-
		(3,826)	(1,628)	(1,207)
Basic and diluted loss per share (in U.S. dollars)	28	(0.011)	(0.006)	(0.006)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance as of January 1, 2013	5,997	147,475	(143,560)	(2,469)	114	(204)	7,353	2,071	9,424
Loss for the year	-	-	(2,476)	-	-	-	(2,476)	(1,237)	(3,713)
Other comprehensive income	-	-	-	-	(113)	-	(113)	-	(113)
Total comprehensive loss	-	-	(2,476)	-	(113)	-	(2,589)	(1,237)	(3,826)
Share-based payment to employees and others	-	-	(7)	-	-	-	(7)	(58)	(65)
Issuance of shares and warrants	90	876	-	-		-	966	-	966
Exercise of options in associate	-	-	-	-	(1)	-	(1)	-	(1)
Sale of treasury shares	-	(52)	-	378	-	-	326	(43)	283
Conversion of convertible loan into capital in subsidiary	-	-	-	-	-	213	213	(213)	-
Other	-	-	(30)	-	-	-	(30)	-	(30)
Exercise of warrants into shares	6	28	-	-	-	-	34	-	34
Balance as of December 31, 2013	6,093	148,327	(146,073)	(2,091)	-	9	6,265	520	6,785

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance as of January 1, 2012	5,335	141,385	(143,276)	-		-	3,444	-	3,444
Loss for the year	-	-	(1,390)	-	-	-	(1,390)	(352)	(1,742)
Other comprehensive income	-	-	-	-	114	-	114	-	114
Total comprehensive loss	-	-	(1,390)	-	114	-	(1,276)	(352)	(1,628)
Share-based payment to employees and others	-	-	1,106	-	-	-	1,106	193	1,299
Issuance of shares for business combination	176	2,293	-	(2,469)	-	-	-	1,858	1,858
Issuance of shares and options	309	2,109	-	-	-	-	2,418	-	2,418
Conversion of convertible loan into capital in subsidiary	-	-	-	-	-	(204)	(204)	372	168
Exercise of warrants into shares	177	1,688	-	-	-	-	1,865	-	1,865
Balance as of December 31, 2012	5,997	147,475	(143,560)	(2,469)	114	(204)	7,353	2,071	9,424

	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance as of January 1, 2011	4,993	139,983	(142,142)	-	-	-	2,834	-	2,834
Comprehensive loss for the year	-	-	(1,207)	-	-	-	(1,207)	-	(1,207)
Issuance of shares and options	342	1,399	-	-	-	-	1,741	-	1,741
Share-based payment to employees and others	-	-	73	-	-	-	73	-	73
Exercise of stock options into shares	*	3	-	-	-	-	3	-	3
Balance as of									

December 31, 2011	5,335	141,385	(143,276)	-	-	-	3,444	-	3,444

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2013	2012	2011
		U.S. dollars in thousands		
Cash flows from operating activities:				
Loss for the year		(3,713)	(1,742)	(1,207)
Adjustments to reconcile loss to net cash provided by (used in) operating activities (a)		1,214	236	(105)
Net cash used in operating activities		(2,499)	(1,506)	(1,312)
Cash flows from investing activities:				
Acquisition of subsidiary, less cash received (d)	5	-	733	-
Investment in associate	12	-	(1,658)	-
Sale of investment in associate		3,054		
Decrease in restricted deposit		-	1	25
Decrease (increase) in short-term bank deposits		366	(170)	(1,377)
Purchase of property, plant and equipment	13	(84)	(6)	(12)
Purchase of intangible assets	14	-	(80)	-
Other investments		-	(29)	(8)
Net cash provided by (used) in investing activities		3,336	(1,209)	(1,372)
Cash flows from financing activities:				
Proceeds from issuance of shares and options	19	-	2,418	1,741
Exercise of warrants and options into shares	19	34	1,865	3
Sale of treasury shares		283	-	-
Net cash provided by financing activities		317	4,283	1,744
Increase (decrease) in cash and cash equivalents		1,154	1,568	(940)
Gains (losses) from exchange rate differences on cash and cash equivalents		37	5	(3)
Cash and cash equivalents at beginning of year		1,696	123	1,066
Cash and cash equivalents at end of year		2,887	1,696	123

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2013	2012	2011
		U.S. dollars in thousands		
(a) Adjustments to reconcile loss to net cash provided by (used in) operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	13, 14	313	136	94
Loss from disposal of property, plant and equipment	25	2	2	3
Share-based payment transactions to employees and others	20	(65)	1,299	73
Revaluation of short-term deposits		(29)	(75)	5
Exchange rate differences on operating activities		(37)	(5)	3
Gain from bargain purchase	5	-	(795)	-
Change in employee benefit liabilities, net		(2)	2	-
Loss (gain) from change in holding rate in associate	12	(10)	5	-
Earnings from investment in associate	12	845	(569)	-
Impairment of intangible assets	14	1,729	-	-
Gain from sale of investment in associate		(1,051)	-	-
		1,695	-	178
Changes in operating asset and liability items:				
Decrease (increase) in trade receivables	8	(50)	3	-
Decrease (increase) in other accounts receivable and income taxes receivable	9	30	(23)	42
Increase in inventories	10	(73)	(44)	-
Increase (decrease) in trade payables	15	(86)	199	(109)
Increase (decrease) in other accounts payable	16	(302)	101	(216)
		(481)	236	(283)
		1,214	236	(105)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
(b) Additional information on cash flows from operating activities:			
Interest received	24	40	11
(c) Non-cash transactions:			
Purchase of property, plant and equipment on suppliers' credit	-	73	-
Issuance of treasury shares to subsidiary	-	2,469	-
Conversion of convertible loan into capital in subsidiary	377	168	-
Share-based payment to third party	49	-	-
Allotment of shares to Aurum	913	-	-
Receivables from sale of investment in associate	297	-	-
(d) Acquisition of newly consolidated subsidiary (see Note 5):			
Working capital (excluding cash and cash equivalents)	-	517	-
Property, plant and equipment	-	(51)	-
Intangible assets	-	(2,397)	-
Gain from bargain purchase	-	795	-
Non-current liabilities	-	11	-
Non-controlling interests	-	1,858	-
	-	733	-

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

NOTE 1:- GENERAL

a. A general description of the Company and its activity:

XTL Biopharmaceuticals Ltd. (the "**Company**") is engaged in the development of therapeutics for the treatment of unmet medical needs. The Company was incorporated under the Israeli Companies Law on March 9, 1993. The registered office of the Company is located at 85 Medinat Hayehudim Street, Herzliya 46766. The Company owns 54.72% of the issued and outstanding capital of InterCure Ltd. ("**InterCure**"), a public company whose shares are traded on the Tel-Aviv Stock Exchange ("**TASE**"). The Company also owns 100% of Xtepo Ltd. ("**Xtepo**") and owns 100% of a U.S. company, XTL Biopharmaceuticals Inc. ("**XTL Inc.**"), which was incorporated in 1999 under the laws of the State of Delaware, USA.

The Company's American Depository Receipts ("**ADRs**") are traded on the NASDAQ Capital Market and its securities are traded on the TASE.

On January 7, 2014, the Company signed a licensing agreement with Yeda to develop hCDR1, a Phase II-ready asset for the treatment of Systemic Lupus Erythematosus ("**SLE**"). The terms of the licensing agreement include, among other things, expense reimbursement for patent expenses, certain milestone payments to Yeda, low single-digit royalties based on net sales, and additional customary royalties to the Office of the Chief Scientist. For additional information, see Note 31 below.

On November 21, 2012, the Company acquired approximately 31.35% of the shares of Proteologics Ltd. ("**Proteologics**"), a public company whose shares are traded on the TASE in consideration of approximately NIS 6.5 million (approximately $ 1.7 million) paid in cash. On September 12, 2013, the Company sold its entire investment in Proteologics (representing 44.95% of Proteologics issued and outstanding capital at the time) in consideration of approximately $ 3.4 million after having acquired an additional 14.13% of Proteologics' shares on September 11, 2013. See also Note 12 below.

On July 25, 2012, the Company completed the acquisition of approximately 50.79% of the issued and outstanding share capital of InterCure Ltd., a public company whose shares are traded on the TASE and is engaged in the research, development, marketing and sale of home medical devices for the non-medicinal and non-invasive treatment of various diseases such as hypertension, congestive cardiac failure, insomnia and stress. In the context of the acquisition, the Company provided InterCure a loan that was convertible into shares of InterCure. On May 16, 2013, the Company informed InterCure of its decision to convert the entire convertible loan which had been extended by the Company in the context of the acquisition into 7,620,695 Ordinary shares of InterCure as predetermined in the acquisition agreement. Following said conversion and as of December 31, 2013, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital.

NOTE 1:- GENERAL (Cont.)

As of the date of the report, the Company is in the planning stages for the implementation of a phase 2 clinical trial of the recombinant EPO ("**rHuEPO**") drug for treating Multiple Myeloma patients. As part of said preparations, the Company has conducted a study which consists of collecting preliminary data on the existence of specific proteins in the blood of a group of Multiple Myeloma patients and is preparing market analyses and regulatory activities. The data collected in the preliminary study will be combined in the plans and preparations for the implementation of the phase 2 clinical trial, as needed. Based on the Company's current business plans and estimates, the approval for commencing the clinical trial is expected to be obtained during the middle to second half of 2014.

On November 30, 2011, the Company completed the MinoGuard transaction in which it acquired the activity of MinoGuard Ltd. ("**MinoGuard**"), founded by Mor Research Applications Ltd. ("**Mor**") by way of receiving an exclusive license to use MinoGuard's entire technology, including the SAM-101, a combination drug for treating psychotic diseases, focusing on schizophrenia, in return for sales royalties and milestone payments to be made over the clinical development period. The drug is based on a combination of existing antipsychotic drugs and a recognized medicinal compound (Minocycline). See also Note 18a(4) below.

The Company has patent rights and other assets in the field of treating hepatitis C (DOS program) transferred to Presidio Pharmaceuticals Inc. ("**Presidio**") and returned by Presidio to the Company in August 2012 (see more information in Note 18a to the annual consolidated financial statements for 2012). The Company intends to examine renewing the activity in the field of hepatitis C and/or locate strategic partners for the continued development and marketing of drugs for treating hepatitis C based on the DOS technology.

As of December 31, 2013, the Company has the following subsidiaries:

InterCure - a publicly traded company on the TASE. InterCure has two subsidiaries - InterCure Inc., incorporated in the U.S., and InterCure UK (inactive), incorporated in the UK.

Xtepo Ltd. ("**Xtepo**") - a private company incorporated in Israel in November 2009 which holds a license for the exclusive use of the patent for rHuEPO drug for treating Multiple Myeloma patients.

XTL Biopharmaceuticals Inc. ("**XTL Inc.**") which was engaged in development of therapeutics and business development in the medical realm. XTL Inc. has a wholly-owned subsidiary - XTL Development Inc. ("**XTL Development**"), which was incorporated in 2007 under the laws of the State of Delaware, USA. As of the date of the approval of the financial statements, XTL Inc. and XTL Development are inactive.

NOTE 1:- GENERAL (Cont.)

b. The Company has incurred continuing losses and depends on outside financing resources to continue its activities. The Company's only source of income at this stage originates from InterCure, a subsidiary in which control was acquired on July 25, 2012. Based on existing business plans, the Company's management estimates that its outstanding cash and cash equivalent balances, including short-term deposits, will allow the Company to finance its activities at least until the fourth quarter of 2015 (independently of InterCure, which is 54.72% held). However, the amount of cash which the Company will need in practice to finance its activities depends on numerous factors which include, but are not limited to, the timing, planning and execution of clinical trials of existing drugs and future projects which the Company might acquire or other business development activities such as acquiring new technologies and/or changes in circumstances which are liable to cause significant expenses to the Company in excess of management's current and known expectations as of the date of these financial statements and which will require the Company to reallocate funds against plans, also due to circumstances beyond its control.

The Company expects to incur additional losses in 2014 arising from research and development activities, testing additional technologies and operating activities, which will be reflected in negative cash flows from operating activities. Accordingly, in order to perform the clinical trials aimed at developing a product until obtaining its marketing approval, the Company will be forced to raise additional funds in the future by issuing securities. Should the Company fail to raise additional capital in the future under standard terms, it will be required to dispose of marketable securities held by it or minimize its activities or sell or grant a sublicense to third parties to use all or part of its technologies.

InterCure has noted in its consolidated financial statements for the year ended December 31, 2013, that there is a substantial doubt regarding its ability to continue as a going concern. As of December 31, 2013, the Company has impaired its assets accordingly. See Note 14f below with regard to the impairment. The financial statements of the Company include no further adjustments of the value of assets and liabilities, if any, that will apply if InterCure is unable to continue operating as a going concern. InterCure's management believes that it has sufficient cash and other resources to meet its future plans through July 2015. InterCure's summarized consolidated balance sheet as of December 31, 2013 and its income and cash flow statements for the year then ended are included in Note 11 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. The consolidated financial statements of the Company ("the financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

   The consolidated financial statements have been prepared under the historical cost convention, as adjusted for defined benefit plans.

   The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise its judgment in the process of applying the Group's accounting policies. The areas that involve judgment which have significant effect or complexity or where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. Actual results could significantly differ from the estimates and assumptions used by the Group's management.

2. The Group analyzes the expenses recognized in the statement of comprehensive income by classification based on the function of expense.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Consolidated financial statements:

1. Subsidiaries and business combinations:

The consolidated financial statements include the accounts of the Company and entities controlled by the Company. Control exists when the Company has the power over the investee; has exposure, or rights, to variable returns from involvement in the investee; and has the ability to use its power over the investee to affect its returns.

The Company examines whether it controls another entity even when it does not hold more than 50% of the voting rights, but can control the entity's financial and operating policies by de-facto control. De-facto control can be created under circumstances in which the ratio of the Company's voting rights in the entity to the percentage and dispersion of the holdings of the other shareholders grants the Company the power to control the entity's financial and operating policies.

Subsidiaries are fully consolidated starting from the date on which control therein is attained by the Company. Their consolidation ceases when such control is discontinued.

The Company's accounting treatment of business combinations uses the acquisition method. The consideration transferred for the acquisition of a subsidiary (the "**Acquiree**") is calculated as the total of fair values of the assets transferred by the Company, the liabilities incurred to the Group against the Acquiree's previous owners and the equity rights issued by the Company. The transferred consideration includes the fair value of each asset or liability arising from a contingent consideration arrangement. The acquisition related costs are recognized in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed by the Company in a business combination (excluding certain exceptions prescribed in IFRS 3R, "Business Combinations (Revised)" ("**IFRS3R**") are initially measured at fair value on the acquisition date. For each business combination, the Company decides whether to recognize non-controlling interests in the Acquiree which represent existing ownership rights and entitle their holders to a relative portion of the entity's net assets upon liquidation at their fair value or at the relative portion of the existing ownership instruments in amounts recognized for the Acquiree's net identifiable assets. This decision is individually made for each business combination. All the other components of non-controlling interests are measured at fair value on the acquisition date unless another measurement basis is required by IFRS.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The excess of the overall amount of the transferred consideration, the amount of any non-controlling interests in the Acquiree, and the fair value of any previous equity rights in the Acquiree on the acquisition date in excess of the net amount of identifiable assets acquired and liabilities assumed on the acquisition date, all measured as above, is recognized as goodwill.

In the event that the net amount of identifiable assets acquired and liabilities assumed on the acquisition date exceeds the overall amount of the transferred consideration, the amount of any non-controlling interests in the Acquiree, and the fair value of any previous equity rights in the Acquiree on the acquisition date as discussed above, the difference is recognized directly in profit or loss on the acquisition date.

Intra-group balances and transactions, including revenues, expenses and dividends in respect of transactions between the Group companies, are eliminated. Gains and losses arising from intra-group transactions that have been recognized as assets (such as inventories and property, plant and equipment) are also eliminated. Such intra-group losses may point to the impairment of assets which is tested and accounted for as specified in g below.

2. Transactions with non-controlling interests which do not result in loss of control:

Transactions with non-controlling interests in subsidiaries which do not result in loss of control in the subsidiaries are accounted for as transactions with owners. In these transactions, the difference between the fair value of any consideration paid or received and the amount of adjustment of the non-controlling interests to reflect the changes in their relative rights in the subsidiaries is directly recognized in equity and attributed to the equity holders of the parent.

3. Associate:

An associate is an entity over which the Group exercises significant influence, but not control, which is usually expressed in holding 20%-50% of the voting rights. The investment in an associate is presented using the equity method of accounting. According to the equity method of accounting, the investment is initially recognized at cost and its carrying amount varies to the extent that the Group recognizes its share of the associate's earnings or losses from the acquisition date.

The Group's share in the earnings or losses of associates after the acquisition date is carried to profit or loss and its share in the other comprehensive income movements after the acquisition date is carried to other comprehensive income against the carrying amount of the investment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Each reporting date, the Group determines if there are indicators of impairment in the investment in the associate. In such case, the Group calculates the amount of the impairment as the difference between the recoverable amount of the investment in the associate (the higher of the value in use and the fair value less selling costs) and its carrying amount and recognizes the amount of impairment in profit or loss in the line item of "equity in earnings (losses) in associates".

In 2013, the Company sold its investment in Proteologics. For further details, see Note 12 below.

c. Translation of balances and transactions in foreign currency:

1. Functional currency and presentation currency:

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**Functional Currency**"). The consolidated financial statements are presented in U.S. dollars, which is the Functional Currency of each of the Group's entities and the Company's presentation currency.

Below are the changes in the reporting periods in the exchange rate of the U.S. dollar in relation to the NIS:

Year ended	Change in the exchange rate of U.S. $ 1
	%
December 31, 2013	(7.02)
December 31, 2012	(2.30)
December 31, 2011	7.66

As of	Exchange rate of U.S. $ 1
	NIS
December 31, 2013	3.471
December 31, 2012	3.733

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Transactions and balances:

Transactions in a currency other than the Functional Currency ("foreign currency") are translated into the Functional Currency using the exchange rates at the dates of the transactions. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the Functional Currency at the exchange rate at that date. Exchange differences are recognized in the statement of comprehensive income in the line item finance income (expenses). Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.

3. Translation of the financial statements of the Group companies:

The operating results and financial position of all the Group companies (none of whose functional currency is the currency of a hyperinflationary economy), including companies accounted for at equity, whose functional currency differs from the presentation currency (Proteologics' functional currency is NIS), are translated into the presentation currency as follows:

a) Assets and liabilities at each statement of financial position date are translated at the closing rate on the statement of financial position date;

b) Revenues and expenses at each statement of comprehensive income date are translated at the average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of exchange rates on the transaction dates in which case the revenues and expenses are translated at the exchange rate on the transaction date);

c) All resulting exchange rate differences are recognized in other comprehensive income.

Upon consolidation of the financial statements, exchange rate differences arising from translating the net investment in foreign operations and from loans and other currency instruments which are designated as investment hedges are carried to other comprehensive income. Upon the disposal of part of or an entire foreign operation, the exchange rate differences carried to other comprehensive income are recognized in profit or loss as part of the gain or loss from the disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are accounted for as the foreign operation's assets and liabilities and translated at the closing rate. Exchange rate differences arising from such translation are carried to other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Property, plant and equipment:

Items of property, plant and equipment are measured at cost with the addition of direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and excluding day-to-day servicing expenses.

Depreciation of property, plant and equipment is calculated on a straight-line basis to reduce their cost to their residual value over their useful life as follows:

	%
Computers	33
Office furniture and equipment	6 - 15
Production molds	20

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included when the asset is derecognized in "other gains (losses), net" in the consolidated statements of comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see g below).

f. Intangible assets:

1. Brand name and technology:

Brand name and technology acquired in a business combination are recognized at fair value on the acquisition date. Brand name and technology have a finite useful life and are presented at cost net of accumulated amortization and impairment losses. The amortization is calculated using the straight-line method over the expected useful life (9-10 years).

2. Computer software:

Acquired licenses to use computer software are capitalized based on costs incurred in acquiring the specific software and preparing it for use. These costs are amortized using the straight-line method over the estimated useful life (five years). Costs relating to computer software upkeep are recognized as expenses as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Exclusive technology testing right:

   An acquired exclusive immune system technology testing right has a finite life of 15 months in effect from September 1, 2010 and is amortized using the straight-line method over its useful life. On November 30, 2011, the amortization of this right was concluded. See details in Note 14d below.

4. Unamortized intangible assets (licenses and patent rights):

   The amortization of an asset on a straight-line basis over its useful life begins when the development procedure is completed and the asset is available for use. These assets are reviewed for impairment once a year or whenever there are indicators of a possible impairment, in accordance with the provisions of IAS 36, "Impairment of Assets".

5. Research and development:

   Research expenditures are recognized as expenses when incurred. Costs arising from development projects are recognized as intangible assets when the following criteria are met:

   - it is technically feasible to complete the intangible asset so that it will be available for use;
   - management intends to complete the intangible asset and use or sell it;
   - there is an ability to use or sell the intangible asset;
   - it can be demonstrated how the intangible asset will generate probable future economic benefits;
   - adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
   - the expenditure attributable to the intangible asset during its development can be reliably measured.

   Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs that were previously recognized as an expense are not recognized as an asset in a later period. During the reporting period, the Group did not capitalize development costs to intangible assets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Impairment of non-financial assets:

Intangible assets which are not yet available for use are not depreciated and impairment in their respect is tested every year. Depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that sustained impairment are reviewed for possible reversal of the impairment at each date of the statement of financial position.

h. Financial assets:

1. Classification:

The Group classifies its financial assets into the loans and receivables category. The classification depends on the purpose for which the financial assets were acquired. The Group's management determines the classification of its financial assets at initial recognition.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the statement of financial position. The Group's loans and receivables are included in the line items: "trade receivables", "other accounts receivable", "cash and cash equivalents", "short-term deposits" and "restricted deposits" in the statement of financial position.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Recognition and measurement:

Regular purchases and sales of financial assets are recognized in the books of the Group companies on the transaction settlement date which is the date on which the asset is transferred to the Group or transferred by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

3. Impairment of financial assets:

Financial assets carried at amortized cost:

The Group assesses at the date of each statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

i. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. The Group periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method.

Purchased merchandise and products - using the "first-in, first-out" method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Trade receivables:

The balance of trade receivables relates to amounts receivable from the Group's customers for goods sold or services rendered in the ordinary course of business. Trade receivables are initially recognized at fair value and subsequently measured at amortized cost based on the effective interest method, less an allowance for doubtful accounts.

Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Group's management, is doubtful. The Group's also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

k. Cash and cash equivalents:

Cash and cash equivalents include cash at hand and short-term bank deposits with original maturities of three months or less, that are not restricted as to withdrawal or use, and are therefore considered to be cash equivalents.

l. Share capital:

The Company's Ordinary shares are classified as share capital. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the issuance proceeds.

When Group companies purchase Company shares (treasury shares), the consideration paid, including incremental costs directly attributable to the purchase (less the effect of taxes on income), is deducted from the equity attributable to equity holders of the parent until the shares are eliminated or reissued. When these shares are reissued in subsequent periods, the consideration received, less incremental costs directly attributable to the transaction and less the effect of taxes on income, is included in equity attributable to equity holders of the parent.

m. Trade payables:

Trade payables are the Group's obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Taxes on income:

Taxes on income in profit or loss comprise current and deferred taxes. Current or deferred tax results are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of prior years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred tax balances are measured at the tax rate that is expected to apply when the taxes are taken to the statement of comprehensive income (loss), to other comprehensive income or equity based on tax laws that have been enacted or substantively enacted by the reporting date. The amount for deferred taxes in the statement of comprehensive income (loss) represents the changes in said balances during the reported period, except for items attributable to other comprehensive income or equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their utilization has become probable. Any resulting reduction or recognition is recognized in the line item "taxes on income".

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividend have not been taken into account in computing the deferred taxes, since the distribution of dividend does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividend that triggers an additional tax liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

A deferred tax asset has not been recognized in the Group's accounts because the availability of taxable income in the future is not probable.

o. Employee benefits:

1. Employment benefits for retirement compensation/pension:

A Defined contribution plan (Section 14) is a post-employment employee benefit plan under which the Company pays fixed contributions into a separate and independent entity so that the Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a post-employment employee benefit plan that is not a defined contribution plan.

The Group operates various pension plans. The plans are generally funded through payments to insurance companies or trustee-administered funds. Said pension plans qualify for the criteria of defined contribution plan, as above, based on their terms.

According to the labor laws and employment agreements in Israel and according to the Group's practice, the Group is obligated to pay compensation to employees who are dismissed and, under certain circumstances, to employees who retire. The Group's liability to pay retirement compensation for certain employees is accounted for as a defined benefit plan and for the remaining employees it is accounted for as a defined contribution plan.

According to the liabilities of the Group companies to employees under defined benefit plans, the amounts of the benefits to be received by employees eligible for severance pay upon retirement are based on the number of years of employment and latest salary.

The liabilities of the Group companies for the remaining employees under defined contribution plans consist of making fixed contributions in a separate and independent entity whereby the Group companies have no legal or constructive liability to make additional contributions in the event that the fund's assets are insufficient for paying all employees the benefits for their services in the current period and in previous periods.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The total accrued severance pay presented in the statement of financial position is the present value of the defined benefit liability as of the statement of financial position date, less the fair value of the plan assets. The defined benefit liability is measured on an annual basis by an actuary using the Projected Unit Credit Method.

The present value of the liability is determined by discounting the expected future cash flows (after taking into account expected salary increase rates), based on interest rates of Government bonds denominated in the currency in which the benefits will be paid and whose maturity period approximates the accrued severance pay period.

According to IAS 19, *Employee Benefits*, the discount rate used to calculate the actuarial obligation is determined by using market returns of high quality corporate debentures on the statement of financial position date. However, according to IAS 19, in countries which do not have a deep market for such debentures, the market returns of Government bonds on the statement of financial position date will be used instead.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs in respect of the defined benefit plan are charged or credited to finance costs.

An Amendment to IAS 19, *Employee benefits*, became effective on January 1, 2013. The amendment replaces interest costs and expected returns on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (assets). The initial implementation of the amendment did not have a material effect on the Company's financial statements

As abovementioned, the Group buys insurance policies and makes payments to pension and compensation funds to finance its obligations under defined contribution plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses concurrently with the services rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or reduction in the future payments is available.

2. Vacation and recreation benefits:

According to the Law, an employee is entitled to paid annual leave and sick leave on an annual basis. The entitlement is based on the number of years of service. The Company recognizes an obligation and expense for paid annual leave and sick leave based on the benefit accumulated for each employee.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Share-based payment:

The Group operates a number of share-based payment plans to employees and to other service providers who render services that are similar to employees' services that are settled with the Group's equity instruments. In this framework, the Group grants employees, from time to time, and, at its discretion, options to purchase shares of the Group companies. The fair value of services received from employees in consideration of the grant of options is recognized as an expense in the statement of comprehensive income (loss) and correspondingly carried to equity. The total amount recognized as an expense over the vesting term of the options (the term over which all pre-established vesting conditions are expected to be satisfied) is determined by reference to the fair value of the options granted at grant date, except the effect of any non-market vesting conditions.

Non-market vesting conditions are included in the assumptions used in estimating the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions of the share-based payment arrangement are to be satisfied.

In each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income (loss) with a corresponding adjustment in equity.

When the options are exercised, the Company issues new shares. The proceeds net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share-based payment transactions in which the Company acquired assets as consideration for the Company's equity instruments are measured at the value of the assets acquired (see Note 14d below).

q. Provisions:

A provision in accordance to IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of event occurred in the past, probable to be required to use economic resources to settle the obligation and can be reliably estimated. The group recognizes a provision for warranty when the product is sold to the customer or when the service is provided to the customer. Initial recognition is based on past experience. The estimated provision is re-tested every year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from sale of goods to retail customers:

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date to the customer is usually the date on which ownership passes.

Revenues from sale of goods to distributors:

InterCure sells its products to distributors as well. Revenues from such sales are recognized when InterCure or its subsidiaries deliver the goods to the distributor, when sales channel and selling price are at the distributor's sole discretion, and when there are no ongoing obligations to prevent the distributor from receiving the goods. Revenue is only recognized when goods were delivered to the designated site, risks of loss and damage are transferred to the distributor and distributor had received the goods in accordance with the sales agreement, conditions for receipt of goods had expired or InterCure holds objective evidence that goods receipt criteria had been met.

Sales do not include a finance component, as they are made with a 60 days credit period, considered as consistent with the market in which InterCure operates.

s. Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income (loss) on a straight-line basis over the period of the lease.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Loss per share:

Basic loss per share is calculated by dividing the income or loss attributable to equity holders of the Company by the weighted average number of Ordinary shares outstanding during the period, less Company shares held by a subsidiary.

In calculating diluted loss per share, in addition to the average of Ordinary shares used for calculating basic loss, the weighted average number of shares that will be issued assuming that all the potentially dilutive shares are converted into shares is also taken into consideration. Potential shares are taken into account as above only when their effect is dilutive (reduces the earnings or increases the loss per share).

u. New and amended IFRS standards and IFRIC interpretations:

Standards and amendments and interpretations that have been issued and are effective as from January 1 2013:

1. IFRS 10, "Consolidated Financial Statements" ("IFRS 10"):

IFRS 10 supersedes all existing guidance on the control and consolidation of financial statements in IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") and SIC 12, "Consolidation - Special Purpose Entities". IFRS 10 redefines "control". The new definition focuses on the requirement that power and variable returns should exist in order for control to exist. "Power" is the current ability to direct the activities which significantly affect the returns. IFRS 10 contains, inter alia, guidance relating to differentiating between participating rights and protective rights as well as guidance relating to cases where an investor is acting on behalf of another party or on behalf of a group of parties (agent/principal relationships). The core principle whereby a consolidated entity presents the accounts of a parent company and its subsidiaries as a single entity remains unchanged as well as the mechanics of consolidation. The Group will adopt IFRS 10 for the first time for the annual period commencing on January 1, 2013. The adoption of IFRS 10 is not expected to have a material impact on the Group's consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"):

   IFRS 12 prescribes disclosure requirements addressing accounting issues prescribed in IFRS 10 and IFRS 11, "Joint Arrangements" ("IFRS 11") and supersedes the existing disclosure requirements in IAS 28. The disclosure requirements prescribed in IFRS 12 include: significant judgments and assumptions; rights in subsidiaries; rights in joint arrangements and in associates; and rights in structured entities not consolidated in the financial statements. The Group will adopt IFRS 12 for the first time for the annual period commencing on January 1, 2013. The initial adoption of IFRS 12 expanded certain disclosures in the Group's consolidated financial statements regarding its rights in other entities.

3. IFRS 13, "Fair Value Measurement" ("IFRS 13"):

   IFRS 13 focuses on improving the consistency and minimizing the complexity of fair value measurements by providing an accurate definition of the term "fair value" and offering a single source of guidance for the measurement of fair value and for the disclosure requirements of fair value measurement to be used by all the various IFRS standards. The requirements prescribed in IFRS 13 do not expand the use of fair value accounting but do provide guidance as to its adoption in cases where its use is required or allowed by other IFRS standards.

   The initial adoption of IFRS 13 did not to have a material effect on the Group's consolidated financial statements.

4. IAS 19 (Revised 2011), "Employee Benefits" ("IAS 19R"):

   IAS 19R introduces significant changes in the manner of recognizing and measuring defined benefit plans and benefits in respect of employee dismissal and provides new disclosure requirements for all types of employees benefits within the scope of IAS 19 as follows:

   - The remeasurement of the net defined benefit liability (formerly - actuarial gains and losses) will be recognized in other comprehensive income and not in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Income from the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities. The return on plan assets excluding the aforementioned income recognized in profit or loss is included in the remeasurement of the net defined benefit liability.

The adoption of IAS 19R did not have a material impact on the financial statements.

5. IFRS 9, "Financial Instruments" ("IFRS 9")

IFRS 9 *Financial instruments*, is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. 2013 amendments to IFRS 9 have removed the previous mandatory effective date of January 1, 2015, but the standard is available for immediate application. The Group is yet to assess the full impact of the standard.

6. IAS 1 (Revised), "Presentation of Financial Statements" ("IAS 1R"):

IAS 1R modifies the manner of disclosure of items of other comprehensive income in the statement of comprehensive income according to the following principles:

- The items presented in other comprehensive income should be separated into two groups based on whether they can be reclassified in the future to profit or loss. Accordingly, items which cannot be reclassified in the future to profit or loss will be presented separately from the re-classifiable items.

- Entities that choose to present the items of other comprehensive income before the respective tax will be required to separately present the tax effect of each of the abovementioned groups.

The Group has adopted IAS 1R for the first time for the annual period commencing on January 1, 2013 retrospectively for all reported periods. Since all of the Group's items of other comprehensive income may be reclassified in the future to profit or loss, the initial adoption of IAS 1R is expected to have a material impact on the Group's consolidated financial statements.

NOTE 3:- CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions:

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1. Intangible assets

(i) In determining the fair value of assets acquired in share-based payment transactions and in testing impairment of these research and development assets, the Company's management is required to estimate, among other things, the probable endpoints of trials conducted by the Company, the commercial technical feasibility of the development and the resulting economic benefits. Actual results and estimates to be made in the future may significantly differ from current estimates.

(ii) The Group is required to determine at the end of each reporting period whether there is any indication that an asset may be impaired. If indicators for impairment are identified, the Group estimates the assets' recoverable amount, which is the higher of an asset's fair value less costs to sell and its value-in-use. The value-in-use calculations require management to make estimates of the projected future cash flows. Determining the estimates of the future cash flows is based on management past experience and best estimate for the economic conditions that will exist over the remaining useful economic life of the CGU.

2. Share-based payments - in evaluating the fair value and the recognition method of share-based payment, the Company's management is required to estimate, among others, different parameters included in the computation of the fair value of the options and the Company's results and the number of options that will vest. Actual results and estimates to be made in the future may significantly differ from current estimates.

NOTE 3:- CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont.)

b. Judgments that have a critical effect on the adoption of the entity's accounting policies:

The existence of effective control over InterCure – as of December 31, 2013, and effective as of May 16, 2013, the Company holds 54.72% of InterCure's issued and outstanding share capital, following the conversion of the loan granted to InterCure into 7,620,695 shares of InterCure. In the reporting period ended December 31, 2012, the Group's management had estimated the degree of effect it had in InterCure and had determined that it was able to govern InterCure's financial and operating policies despite holding less than 50% of InterCure's issued and outstanding share capital at the time, through de-facto control, this following an examination of InterCure's entire equity instruments. This conclusion was reached mainly since the Company was able to convert the aforementioned loan into shares of InterCure, a conversion which will have conferred the Company a stake of approximately 54.72% of InterCure's issued and outstanding share capital.

NOTE 4:- FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a. Financial risk management:

1. Financial risk factors:

The Group's activities expose it to a variety of financial risks: market risks (including currency risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's management under policies approved by the Board. The Group's treasury identifies, evaluates and defines financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and investment of excess liquidity.

a) Market risks:

Foreign currency exchange rate risk:

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NIS. Foreign exchange risk arises from assets and liabilities denominated in currency that is other than the functional currency.

NOTE 4:- FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont.)

The Group's management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their entire foreign exchange risk exposure. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses short-term deposits denominated in foreign currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are measured and denominated in a currency that is not the entity's functional currency.

The Company treasury's risk management policy, excluding InterCure, is to hold NIS-denominated cash and cash equivalents and short-term deposits in the amount of the anticipated NIS-denominated liabilities for nine to twelve consecutive months from time to time and this in line with the directives of the Company's Board. InterCure focuses on actions to reduce to a minimum the negative effects arising from this risk and therefore holds cash and cash equivalents in currencies in which it operates, in accordance with management's assessments.

As of December 31, 2013, if the Group's functional currency had weakened by 10% against the NIS with all other variables remaining constant, post-tax loss for the year would have been $ 157 thousand lower (2012 - post-tax loss approximately $ 89 thousand lower; 2011 - post-tax loss approximately $ 30 thousand lower), mainly as a result of exchange rate changes on translation of other accounts receivable, net and exchange rate changes on NIS-denominated cash and cash equivalents and short-term deposits. Loss was more sensitive to movement in the exchange rate in relation to the NIS in 2012 than in 2011 mainly because of the increased amount of the NIS-denominated balances in the items of cash, receivables and payables of the Group.

b) Credit risks:

Credit risks are managed at the Group level. The Group has no significant concentrations of credit risk. The Group has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history and through retail sales in cash or by credit card.

The Group extends a 30-day term to its customers. The Group regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables. The Group provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information. Credit risks arise from cash and cash equivalents, restricted bank deposits as well as outstanding receivables.

NOTE 4: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont.)

The Group engages with banks and financial institutions which are independently rated A at least.

See Note 4b(2) for further disclosure on credit risk.

c) Liquidity risk:

Cash flow forecasting is performed by the Group's management both in the entities of the Group and aggregated by the Group. The Group's management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operations. The Group does not use borrowing credit facilities. These forecasting takes into consideration several factors such as raising capital to finance operations and certain liquidity ratios that the Group strives to achieve.

As for InterCure's ability to meet its operational cash requirements, see Note 1b above.

Surplus cash held to finance operating activities is invested in interest bearing current accounts, time deposits and other solid channels. These channels were chosen by reference to their appropriate maturities or liquidity to provide sufficient cash balances to the Group as determined by the abovementioned forecasts.

As of December 31, 2013 and 2012, the maturity of the Group's financial liabilities is less than one year from each of the reporting dates.

2. Capital management:

The Group's objectives when managing capital are to ensure the Group's ability to continue as a going concern in order to provide returns on investments for shareholders and benefits for other interested parties and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may take a variety of measures such as issue new shares or sell assets to reduce liabilities (see also Note 1b).

b. Financial instruments:

1. Financial instruments by category:

As of December 31, 2013 and 2012, all financial assets were classified in the category of loans and receivables. Likewise, all financial liabilities as of such dates were classified in the category of other financial liabilities at amortized cost.

NOTE 4:- FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont.)

2. Credit quality of financial assets:

The credit quality of financial assets can be assessed by reference to external credit ratings (if available).

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Cash at banks, short-term deposits and restricted deposits:		
AA+	819	1,822
AA	3,185	1,265
AA-	3	3
A	180	-
A-	-	242
	4,187	3,332
Cash not in banks	1	2
	4,188	3,334

3. Concentration of credit risks:

The majority of the Group's sales are conducted in the U.S. and the UK to a large number of customers. Accordingly, the balances of the Group's trade receivables do not represent a significant concentration of credit risk as of December 31, 2013.

NOTE 5:- BUSINESS COMBINATIONS AND CONSOLIDATED COMPANIES

On June 13, 2012, the Company entered into an agreement in principle with InterCure, according to which, subject to carrying out the debt settlement pursuant to Article 350 of the Israeli Companies Law, 1999 (the "**Settlement**") before the transaction, in which InterCure will convert all its debts into Ordinary shares of InterCure based on the distribution mechanism determined with all its debtors (including its employees). Once the Settlement was consummated, the Company acquired the control over InterCure in consideration for investing an aggregate amount of approximately $ 2.7 million, partly in cash and partly by the issuance of Company shares. Also, besides the Company's investment in InterCure, a third party ("**Medica Fund**") will invest in InterCure an amount of approximately $ 630 thousand.

As part of the prerequisites underlying the agreement, InterCure undertook to be free of any net debts and/or monetary liabilities on the date of closing of the transaction as well as any contingent liabilities, excluding an amount of up to $ 150 thousand in net liabilities.

NOTE 5:- BUSINESS COMBINATIONS AND CONSOLIDATED COMPANIES (Cont.)

On July 25, 2012, the transaction was completed after all the prerequisites had been met and the Company acquired 16,839,532 Ordinary shares of InterCure with no par value, in consideration of a private placement of 7,165,662 Ordinary shares of the Company of NIS 0.1 par value each, whose value on the date of signing the agreement, measured according to the quoted market price of the Company's shares on the Tel-Aviv Stock Exchange, was approximately $ 2.2 million, and which represents a value of InterCure of $ 1.75 million before the money, but after all of InterCure's debts were converted as described above ("**InterCure's Adjusted Value**"). The fair value of the Company's shares on the date of consummation of the transaction was approximately $ 2,469 thousand. In the year ended December 31, 2013, InterCure sold 1,097,719 shares of the Company for an aggregate amount of approximately $ 283 thousand. In addition, the Company provided InterCure an amount of approximately $ 150 thousand in cash on the basis of InterCure's Adjusted Value. After affecting the above allocation, the Company held approximately 50.79% of the issued and outstanding share capital of InterCure. The investment of Medica Fund on the date of closing on the basis of InterCure's Adjusted Value amounted to approximately $ 460 thousand.

Further, the Company and Medica Fund provided InterCure a loan of $ 500 thousand (the Company's share is $ 330 thousand) for a period of up to ten months at an overall interest rate of 15%. The Company and Medica Fund have the right to convert the loan into an additional 11,546,507 shares of InterCure (the Company's share was 7,620,695 shares) which would constitute, upon conversion and assuming full dilution on the date of closing, approximately 24.47% of the issued and outstanding share capital of InterCure (the Company's share in the convertible loan was 16.15% of the issued and outstanding share capital of InterCure). On August 6, 2012, Medica Fund converted the loan it provided InterCure into shares.

On May 16, 2013, the Company informed InterCure of its decision to convert the entire convertible loan which had been extended by the Company in the context of the acquisition into 7,620,695 ordinary shares of InterCure, as predetermined in the acquisition agreement. Following said conversion, and as of the date of the approval of the financial statements, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital.

On October 28, 2012, InterCure allocated 20,185,184 performance-based stock options exercisable into 20,185,184 Ordinary shares with no par value to Giboov Ltd. ("**Giboov**"). For additional information, see Note 18a below.

NOTE 5:- BUSINESS COMBINATIONS AND CONSOLIDATED COMPANIES (Cont.)

The table below summarizes the consideration paid for the Company's share in InterCure, the amounts recognized in the consolidated financial statements for the assets acquired and liabilities assumed and the fair value on the date of acquisition (July 25, 2012) of non-controlling interests:

	U.S. dollars in thousands
Consideration:	
Cash	*) 479
Fair value of Company shares issued in the acquisition	**) 2,469
Total consideration transferred	2,948
Amounts recognized for identifiable assets acquired and liabilities assumed:	
Current assets (including a convertible loan of $ 330 thousand extended to InterCure by the Company)	1,538
Treasury shares	2,469
Property, plant and equipment	51
Intangible assets	***) 2,397
Current liabilities	(843)
Employee benefit liabilities	(11)
Total net identifiable assets	5,601
Non-controlling interests at fair value	(1,858)
Gain from bargain purchase	(795)
	2,948

*) Includes an amount of $ 330 thousand transferred by the Company against a convertible loan, as explained above.

**) The fair value as of the date of completion of the transaction, July 25, 2012 (see below).

***) Including technology in the amount of $ 1,909 thousand ($ 238 as of December 31, 2013) and brand name in the amount of $ 488 thousand ($ 62 as of December 31, 2013) thousand which are amortized using the straight-line method over periods of nine and ten years, respectively.

The fair value of the Company's Ordinary shares which were issued as part of the consideration in the transaction to acquire InterCure was measured on the basis of the quoted share price in an active market (the Tel-Aviv Stock Exchange) as of the date of closing, after weighing in the fact that shares granted to InterCure are restricted for periods between 0.5 and 1.25 years, by virtue of the provisions of the Israeli Securities Law, 1968 and the Israeli Securities Regulations (Details with regard to Sections 15A to 15C of the Law), 2000.

NOTE 5:- BUSINESS COMBINATIONS AND CONSOLIDATED COMPANIES (Cont.)

The Group elected to measure non-controlling interests at fair value as of the date of business combination. The fair value of non-controlling interests was measured by quoting the price for InterCure share on July 26, 2012, the first trading day on the Tel-Aviv Stock Exchange after the date of closing with the addition of the equity component of the loan Medica Fund provided InterCure.

The fair value of trade receivables and other accounts receivable is $ 159 thousand. This amount includes a trade receivable balance with a fair value of $ 79 thousand. The gross contractual amount of the trade receivable balance is $ 175 thousand, of which an amount of $ 96 thousand was expected to be uncollectible.

The revenues included in the consolidated statement of comprehensive loss from the acquisition date arising from the consolidation of InterCure's results totaled approximately $ 938 thousand for the year ended December 31, 2012. Moreover, the consolidation of InterCure's results has increased the loss by $ 649 thousand (including amortization of excess cost on the acquisition in the amount of $ 176 thousand) for the year then ended.

Had InterCure's accounts been consolidated from January 1, 2012, the consolidated statement of comprehensive loss would have included revenues of $ 2,267 thousand and an increase in income of $ 11,628 thousand for the year ended December 31, 2012 (including income from the debt refinancing of $ 12,404 thousand).

The Company's statement of comprehensive loss for the year ended December 31, 2012 included transaction related costs totaling approximately $ 30 thousand presented in general and administrative expenses.

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Cash in banks and on hand	1,010	1,178
Bank deposits for periods of three months or less	1,877	518
	2,887	1,696

NOTE 6:- CASH AND CASH EQUIVALENTS (Cont.)

The currencies in which the cash and cash equivalents are denominated or linked to are:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
U.S. dollars	2,199	862
NIS (not linked to the Israeli CPI)	680	833
Other currencies	8	1
	2,887	1,696

NOTE 7:- SHORT-TERM DEPOSITS

a. The currencies in which the short-term deposits are denominated:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
U.S. dollars	500	1,008
NIS (not linked to the Israeli CPI)	778	608
	1,278	1,616

b. The U.S. dollar-denominated deposits earn annual interest at the average rate of 0.85%. The NIS-denominated deposits earn annual interest at the average rate of 1.01%.

The carrying amount of short-term deposits is a reasonable approximation of the fair value because the effect of discounting is immaterial.

c. In addition, the Company has a restricted deposit in connection with its office lease agreement. As of December 31, 2013 and 2012, the restricted deposit balance was $ 23 thousand and $ 22 thousand, respectively.

NOTE 8:- TRADE RECEIVABLES

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Open debts	90	52
Credit cards	42	30
Less - allowance for doubtful accounts	(6)	(6)
	126	76

The Group's sales (through InterCure) are made both directly to consumers and through resellers and retail chains. Direct sales to consumers are made using credit cards on the date of order. The credit term to resellers is up to 60 days.

Impaired debts are accounted for through recording an allowance for doubtful accounts.

The movement in the allowance for doubtful accounts is as follows:

	U.S. dollars in thousands
Balance at July 25, 2012	96
Charge for the year	12
Derecognition of bad debts	(102)
Balance at January 1, 2013	6
Balance at December 31, 2013	6

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Undue balances (without arrears)	Overdue balances of 60-90 days	Overdue balances of 90-120 days	Total
	U.S. dollars in thousands			
December 31, 2013	94	8	24	126
December 31, 2012	64	12	-	76

NOTE 9:- OTHER ACCOUNTS RECEIVABLE

a. Composition:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Government authorities	67	56
Prepaid expenses	106	47
Receivables due to sale of investment in Proteologics	297	-
Other receivables	3	50
	473	153

b. The currencies in which other accounts receivable which are monetary items are denominated or to which they are linked are as follows:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
U.S. dollars	-	13
NIS	367	93
	367	106

The carrying amount of other accounts receivable is a reasonable approximation of the fair value because the effect of discounting is immaterial.

NOTE 10:- INVENTORIES

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Raw and auxiliary materials	52	42
Finished goods	250	187
	302	229

NOTE 11:- ADDITIONAL INFORMATION ABOUT INVESTMENT IN INVESTEES

Name and country of incorporation of subsidiary	Date	Equity interests and voting rights	Scope of investments in investee (in $ 000)	Stock Exchange data *)	Dividends received or receivable
1 Xtepo Ltd., incorporated in Israel	31.12.13	100%	3,862	-	-
	31.12.12	100%	3,919	-	-
2 XTL Biopharmaceuticals Inc., incorporated in Delaware	31.12.13	100%	(144)	-	-
	31.12.12	100%	(163)	-	-
3 InterCure Ltd., incorporated in Israel				TASE, value of shares as of 31.12.13 - $ 754	
	31.12.13	54.72%	2,144	thousand	-
				TASE, value of shares as of 31.12.12 - $ 2,016	
	31.12.12	45.41%	2,916	thousand	-
4 Proteologics Ltd., incorporated in Israel	31.12.13	-	-	-	-
				TASE, value of shares as of 31.12.12 - $ 1,045	
	31.12.12	31.24%	2,336	thousand	-

*) The data relates to the value of the shares held by the Company as of December 31, 2013.

The total non-controlling interest as of December 31, 2013 and 2012 is $ 523 and $ 2,071, respectively, and is attributable entirely to InterCure.

Set out below is the summarized financial information for InterCure as of December 31, 2012 and 2013 and for the respective years then ended:

a. InterCure Ltd. – Summarized consolidated balance sheet *)

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Current assets**	1,623	3,703
Current liabilities	634	1,243
Total current net assets	989	2,460
Non-current assets***	440	2,470
Non-current liabilities	11	13
Total non-current net assets	429	2,457

Net assets	1,418	4,917

** Including treasury shares of the Company, presented at fair value.
*** Including intangible assets, net, recognized in the Company's purchase of InterCure.

NOTE 11:- ADDITIONAL INFORMATION ABOUT INVESTMENT IN INVESTEES (Cont.)

b. InterCure Ltd. - Summarized consolidated income statement *)

	Year ended December 31, 2013	July 25, 2012 – December 31, 2012
	U.S. dollars in thousands	
Revenue	2,369	938
Profit (loss) before income tax**	(3,887)	(649)
Income tax income (expense)	-	-
Post-tax profit (loss) from continuing operations	(3,887)	(649)
Other comprehensive gain (loss)	73	(73)
Total comprehensive loss	(3,814)	(722)
Total comprehensive loss allocated to non-controlling interests	(1,787)	(392)

** Including amortization and impairment of intangible assets, net, recognized in the Company's purchase of InterCure.

c. InterCure Ltd. - Summarized consolidated cash flows *)

	December 31, 2013
	U.S. dollars in thousands
Net cash used in operating activities	(955)
Net cash generated from investing activities	209
Net cash generated from (used in) financing activities	-
Net decrease in cash and cash equivalents	(746)
Cash and cash equivalents at beginning of year	966
Cash and cash equivalents at end of year	220

*) The information above is the amount before inter-company eliminations.

NOTE 12:- INVESTMENT IN ASSOCIATE

a. On November 21, 2012, in an off-market transaction, the Company acquired from Teva Pharmaceutical Industries Ltd. ("**Teva**") 4,620,356 Ordinary shares of NIS 1.0 par value each of Proteologics, representing Teva's entire stake in Proteologics - approximately 31.35% of Proteologics' issued and outstanding share capital (as of the acquisition date) - in consideration of approximately NIS 6.5 million (approximately $ 1.7 million).

Proteologics is a public company traded on the TASE which at the time of the acquisition of its shares by XTL, was engaged in the discovery and development of drugs operating on various components of the Ubiquitin system.

On August 22, 2013, Proteologics' board of directors resolved to terminate Proteologics' operations effective immediately.

On September 12, 2013, the Company signed an agreement with Zmiha Investment House Ltd. ("**Zmiha**") for the sale of its entire investment in Proteologics, representing 44.95% of Proteologics' issued and outstanding share capital as of the date of the agreement, after having purchased an additional 14.13% of the shares of Proteologics from Aurum Ventures MKI Ltd. ("**Aurum**") on September 11, 2013, in consideration for the issuance of 3,031,299 shares of NIS 0.1 par value each of the Company to Aurum. Consideration for the sale to Zmiha totaled approximately $ 3.4 million (approximately NIS 12 million). According to the agreement, on the consummation date, the Company received an amount of approximately $ 2.7 million (approximately NIS 9.6 million) with the balance to be held in escrow until the completion of an inspection process by an inspector and the execution of a stay of proceedings pursuant to section 350 to the Companies Law in Proteologics. As of the reporting date, the majority of the consideration has been delivered to the Company and an amount of approximately $ 0.3 million (approximately NIS 1 million) remains in escrow according to the agreement. The agreement was effective as of September 17, 2013. As a result, as of December 31, 2013, the Company no longer holds any shares of Proteologics. On February 7, 2014, the remaining amount held in escrow payable to the Company with regard to the sale of its investment in Proteologics, totaling approximately $ 0.3 million, was transferred to the Company.

b. The amounts recognized in the consolidated statements of financial position are as follows:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Investment in Proteologics	-	2,336

NOTE 12:- INVESTMENT IN ASSOCIATE (Cont.)

c. The amounts recognized in the income statement are as follows:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Equity gains (losses)	(845)	569
Gain due to exercise of options in associate	10	-
Capital gain from sale of investment	1,051	-
	216	569

d. The movement in the investment in 2013:

	U.S. dollars in thousands
Balance as of January 1, 2013	2,336
Equity losses	(845)
Gain due to exercise of options in associate	10
Foreign currency translation adjustments of foreign operations	108
Purchase of shares from Aurum	913
Disposal of investment	(2,522)
Balance as of December 31, 2013	-

e. Data of the Company's share in the results of Proteologics in the period from the acquisition date through December 31, 2012 and the Company's share in Proteologics' assets and liabilities as of December 31, 2012:

	As of December 31, 2012 U.S. dollars in thousands
Assets *)	2,994
Liabilities *)	(403)
Revenues	(64)
Loss *)	(144)

*) Including balances/adjustments of excess cost.

NOTE 12:- INVESTMENT IN ASSOCIATE (Cont.)

As of December 31, 2013, the Company no longer holds any shares of Proteologics. As of December 31, 2012, the fair value of the Company's ownership rights in Proteologics, based on the quoted market price of the Company's shares on that date, totaled approximately $ 1,045 thousand, an amount lower than the net cash of Proteologics at the time. The Company's management, based on a purchase price allocation performed by an outside appraiser, estimated that market value did not represent the economic value of Proteologics as of the transaction date, November 21, 2012.

NOTE 13:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

The composition of property, plant and equipment and accumulated depreciation, by major classes, and the movement therein in 2013 are:

	Office furniture and equipment	Computers	Production molds	Total
	U.S. dollars in thousands			
Cost:				
Balance at January 1, 2013	38	83	51	172
Additions during the year	-	11	-	11
Disposals during the year	(14)	(8)	-	(22)
Balance at December 31, 2013	24	86	51	161
Accumulated depreciation:				
Balance at January 1, 2013	15	75	10	100
Additions during the year	2	8	10	20
Disposals during the year	(12)	(8)	-	(20)
Balance at December 31, 2013	5	75	20	100
Depreciated cost at December 31, 2013	19	11	31	61

NOTE 13:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

The composition of property, plant and equipment and accumulated depreciation, by major classes, and the movement therein in 2012 are:

	Office furniture and equipment	Computers	Production molds	Total
	U.S. dollars in thousands			
Cost:				
Balance at January 1, 2012	49	81	-	130
Additions during the year	-	6	-	6
Disposals during the year	(11)	(4)	-	(15)
Initially consolidated company	-	-	51	51
Balance at December 31, 2012	38	83	51	172
Accumulated depreciation:				
Balance at January 1, 2012	22	76	-	98
Additions during the year	2	3	10	15
Disposals during the year	(9)	(4)	-	(13)
Balance at December 31, 2012	15	75	10	100
Depreciated cost at December 31, 2012	23	8	41	72

b. Additional information:

In 2013, 2012 and 2011, depreciation of property, plant and equipment was charged to general and administrative expenses.

NOTE 14:- INTANGIBLE ASSETS

a. Composition and movement:

The composition of intangible assets and accumulated amortization, by major classes, and the movement therein in 2013 are:

	Licenses and patent rights	Technology	Brand name	Software	Total
	U.S. dollars in thousands				
Cost:					
Balance at January 1, 2013	2,457	1,909	488	153	5,007
Balance at December 31, 2013	2,457	1,909	488	153	5,007
Accumulated amortization:					
Balance at January 1, 2013	-	92	21	8	121
Additions during the year	-	212	49	31	292
Impairment	-	1,372	357	-	1,729
Balance at December 31, 2013	-	1,676	427	39	2,142
Amortized cost at December 31, 2013	2,457	233	61	114	2,865

NOTE 14:- INTANGIBLE ASSETS (Cont.)

The composition of intangible assets and accumulated amortization, by major classes, and the movement therein in 2012 are:

	Licenses and patent rights	Technology	Brand name	Software	Total
	U.S. dollars in thousands				
Cost:					
Balance at January 1, 2012	2,457	-	-	-	2,457
Additions during the year	-	-	-	153	153
Initially consolidated company	-	1,909	488	-	2,397
Balance at December 31, 2012	2,457	1,909	488	153	5,007
Accumulated amortization:					
Balance at January 1, 2012	-	-	-	-	-
Additions during the year	-	92	21	8	121
Initially consolidated company	-	-	-	-	-
Balance at December 31, 2012	-	92	21	8	121
Amortized cost at December 31, 2012	2,457	1,817	467	145	4,886

b. Amortization expenses:

Amortization expenses of intangible assets are classified in profit or loss as follows:

	Year ended December 31,	
	2013	2012
	U.S. dollars in thousands	
Cost of sales	212	92
Selling and marketing expenses	80	29
	292	121

NOTE 14:- INTANGIBLE ASSETS (Cont.)

c. On August 3, 2010, the Company completed the share swap transaction with the shareholders of Bio-Gal Ltd. (the "**Transaction**") in which the Company acquired 100% of the shares of Xtepo, which for the Transaction purposes held an exclusive license to use the patented recombinant EPO (rHuEPO) drug for treating Multiple Myeloma and also held cash totaling approximately $ 1.5 million on the date of completion of the transaction, in return for the allocation of 133,063,688 Ordinary shares of NIS 0.1 par value each, representing approximately 69.44% of the Company's issued and outstanding share capital after completion of the Transaction.

Following the closing of the Transaction, the Company recognized in its accounts an intangible asset representing the license for the exclusive use of the patent for the rHuEPO drug for Multiple Myeloma as well as every clinical study and accumulated knowhow underlying the patent in a total of approximately $ 2,265 thousand (excluding transaction costs of approximately $ 187 thousand), based on its fair value as of the date of closing of the Transaction according to an independent external valuation.

On May 29, 2011, the Company received the approval of the FDA, a subdivision of the U.S. Health and Human Services, for orphan drug status for the rHuEPO drug which is patented by the Company until 2019. An "orphan drug" is defined as a drug for treating diseases that affect a relatively small number of people. In the U.S., an "orphan drug" is defined as a disease affecting fewer than 200,000 people a year. To encourage the development of drugs for these diseases, the different regulatory authorities grant benefits and incentives to developers. The main standard benefit of orphan drugs in the U.S. is receiving seven years marketing exclusivity from the date of marketing approval by the FDA, as far as the FDA gives such approval. Other benefits are local U.S. tax credits for research and development expenses and waiver of FDA filing fees.

According to the guidance of IAS 38, this asset is not systematically amortized and the Company reviews the asset for impairment once a year or more frequently if indicators show that the asset may be impaired.

In December 2013, the Company tested the asset for impairment with the assistance of a consultant in accordance with the guidance of IAS 36. According to the valuation performed, there is no need to reduce the value of the asset in relation to its carrying amount. Since there are no similar transactions according to which the fair value of the patent can be determined, the value of the patent was determined by the value in use on the basis of the discounted future cash flow method for the years 2014 to 2027. The discount period was determined on the basis of the estimated schedules to perform the clinical trials in order to approve the drug for marketing and under the limitation of the patent years and the orphan drug designation as above.

NOTE 14:- INTANGIBLE ASSETS (Cont.)

The key assumptions used by the external expert in measuring value-in-use as of December 31, 2013 are: life of phase 2 and 3 clinical trials of 3 and 3.5 years, respectively, expected penetration levels from 10% in 2021 to 55% in 2025-2027 out of an estimate of 60,756 new cases of Multiple Myeloma diagnosed each year, royalties at the rate of 12.5% and (pre-tax) discount rate of 26%.

d. On September 1, 2010, the Company and Yeda Research and Development Co. Ltd. ("**Yeda**") entered into a license agreement of an exclusive right to examine a medical technology in the field of the immune system, comprising two proteins through which target molecules are examined and may serve as a basis for the development of therapeutics for diseases relating to the immune system, such as acute Hepatitis, rheumatoid arthritis, Crohn's disease, psoriasis etc. Under the agreement, the Company purchased this exclusive right to examine the medical technology for a 15-month period ("the right") in consideration of $ 120 thousand (the "**Option Fee**") payable by the Company in the following manner and at the earlier of: (i) in the event of raising by a public prospectus more than $ 2 million, the Company is obligated to settle the payment to Yeda in cash; or (ii) if 12 months after the date of closing of the agreement an amount of more than $ 2 million is not raised, the liability to Yeda can be satisfied, at the Company's election and after obtaining Yeda's approval to the timing, in cash or by issuance of Company stock options with an equivalent value. The Company's option to purchase said technology expired on November 30, 2011 and the Company elected not to exercise the option.

On July 11, 2013, the Company and Yeda entered into an amendment to the license agreement, according to which the Company shall pay Yeda an amount of $ 120 thousand in the following manner: (a) $ 30 thousand in cash, payable as of the date of the amendment, and (b) an additional amount of $ 90 thousand shall be paid by the Company to Yeda upon the earlier of: (a) a capital raise in the amount of $ 2 million and (b) upon the consummation of a transaction relating to the Company's Erythropoetin technology with any third party, which includes the receipt by the Company of a consideration of at least $ 2 million.

In the years ended December 31, 2011 and 2010, the Company recognized in its accounts amortization expenses of $ 88 thousand and $ 32 thousand, respectively relating to the right to examine a medical technology over the option period. These expenses were recorded in the item of research and development expenses.

e. On November 30, 2011, the Company completed the MinoGuard transaction according to which the Company acquired the activity of MinoGuard Ltd. ("**MinoGuard**"), founded by Mor Research Applications Ltd. ("**Mor**"), by obtaining an exclusive license to MinoGuard's entire technology, including the SAM-101 drug (combined drug to treat mental disorders focusing on schizophrenia) in return for royalties on sales and milestone payments to be provided throughout the clinical development process with no additional consideration. The drug is based on a combination of existing antipsychotic drugs and a known medicinal compound (Minocycline). For more details of the engagement with MinoGuard, see Note 18a(4) below.

NOTE 14:- INTANGIBLE ASSETS (Cont.)

f. As for intangible assets recognized for the first time after the completion of the InterCure transaction, as presented in Note 5 above, and due to a significant decline in InterCure's share price as quoted on the TASE, the Company hired the services of an external independent expert in order to establish whether or not an impairment exist in connection with the Technology and Brand Name assets recognized in the purchase price allocation study of InterCure.

The recoverable amount was assessed by management with the assistance of a consultant. In light of recent developments in InterCure, namely conclusions reached by its management and board of directors regarding its ability to continue operating as a going concern, several scenarios were taken into account by the expert. Each scenario was assigned a different weight in order to accommodate all scenarios into a weighted-average discounted cash flow. Such scenarios were as follows:

(i) The Liquidation scenario, under which the realizable value of InterCure's net operational assets was estimated, was assigned a weighting of 60%.

(ii) The Going concern scenario, establishing the value-in-use of InterCure's operations using the discounted cash flow method, was assigned a weighting of 40%. The value-in-use calculations use pre-tax cash flow projections covering an eight-year period and using extrapolation with specific adjustments expected until 2021, and a pre-tax discount rate of 33.3%. The value-in-use calculations included all factors in nominal terms.

The impairment test was based on assessments of financial performance and future strategies in light of current and expected market and economic conditions. Trends in the economic and financial environment, competition and regulatory authorities' decisions, or changes in competitors' behavior in response to the economic environment may affect the estimate of recoverable amounts in future periods.

For the purpose of the impairment test, InterCure was considered the lowest level for which there are separately identifiable cash flows – a Cash Generating Unit ("**CGU**"). Upon examination, the expert concluded that an impairment exists, and that InterCure's recoverable amount stands at $ 300 thousand. The impairment loss in the amount of $1,729 was recognized in loss from operations, and allocated between said intangible assets of the CGU pro rata, based on their respective carrying amounts (net of amortization), in the following amounts:

(a) Technology – $ 1,372 thousand;
(b) Brand Name – $ 357 thousand.

NOTE 15:- TRADE PAYABLES

a. Composition:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Open accounts	455	596
Checks payable	160	147
	615	743

The carrying amount of trade payables is a reasonable approximation of their fair value because the effect of discounting is immaterial.

b. The carrying amount of trade payables is denominated in the following currencies:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
U.S. dollars	405	515
NIS (not linked to the Israeli CPI)	208	224
Others	2	4
	615	743

NOTE 16:- OTHER ACCOUNTS PAYABLE

a. Composition:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Employees, consultants and payroll accruals	199	443
Provision for returns	45	32
Deferred revenue	35	-
Authorities	86	144
Accrued expenses	239	280
Other	-	7
	604	906

The carrying amount of other accounts payable is a reasonable approximation of their fair value because the effect of discounting is immaterial.

NOTE 16:- OTHER ACCOUNTS PAYABLE (Cont.)

b. The carrying amount of other accounts payable is denominated in the following currencies:

	December 31,	
	2013	2012
	U.S. dollars in thousands	
U.S. dollars	405	477
NIS (not linked to the Israeli CPI)	105	429
Other	94	
	604	906

NOTE 17:- EMPLOYEE BENEFIT LIABILITIES

a. According to the effective labor laws and employment agreements in Israel and overseas, the Company and the subsidiaries are obligated to pay compensation and/or pension to employees who are dismissed and, under certain circumstances, to employees who retire.

b. The Company's obligation for pension payment in Israel and the Company's obligation for compensation payments to employees in Israel for whom the applicable obligation is pursuant to section 14 to the Severance Pay Law, are covered by fixed contributions into defined contribution plans. The amounts contributed as above are not reflected in the statements of financial position. In 2013, section 14 to the Severance Pay Law applied to most of the Company's employees.

The amount recognized as an expense for defined contribution plans in 2013, 2012 and 2011 was $ 26 thousand, $ 23 thousand and $ 22 thousand, respectively.

c. A member of the Group in Israel has an obligation to pay severance to an employee which represents a defined benefit plan. The Group member has severance pay funds and executive insurance policies in which it deposits funds in respect of this obligation. The amount of accrued severance pay, net included in the statements of financial position as of December 31, 2013 and 2012 reflects the difference between the accrued severance pay and the severance pay funds.

Since as of December 31, 2013, section 14 to the Severance Pay Law applies to most of the Company's employees, as above, pursuant to which they are covered by fixed contributions to defined contribution plans, no contributions to defined benefit plans are expected for the year ending December 31, 2014.

NOTE 18:- COMMITMENTS

a. Royalty and contingent milestone payments:

1. On September 14, 2012, InterCure entered into a strategic service agreement with Giboov Ltd. ("**Giboov**") for a period of three years according to which online marketing and sale services were to be provided to InterCure.

As per the agreement, in addition to periodic payments made to Giboov, and based on Giboov's achievement of said sales targets, it will be allocated up to 20,185,184 non-marketable stock options that are exercisable into InterCure shares, for an exercise (dividend adjusted) price equivalent to NIS 0.54 per stock option.

On October 28, 2012, the Company's general meeting approved the Company's engagement in the strategic service agreement with Giboov, including the allocation of stock options and the items of the strategic agreement relating to said allocation.

The expenses in respect of the grant were recorded similarly to share-based payment to employees, pursuant to the provisions of IFRS 2. The fair value of all performance-based stock options according to the Monte Carlo model pursuant to IFRS 2 as of the date of approval by InterCure's special meeting approximates $ 2,169 thousand. The maximum stock option exercise term is five years from the date of allocation.

After the reporting period, on January 20, 2014, InterCure announced it had entered in an agreement with Giboov to terminate the Strategic Service Agreement, effective as of January 31, 2014 (the "**Arrangement**"). According to the Arrangement, all 20,185,184 non-marketable stock options for the purchase of InterCure shares which were granted to Giboov under the Strategic Service Agreement expired on March 1, 2014, resulting in a reversal in 2013 of the expenses recognized in 2012 in the amount of $ 132. Following said expiration, Giboov holds no such non-marketable stock options.

Further, on January 23, 2014, InterCure announced that it has agreed to retain the services of Universal McCann Israel, Ltd. ("**McCann**") in which McCann will provide professional services relating to the promotion and marketing of InterCure's products via the internet for a period of three years effective February 1, 2014. According to the new agreement, InterCure shall pay McCann a monthly fee in exchange for online marketing services, ranging between $ 8 thousand and $ 13 thousand, and contingent upon achievement of sales targets.

NOTE 18:- COMMITMENTS (Cont.)

2. On March 14, 2012, the Company signed a strategic collaboration master agreement with Clalit Health Services - Clalit Research Institute Ltd. ("the Institute") and Mor Research Applications Ltd. ("**Mor**") according to which the Institute provides the Company the right to receive data which are based on the Institute's database in connection with technologies that stem from inventions and patents of Clalit Health Services' physicians, in projects whose content shall be agreed upon by the Company, the Institute and Mor in advance and in writing.

   In consideration for the above, the Company shall pay the Institute the cost basis related to the Institute's activity in the framework of any project plus an additional 10% of the total royalties to which Mor is entitled pursuant to its agreements with the Company in connection with each technology where rights were granted to the Company.

   This agreement may be terminated by giving a written and advance notice of 180 days by any of the parties on condition that all joint active projects have reached their end. As of the date of the approval of the financial statements, the Company has no active projects with the Institute.

3. On November 30, 2011, the Company completed the MinoGuard transaction according to which an exclusive license to the SAM-101 drug (combined drug to treat mental disorders focusing on schizophrenia) was transferred to the Company. According to the terms of the agreement with MinoGuard, the Company will act to conduct clinical trials, develop, register, market, distribute and sell the drug candidates that will emerge from the technology, with no limitations to a specific disorder.

   In return for the receipt of the license, as above, the Company will pay MinoGuard cumulative milestone payments throughout the research and development and the approval of the drug in an aggregate of $ 2.5 million. In addition, the Company will make royalty payments to MinoGuard of 3.5% on sales of products derived from the license and/or a percentage of the Company's net income of any third-party sublicense in the range of 7.5% to 20% depending on the clinical phase of the drug at the time of the above sublicense transaction.

NOTE 18:- COMMITMENTS (Cont.)

In addition to the above payments, if the Company does not commence a phase 2 clinical trial by June 30, 2013 (the agreement states that receipt of an approval to commence such trial or continuance of the clinical trials that were conducted/will be conducted by MinoGuard and/or its researchers, shall be deemed commencement of phase 2 clinical trial for this matter), the Company will then pay MinoGuard an annual license fee of $ 45 thousand for the first payment and its cost will increase by $ 90 thousand per year (should the trial not commence) up to $ 675 thousand for the eighth year of license. The Company can pay any of the above amounts in cash or by issuance of securities to MinoGuard, at its sole discretion. In accordance with the agreement, and since as of June 30, 2013, the Company had not commenced a phase 2 clinical trial, it has paid MinoGuard an annual license fee, by way of issuance of 175,633 ordinary shares of the Company, representing a value of $45,000, for the 12 month period between July 1, 2013 and June 30, 2014.

The licensed technology transferred to the Company is protected by a registered patent through 2027. If the Company does not commence a phase 2 clinical trial (as described above) within 9.5 years from the date of the license agreement, the license will expire.

4. On November 2, 2011, the Company entered into a term sheet by which it will acquire a technology ("**NiCure**" or the "**Technology**") from Mor Research Applications Ltd., the Technology Transfer Office of Clalit Health Services, by obtaining an exclusive license to use the entire technology in return for royalties on sales and milestone payments throughout the clinical development process. The agreement that will be signed by the parties is subject to, among others, the completion of a due diligence study, examination of the regulatory environment for the continued development of the technology and the approval of the Company's Board.

   The technology mentioned above is based on the local administration of renin-angiotensin inhibitors (a known drug for the treatment of hypertension, "Enalaprilat") and is a novel treatment for the symptoms of cartilage-related diseases (such as Osteoarthritis). The therapy focuses on increasing or replenishing the level of glycoaminoglycans (GAGs) in the synovial fluid and cartilage, thereby relieving or even reversing symptoms of such diseases. Moreover, the same technology can be used to treat skin wrinkles.

   According to estimates of the scientists who have invented this technology, the technology may enter a phase 2 clinical trial for the continuance of the clinical development based on this technology, as the drug mentioned above was approved for the treatment of reducing hypertension and is being provided to patients for already 20 years.

   As of the date of the approval of the financial statements, the transaction has not been closed and the Company is considering the adapting of this project to its business plan.

NOTE 18:- COMMITMENTS (Cont.)

5. As stated in Note 14c above, on August 3, 2010, the Company closed the Bio-Gal Transaction. According to this agreement, the Company is obligated to pay 1% royalties on net sales of the product and $ 350 thousand upon the successful completion of a phase 2 clinical trial. The payment conditions for the above amount are at the earlier of occurrence of the following events:

   (i) Raising at least $ 2 million by the Company or Xtepo after a successful completion of a phase 2 clinical trial;

   (ii) Six months after the successful completion of a phase 2 clinical trial.

6. In January 2007, a subsidiary committed to pay advisory fees to a third party in connection with the DOV transaction. In October 2008, in furtherance to the above commitment, the Company and the subsidiary entered into an agreement with the third party according to which the advisory fees will be based on share appreciation rights in the Company as follows:

   (i) 3% of the Company's fully diluted shares as of the date of the transaction, representing 1,659,945 shares exercisable one year after the date of the transaction;

   (ii) 7% of the Company's fully diluted shares as of the date of the transaction, representing 3,873,204 shares vesting on the occurrence of certain events which represent a "milestone event."

   Payment of the share appreciation rights can be satisfied, at the Company's election, in cash or by issuance of the Company's shares. Upon the exercise of share appreciation rights by the issuance of shares, the payment will be equal to the difference between the market value (the greater of the share price on the exercise date or the average share price in the preceding five days) and $ 1.7. The share appreciation rights expire on January 15, 2017.

   Share appreciation rights in the amount equivalent to 3% are exercisable, as stated above, and presented in equity in accordance with IFRS 2 whereas share appreciation rights in the amount equivalent to 7%, as stated above, expired in March 2010 with the termination of the Company's license agreement with DOV for the Bicifadine drug.

NOTE 18:- COMMITMENTS (Cont.)

7. During September 2005, the Company acquired from VivoQuest patent rights and other assets (DOS program), covering a proprietary compound library, which includes hepatitis C compounds, laboratory equipment and employment agreements with research and development employees in consideration of approximately $ 1,939 thousand (including transaction costs of $ 148 thousand), of which an amount of $ 1,391 thousand was paid by issuance of Ordinary shares of the Company. According to the agreement with VivoQuest, the Company is obligated to contingent milestone payments triggered by certain regulatory and sales targets, totaling as of the reporting date $ 34 million, of which $ 25 million due upon regulatory approval or actual product sales, and payable in cash or issuance of shares at the Company's election. No contingent consideration has been paid pursuant to the license agreement as of December 31, 2013 because none of the milestones have been achieved. The Company is also obligated to make royalty payments to VivoQuest on future product sales.

   In March 2008, the Company signed an agreement (as revised in August 2008) to sell the DOS program development rights to the U.S. Presidio in consideration of $ 5.94 million in cash. Under this agreement, Presidio becomes responsible for all further development and commercialization activities relating to the DOS program. Presidio is also obligated to pay the Company up to $ 59 million upon reaching certain milestones and royalty payments ranging from 1% to 10% on product sales by Presidio. Presidio is also obligated to pay the Company for any milestone consideration owed to VivoQuest pursuant to the VivoQuest license agreement.

   On August 22, 2012, Presidio requested to terminate the engagement with the Company in effect from August 24, 2012. Following the announcement of the termination of the agreement, the entire DOS technology (including all patents kept by Presidio) was returned to the Company within 90 days from the date of said announcement pursuant to the agreement.

   The Company intends to examine the renewal of activity in the field of Hepatitis C and/or locate strategic partners for the continued development and marketing of drugs for treating Hepatitis C based on the DOS technology.

b. Other commitments:

1. On January 15, 2004, a subsidiary, InterCure, received the Israeli Chief Scientist's letter of approval for developing a medical device for treating patients with congestive heart failure ("**CHF**") which included participation in R&D expenses in the amount of $ 200 thousand. According to the agreement with the Chief Scientist, InterCure will be obligated to pay royalties at a rate of 3%-5% of sales of products which are the result of the R&D activity funded by the Chief Scientist up to the amount of funding provided, linked to the exchange rate of the U.S. dollar with the addition of interest at the rate of Libor.

NOTE 18:- COMMITMENTS (Cont.)

As of December 31, 2013, InterCure has not yet commenced making sales of products combining the technology for treating CHF and therefore has not paid any royalties for this technology.

2. On February 12, 2010, InterCure Inc., a subsidiary of InterCure, entered into a marketing collaboration agreement (the "**Agreement**") with Omron Healthcare Inc., a U.S. subsidiary of the Omron Healthcare Group headquartered in Japan ("**Omron**"), which is a leading global supplier of home blood pressure monitors. According to the agreement, Omron and InterCure Inc. will co-develop consumer and medical marketing strategies for increasing the sales of the RESPeRATE, a non-drug, non-invasive hypertension treatment and blood pressure monitoring device. The agreement includes, among others, an item which grants Omron a right of first offer to acquire InterCure's activity if any offer is made by a third party.

NOTE 18:- COMMITMENTS (Cont.)

3. Obtaining approval for insurance indemnification in the UK - InterCure filed a motion for setting insurance indemnification amounts in the context of the British healthcare system. On November 17, 2011, InterCure announced that the British Department of Health had approved its motion regarding product insurance indemnification as part of the British healthcare services. Accordingly, InterCure signed several distribution agreements in the UK. On February 1, 2012, InterCure began selling the relevant product such that British patients who had been previously required to pay approximately £ 200 out of their own pocket to buy the product may now receive it at no charge or for a symbolic participation fee when producing a signed physician's prescription. In order to allow sales in the context of the UK drug tariff, InterCure has been preparing in the last few months to implement a plan for leveraging the approval in order to increase the device sales, taking into consideration its limited resources. The plan consisted of preparing an inventory of devices, setting up the appropriate logistic channels for marketing the device and investing in a public relations and advertising campaign to create awareness to the new manner of purchasing the device under the UK drug tariff. In the context of the marketing efforts, InterCure entered into an engagement with a public relations entity specializing in the medical field in the UK and contacted the relevant professional associations.

   The British Hypertension Society opinion:

   On June 7, 2012, InterCure announced that it had obtained an opinion from the British Hypertension Society (the "**Society**") of April 2012 (the "**Opinion**") which studied the InterCure's developed and sold RESPeRATE device for treating hypertension (the "**Device**"), as included in the UK drug tariff. In the Opinion, the Society stated that several clinical trials that had been performed on the Device over timeframes that do not exceed nine weeks indicate that the use of the Device has a significant effect of lowering both systolic and diastolic blood pressure, yet the Society believes that in view of the relatively small degree of the decreases and the relatively short effect of the trials, more trials must be conducted for longer timeframes for the Society to be able to recommend the Device.

   InterCure stated that it believes that the opinion is based on a solitary article which analyzed the results of trials using a problematic methodology which does not address the direct effect of the treatment on the patient. Consequently, the article's conclusions contradict the conclusions of several other independent articles which have recently reviewed the results of device trials and concluded that it is an efficient means of treating hypertension. InterCure aims to act to establish a dialog with the Society which might yield its reassessment of the Device.

NOTE 18:- COMMITMENTS (Cont.)

On January 21, 2013, InterCure announced that the examination conducted as part of the process of concluding the engagement with Mr. Erez Gavish, InterCure's former CEO ("**Mr. Gavish**"), revealed several issues which require inspection in connection with InterCure's actions during Mr. Gavish's term as CEO, including the legal validity granted to the License Agreement of October 2011 signed between InterCure and Yazmonit. InterCure's board of directors appointed a committee which included an external attorney hired for this purpose and another director in InterCure in order to investigate the issue and provide InterCure's board of directors with its conclusions. In addition, a notice was delivered to Mr. Gavish and Dr. Gavish on the establishment of said committee which summoned the two to provide explanations regarding the issues under inspection and requested that they inform any of their future potential partners or investors of the inspection of the legal validity of the License Agreement.

On April 7, 2013, InterCure announced that an originating summons had been filed by Yazmonit against it, with the Tel-Aviv-Jaffa district court (the "**Court**"), according to which the Court was asked to render a verdict which declares that the License Agreement had been approved and signed and the rights therein had been conferred and transferred by the respondent to the petitioner as required by law. Moreover, on May 13, 2013, InterCure filed a petition with the Court for dismissing the originating summons in limine, and assigning the motion to a standard legal procedure. On July 17, 2013, InterCure announced that it had reached a settlement with Mr. Gavish and Dr. Gavish in connection with the amendment of the License Agreement. According to the amendment, Yazmonit will not be able to market its products under InterCure's RESPeRATE ^{TM} trademark and brand name.

c. Operating lease commitments:

1. As of December 31, 2013, the Company leases two vehicles under an operating lease. The lease agreements expire in 2014. Vehicle lease expense for the years ended December 31, 2013, 2012 and 2011 were $ 29 thousand, $ 33 thousand and $ 32 thousand, respectively. The lease fees are stated in NIS and are linked to the Israeli CPI. Expected lease fees for 2014 under the lease fees as of December 31, 2013 are approximately $ 4 thousand.

2. The Company entered into an operating lease agreement on the offices it uses. The agreement is in effect until August 2015. The lease fees are stated in NIS and are linked to the Israeli CPI. To secure the lease, the Company provided a bank guarantee which is secured by a restricted NIS deposit of approximately $ 23 thousand.

NOTE 18:- COMMITMENTS (Cont.)

The expected lease fees and management fees for subsequent years under the prevailing lease fees as of December 31, 2013 are as follows:

	U.S. dollars in thousands
2014	94
2015	60

The Company entered into agreements with three subtenants to lease an office space for approximately $ 57 thousand a year. The agreements are in effect until April-November 2014 with a renewal option for some of the subtenants until August 2015.

3. In May 2010, a subsidiary, InterCure Inc., signed an agreement for the lease of offices for a period of three years. In May 2013, InterCure Inc. signed a revised lease agreement for an additional 12 months. The monthly lease fees are approximately $ 1 thousand.

NOTE 19:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

a. Composition:

	Number of shares				Amount			
	Authorized		Issued and outstanding		Authorized		Issued and outstanding	
	December 31,		December 31,		December 31,		December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
	In thousands				NIS in thousands			
Ordinary shares of NIS 0.1 *	700,000	700,000	**232,895	**229,472	70,000	70,000	**23,289	**22,947

* Traded on the TASE. The Company's ADRs are traded on the NASDAQ in the U.S. The share price was NIS 0.514 as of December 31, 2013.

** Including 6,067,943 and 7,165,662 treasury shares held by InterCure as of December 31, 2013 and 2012, respectively, as 1,097,719 shares were sold by InterCure in 2013.

b. Ordinary shares confer upon their holders voting rights and right to participate in the shareholders' meeting, right to receive dividends and the right to participate in the excess of assets upon liquidation of the Company.

c. On August 3, 2010, upon the closing of the Bio-Gal Transaction, 133,063,688 Ordinary shares of NIS 0.1 par value each were allocated to Xtepo's shareholders in return for 100% of the shares of Xtepo which, before closing, held a license for the exclusive use of the patent for the rHuEPO drug for Multiple Myeloma and approximately $ 1.5 million in its account.

NOTE 19:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

d. On March 7, 2011, the Company raised by public issuance on the TASE 12,305,000 Ordinary shares of NIS 0.1 par value each, 6,152,500 warrants (series 1) and 18,457,500 warrants (series 2) for immediate overall proceeds of approximately NIS 6.3 million (approximately $ 1.75 million) net of issuance expenses of approximately $ 68 thousand.

The warrants (series 1) were exercisable into Ordinary shares of NIS 0.1 par value each from the date of registration for trade on the TASE (March 9, 2011) to November 27, 2011 for an exercise increment of NIS 0.7 per share, linked to the U.S. dollar. On July 21, 2011, a shareholder in the Company exercised 15,544 warrants (series 1) into 15,544 Ordinary shares of NIS 0.1 par value each for an overall exercise increment of approximately $ 3 thousand. The remaining warrants (series 1) expired on November 27, 2011.

The warrants (series 2) were originally exercisable into Ordinary shares of NIS 0.1 par value each from the date of registration for trade on the TASE (March 9, 2011) to February 27, 2013 for an exercise increment of NIS 1 per share, linked to the U.S. dollar (as of December 31, 2013, the exercise increment was approximately NIS 0.96 per warrant). For details on extensions of term of the warrants (series 2), see Note 19j and Note 31 below.

e. On March 22, 2011, 4,666,667 unlisted warrants which had been issued in 2006 under a private placement to American investors expired.

f. On March 18, 2012, the Company's Board approved a private placement to institutional and private investors (foreign as well as Israeli) for the total of approximately $ 2.4 million (approximately NIS 9.1 million) net of issuance expenses of approximately $ 19 thousand. According to the private placement, the Company allocated 11,560,362 Ordinary shares of the Company of NIS 0.1 par value each, 3,853,454 warrants (series A) and 1,926,727 warrants (series B).

The warrants (series A) were exercisable into Ordinary shares of NIS 0.1 par value each from the date of allocation (March 18, 2012) to September 17, 2012 for an exercise increment of NIS 1.046 per share, linked to the U.S. dollar. See more details in i below.

The warrants (series B) are exercisable into Ordinary shares of NIS 0.1 par value each from the date of allocation (March 18, 2012) to March 17, 2015 for an exercise increment of NIS 1.124 per share, linked to the U.S. dollar.

NOTE 19:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

h. On June 1, 2012, the Company applied for the relisting of its ADRs on the NASDAQ (after the ADRs had been delisted from trade on the NASDAQ in July 2009), subject to compliance with all the criteria reviewed by the NASDAQ admissions committee, including minimum ADR price (according to the various listing criteria). On September 24, 2012, the Company's Board approved a change in the number of shares underlying the ADRs such that 20 Ordinary shares of the Company will constitute a single ADR, this in order to support the Company's compliance with the NASDAQ's ADR listing conditions. The record date of change in the ADR ratio is October 4, 2012. On July 10, 2013, the Company's management received a notice from NASDAQ representatives stating that the admission committee had approved the Company's application to relist its ADRs for trading on the NASDAQ Capital Market. Accordingly, on July 15, 2013, the Company's ADRs began trading on NASDAQ.

i. In the context of the consummation of the InterCure acquisition transaction, the Company purchased 16,839,532 Ordinary shares of InterCure with no par value in return for the allocation, by private placement, of 7,165,662 Ordinary shares of NIS 0.1 par value each of the Company.

j. In the year ended December 31, 2012, the Company's warrants (series 2) holders exercised 6,145,095 warrants (series 2) into 6,145,095 ordinary shares of NIS 0.1 par value each for an average exercise increment of approximately NIS 1.06 per warrant, for the overall proceeds of approximately $1,703 thousand (approximately NIS 6.5 million). In the year ended December 31, 2013, the Company's warrant (series 2) holders exercised 86,299 warrants (series 2) into 86,299 ordinary shares of NIS 0.1 par value each for an average exercise increment of approximately NIS 1 per warrant, for the overall proceeds of approximately $ 25 thousand. For additional information, see Note 31 below.

k. In the year ended December 31, 2012, the Company's warrants (series A) holders exercised 560,000 warrants (series A) into 560,000 Ordinary shares of NIS 0.1 par value each for an average exercise increment of approximately NIS 1.09 per warrant, for the overall proceeds of approximately $ 155 thousand (approximately NIS 0.6 million). On September 17, 2012, in accordance with the terms of the private placement of March 2012, the remaining unexercised 3,293,454 warrants (series A) of the Company expired.

l. On September 11, 2013, the Company issued Aurum a total of 3,031,299 Ordinary shares of the Company of NIS 0.1 par value each. For additional details, see Note 12 above.

m. On September 12, 2013, the Company issued MinoGuard a total of 175,633 Ordinary shares of the Company of NIS 0.1 par value each. For additional details, see Note 18a(4).

NOTE 20:- SHARE-BASED PAYMENT

a. Share-based payment in the Company:

On August 29, 2011, the Company's Board approved the adoption of an employee share option plan for the grant of options exercisable into shares of the Company in accordance with section 102 to the Israeli Tax Ordinance (the "**2011 Plan**") in lieu of the option plan established in 2001 (the "**2001 Plan**") which ended after 10 years, and the holding of up to 10 million shares in the framework of the 2011 Plan, for option allocation to Company employees, directors and consultants.

In May 2011, after 10 years, the 2001 Plan ended and, accordingly, since that date no new options can be granted under this plan. In August 2011, the 2011 Plan was approved (see details above). As of December 31, 2013, the remaining number of options available for grant under the 2011 Plan is 6,024,500 options.

The 2011 Plan shall be subject to the directives determined for this purpose in section 102 to the Income Tax Ordinance. Under the capital track which was adopted by the Company and the abovementioned directives, the Company is not entitled to receive a tax deduction that relates to remuneration paid to employees, including amounts recorded as salary benefit in the Company's accounts for options granted to employees in the framework of the plan, except the yield benefit component, if available, that was determined on the grant date.

The terms of the options which will be granted according to the 2011 Plan, including the option period, exercise price, vesting period and exercise period shall be determined by the Company's Board on the date of the actual allocation.

Below is information about share-based payments granted to the Group's directors, employees and service providers during the reported years in accordance with the 2001 and 2011 Plans pursuant to section 102 to the Income Tax Ordinance and options granted without a plan in accordance with section 3i to the Income Tax Ordinance:

1. In July 2009, the Company's Board approved the allocation of 1,400,000 unlisted stock options to the Company's former CFO which are exercisable into 1,400,000 Ordinary shares of NIS 0.1 par value each for an exercise increment of NIS 0.075 per stock option. The fair value of all stock options using the Black-Scholes model on the date the Board accepted the decision was approximately $ 148 thousand. The option exercise term is for a maximum period of 120 months from the grant date, such that 33.33% of the stock options are exercisable immediately and the remaining 66.67% stock options are exercisable in equal rates every month from the grant date for a three-year period.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 175%, risk-free interest rate of 3.85% and expected life of five years. The volatility is based on the historical volatility of the Company's share for comparative periods that commensurate with the expected term of the option.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

Likewise, the Company is committed to supplement the difference between the par value of the share and the exercise price in this plan on the actual exercise date by allocating amounts from share premium to share capital. For additional information, see note 20a(15) below.

2. On January 18, 2010, the Company's Board approved to grant 450,000 share options to directors in the Company to purchase 450,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.298 per share. On March 2, 2010, the annual meeting of shareholders approved to grant options to the directors. Pursuant to the guidance of IFRS 2, the fair value of all share options on the date of approval by the annual meeting, using the Black-Scholes model was approximately $ 36 thousand. The option term is for a period of 10 years from the grant date. 33% of the options are exercisable immediately and the remaining share options are exercisable in 24 tranches every month over a two-year period. On November 22, 2010, one of the optionees discontinued serving as a director and, accordingly, the 63,747 options granted to him have been forfeited.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 175%, risk-free interest rate of 3.9%-4.3% and expected life of five to six years.

3. On January 18, 2010, the Company's Board approved to grant 1,610,000 share options to the Company's former CEO to purchase 1,610,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.075 per share. On March 2, 2010, the annual meeting of shareholders approved to grant options to the Company's CEO with approval of his employment terms, subject to the closing of Bio-Gal Transaction (whose closing occurred on August 3, 2010). Pursuant to the guidance of IFRS 2, the fair value of all share options on the date of approval by the annual meeting, using the Black-Scholes model was approximately $ 133 thousand. The option term is for a period of 10 years from the grant date. 33% of the options are exercisable immediately and the remaining options are exercisable in 24 tranches every month over a two-year period.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 175%, risk-free interest rate of 3.87%-4.11% and expected life of five to six years. Likewise, the Company is committed to supplement the difference between the par value of the share and the exercise price in this plan on the actual exercise date by allocating amounts from share premium to share capital. For additional information, see note 20a(14) below.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

4. On January 26, 2010, the Company's Board approved to grant 100,000 stock options to an employee in the Company to purchase 100,000 Ordinary shares of NIS 0.1 par value each at an exercise price of NIS 0.1 per share. Pursuant to the guidance of IFRS 2, the fair value of all stock options on the date of the Board resolution using the Black-Scholes model was approximately $ 10 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 175%, risk-free interest rate of 4.3% and expected life of five to six years. On June 30, 2013, all 100,000 stock options were exercised for approximately $ 7 thousand.

5. On August 27, 2010, the Company's Board approved the employment agreement of Professor Moshe Mittelman as a senior officer - Medical Director of the development plan of the rHuEPO drug designed to treat multiple myeloma. It also approved the allocation of 640,000 share options (unlisted) to purchase 640,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.1 per share. The fair value of all share options on the date the Board accepted the decision using the Black-Scholes model was approximately $ 50 thousand. The option term is for a period of 10 years from the grant date. The options are exercisable in equal monthly tranches over a 24-month period.

   Also, upon the commencement of a phase 2 clinical trial (first-in-man), 50% of the unvested options (until the date of the commencement of the said trial) of Prof. Mittelman shall vest immediately. In addition, upon the termination by the Company (with no cause) of the Prof. Mittelman's employment agreement, 25% of Prof. Mittelman's unvested options (until the date of the said termination) shall vest immediately.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 160%, risk-free interest rate of 3.54%-3.68% and expected life of five to six years.

6. On June 1, 2011, the Company's Board approved to allocate to the Company's external consultant options that are exercisable into 120,000 Ordinary shares of the Company of NIS 0.1 par value each at an exercise price equal to NIS 0.572 per share. According to the provisions of IFRS 2, the fair value of all options on the grant date using the Black-Scholes model was approximately $ 19 thousand. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every month of the grant date over a 30-month period.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 155%, risk-free interest rate of 4.83% and expected life of 6.25 years.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

7. On March 19, 2012, in the context of the annual meeting of shareholders, 300,000 options were allocated to external directors in the Company that are exercisable into 300,000 Ordinary shares of NIS 0.1 par value each for an exercise increment of NIS 0.58633 per option. The fair value of all the options according to the Black-Scholes model pursuant to IFRS 2 as of the date of approval by the Company's general meeting was approximately $ 79 thousand. The exercise period of the options is a maximum of ten years from the allocation date. 33% of the options vested immediately upon allocation and the remaining options vest in 24 equal portions each month over a period of two years from the allocation date. The value of each option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 153%, risk-free interest rate of 4.08% and expected life until exercise of six years.

8. On April 12, 2012, the Company's Board approved the allocation of 1,810,000 stock options which are exercisable into 1,810,000 Ordinary shares of NIS 0.1 par value each of the Company for an exercise increment of NIS 0.9 per stock option as follows: 1,710,000 stock options to the Company's former Deputy CEO and CFO and 100,000 stock options to Company employees. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant (the date of the Company's Board's decision) was approximately $ 399 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 153.85%, risk-free interest rates of 3.67%-4.22% and expected life until exercise of 5-6.5 years. On June 30, 2013, an employee exercised 30,000 stock options of the 90,000 stock options granted to him, for approximately $ 2 thousand. The remaining 60,000 stock options granted to the employee, which had not yet vested at the time, were forfeited. For additional information, see note 20a(14) and (15) below.

9. On May 29, 2012, in the context of a special meeting of shareholders, 4,408,000 stock options were allocated to a director in the Company (the "Director") which were exercisable into 4,408,000 Ordinary shares of NIS 0.1 par value each of the Company for an exercise increment of NIS 0.9 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of approval by the Company's special meeting was approximately $ 1,255 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.09%, risk-free interest rates of 3.90%-4.16% and expected life until exercise of 5-6.5 years. On August 19, 2013, the Director resigned from his position, pursuant to which 2,938,668 stock options, which had not yet vested as of the date of resignation, were forfeited. The remaining 1,469,332 vested stock options were not exercised within the required period of 90 days from the resignation date, and had accordingly expired on November 17, 2013.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

In addition, 1,500,000 stock options were allocated to the Company's former CEO which are exercisable into 1,500,000 Ordinary shares of NIS 0.1 par value each of the Company for an exercise increment of NIS 0.9 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of approval by the Company's special meeting was approximately $ 427 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.09%, risk-free interest rates of 3.90%-4.16% and expected life until exercise of 5-6.5 years. For additional information, see note 20a(14) below.

10. On December 30, 2012, the Company's Board approved the allocation of 258,000 stock options to medical consultants in the Company which are exercisable into 258,000 Ordinary shares of NIS 0.1 par value each of the Company for an exercise increment of NIS 1.2837 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant (the date of the Company's Board's decision) was approximately $ 83 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in eight equal portions each quarter over a period of two years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.49%, risk-free interest rates of 2.60%-2.87% and expected life until exercise of 5-6 years.

11. On September 11, 2013, the Company's Board received notice from the former CEO of the Company that he wished to terminate his position as CEO. Accordingly, and in the lapse of the prior notice period stipulated in the former CEO's employment agreement, on February 15, 2013, 750,000 stock options formerly granted to him, and that had not yet vested as of the day of his effective termination, were forfeited. As of the date of the financial statements, the remaining vested 2,360,000 stock options were not yet exercised.

12. On December 30, 2013, the Company's Board approved the allocation of 880,000 stock options to the new CFO and an employee of the Company, exercisable into 880,000 Ordinary shares of NIS 0.1 par value each of the Company, for an exercise increment of NIS 0.5328 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant (the date of the Company's Board's decision) was approximately $ 120 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 117.86%, risk-free interest rates of 3.98% and expected life until exercise of 5-6.5 years.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

13. On January 30, 2014, the Company's Board approved the allocation of 1,500,000 stock options to the new CEO of the Company, exercisable into 1,500,000 Ordinary shares of NIS 0.1 par value each of the Company, as follows: 600,000 stock options are exercisable into 600,000 Ordinary shares of the Company for an exercise increment of NIS 0.6 per stock option, and an additional 900,000 stock options are exercisable into 900,000 Ordinary shares of the Company for an exercise increment of NIS 0.9 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant (the date of the Company's Board's decision) was approximately $ 244 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.49%, risk-free interest rates of 2.60%-2.87% and expected life until exercise of 5-6.5 years. For additional information, see Note 31 below.

14. On December 30, 2013, the Company's Board received notice from the former CFO and Deputy CEO of the Company, Mr. Ronen Twito, that he wished to terminate his employment with the Company. Accordingly, on December 30, 2013, the Company's Board approved the appointment and employment terms of Mr. David Kestenbaum as CFO of the Company effective from January 5, 2014. Mr. Twito's employment with the Company shall terminate at the end of the three-month notice period stipulated in his employment agreement.

    Following Mr. Twito's notice, and in the lapse of the prior notice period stipulated in his employment agreement, on April 5, 2014, 570,000 stock options formerly granted to him, and that will not yet vest as of the same day, shall be forfeited. The remaining vested 2,550,000 stock options are exercisable for a 90 day period from the date of Mr. Twito's termination of employment.

Ordinary shares allocated upon the exercise of options in all grants will have identical rights to Ordinary shares of the Company immediately after their allocation.

On January 29, 2012, 39,000 options which had been issued in 1997 to a former service provider expired.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

Movements in the number of share options and their related weighted average exercise prices (in dollars) are as follows:

	Year ended December 31,					
	2013		2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	12,506,000	0.18	4,269,000	0.08	4,149,000	0.07
Granted	130,000	0.22	8,276,000	0.24	120,000	0.15
Exercised *)	(130,000)	0.08	-	-	-	-
Expired	(1,469,332)	0.26	(39,000)	2.69	-	-
Forfeited	(2,998,668)	0.26	-	-	-	-
Outstanding at end of year	8,038,000	0.15	12,506,000	0.18	4,269,000	0.07
Exercisable at end of year	6,084,845	0.11	5,635,001	0.13	3,692,725	0.08

*) No options were exercised in 2011-2012.

Below is information about the exercise price (in dollars) and the remaining contractual life (in years) for options outstanding at end of year:

December 31, 2013			December 31, 2012		
Options outstanding at end of year	Range of exercise prices	Weighted average remaining contractual life	Options outstanding at end of year	Range of exercise prices	Weighted average remaining contractual life
7,978,000	0 - 0.500	4.2	12,446,000	0 - 0.500	8.6
60,000	1.500 - 2.499	4.0	60,000	1.500 - 2.499	5.0
8,038,000			12,506,000		8.6

Net expenses recognized in the Company's statements of comprehensive loss for the years ended December 31, 2013, 2012 and 2011 for grant of options to employees were $ (7) thousand, $ 1,106 thousand and $ 73 thousand, respectively.

These plans are administered in accordance with the principles set forth in this issue in section 102 to the Income Tax Ordinance.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

According to the track which was adopted by the Company (capital track) and these principles, the Company is not entitled to receive a tax deduction that relates to remuneration paid to its employees, including amounts recorded as salary benefit in the Company's accounts for options granted to employees in the framework of the plan, except the yield benefit component, if available, that was determined on the grant date.

As for share-based payment under the Yeda transaction, see Note 14d above.

b. Share-based payment in a subsidiary:

1. On July 25, 2012, 1,484,551 stock options were allocated to InterCure's then CEO, Mr. Erez Gavish, which are exercisable into 1,484,551 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per stock option based on the share price of InterCure as determined in the debt refinancing. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant was approximately $ 132 thousand.

   On November 28, 2012, Mr. Erez Gavish notified InterCure's board of directors of his intention not to extend his term as CEO of InterCure. Mr. Ronen Twito, the Deputy CEO and CFO of InterCure at the time, was appointed as interim CEO of InterCure effective immediately. Mr. Gavish continued to be employed by InterCure until the conclusion of the agreement period on January 25, 2013.

   Following the conclusion of the term of Mr. Gavish on January 25, 2013, 1,237,126 stock options were forfeited and 247,425 stock options became exercisable for a period of 90 days from the date of conclusion of term until April 24, 2013. If these stock options are not exercised until said date, they will expire.

   In addition, on the same date, 1,000,000 stock options were allocated to InterCure's Deputy CEO and CFO which are exercisable into 1,000,000 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per stock option, based on InterCure's share price as determined in the debt refinancing. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant was approximately $ 88 thousand. The exercise period of the stock options granted to the Deputy CEO and CFO is a maximum of ten years from the grant date. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 90.76%, risk-free interest rates of 3.39%-3.68% and expected life until exercise of 5-6.5 years. For additional information as to the replacement of Mr. Twito as CEO of InterCure, see Note 20b(5) below.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

On August 15, 2013, following the approval of the board of directors of InterCure of June 26, 2013, the general meeting of InterCure's shareholders approved a change in the terms of the options previously granted to Mr. Twito, who at the time acted also as the Company's CFO and Deputy CEO. Such changes included the reduction of exercise increment of the InterCure stock options granted to him as well as the acceleration of vesting of 347,222 such stock option. The total economic value of the change in the option terms as above according to the Black-Scholes model, pursuant to the provisions of IFRS 2 as of the date of InterCure's board of directors' approval, approximates $ 12 thousand.

2. On September 3, 2012, in a special meeting of InterCure's shareholders, 75,000 stock options were allocated to each of four directors in InterCure which are exercisable into 300,000 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of the approval of InterCure's special meeting was approximately $ 26 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 87.27%, risk-free interest rates of 3.06%-3.53% and expected life until exercise of 5-6.5 years.

3. On December 13, 2012, 100,000 stock options were allocated InterCure's controller and financial manager which are exercisable into 100,000 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per stock option.

   The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant was approximately $ 10 thousand. The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 90.38%, risk-free interest rates of 2.74%-3.16% and expected life until exercise of 5-6.5 years.

NOTE 20:- SHARE-BASED PAYMENT (Cont.)

4. On March 21, 2013, Prof. Reuven Tzimlichman was appointed to InterCure's medical director. In the consulting agreement of Prof. Tzimlichman it was stated that he will provide InterCure consulting services in the field of research and development, intellectual property management and medical regulation. The agreement provides the grant of 130,000 share options to Prof. Tzimlichman, exercisable into 130,000 ordinary shares at an exercise price of NIS 0.54 per share. The vesting period of the shares was set to three years when 1/12 of the options shall vest at the end of each quarter. Alternately, if as a result of the signing between InterCure and a medical institution (such as HMO) for the sale of its products through the medical institution, InterCure's products will be sold in excess of $ 175,000, than 30% of the unvested options at that time shall vest.

   The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 92.21%, risk-free interest rates of 2.76%-3.21% and expected life of 5-6.5 years.

5. On June 26, 2013, Mr. Ofer Gilboa ("**Mr. Gilboa**") was appointed as CEO of InterCure in lieu of Mr. Ronen Twito, the interim CEO. According to the employment agreement with Mr. Gilboa, he will be granted 650,000 stock options which are exercisable into Ordinary shares of InterCure at an exercise price of NIS 0.23 per stock option. The stock options vest over a period of three years whereby 1/12 of stock options will vest at the end of each quarter. The fair value of all of the stock options using the Black-Scholes model pursuant to the provisions of IFRS 2 as of the date of approval by the board of directors of InterCure was approximately $ 19 thousand. The exercise period is for a maximum of ten years from the allocation date. The value of each option is based on the following inputs: expected dividend rate of 0%, expected standard deviation rate of 5.41%, risk-free interest rate of 1% and expected life of 5-6.5 years. Also according to the employment agreement, if InterCure's revenues exceed $ 5 million and the EBITDA is not less than $ 1 million, Mr. Gilboa will be entitled to a bonus of $ 25 thousand. It was also determined that Mr. Gilboa will be entitled to a bonus of 1% of any capital raising round in InterCure over a period of 36 months from the commencement of his tenure, provided that the investments are made by third parties that are unrelated to InterCure, and up to a maximum bonus of $ 100 thousand.

   On November 27, 2013, InterCure announced the resignation of Mr. Gilboa as its CEO. Mr. Gilboa's term will effectively end following a two-month notice period, on January 26, 2014.

   For details regarding the appointment of a new CEO in InterCure, see Note 31 below.

6. As for performance-based stock options granted to Giboov, see Note 18a above.

NOTE 21:- COST OF SALES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Purchase of finished goods	422	244	-
Storage and transport	180	49	-
Changes in inventory of finished goods	(73)	(22)	-
Depreciation and amortization	212	92	-
Commissions	-	17	-
	741	380	-

NOTE 22:- RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries and expenses relating to employees and service providers	47	30	26
Expenses relating to options to employees and service providers	6	3	20
Professional consulting	43	28	9
Medical centers	-	23	-
Depreciation and amortization	-	-	88
Other	17	15	15
	113	99	158

NOTE 23:- SELLING AND MARKETING EXPENSES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Advertising and public relations	1,435	512	-
Salaries and related expenses	155	123	-
Rent and maintenance	65	52	-
Share-based payment	(132)	132	-
Depreciation and amortization	80	29	-
Commissions	61	-	-
Others	27	-	-
	1,691	848	-

NOTE 24:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries and expenses relating to employees and service providers	673	586	421
Expenses relating to options to employees and service providers	62	1,164	53
Patents and fees	188	55	25
Directors' fees	79	75	63
Foreign services, public relation and travel	10	4	2
Rent and office maintenance	87	113	115
Vehicle maintenance	51	44	44
Insurance	70	56	57
Professional services	715	546	233
Depreciation and amortization	20	15	6
Allowance for doubtful accounts	-	12	-
Other	93	99	59
	2,048	2,769	1,078

NOTE 25:- OTHER GAINS, NET

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Gain from bargain purchase	-	795	-
Gain from sale of investment in associate (a)	1,051	-	-
Loss from disposal of property, plant and equipment	(2)	(2)	(3)
Gain (loss) from decrease in holding rate in associate	10	(5)	-
Other	-	14	15
	1,059	802	12

a. Gain from sale of investment in associate:

	U.S. dollars in thousands
Consideration	3,369
Balance as of September 17, 2013	(2,522)
Transaction-related expenses	(17)
Reclassification to Other gains, net due to sale of investment	221
	1,051

NOTE 26:- FINANCE INCOME, NET

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Finance expenses:			
Bank account management fees and commissions	35	15	7
Total finance expenses	35	15	7
Finance income:			
Interest income on bank deposits	10	43	24
Exchange rate differences	51	17	-
Total finance income	61	60	24
Finance income, net	26	45	17

NOTE 27:- TAXES ON INCOME

a. Taxation in Israel:

1. Since the 2008 tax year, the results for tax purposes of the Company and its Israeli subsidiaries are measured in nominal values. Until the end of the 2007 tax year, the results for tax purposes of the Company were adjusted for the changes in the Israeli CPI pursuant to the Income Tax (Inflationary Adjustments) Law, 1985 ("the inflationary adjustments law"). According to the transition provisions of the scope of the inflationary adjustments law, it is determined that adjustments to the Israeli CPI relating to carryforward tax losses, deduction for depreciation and real loss from sale of a depreciable asset or security continue to apply until the end of the 2007 tax year and starting that date they will no longer apply.

NOTE 27:- TAXES ON INCOME (Cont.)

2. Tax rates:

The income of the Company and its Israeli subsidiaries is subject to corporate tax at the regular rate; the guidance of the amendment to the Income Tax Ordinance, 2005 from August 2005 and the provisions of the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010) of July 2009 prescribe a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting from the 2011 tax year and thereafter are as follows: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

On December 6, 2011, the Law for Tax Burden Reform (Legislative Amendments), 2011 was published in the records (the "**2011 Amendment**"), which prescribes a halt in the scheduled reduction in the corporate tax rate as in the 2009 amendment, as above, and an increase in the corporate tax rate to 25% in 2012 and thereafter.

On August 5, 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013-2014), 2013 (the "**Law**") was published in the Government's records. Among other things, the Law prescribes from the 2014 tax year and thereafter, an increase in the Israeli corporate tax rate to 26.5% (instead of 25%).

Capital gains generated by the Company and its Israeli subsidiaries are taxable according to the corporate tax rate applicable in the tax year.

b. Foreign subsidiaries:

The tax rates applicable to subsidiaries whose place of incorporation is the U.S. are (progressive) corporate tax of 35% with the addition of State tax and local tax at rates which vary according to the State and city in which the subsidiaries conduct their business affairs.

As a rule, intragroup transactions between the Company and the foreign subsidiaries are subject to the guidance and reporting of the Income Tax Regulations (Determination of Market Conditions), 2006.

c. Carryforward tax losses and real loss on sale of marketable securities:

Deferred tax assets for carryforward tax losses are recognized to the extent that the realization of the related tax benefit through future taxable income is probable.

As stated in Note 14c above, on August 3, 2010, the Bio-Gal Transaction was completed after all the prerequisites had been met including, inter alia, the signing of an agreement with the Tax Authority regarding the tax exemption granted to the share swap transaction pursuant to sections 104 and 103 to the Income tax Ordinance (New Version), 1961.

NOTE 27:- TAXES ON INCOME (Cont.)

Below is the summary of principle conditions of the agreement signed with the Tax Authority:

1. The balance of the Company's business losses and capital losses for tax purposes was reduced to approximately NIS 80 million (approximately $ 23 million) and approximately NIS 0.7 million (approximately $ 0.2 million), respectively. This item is not to derogate from the Tax Assessing Officer's authority to establish that the balance of losses is lower than the abovementioned amounts.

2. Any losses incurred to the Company prior to the share swap, after their reduction as discussed in 1 above, will not be offset against any income originating from Xtepo (the transferred company) or against a capital gain from the sale of shares of Xtepo.

3. Xtepo shareholders will not be allowed to sell their shares in the Company for a period of two years from the end of the year of completion of the transaction ("the lock-up period"), subject to any changes in legislation.

4. The Company and Xtepo undertake to maintain their main economic activity as it was prior to the transaction during the lock-up period.

5. The Company will not be permitted to sell its holdings in Xtepo for the duration of the lock-up period.

The Company's carryforward tax losses as of December 31, 2013 and 2012, after giving effect to the agreement with the Tax Authority in connection with the Bio-Gal Transaction, as above, totaled approximately $ 28 million and $ 26, respectively. The carryforward tax losses of the U.S. subsidiaries, XTL Inc. and XTL Development, as of December 31, 2013 totaled approximately $ 20 million (approximately $ 20 million as of December 31, 2012). These losses of the U.S. subsidiaries are limited in use and it is probable that they will be even significantly reduced due to state tax laws that deal in cases of "change of control" which is the outcome of the carrying out the Bio-Gal Transaction as above. The Company does not recognize deferred taxes for tax losses because their utilization in the foreseeable future is not probable.

InterCure has carryforward business losses and capital losses which total approximately $ 17 million as of December 31, 2013.

NOTE 27:- TAXES ON INCOME (Cont.)

InterCure Inc. has carryforward business losses and capital losses which total approximately $ 24 million as of December 31, 2013. It should be noted that following the composition of creditors agreed upon in July 2012 (see Note 5 above) in which the control over InterCure was changed, the utilization of said losses is limited and they are expected to be significantly reduced according to internal U.S. laws.

Carryforward capital losses on securities which were not offset (including carryforward losses on securities that were reversed after January 1, 2006) and other carryforward capital losses total approximately $ 0.2 million as of December 31, 2013 after giving effect to the agreement with the Tax Authority in connection with the Bio-Gal Transaction, as above. These losses may be used only against capital gains (including, since 2006, against gains on marketable securities).

A real loss for tax purposes from sale of securities through December 31, 2005 which was not offset by December 31, 2013 totals approximately $ 14 thousand. This loss is deductible in the coming years only against real gains on marketable securities, if available in these years.

The Company did not recognize deferred taxes for carryforward losses, as well as capital losses and real losses, because their utilization in the foreseeable future is not probable.

d. Below is the reconciliation between the "theoretical" tax expense, assuming that all the income were taxed at the regular tax rate applicable to companies in Israel (see a(2) above) and the taxes recorded in the statements of comprehensive income in the reporting year:

NOTE 27:- TAXES ON INCOME (Cont.)

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Loss before taxes on income, as reported in the statements of comprehensive loss	(3,713)	(1,742)	(1,207)
Theoretical tax saving on this loss	(928)	(436)	(290)
Increase (decrease) in taxes resulting from different tax rates for foreign subsidiaries	(154)	(40)	(3)
Expenses not deductible for tax purposes	628	277	18
Tax exempt income	-	(341)	-
Utilization of taxable losses for which no deferred taxes were recognized	(55)	(5)	-
Effect of lower tax rates on capital gains	-	-	-
Increase in taxes resulting mainly from taxable losses in the reported year for which no deferred taxes were recognized	509	545	275
Tax benefit	-	-	-

3. Since the balance of carryforward tax losses exceeds other temporary differences (net), and considering that the Company does not expect that it will have sufficient income in the future to allow the losses to be used in the foreseeable future, in 2013, the Company did not record deferred taxes on these losses.

NOTE 27:- TAXES ON INCOME (Cont.)

e. Tax assessments:

The Company filed self-assessments that are deemed final through the 2008 tax year. The subsidiary, Xtepo, has not received tax assessments since its incorporation in November 2009. The U.S. subsidiaries, XTL Inc. and XTL Development, filed self-assessments that are deemed final through the 2008 tax year. However, the IRS may examine the tax reports for the years in which the U.S. subsidiaries claimed tax refunds for operating losses offset against taxes paid in the past for tax years 2003 to 2005. This examination is limited to the amount of tax refunds that the Company received ($ 72 thousand in 2003-2004 and $ 77 thousand in 2005). InterCure has received final tax assessments through 2007.

NOTE 28:- LOSS PER SHARE

Basic loss per share is calculated by dividing loss attributable to equity holders of the parent by the weighted average number of issued Ordinary shares, excluding ordinary shares held by a subsidiary, which are accounted for as treasury shares. As for the years ended December 31, 2013, 2012 and 2011, there were no dilutive effect potential shares.

	Year ended December 31,		
	2013	2012	2011
Loss attributable to equity holders of the parent (U.S. dollars in thousands)	(2,476)	(1,390)	(1,207)
Weighted average number of issued Ordinary shares	223,605,181	217,689,926	201,825,645
Basic and diluted loss per share (in U.S. dollars)	(0.011)	(0.006)	(0.006)

NOTE 29:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

"Related party" - as the term is defined in IAS 24, *"Related Party Disclosures"* ("**IAS 24**").

The Company's key management personnel who are included, along with other factors, in the definition of related party, as above in IAS 24, includes directors and members of the executive committee.

NOTE 29:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

Compensation to key management personnel:

The compensation to key management personnel for employee services provided to the Group is shown below:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Salaries, management and consulting fees and other short-term benefits *)	698	643	493
Share-based payments, net **)	(10)	1,148	59
	688	1,791	552

*) In 2013 and 2012, includes grants to senior officers based on agreements signed with them in a total of approximately $ 35 thousand and $ 90 thousand, respectively.

**) In 2013 – includes share-based payments expenses less a reversal of expenses due to forfeiture of stock options in the amount of $ 647 thousand.

As of December 31, 2013 and 2012, the Group's balances with related parties total approximately $ 134 thousand (of which $ 105 thousand linked to the NIS) and $ 323 thousand (of which $ 267 thousand linked to the NIS), respectively.

NOTE 30: SEGMENT INFORMATION

The Group's management has established operating segments in accordance with reports reviewed by the Chief Operating Decision Maker ("**CODM**") and which are used to make strategic decisions. Until July 25, 2012, the Company had a single operating segment - drug development. Effective from said date, following the acquisition of InterCure, the CODM reviews the business activities both according to the nature of the activity and the geographical location of the activity. With respect to the nature of the activity, the CODM reviews the operating results of the drug development activity and of the medical device activity. From a geographical standpoint, the CODM reviews the performance of sales of medical devices in the U.S., the UK and the rest of the world.

a. Segment reporting data for the years ended December 31, 2013 and December 31, 2012:

	Year ended December 31, 2013					
	Medical devices			Drug		
	U.S.	UK	Israel	development	Adjustments	Total
	U.S. dollars in thousands					
Revenues:						
External customers	2,076	278	15	-		2,369
Inter-segment revenues	-	-	1,041	-	(1,041)	-
Total revenues	2,076	278	1,056	-	(1,041)	2,369
Segment results before current amortization of intangible assets identified in the acquisition	128	24	1	(385)	-	(232)
Current amortization of intangible assets identified in the acquisition	(231)	(29)	(1)	-	-	(261)
Impairment of intangible assets	(1,532)	(189)	(8)	-	-	(1,729)
Segment results	(1,635)	(194)	(8)	(385)	-	(2,222)
Unallocated joint expenses						(1,731)
Other gains, net						1,059
Finance income (expense), net						26
Earnings from investment in associate						(845)
Loss before taxes on income						(3,713)

NOTE 30: SEGMENT INFORMATION (Cont.)

	Year ended December 31, 2012					
	Medical devices			Drug		
	U.S.	UK	Israel	development	Adjustments	Total
	U.S. dollars in thousands					
Revenues:						
External customers	766	167	5	-	-	938
Inter-segment revenues	-	-	583	-	(583)	-
Total revenues	766	167	588	-	(583)	938
Segment results before current amortization of intangible assets identified in the acquisition	(21)	(31)	2	(388)	-	(438)
Current amortization of intangible assets identified in the acquisition	(91)	(22)	(1)	-	-	(114)
Segment results	(112)	(53)	1	(388)	-	(552)
Unallocated joint expenses						(2,606)
Other gains, net						802
Finance income (expense), net						45
Earnings from investment in associate						569
Loss before taxes on income						(1,742)

b. Additional information:

	December 31, 2013					
	Medical devices			Drug		
	U.S.	UK	Israel	development	Adjustments	Total
	U.S. dollars in thousands					
Segment assets	279	130	2	2,457	-	2,868
Unallocated assets						5,147
Total consolidated assets						8,015
Segment liabilities	2	369	-	11		382
Unallocated liabilities						848
Total consolidated liabilities						1,230

NOTE 30: SEGMENT INFORMATION (Cont.)

	December 31, 2012					
	Medical devices			Drug		
	U.S.	UK	Israel	development	Adjustments	Total
	U.S. dollars in thousands					
Segment assets	37	51	-	2,457	-	2,545
Unallocated assets						8,541
Total consolidated assets						11,086
Segment liabilities	454	-	-	22	-	476
Unallocated liabilities						1,186
Total consolidated liabilities						1,662

NOTE 31: EVENTS AFTER THE REPORTING DATE

a. On January 5, 2014, InterCure announced it shall appoint Mr. Alon Dulzin ("**Mr. Dulzin**") as its new CEO, effective as of January 6, 2014. According to the employment agreement with Mr. Dulzin, he will be granted 650,000 stock options which are exercisable into Ordinary shares of InterCure. Mr. Dulzin's employment terms were approved by a general meeting of shareholders of InterCure, held on March 5, 2014.

b. On January 7, 2014, the Company signed a licensing agreement with Yeda to develop hCDR1, a Phase II-ready asset for the treatment of Systemic Lupus Erythematosus ("**SLE**"). The terms of the licensing agreement include, among other things, expense reimbursement for patent expenses, certain milestone payments to Yeda, low single-digit royalties based on net sales, and additional customary royalties to the Office of the Chief Scientist.

c. On January 13, 2014, the extraordinary general meetings of shareholders of warrant (series 2) holders of the Company resolved to extend the exercise period of warrants (series 2) of the Company from December 31, 2013 to October 28, 2014, subject to the approval of the Tel-Aviv-Jaffa district court (the "**Court**"), pursuant to Section 350 to the Israeli Companies Law, 1999. On January 28, 2014, the Court approved the decision to extend the exercise period of the warrants.

d. On January 14, 2014, the general meeting of shareholders and the general meeting of holders of warrants (series 2) of the Company resolved to approve the extension of the term of warrants (series 2) of the Company from December 31, 2013 to October 28, 2014, in accordance with the request for a settlement filed with and granted by the Tel-Aviv-Jaffa district court.

NOTE 31: EVENTS AFTER THE REPORTING DATE (Cont.)

e. On March 17, 2014, the Company's extraordinary general meeting of shareholders of the Company decided to approve the terms of an employment agreement between the Company and Mr. Joshua Levine, pursuant to which Mr. Levine will serve as the Company's CEO in a fulltime position, in accordance with the resolution of the Company's Compensation Committee and Board of Directors dated January 30, 2014 and in accordance with the Israeli Companies Law – 1999. For additional details, see also Note 20a(13) above.

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ITEM 19. EXHIBITS

The following exhibits are filed as part 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 (incorporated by reference from an exhibit to the first amendment to Form 20-F, filed with the SEC on August 10, 2005)
4.1	Form of Share Certificate (including both Hebrew and English translations) (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on March 23, 2007) >
4.2	Form of American Depositary Receipt (included in Exhibit 4.3)
4.3	Form of Deposit Agreement, 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 (incorporated by reference from an exhibit to the First Amendment to the Form 20-F, filed with the SEC on August 10, 2005)
10.1	2001 Share Option Plan dated February 28, 2001 (incorporated by reference from an exhibit to the Form 20-F, filed on with the SEC on July 14, 2005)
10.2	License Agreement Between XTL Biopharmaceuticals Ltd. and VivoQuest, Inc., dated August 17, 2005 (incorporated by reference from an exhibit to the second amendment to Form 20-F, filed with the SEC on August 23, 2005)
10.3	Asset Purchase Agreement Between XTL Biopharmaceuticals Ltd. and VivoQuest, Inc., dated August 17, 2005 (incorporated by reference from an exhibit to the second amendment to Form 20-F, filed with the SEC on August 23, 2005)
10.4	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 (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on April 6, 2009) >
10.5	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 (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on April 6, 2009) >
10.6	Employment Agreement, dated as of January 18, 2010, between XTL Biopharmaceuticals Ltd. and David Grossman (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on June 30, 2010)
10.7	Employment Agreement, dated as of July 29, 2009, between XTL Biopharmaceuticals Ltd. and Ronen Twito (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on June 30, 2010)
10.8	Consulting Agreement, dated as of August 27, 2010, between XTL Biopharmaceuticals Ltd. and Moshe Mittelman (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on May 31, 2011)
10.9	Option to License Agreement, dated as of September 1, 2010, between XTL Biopharmaceuticals Ltd. and Yeda Research and Development Company Limited (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on May 31, 2011)
10.10	License Agreement, dated as of November 30, 2011, between XTL Biopharmaceuticals Ltd. and MinoGuard Ltd. (incorporated by reference from an exhibit to the first amendment to Form 20-F, filed with the SEC on March 30, 2012) >
10.11	A translation from Hebrew of strategic service agreement, dated as of September 24, 2012, between InterCure Ltd. and Giboov Ltd. (incorporated by reference from an exhibit to the Form 20-F, filed with the SEC on April 25, 2013)
10.12	Share Purchase Agreement, dated as of November 21, 2012, between XTL Biopharmaceuticals Ltd. and Teva Pharmaceutical Industries Ltd. (incorporated by reference from an exhibit to

the Form 20-F, filed with the SEC on April 25, 2013)

10.13	License Agreement dated January 7, 2014, by and between Yeda Research and Development Company Limited and XTL Biopharmaceuticals Ltd.
10.14	Consolidated Financial Statements of Proteologics Ltd. for the nine months ended September 30, 2013
21.1	List of Subsidiaries
23.1	Consent of Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Ltd.
23.2	Consent of Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Ltd.
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
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
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

> 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/ Josh Levine
Josh Levine
Chief Executive Officer

Date: April 2, 2014

LICENCE AGREEMENT

between

YEDA RESEARCH AND DEVELOPMENT COMPANY LIMITED

and

XTL Biopharmaceuticals Ltd.

TABLE OF CONTENTS

LICENCE 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

(hereinafter, **"Yeda"**)

and

XTL Biopharmaceuticals Ltd.
a company duly registered under the laws of Israel, having its principal place of business at 85 Medinat Hayehudim St., Herzliya Pituach 46766, Israel

(hereinafter, **"the Company"**)

PREAMBLE:

WHEREAS: (A) in the course of research conducted at the Weizmann Institute of Science (**"the Institute"**), under the supervision of Professor Edna Mozes (**"the Scientist"**) of the Department of Chemical Immunology, the Scientist alone and together with other scientists of the Institute, collectively **"the Inventors"**, arrived at inventions relating to the treatment of systemic lupus erythematosus (**"SLE"**) (**"the Inventions"**), all as more fully described in the patent applications and patents listed in the patent card attached as **Appendix A(1)** hereto (Yeda reference numbers 9513, 2001-004) (respectively, **"the Existing Yeda Patent Applications"** and **"the Existing Yeda Patents"**), and created and/or generated the unpublished know-how and other unpublished information relating to the Inventions as described in **Appendix A(2)** hereto (**"the Yeda Know-How"**) ; and

(B) by operation of Israeli law and/or under the terms of employment of the Inventors at the Institute and pursuant to an agreement between the Institute, Yeda and the Inventors, all right, title and interest of the Institute and the Inventors in and to the Inventions, the Existing Yeda Patents and the Existing Yeda Patent Applications, vests and shall vest in Yeda; and

(C) pursuant to a research and license agreement between Teva Pharmaceutical Industries Ltd. (**"Teva"**) and Yeda, dated June 21, 2001 ("**the Teva R&L Agreement**") and to a subsequent terminating agreement, dated August 9, 2009, pursuant to which the Teva R&L Agreement was terminated ("**the Teva Termination Agreement**"), Teva has assigned to Yeda all of Teva's rights, title and interest in and to certain other: (i) patent applications and patents, all as more fully described in the patent applications and patents listed in the patent card attached as **Appendix B(1)** hereto (respectively, **"the Existing Assigned Patent Applications"** and **"the Existing Assigned Patents"**) (Yeda reference numbers 2003-120, 2003-119); and (ii) unpublished know-how and/or materials and other unpublished information relating to the inventions, subject of the Existing Assigned Patent Applications and the Existing Assigned Patents as described in **Appendix B(2)** hereto (**"the Assigned Know-How"**); and

(D) subject to and in accordance with the terms of this Agreement, the Company wishes to receive, and Yeda is willing to grant to the Company, a worldwide exclusive licence in respect of the Licensed Information (as hereinafter defined) and under the Patents, for the development, manufacture and sale of Products (as hereinafter defined), all subject to and in accordance with the terms and conditions of this Agreement.

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

1. **PREAMBLE, APPENDICES AND INTERPRETATION**

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

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

1.1.1. **"Affiliated Entity"** shall mean, with respect to any entity, any company, corporation, other entity or person (hereinafter, collectively, **"entity"**), which directly or indirectly, is controlled by, or controls, or is under common control with, such entity. For the purposes of this definition, **"control"** shall mean the ability, directly or indirectly, to direct the activities of the relevant entity (save for an ability flowing solely from the fulfilment of the office of director or another office) and shall include, 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 or of a right to appoint the chief executive officer of such entity;

1.1.2.	**"Commercially Reasonable Efforts"**	means, with respect to a party, such efforts that are consistent with the efforts and resources normally used by such party in good faith in the exercise of its reasonable business discretion relating to the research and development of a potential pharmaceutical product owned by it or to which it has exclusive rights, with similar product characteristics, which is of a similar market potential at a similar stage in its development or product life, taking into account issues of patent coverage, safety and efficacy, product profile, the competitiveness of the marketplace, the proprietary position of the compound or product, the regulatory structure involved, the profitability of the applicable products (including pricing and reimbursement status achieved), and other relevant factors, including technical, legal, scientific and/or medical factors. For the purpose of clarity, Commercially Reasonable Efforts would be determined on a marketby-market and indication-byindication basis for a particular product and it is anticipated that the level of effort may be different for different markets and may change over time, reflecting changes in the status of the product and the market involved;
1.1.3.	**"Development Program"**	shall mean the proposed development plan with respect to the proposed Product known as "Edratide" to be attached hereto as **Appendix C** within 12 months from the date hereof;
1.1.4.	**"Distributor"**	shall mean a third party drug wholesaler with whom the Company or any Sublicensee enters into a bona fide distribution, reseller or similar agreement pursuant to which such third party does not have any rights under the Licensed Information or the Patents and purchases Products from the Company or a Sublicensee solely for wholesale distribution to retail community pharmacies, including (but not limited to) manufacturers, repackers, distributors, own-label distributors, private-label distributors, brokers, warehouses (including manufacturer's and distributor's warehouses, chain drug warehouses, and wholesale drug warehouses), independent wholesale drug traders, and retail community pharmacies that conduct wholesale distributions, in each case, in consideration for the purchase price only (and no other consideration), solely for resale in the same form (meaning without any change and/or reconfiguration thereof or incorporation thereof into any other product), for monetary consideration only;

1.1.5.	**"Exchange Rate"**	shall mean, with respect to any amount to be calculated, or which is paid or received in a currency other than US Dollars, the average of the selling and buying exchange rates of such currency (in respect of cheques and remittances) and the US Dollar prevailing at Bank Hapoalim B.M. at the end of business on the date of calculation, payment or receipt, as the case may be;
1.1.6.	**"Existing Patent Applications"**	shall mean the Existing Yeda Patent Applications and the Existing Assigned Patent Applications;
1.1.7.	**"Existing Patents"**	shall mean the Existing Yeda Patents and the Existing Assigned Patents;
1.1.8.	**"First Commercial Sale"**	shall mean, with respect to any Product in any country, the first commercial sale of such Product in such country, after FDA New Drug Approval, EMEA or National Medicinal Agency marketing approval or equivalent approval in such country has been obtained for such Product;
1.1.9.	**"Know-How"**	shall mean the Assigned Know-How and the Yeda Know-How. For the avoidance of doubt, the Chemical Material (as defined in the Teva Termination Agreement) shall not constitute Know-How licenced to the Company under this Agreement;

1.1.10. **"Licence"** shall mean an exclusive, worldwide, sublicenseable licence to use the Licensed Information and under the Patents, for the research, development, production, marketing and sale of Products, subject to the provisions of clause 4 below and the other terms and conditions of this Agreement;

1.1.11. **"Licensed Information"** shall mean: (i) the Inventions; and (ii) the Know-How;

1.1.12. **"Net Sales"** shall mean the total amount invoiced by the Company and the total amount invoiced by each Sublicensee (for the avoidance of doubt, including any Further Sublicensees) on sales of Products (for the avoidance 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:

(i) sales taxes, value added taxes, excise taxes and similar taxes on sales, custom duties and other similar governmental charges (but excluding, for the avoidance of doubt, all taxes levied on or with respect to income), to the extent applicable to such sale and included in the invoice in respect of such sale;

(ii) credits, allowances or rebates and other amounts, if any, actually granted or paid on account of price adjustments, recalls, rejections or returns of Products previously sold, including those in respect of any state or federal Medicare, Medicaid or similar programs;

(iv) amounts written off by the Company as bad debts (in a manner consistent with generally accepted accounting practice applicable in the jurisdiction of the Company), deriving from Net Sales in respect of which royalties were paid by the Company pursuant hereunder;

(v) packaging, freight, shipping and insurance charges, to the extent that such items are applicable to such sale and are separately itemised and invoiced and actually paid as evidenced by invoices, receipts or other appropriate documents;

(vi) customary trade, quantity or cash discounts to the extent actually granted.

provided that:

(a) with respect to sales which are not at arm's length and/or are not in the ordinary course of business, the term **"Net Sales"** shall mean the total amount that would have been due in an arm's length sale made in the ordinary course of business and according to 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;

(b) sales by the Company and/or a Sublicensee, as applicable, to any Affiliated Entity of the Company or of such Sublicensee, as the case may be, for resale by such Affiliated Entity will not be deemed Net Sales. Instead, Net Sales in such case will be determined based on 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;

(c) for the avoidance of doubt, with respect to sales by the Company and/or a Sublicensee, as applicable, to any Affiliated Entity of the Company or of such Sublicensee, as the case may be, where there is in fact no resale by such Affiliated Entity, **"Net Sales"** shall mean "Net Sales", as defined in paragraph (a) above;

(d) if a Product is sold in any country in the form of a combination product containing: (i) the Covered Active Ingredient (as defined below); and (ii) one or more Other Active Ingredients (as defined below), then, at the request of the Company, the parties will negotiate in good faith to determine what adjustments (if any) should be made to the price of such Product for the purposes of determining Net Sales, in order to take into account the relative contributions to such Product of the Covered Active Ingredient and the Other Active Ingredients included in such Product. For purposes of this clause, (1) "**Covered Active Ingredient**" means the peptide described in the Investigational New Drug (IND) application filed by Teva for the proposed product known as "Edratide", a copy of which application is attached as **Appendix D**; and (2) "Other Active Ingredient" means an active ingredient (other than the Covered Active Ingredient) that has therapeutic or prophylactic effect when used independently of the Covered Active Ingredient;

(e) for the avoidance of doubt, any sale of Products by a Subcontractor of the Company or of a Sublicensee shall be deemed to be a sale of such Products by the Company or such Sublicensee, as the case may be;

1.1.13. **"Patents"** shall mean: (i) the Existing Patents; (ii) the Existing Patent Applications and all patents which may be granted thereon; (iii) all other patent applications or applications for inventor's certificates claiming portions of the Licensed Information and all patents or inventor's certificates which may be granted thereon; (iv) continuations, continuationsin-part, patents of addition, divisions, renewals, reissues and extensions (including any patent term extension) of any of the foregoing patents and patent applications listed in paragraphs (i), (ii) and (iii) above; and (v) all Supplementary Protection Certificates (within the meaning of such term under Council Regulation (EU) No. 1768/92), patent term extensions under US law and any similar statutory patent protection extensions in other jurisdictions, in each case with respect to the foregoing patents and patent applications listed in paragraphs (i), (ii), (iii) and (iv) above;

1.1.14. **"Products"** shall mean products for the diagnosis, prevention or treatment of SLE or any other clinical indication, which contains the peptide described in the Investigational New Drug (IND) application filed by Teva for the proposed product known as "Edratide", a copy of which application is attached as **Appendix D** hereto:

(i) the development, pharmaceutical formulation or manufacture of which involves use, in whole or in part, of Licensed Information or any part thereof; or

(ii) the development, pharmaceutical formulation, manufacture or sale of which is covered by, or falls within, the scope of any Valid Claim in the country in which such product is made, used or sold;

1.1.15. **"Subcontractor"** shall mean a party with whom the Company enters into a Subcontractor Agreement as defined in clause 4.9 below;

1.1.16.	**“Sublicence”**	shall mean any right granted, licence given or agreement entered into, by the Company or a Sublicensee to or with any other person or entity, permitting any use of the Licensed Information and/or the Patents (or any part thereof) for the development and/or manufacture and/or production and/or marketing and/or distribution and/or sale of Products (whether or not such grant of rights, licence given or agreement entered into is described as a sublicense) or as an agreement with respect to the development and/or manufacture and/or production and/or distribution and/or marketing and/or sale of Products or otherwise); provided however that “Sublicence” shall not include the engagement of, or grant of rights to, a Subcontractor (under clause 4.9 below) or a Distributor, and **“Sublicensee”** shall mean any person or entity granted a Sublicence. For the avoidance of doubt, unless otherwise noted, "Sublicense" and "Sublicensee" shall include any further Sublicensee of a Sublicensee (any such further Sublicensee, a "**Further Sublicensee**");

1.1.17. **"Sublicensing Receipts"** shall mean consideration received (for the avoidance of doubt, whether received before or after the First Commercial Sale in any country) by the Company as consideration for the grant of Sublicenses, or as consideration for the grant of an option for a Sublicense, except for: (i) amounts received by the Company which constitute royalties based on sales of the Products by or on behalf of Sublicensees in respect of which the Company has paid royalties to Yeda; (ii) amounts received from a Sublicensee to cover reasonable, *bona fide* costs (including reasonable overhead) to be incurred by the Company after the date of signature of the relevant Sublicence in the performance of research or development activities under a Sublicence in connection with a Product or a product expected to become a Product, to the extent that: (a) such research and/or development activities are performed pursuant to a detailed research and development program and research and development budget agreed with the relevant Sublicensee, a summary of which is provided to Yeda; and (b) at the end of each calendar year of the research and development program, the Company submits to Yeda a written expense report, audited by an independent accountant or certified by the Company's Chief Financial Officer or other senior financial officer of the Company (or the relevant business division of the Company (if there is more than one business division)), setting out the research and development actual costs and reasonable overhead costs and other expenses actually incurred by the Company in the conduct of the said research and development activities, which report demonstrates that such amounts have actually been expended by the Company during such calendar year in the conduct of such research and/or development activities in accordance with such detailed research and development program and budget, it being agreed that any amounts received by the Company as aforesaid, but not expended as set out above, shall be deemed Sublicensing Receipts, unless such amounts are carried over for the performance of work under such research and development program in the subsequent calendar year only; and (iii) equity investments in the Company made at arm's length to the extent such investments represent fair market value taking into consideration reasonable premiums, if applicable, due to a strategic relationship (amounts above such fair market value will be deemed Sublicensing Receipts);

1.1.18.	**"Valid Claim"**	means: (a) a claim included in any issued patent or inventor's certificate within the Patents that has not been: (i) held permanently revoked, unenforceable, unpatentable or invalid by a decision of a court or governmental body of competent jurisdiction, unappealable or unappealed within the time allowed for appeal; (ii) rendered unenforceable through disclaimer or otherwise; (iii) abandoned; or (iv) permanently lost through an interference or opposition proceeding without any right of appeal or review; (b) a pending claim of a pending patent application or applications for inventor's certificates within the Patents that: (i) has been filed and continues to be prosecuted; and (ii) has not been abandoned or finally rejected without the possibility of appeal or refiling; or (c) protection under a Supplementary Protection Certificate (as referred to in clause 1.1.13 above), any patent term extension under US law or any other statutory protection similar to any of the aforegoing in respect of any of the patents or patent applications referred to in (a) or (b) above (including in respect of any Product covered by any of said patents or patent applications) (any of the foregoing in this paragraph (c), a **"Patent Extension"**). For the avoidance of doubt, for the purposes of the foregoing, patents and patent applications shall include all continuations, continuations-inpart, patents of addition, divisions, renewals, reissues and extensions (including any patent term extension) of any of the aforegoing patents and patent applications that are included in the Patents; and

1.1.19. the terms: **"Yeda", "the Company", "the Institute", "the Scientist", "the Inventors", "SLE", "the Inventions", "the Existing Yeda Patent Applications", "the Existing Yeda Patents", "the Yeda Know-How", "Teva", "the Teva R&L Agreement", "the Teva Termination Agreement", "the Existing Assigned Patent Applications", "the Existing Assigned Patents",** and **"the Assigned Know- How"** shall bear the definitions assigned to them respectively in the heading or the preamble hereto, as the case may be.

1.2. In this Agreement:

1.2.1. words importing the singular shall include the plural and *vice-versa* and words importing any gender shall include all other genders and references to persons shall include partnerships, corporations and unincorporated associations;

1.2.2. any reference in this Agreement to the term "patent" shall also include any re-issues, divisions, continuations or extensions thereof (including measures having equivalent effect);

1.2.3. any reference in this Agreement to the term "patent applications" shall include any provisional patent applications, PCT, national or regional patent applications, applications for continuations, continuations-in-part, divisions, patents of addition or renewals, as well as any other applications or filings for similar statutory protection;

1.2.4. any reference in this Agreement to the term "sale" shall include the sale, lease, rental or other disposal of any Product, but shall specifically exclude: (a) the provision of Products by the Company, its Affiliated Entities or Sublicensees for administration to patients enrolled in clinical trials or the distribution of Products through a not-for-profit foundation at no charge to eligible patients, provided that the Company, its Affiliated Entities, or Sublicensees receive no consideration (other than the actual cost of manufacture) from such clinical trials or not-for-profit foundation for such use of Products; and (b) the provision of Products used as samples to promote additional Net Sales, in amounts consistent with normal business practices of the Company, its Affiliated Entities or Sublicensees; provided further that the Company, its Affiliated Entities and Sublicensees receive no consideration for such samples; and

1.2.5. **"including"** and **"includes"** means including, without limiting the generality of any description preceding such terms.

2. **TITLE**

Subject only to the License, all right, title and interest in and to the Licensed Information and 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 foregoing that have been provided to the Company hereunder, are owned and shall remain vested in Yeda.

3. **PATENTS; PATENT INFRINGEMENTS**

3.1.

3.1.1. Subject to clauses 3.3 and 3.4 below, Yeda shall prosecute the Existing Patent Applications using the outside patent counsel retained by Yeda for such purpose prior to the execution of this Agreement, unless otherwise requested by the Company, in which case Yeda will appoint a replacement outside patent counsel, which patent counsel shall be subject to the Company's consent, not to be withheld unreasonably and shall maintain at the applicable patent office the Existing Patents and any patents issuing from the Existing Patent Applications. The Company and Yeda shall consult with one another and cooperate fully with regard to the prosecution of the Existing Patent Applications and in maintenance of the Existing Patents and such patents.

3.1.2. At the initiative of either party, the parties shall consult with one another regarding the filing of patent applications in respect of any portion of the Licensed Information and/or corresponding to the Existing Patent Applications, including the jurisdictions in which such applications should be filed, the timing of the filing of such applications and the contents thereof. Following such consultations, and subject to clause 3.3 below, Yeda shall retain outside patent counsel, which patent counsel shall be subject to the Company's consent, not to be withheld unreasonably, to prepare, file and prosecute patent applications as aforesaid in such jurisdiction or jurisdictions as shall be determined by the parties in consultation as aforesaid. Subject to clause 3.3 below, Yeda shall also maintain at the applicable patent office any patents granted as a result of any of the above patent applications. The parties agree that their joint policy will be to seek comprehensive patent protection: (a) with respect to Existing Patent Applications; and (b) with respect to Licensed Information which the Company reasonably believes is worth protecting with Patents. The Company and Yeda shall cooperate fully in the preparation, filing, prosecution and maintenance of such patent applications and patents.

3.1.3. If Yeda shall request from the Company in writing either to take all reasonable steps to obtain itself, or to assist Yeda to obtain (including by providing Yeda with documents and otherwise cooperating with Yeda), a Patent Extension (as defined in clause 1.1.18 above) of any Patent covering any Product in any country (**"the Relevant Patent"**) and the Company shall in its sole discretion elect not to take such steps but the Company shall obtain a Patent Extension for a patent of the Company's covering such Product in such country, then for the purposes of the definition of Valid Claim, the period of the Relevant Patent shall be deemed to be extended by the period of such Patent Extension of the Company's patent in such country for such Product as aforesaid. For example, if Yeda requests Company to take reasonable steps to obtain a Patent Extension with respect to an Existing Yeda Patent in the United States and Company decides not to seek such extension, but instead obtains a patent extension of 4 (four) years in the United States with respect to a patent owned by Company that covers the Product, the term of such Existing Yeda Patent will be deemed to have been extended in the United States for a period of 4 (four) years for purposes of this Agreement.

3.1.4. The Company shall notify Yeda promptly in writing and shall provide a copy to Yeda of each marketing authorisation granted in respect of each Product in each country and, if applicable, of "Orphan Drug" or paediatric use approval granted in respect of a Product and shall keep Yeda informed and shall provide copies to Yeda of all documents regarding all applications, activities and/or proceedings regarding such Patent Extensions and/or "Orphan Drug" or paediatric use approval, as aforesaid.

3.2. All applications to be filed in accordance with the provisions of clauses 3.1.2 and 3.1.3 above, shall be filed in the name of Yeda or, should the law of the relevant jurisdiction so require, in the name of the relevant inventors and then assigned to Yeda.

3.3. In the event that, following such consultations between the parties regarding the filing, prosecuting and/or maintenance (as applicable) of patent applications and/or patents pursuant to clauses 3.1.1 and 3.1.2 above, the Company shall not wish to file and/or continue to prosecute a patent application and/or maintain a patent in any country, then Yeda, in its discretion, may elect to file and/or continue to prosecute such patent application and/or maintain such patent in such country at its own cost and expense. Yeda shall notify the Company in writing of Yeda's election to file and/or continue to prosecute such patent application and/or maintain such patent in such country as aforesaid, at Yeda's expense (such notice, **"the Yeda Notice"**), and, in the event that the Company shall not, within 30 (thirty) days of receipt of the Yeda Notice: (i) reimburse Yeda for all out-of-pocket costs and fees incurred by Yeda until the date of the Yeda Notice (the Yeda Notice to be supported by receipts or other appropriate documents evidencing such costs and fees) in connection with the said patent application (in the preparation and/or filing and/or prosecution and/or maintenance of such application)and/or such patent, such costs and fees to be expressed in the currency in which paid by Yeda and to be reimbursed or paid (as the case may be) by the Company to Yeda in US Dollars in accordance with the Exchange Rate of such currency on the date of reimbursement or payment; and (ii) undertake in writing to Yeda to bear all additional and future expenses relating to such patent application and/or patent; then, *provided* that there does not exist at such time in such country any other exclusivity protection (that is, orphan drug status or other exclusivity) in relation to the Products which remains unharmed by the fact that the Company shall not wish to file and/or continue to prosecute a patent application and/or maintain a patent in any country, Yeda shall be entitled, at any time after the expiry of the said 30 (thirty) day period after such notice, to terminate the Licence granted to the Company under this Agreement in respect of such patent application and/or patent in such country, and to take whatever action it deems fit (in its sole discretion) with respect to such patent application and/or patent in such country. Notwithstanding anything to the contrary in this clause 3.3 , Yeda shall, at the Company's expense, maintain all Existing Patents (for clarity, which have been issued prior to the date of the signing of this Agreement) within the patent families listed in **Appendix E** hereto in each of the countries listed in **Appendix E**.

3.4.

3.4.1. The Company shall reimburse Yeda (a) the sum of US $ 382,989.41(three hundred eighty-two thousand nine hundred eighty nine United States Dollars and fourty- one cents, constituting the aggregate unreimbursed, documented, out-ofpocket costs and fees paid by Yeda prior to January 1st, 2014 with respect to the preparation, filing and prosecution of the Existing Patents and the Existing Patent Applications plus (b) all additional unreimbursed, documented, out-of-pocket costs and fees incurred, but not as yet paid, by Yeda prior to the date of signature of this Agreement plus (c) that part of the cost related to obtaining the E&Y Opinion Letter (as defined below) to be borne by Yeda in accordance with clause 4.3.3 below (together, the **"Patent Expenses"**), in 6 (six) instalments as follows:

3.4.1.1. Within thirty (30) days from the date of signature of this Agreement, the Company shall issue to Yeda an amount of ordinary shares of the Company, the amount of which shall be calculated by dividing (x) 10% (ten percent) of the Patent Expenses (but excluding any VAT payable on such amount, which shall be paid by the Company to Yeda in cash within thirty (30) days from the date of signature of this Agreement) by (y) the average closing price of the Company's shares on TASE during the 30 (thirty) trading days prior to the date of the issuance of such ordinary shares to Yeda;

3.4.1.2. on the earlier of: (a) the date falling 12 (twelve) months after the signature of this Agreement and (b) the date upon which the Company shall receive an aggregate amount of at least $2,000,000 (two million US Dollars) from any funding source or sources, including by way of incurring debt or equity (including by way of the exercise by the holders of Company options but specifically excluding any sale by the Company of any of its shares in Intercure Ltd.) (the **"Second Payment Date"**), the Company shall, at its sole discretion, either: (i) pay Yeda an amount in cash equal to 23 1/3% (twenty-three and one-third percent) of the Patent Expenses; or (ii) issue to Yeda an amount of ordinary shares of the Company, the amount of which shall be calculated by dividing (x) 23 1/3% (twenty-three and one-third percent) of the Patent Expenses (but excluding any VAT payable on such amount, which shall be paid by the Company to Yeda in cash on the Second Payment Date) by (y) the average closing price of the Company's shares on TASE during the 30 (thirty) trading days prior to the date of the issuance of such ordinary shares to Yeda;

3.4.1.3. on each of the date falling 6 (six) months after the Second Payment Date and at the end of each of the three 6 (six) month periods after such date, the Company shall pay Yeda an amount in cash equal to 16 2/3% (sixteen and two-thirds percent) of the Patent Expenses,

provided that, in the event that the Company shall receive an aggregate amount of at least $5,000,000 (five million US Dollars) from any funding source or sources, including by way of incurring debt or equity (including by way of the exercise by the holders of Company options), then the Company shall promptly pay to Yeda the full unpaid amount of the Patent Expenses due to Yeda at such time in one lump-sum cash payment.

No termination of this Agreement shall release the Company from any of its obligations under this clause 3.4.1, excluding where such obligations fall due after the date of such termination, and such obligations shall survive any termination as aforesaid. Accordingly, in the event that this Agreement is terminated prior to the date for the making of any payment by the Company as set out in this Section 3.4.1 below, the Company shall not be required to make any such payment to Yeda.

3.4.2. Without derogating from the provisions of clause 3.4.1 above, the Company shall bear and pay all documented out-ofpocket costs and fees incurred in the preparation, filing, prosecution and maintenance of the Existing PatentApplications and of all patent applications filed in accordance with the provisions of clauses 3.1.2 and 3.1.3 above (including patent applications corresponding to the Existing Patent Applications), and the maintenance at the appropriate patent office of the Existing Patents and all patents issuing from the Existing Patent Applications and all patent applications referred to above and all costs and fees incurred by the Company in undertaking any activities referred to in clause 3.1.3 above.

3.4.3. Unless otherwise instructed by Yeda in writing, theCompany shall pay directly to Yeda's relevant outside patent counsel amounts payable by the Company pursuant to this clause 3.4 above or clause 3.5 above.

3.5.

3.5.1. Should either party determine that a third party is infringing one or more of the Patents or misappropriating all or some of the Licensed Information, then such party shall notify the other promptly in writing, giving full particulars of the information it has with respect to such infringement or misappropriation. The Company shall within 180 (one hundred and eighty) days of such notification (**"Notification Deadline"**) indicate to Yeda in writing as to whether the Company wishes to sue for such infringement or misappropriation (the Company not being obliged to sue for such infringement or misappropriation). In the event that the Company shall fail to give any indication in writing to Yeda as aforesaid, the Company shall be deemed to have decided not to sue for such infringement or misappropriation. The Company shall update Yeda from time to time during such 180 (one hundred and eighty) day period as to its plans and actions in relation to such infringement or misappropriation.

3.5.2. In the event that the Company shall notify Yeda that it wishes to sue for such infringement or misappropriation, the Company shall, as part of such notification, advise Yeda of its proposed choice of legal counsel to represent the Company in such suit. Yeda shall, within 21 (twenty-one) days of such notification, notify the Company in writing whether it approves such proposed legal counsel (such approval not to be unreasonably withheld). In the event that Yeda shall fail to respond to the Company during such 21 (twenty-one) day period, Yeda shall be deemed to have approved such legal counsel.

3.5.3. Yeda may elect, at its own initiative, to join as a party to such suit, or Yeda may consent (in response to a request by the Company) to being named as a party to such suit (and will consent with regard to any jurisdiction where this is required in order for suit to be brought). Yeda may elect to be represented in such suit by the Company's choice of legal counsel, or at any time during such suit and at Yeda's expense (except as set forth in clauses 3.5.4 and 3.5.5 below), engage its own legal counsel therein.

3.5.4. Any consent by Yeda to being named as a party to such suit at the request of the Company may be conditional upon the provision by the Company of security, satisfactory to Yeda (in its reasonable discretion), for the payment of any expenses or costs or other liabilities incurred in connection with such suit (including the fees and costs of Yeda's legal counsel, if Yeda shall be required to engage its own outside legal counsel due to the Company's legal counsel having declined to represent Yeda, as well as attorneys' fees, costs or other sums awarded to the counterparty in such suit) (such expenses or costs **"Litigation Expenses"**).

3.5.5. All Litigation Expenses in connection with any such suit in which Yeda had approved or shall be deemed to have approved the Company's choice of legal counsel in accordance with clause 3.5.2 above shall be borne by the Company, however, in any case Yeda has engaged its own legal counsel, Yeda shall bear the fees and costs of such legal counsel, unless such engagement shall be due to the Company's legal counsel having declined to represent Yeda, in which case the Litigation Expenses shall be borne by the Company.

3.5.6. In the event that the Company: (a) shall not have notified Yeda of the Company's intention to commence suit by the Notification Deadline; or (b) shall not have commenced such suit within 120 (one hundred and twenty) days thereafter and shall not have entered into negotiations with the infringer regarding a potential settlement, then Yeda shall have the right (but not the obligation) to commence suit for such infringement or misappropriation.

3.6.

3.6.1. Should the Company discover any allegation by a third party that, or be sued on the grounds that, the manufacture, use or sale of a Product by it or by a Sublicensee or by a Subcontractor under any of the Patents infringes upon the patent rights of a third party, then the Company shall notify Yeda promptly in writing, giving particulars thereof, and the Company shall be entitled to defend such suit, subject to clause 3.6.2 below.

3.6.2. If a suit as referred to in clause 3.6.1 above includes (or it is reasonable to assume that it will include) a Patent Challenge (as hereinafter defined), then the following provisions shall apply:

3.6.2.1. the Company shall, as part of such notification, advise Yeda of its proposed choice of legal counsel to represent the Company in such suit. Yeda shall, within 21 (twentyone) days of such notification, notify the Company in writing whether it approves such proposed legal counsel (such approval not to be unreasonably withheld). In the event that Yeda shall fail to respond to the Company during such 21 (twenty-one) day period, Yeda shall be deemed to have approved such legal counsel;

3.6.2.2. Yeda may elect, at its own initiative, to join as a party to such suit;

3.6.2.3. Yeda may elect to be represented in such suit by the Company's choice of legal counsel, or at any time during such suit and, subject to the provisions set out in clause 3.6.5 above, at Yeda’s expense, engage its own legal counsel therein; and

3.6.2.4. the provisions of clause 3.5.5 above shall apply, *mutatis mutandis*.

3.7. With regard to any action or proceeding to which the Company is a party as referred to in clauses 3.5 and 3.6 above (**"Company Litigation"**):

3.7.1. Subject to the Company's compliance with its obligation to bear Litigation Expenses as aforesaid, Yeda shall cooperate and shall use its reasonable efforts to cause the Scientist to cooperate with the Company in prosecuting or defending such Company Litigation, as relevant.

3.7.2. No settlement, consent order, consent judgment or other voluntary final disposition of any Company Litigation that would adversely affect the validity or enforceability of any Patents, would change the terms of this Agreement or would admit fault or wrongdoing by, or impose liability on, Yeda or the Institute may be entered into without the prior written consent of Yeda.

3.7.3. Any recovery in any Company Litigation shall first be applied to cover costs and thereafter divided 80% (eighty percent) to the Company and 20% (twenty percent) to Yeda.

3.7.4. The Company shall promptly keep Yeda informed and provide copies to Yeda of all documents regarding all Company Litigation instituted by or against the Company.

3.8. The provisions of clauses 3.5 and 3.6 above notwithstanding, if any proceeding of any nature instituted by a third party (excluding as part of a counterclaim by such third party in a suit filed by the Company) alleging the invalidity of any of the Patents (including interference proceedings with respect to any patent application) or challenging the scope or enforceability of any Valid Claim within the Patents is brought before any authority (any such matter a **"Patent Challenge"**), then the Company shall promptly notify Yeda in writing and Yeda shall have the right (but not the obligation), upon written notice to the Company within thirty (30) days after Yeda receives notice of the commencement of such action, to take over the sole defence of such Patent Challenge at its sole expense.

3.9. If Yeda shall take over the sole defence of a Patent Challenge as aforesaid, or shall commence suit for infringement and misappropriation in accordance with clause 3.5.6 above (**"Yeda Litigation"**), then the following provisions shall apply:

3.9.1. Yeda shall notify the Company of such and, as part of such notification, shall advise the Company of its proposed choice of legal counsel to represent Yeda in such Yeda Litigation. The Company shall, within 21 (twenty-one) days of such notification, notify Yeda in writing whether it approves such proposed legal counsel (such approval not to be unreasonably withheld). In the event that the Company shall fail to respond to Yeda during such 21 (twenty-one) day period, the Company shall be deemed to have approved such legal counsel.

3.9.2. The Company may elect, at its own initiative, to join as a party to such suit, or the Company may consent (in response to a request by Yeda) to being named as a party to such suit (and will consent with regard to any jurisdiction where this is required in order for suit to be brought). The Company may elect to be represented in such suit by Yeda's choice of legal counsel, or at any time during such suit and at the Company's expense (except as set forth in clause 3.9.4) , engage its own legal counsel therein. In the event that the Company shall elect to join such suit (as distinct from consenting to be named as party), then all costs and expenses of the Company in connection with such suit shall be borne by the Company.

3.9.3. Any consent by the Company to being named as a party to such suit, at the request of Yeda, may be conditional upon the provision by Yeda of security, satisfactory to the Company (in its reasonable discretion), for the payment of any expenses or costs or other liabilities incurred by the Company in connection with such suit (including attorneys' fees, costs or other sums awarded to the counterparty in such suit) (such expenses or costs**, "Yeda Litigation Expenses"**).

3.9.4. All Yeda Litigation Expenses in connection with any suit as referred to in this clause 3.9 above where the Company does not elect to join such suit, but consents to Yeda's request to join such suit shall be borne by Yeda, which shall indemnify the Company against any such expenses or costs or other liabilities; provided, however, that if the Company shall have approved or shall have been deemed to have approved Yeda's choice of legal counsel in accordance with clause 3.9.1 above but shall have engaged its own legal counsel, the Company shall bear the fees and costs of such legal counsel, unless such engagement shall be due to Yeda's legal counsel having declined to represent the Company, in which case such Yeda Litigation Expenses shall be borne by Yeda.

3.9.5. Subject to Yeda's compliance with its obligation to bear Yeda Litigation Expenses in the circumstances referred to in clause 3.9.4 as aforesaid, the Company shall cooperate with Yeda in prosecuting such Yeda Litigation.

3.9.6. No settlement, consent order, consent judgment or other voluntary final disposition of any Yeda Litigation that would adversely affect the validity or enforceability of any Patents, would change the terms of this Agreement or that would admit fault or wrongdoing by, or impose liability on, the Company may be entered into without the prior written consent of the Company, which consent will not be unreasonably withheld.

3.9.7. Any recovery in any Yeda Litigation shall first be applied to cover the costs of Yeda and the Company pro rata and the remainder shall be for the account of Yeda only.

3.9.8. Yeda shall promptly keep the Company informed and provide copies to the Company of all documents regarding all Yeda Litigation instituted by Yeda.

4. **LICENCE**

4.1. Yeda hereby grants the Licence to the Company, and the Company hereby accepts the Licence from Yeda for the consideration and subject to the terms and conditions set out in this Agreement. For the avoidance of doubt, no licence is granted hereunder with regard to: (i) any patents or patent applications or other intellectual property (owned now or in the future by Yeda or the Institute), other than the Patents and the Licensed Information; or (ii) any products, other than the Products.

4.2. The Company hereby confirms that it has been informed by Yeda, that:

4.2.1. Teva and Yeda were parties to a research and licence agreement dated June 21, 2001, pursuant to which Teva received from Yeda a licence in respect of the Existing Yeda Patents and the Yeda Know-How; and

4.2.2. the Teva R&L Agreement was terminated pursuant to an agreement dated August 9, 2009 (the **"Termination Date"**) and the Assigned Know-How which was developed by Teva, was assigned by Teva to Yeda pursuant to the Teva R&L Agreement and the Teva Termination Agreement.

4.3. The Company hereby confirms that it has been informed further by Yeda, that:

4.3.1. a certain part of the Licensed Information was developed with, and is subject to the terms of, the grants listed in **Appendix F** hereto (**"Grants"**) under the Encouragement of Industrial Research and Development Law, 1984 (**"the R&D Law"**) (**"the Sponsored Licensed Information"**);

4.3.2. all obligations of Teva in respect of the Sponsored Licensed Information were assigned to Yeda pursuant to an undertaking to the Office of the Chief Scientist in the Israeli Ministry of Industry, Trade and Labour (**"the OCS"**); and

4.3.3. Ernst & Young has issued an opinion letter stating that, to their knowledge, there does not exist as of the date of the signing of this Agreement, any unpaid debt owed to the OCS (the **"E&Y Opinion Letter"**). The cost of such E&Y Opinion Letter shall be borne by the Company and Yeda (subject to clause 3.4.1 above), in equal parts, provided that Yeda's share of such cost shall not exceed NIS 5,000 (five thousand New Israel Sheqels).

4.4. The Company represents that it has read and is fully aware of all of the agreements relating to the Grants which have been provided by Yeda to the Company, as well as all rules, regulations and other documents relating to the Grants, including the R&D Law and all regulations thereunder, the conditions of the Grants to the extent provided by Yeda to the Company and agrees to comply with all the aforegoing to the extent applicable to the Company.

4.5. Subject to clause 4.6 below, the Company undertakes to Yeda (for the avoidance of doubt, such undertaking being assignable by Yeda to the OCS) to pay to Yeda (in addition to the payment of royalties to Yeda under clause 6 below), all amounts payable by Yeda to the OCS in accordance with the terms of the Grants, the intention being that the Company only (and not Yeda) shall bear full liability for payment of all amounts to the OCS under the Grants. Without limiting the generality of the aforegoing, the Company shall make all such payments at least 14 (fourteen) days prior to the due date for payment thereof under the terms of the Grants. Yeda undertakes to transfer all such payments to the OCS, upon receipt thereof from the Company.

4.6. The Company and Yeda jointly undertake to use their best efforts to obtain the consent of the OCS to the terms of the Licence hereunder, including the terms of clause 4.5 above whereby all amounts payable to the OCS in accordance with the terms of the Grants shall be transferred to the OCS by Yeda, rather than by the Company directly (such terms, **"the Yeda Payment Mechanism"**). Any expenses involved in obtaining such consent from the OCS shall be borne by the Company. In the event that the Company and Yeda shall fail to obtain the OCS's consent to the Yeda Payment Mechanism within 12 (twelve) months of the date of signature of this Agreement despite their best efforts to do so, then the parties will, without effect on the commercial terms of this Agreement, negotiate in good faith to determine an alternative payment mechanism in respect of the OCS.

4.7. Yeda hereby confirms to the Company that Yeda has not, during the period beginning with the Termination Date (as defined in clause 4.2.2 above) until the date hereof, granted any license in respect of the Licensed Information to any party.

4.8. A Sublicence under the Licence may be granted by the Company or a Sublicensee (but not by a Further Sublicensee), without the requirement to obtain the prior written consent of Yeda, provided that:

4.8.1. the Sublicence is granted in a *bona fide* arm's length commercial transaction, for monetary consideration and/or consideration readily measurable in cash (which may include, among other things, equity, material, equipment and/or services) only. For clarity, the grant to Company of a crosslicense to intellectual property rights owned by a third party shall not be deemed "readily measurable in cash" consideration and the grant of a Sublicense in consideration for such a crosslicense shall be subject to Yeda's prior written consent;

4.8.2. advanced drafts of the proposed Sublicence, and of any other agreements entered into between the proposed Sublicensee and the Company entered into contemporaneously with such Sublicence (including investment, shareholder and other ancillary agreements) are submitted to Yeda's review at least ten (10) business days prior to the signature of the proposed Sublicence;

4.8.3. the Sublicence is made by written agreement, the provisions of which are consistent with the terms of the Licence and contain, *inter alia*, the following terms and conditions:

4.8.3.1. the Sublicence shall expire automatically on the termination of the Licence for any reason, provided, however, that, for: (i) not more than two exclusive Sublicensees of the Company (but, for the avoidance of doubt, not a Further Sublicensee), each of which has been granted rights under the License in respect of distinct and defined territories; or (ii) only one Sublicensee of the Company (but, for the avoidance of doubt, not a Further Sublicensee), upon termination of the Sublicence agreement between the Company and each such Sublicensee (as applicable) due to termination of this Agreement by Yeda, if (a) the Sublicence was granted in conformance with the terms of this Agreement; (b) such Sublicensee is not then in breach of the Sublicence agreement such that the Company would have the right to terminate such Sublicence agreement; (c) the Company has paid to Yeda all consideration owing to Yeda as consideration in respect of such Sublicence agreement; and (d) the Company has confirmed to Yeda, in writing, that the License has been terminated and that Company has no further rights under the Licence and no claims in respect of the termination thereof, then Yeda shall be obligated, at the written request of such Sublicensee received by Yeda within 90 (ninety) days of the termination coming into effect, to enter into a licence directly with such Sublicensee, *mutatis mutandis,* on the same terms and conditions as set forth herein, except that the scope of the licence granted directly by Yeda to such Sublicensee shall be co-extensive with the scope of such licence granted by the Company to such Sublicensee. The Sublicense may state that the Sublicensee shall be deemed a third party beneficiary for purposes of the Sublicensee’s rights to enter into a direct license with Yeda as set forth in this clause;

4.8.3.2. the Sublicensee shall be bound by provisions substantially similar to those in clause 7 below relating to confidentiality binding the Company (the obligations of the Sublicensee so arising being addressed also to Yeda directly);

4.8.3.3. an exclusion of liability and indemnification undertaking in the same form, *mutatis mutandis*, as the provisions of clause 10 below in favour of, and actionable by Yeda, the Institute, any director, officer or employee of Yeda or of the Institute, or by the Inventors as third party beneficiaries;

4.8.3.4. all terms necessary to enable performance by the Company of its obligations hereunder;

4.8.3.5. if a Sublicence agreement granted by the Company allows for the further Sublicence by the Sublicensee, the Sublicence agreement shall stipulate that: (i) any such Further Sublicensee may not grant any further Sublicences; and (ii) any Sublicence agreement made between such Sublicensee and such Further Sublicensee must be in accordance with the terms set out in this clause 4.8, *mutatis mutandis*;

4.8.3.6. that: (i) a copy of the agreement granting the Sublicence shall be made available to Yeda within 30 (thirty) days following its execution; (ii) the Company shall submit to Yeda copies of all amendments (where applicable, as approved by Yeda), within 30 (thirty) days of execution thereof. For clarity, the full un-redacted versions of Sublicence agreements will be made available to the certified public accountant appointed by Yeda in the case of an audit performed in accordance with clause 6.4 below; and

4.8.3.7. that the Sublicensee shall grant the Company the right, at reasonable times and upon reasonable notice to the Sublicensee, at least once per year, to send an independent auditor and other experts, if applicable, appointed by the Company, in order to examine those books of accounts, records and other documentation of the Sublicensee as may be necessary in order to determine the correctness or completeness of any payment made by the Company to Yeda under this Agreement; the Company shall send such an auditor and other experts, if applicable, to perform such an audit at the request and, subject to clause 6.5 below, expense of Yeda and shall provide to Yeda a copy of such auditor's report;

and

4.8.4. any act or omission by the Sublicensee which would have constituted a breach of this Agreement by the Company that would entitle Yeda to terminate this Agreement had it been the act or omission of the Company, shall constitute a breach of the Sublicence agreement with the Company entitling the Company to terminate the Sublicence. The Company hereby undertakes to inform Yeda forthwith upon receipt of knowledge by the Company of such breach. The Company and Yeda will discuss in good faith possible courses of action, including, if necessary, terminating such Sublicence agreement in accordance with the terms thereof if the breach is not cured within sixty (60) days of notice thereof. If such breach is not cured within such period and Yeda requests the Company to terminate such Sublicence agreement, the Company will do so. For clarity, if the Company complies with the terms of this clause 4.8.4 , Yeda will not have the right to terminate this Agreement on account of such breach by such Sublicensee.

4.9. Sublicences under the Licence may be granted by the Company or a Sublicensee to subcontractors (which may be Affiliated Entities) solely to perform research, development, clinical trials' development, or to manufacture Products on behalf and for the benefit of the Company or a Sublicensee, as applicable, without the requirement to obtain Yeda's consent (such sublicences fulfilling all of the conditions set out in this clause 4.9 , **"Subcontractor Agreements"**), subject to the following:

4.9.1. such subcontractor agreement shall expire automatically on the termination of the Licence for any reason;

4.9.2. the subcontractor shall be bound by customary confidentiality obligations;

4.9.3. if the subcontractor is not an Affiliated Entity, the proposed subcontractor agreement is made by written agreement, the provisions of which are consistent with the terms of this Agreement;

4.9.4. that any act or omission by a subcontractor which would have constituted a breach of this Agreement by the Company, had it been the act or omission of the Company, shall constitute a breach of this Agreement by the Company;

4.9.5. any subcontractor agreement which purports to grant any licensing rights to any Licensed Information hereunder to any such subcontractor shall require the prior written consent of Yeda; and

4.9.6. such subcontractor is not granted any right under the Licence or any of the Licensed Information other than the right to perform the work requested by the Company or the Sublicensee, as applicable, as subcontractor for the Company or the Sublicensee and, in particular, such subcontractor does not and shall not have any rights in respect of the Products or the Licensed Information, other than such rights of use as are required for it to fulfil its obligations pursuant to such subcontractor agreement.

4.10. For the avoidance of doubt, the Company shall not be entitled to grant, directly or indirectly, to any person or entity any right of whatsoever nature to exploit or use in any way the Licensed Information or the Patents or any part of any of the aforegoing, save as set forth in this clause 4 above and subject to the conditions of this clause 4 relating to any such grant.

4.11. Nothing contained in this Agreement shall be deemed to be a representation or warranty, express or implied, by Yeda: (i) that the Existing Patent Applications or any of them or any patent applications relating to the Licensed Information or any portion thereof will be granted; (ii) that the Existing Patents or any patents obtained on any of the said patent applications are or will be valid or will afford proper protection; (iii) that any of the Inventions or any other portion of the Licensed Information is or will be commercially exploitable or of any other value; or (iv) that the exploitation of the Patents, the Inventions or the Licensed Information will not infringe the rights of any third party.

4.12. For the avoidance of doubt, nothing contained in this Agreement shall prevent Yeda or the Institute or the Scientist from using the Licensed Information and the Patents solely for academic research or other scholarly purposes.

5. DEVELOPMENT AND COMMERCIALIZATION

5.1. The Company will be entitled, from time to time, to make such adjustments to the Development Program as the Company believes, in its good faith judgment, are needed in order to maximize the value of the Products and improve the Company's ability to meet the Development Milestones (as defined below).

5.2. The Company undertakes, at its own expense, to use Commercially Reasonable Efforts to develop and commercialise Products.

5.3. The Company shall provide Yeda, within 30 (thirty) days following: (a) June 30 and December 31 of each of the first 3 (three) calendar years following the date of signature of this Agreement; and (b) the end of each calendar year thereafter during the term of this Agreement, with written progress reports (**"Progress Reports"**) summarizing the Company's, its Affiliated Entities', its Subcontractors' and its Sublicensees' efforts during the prior 6 (six) months or year, as applicable, to develop and commercialize Products. Together with each Progress Report, the Company shall provide Yeda with a copy of the then current Development Program.

In the framework of the Progress Reports, the Company shall notify Yeda in writing of the making of the First Commercial Sale of a Product in each country, specifying its date, the country in which such sale took place and the type of Product sold.

5.4. For the avoidance of doubt, without derogating from the remaining provisions of this clause 5 or of clause 11.3 below, nothing contained in this Agreement shall be construed as a warranty by the Company that any Development Program to be carried out by it as aforesaid will actually achieve its aims and the Company makes no warranties whatsoever as to any results to be achieved in consequence of the carrying out of any such Development Program.

5.5. The Company agrees to consider in good faith requests by Yeda and/or the Institute for the supply to the Institute, for academic research purposes only under appropriate material transfer agreements of Products developed and/or manufactured and/or produced under this Agreement at the cost to produce such Products. Yeda recognizes that there may be various reasons (including control of proprietary material and regulatory concerns) that could cause the Company not to grant such a request.

5.6. The Company shall mark, and cause all Sublicensees and Subcontractors (if applicable) to mark, all Products that are manufactured or sold under this Agreement with the number or numbers of each Patent applicable to such Product.

5.7. Without derogating from the Company's other obligations under this clause 5, the Company undertakes to achieve all of the following milestones by the respective dates set out below (together, **"the Development Milestones"**):

5.7.1. within 18 (eighteen) months from the date of signature of this Agreement, to have completed and delivered to Yeda a full protocol for Phase II clinical trials in respect of a Product;

5.7.2. within 25.5 (twenty-five and a half) months from the date of signature of this Agreement, to have received investments from any funding source or sources, including (i) by way of incurring debt or equity (including by way of the exercise by the holders of Company options), (ii) any sale by the Company of any of its shares in Intercure Ltd., and (iii) including by funding of third party collaborators or joint venture partners (including by any Sublicensee), such funding designated for the purpose of funding the development of the Product; all in the aggregate of at least US $5,000,000 (five million United States dollars); and

5.7.3. within 30 (thirty) months from the date of signature of this Agreement, to have commenced Phase II clinical trials in respect of a Product (the "Third Milestone").

5.8. Delays in Meeting the Development Milestone

5.8.1. The parties acknowledge and agree that timely achievement of the milestones set forth above is subject to considerable uncertainty, given the novelty of the Licensed Information, territorial or legal restrictions on the use of therapeutics and diagnostics, the regulatory climate and approval process, and pricing or other government restrictions on certain therapeutics and diagnostics and the foregoing acknowledgement shall be taken into account in the parties' obligations to proceed reasonably under this clause 5 and generally under this Agreement.

5.8.2. Without derogating from clause 5.3 above and clause 11.3 below, the Company shall, promptly upon becoming aware of any delay in the achievement of any Development Milestone, deliver to Yeda a written detailed report regarding such delay and the reasons therefor.

5.8.3. The Company will be entitled, from time to time, to extend the time periods for the achievement of such Development Milestone to account for unexpected delays caused by factors not within the Company's reasonable control, such as scientific or technical difficulties, the lack of availability of materials, clinical trial results, delays caused by acts of clinical study centres and regulatory delays; provided that, if any such delay is longer than 3 (three) months or the aggregate of all such delays is longer than 12 (twelve) months, and Yeda determines, in its good faith judgment, that any such delay or delays could reasonably have been avoided by the Company, it may notify the Company in writing of such determination. If Yeda so notifies the Company, officers of the Company and Yeda will meet within 10 (ten) days of the Company's receipt of such notice to discuss, in good faith, and attempt to agree on a course of action.

5.8.4. If, within 45 (forty-five) days after the receipt of such notice by the Company, the parties fail to agree on reasonable adjusted and updated milestones or on a reasonable course of action, then each party may seek any legal action available to it under law or contract in connection with the above, all without derogating from clause 11.3 below.

5.8.5. For the avoidance of doubt, save in the circumstances set out in clause 5.8.3 above, the Company shall not be entitled to any extension of the times for achieving any Development Milestone.

6. **CONSIDERATION**

6.1. Royalties. In consideration for the grant of the Licence, the Company shall pay Yeda royalties, as follows:

6.1.1. *Royalties on Company Net Sales*. With respect to any calendar year:

6.1.1.1. a royalty of 2% (two percent) of Net Sales by or on behalf of the Company up to aggregate Net Sales of US $500,000,000 (five hundred million United States Dollars) during such calendar year);

6.1.1.2. a royalty of 2.5% (two point five percent) of aggregate Net Sales by or on behalf of the Company in excess of US $500,000,000 (five hundred million United States Dollars) and up to US $1,000,000,000 (one billion United States Dollars) during such calendar year); and

6.1.1.3. a royalty of 3% (three percent) of aggregate Net Sales by or on behalf of the Company in excess of US $1,000,000,000 (one billion United States Dollars) during such calendar year);

6.1.2. *Royalties on Sublicensee Net Sales*. (a) With respect to the sales of any Sublicensee of the Company (but not a Further Sublicensee): A royalty being the higher of: (i) 20% (twenty percent) of the aggregate amount received by the Company from each Sublicensee constituting royalties based on such sales of Products by such Sublicensee; and (ii) 2% (two percent) of such Net Sales of such Sublicensee; and (b) with respect to the sales of any Further Sublicensee: A royalty being the lower of: (x) the higher of (i) 20% (twenty percent) of the aggregate amount received by the Company from such Further Sublicensee constituting royalties based on such sales of Products by such Further Sublicensee; and (ii) 2% (two percent) of such Net Sales of such Further Sublicensee; and (y) 3.5% (three and a half percent) of such Net Sales of such Further Sublicensee.

6.1.3. *Royalty Set-Off*. Notwithstanding the above, in the event that with respect to Net Sales of any Product in any country in any calendar year or part thereof (**"Relevant Calendar Year"**), the Company or a Sublicensee (for the purpose of this Clause 6.1.3 and solely in relation to off-setting any Captisol Country Payment, reference to "Sublicensee" shall not include Further Sublicensees) is required to pay royalties or other payments to one or more third parties under a licence agreement(s), entered into after arm's length negotiations, for the licence of rights under a patent or patent application the claims of which the Company or such Sublicensee reasonably believes cover the making, using or selling of such Product in such country (including any Captisol Country Payment), then the Company shall be entitled to off-set an amount equal to thirty-three percent (33%) of the amounts actually paid under such agreements with respect to such Net Sales in such country against royalties due under clauses 6.1.1 and 6.1.2(ii) (if clause 6.1.2(a)(ii) or 6.1.2(b)(ii), rather than clause 6.1.2(a)(i) or 6.1.2(b)(i), shall apply with respect to such Sublicensee in the Relevant Calendar Year); provided that in no event shall the aggregate amounts of royalties payable by the Company to Yeda in respect of Net Sales of such Product in such country in the Relevant Calendar Year be reduced by more than 25% (twenty-five percent) of the royalties payable by the Company to Yeda in respect of such Net Sales of such Product in such country in the Relevant Calendar Year, before taking into account the aforesaid deduction. For the avoidance of doubt, in no event shall any amount paid by Company or Sublicensee as aforesaid be taken into account pursuant to this clause 6.1.3 more than once.

For the purposes of this clause 6.1.3 , **"Captisol Country Payment"** shall mean, with respect to Net Sales of any Product in any country in any Relevant Calendar Year: (i) the total amount of royalties or other payments in such Relevant Calendar Year to one or more third parties under a licence agreement(s), entered into after arm's length negotiations, for the licence of rights (whether under patent rights or other intellectual property rights) to make use of Captisol as part of such Product worldwide; multiplied by a ratio resulting from (ii) an amount equal to the Net Sales of such Product in such country in such Relevant Calendar Year divided by the aggregate Net Sales of such Product in such Relevant Calendar Year worldwide.

In the event that the price of a Product for the purposes of determining Net Sales shall be adjusted in accordance with clause 1.2.12(d) above by reducing therefrom the contribution of an Other Active Ingredient to such Product, then any royalties and any other payments payable under a licence for such Other Active Ingredient shall not be the subject of the royalty reductions set out in this clause 6.1.3.

6.1.4. *Generic Products*. Notwithstanding the above, in the event that in any country in the Relevant Calendar Year there shall in the calendar year immediately prior to the Relevant Calendar Year have been sold a Generic Product by one or more persons or entities (not being the Company, a Sublicensee or any Affiliated Entity of either of the aforegoing) and the aggregate sales of such Generic Product in such country during such previous calendar year accounted for more than 20% (twenty) percent of the units of Products sold in such country then each of the royalty rates referred to in clauses 6.1.1, 6.1.2(a)(ii) or 6.1.2(b)(ii) above shall be reduced by 50% (fifty percent) in respect of Net Sales of the Product in such country for the Relevant Calendar Year.

"Generic Product" shall mean, with respect to any Product sold by the Company, Sublicensees or their Affiliated Entities, a product sold in the same country as such Product and meeting all of the following conditions:

(a) such product has the same active ingredients as such Product;

(b) if there are Patents or other exclusivity rights that the Company has the right to enforce covering the Product in such country that are being infringed by sales of such product, the Company brought suit to enforce such rights in respect of such product; and

(c) neither the Company nor any Sublicensees of the Company or any Affiliated Entity of either of the aforegoing was involved in the approval or commercialisation of such product;

6.1.5. *Sublicensing Receipts*. In respect of Sublicensing Receipts received in connection with any Sublicense, royalties of: (a) 20% (twenty percent) - in the event that such Sublicense is granted by the Company or a Sublicensee prior to and including the date on which the Company has reached the Third Milestone (as defined in clause 5.7.3 above); or (b) 15% (fifteen percent) - in the event that such Sublicense is granted by the Company or a Sublicensee after the Company has reached the Third Milestone (as defined in clause 5.7.3 above).

Royalties under this clause 6.1 will be payable on a Product-by-Product, country-by-country basis, for a period commencing on the date of signature of this Agreement and ending on the later of: (a) the date on which such Product ceases to be covered by a Valid Claim or other exclusivity in the country in which such Product is sold; and (b) the date of expiry of a period of 11 (eleven) years commencing on the date of First Commercial Sale by the Company or a Sublicensee of such Product in such country.

6.2. Milestone Payments. In addition, the Company shall pay Yeda each of the following payments with respect to each of the following payment milestones (**"Payment Milestones"**):

6.2.1 US $200,000 (two hundred thousand United States Dollars), within 6 (six) months of the commencement by the Company, any Sublicensee or any Affiliated Entity of the aforegoing or any Subcontractor on behalf of Company or a Sublicensee, of a United States FDA Phase III clinical trial or equivalent in any other country with respect to the first Product;

6.2.2 US $1,000,000 (one million United States Dollars), within 30 (thirty) days of the first FDA approval to market the first Product in the United States of America; and

6.2.3 (i) US $250,000 (two hundred fifty United States Dollars), within 30 (thirty) days of receipt of EMA approval to market the first Product in each of the following 5 (five) countries: Italy, Spain, Germany, United Kingdom, France (up to a maximum of 3 (three) such countries, that is a maximum payment of US $750,000 (seven hundred and fifty United States Dollars)); and (ii) US $250,000 (two hundred fifty United States Dollars), within 30 (thirty) days of receipt of CFDA approval to market the first Product in China.

For the purpose of this Section 6.2, "approval to market" shall also mean the approval of any relevant pricing/reimbursement entity (including any insurance company), if applicable in such jurisdiction. In the event that the Company shall receive Sublicensing Receipts due to the achievement of any of the above Payment Milestones (in respect of which Payment Milestone the Company has made the payment due to Yeda) then, for the purposes of calculating the amount due to Yeda in respect of such Sublicensing Receipts, the amount of such Sublicensing Receipts shall be reduced by the amount paid in respect of such Payment Milestone. The Company shall notify Yeda in writing promptly upon achievement of any of the Payment Milestones set out above.

For the avoidance of doubt, the Company undertakes that all sales (within the meaning of such term in clause 1.2.4 above) of Products by the Company shall be for cash or other consideration clearly measurable in cash only and shall procure that Sublicensees undertake that all sales (within the meaning of such term in clause 1.2.4 above) of Products by Sublicensees shall be for cash or other consideration clearly measurable in cash only.

6.3. In calculating Net Sales, Sublicensing Receipts and amounts received by the Company from Sublicensees by way of royalties, all amounts shall be expressed in US Dollars and any amount received or invoiced in a currency other than US Dollars shall be translated into US Dollars, for the purposes of calculation, in accordance with the Exchange Rate between the US Dollar and such currency on the date of such receipt or invoice, as the case may be. For the avoidance of doubt, in calculating amounts received or invoiced by the Company or any Sublicensee, whether by way of Net Sales, Sublicensing Receipts or royalties from Sublicensees, any amount deducted or withheld in connection with any such payment on account of taxes on net income (including income taxes, capital gains tax, taxes on profits or taxes of a similar nature) payable by the Company or such Sublicensee in any jurisdiction, shall be deemed, notwithstanding such deduction or withholding, to have been received by the Company or such Sublicensee.

6.4.

6.4.1. Amounts payable to Yeda in terms of this clause 6 shall be paid to Yeda in US Dollars: (i) in the case of Net Sales and royalties from Sublicensees, on a quarterly basis and 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 or royalties are received from Sublicensees by the Company; or (ii) in the case of Sublicensing Receipts, no later than 21 (twenty-one) days after any such Sublicensing Receipts are received by the Company from any Sublicensees.

6.4.2. The Company shall submit to Yeda no later than 45 (fortyfive) days after the end of each calendar quarter, commencing with the first calendar quarter in which any Net Sales are made or royalties from Sublicensees and Sublicensing Receipts are received by the Company, a report certified as being correct by a senior member of the Company's finance department (or of the division of the Company that is responsible for Products), setting out all amounts owing to Yeda in respect of such previous calendar quarter to which the report refers, and with full details of:

6.4.2.1.

(i) the sales made by the Company and Sublicensees including a breakdown of Net Sales according to country, identity of seller, currency of sales, number and type of Products sold;

(ii) the Sublicensing Receipts, including a breakdown of Sublicensing Receipts according to identity of Sublicensees, the currency of the payment and date of receipt thereof;

(iii) the royalties received by the Company from Sublicensees based on Net Sales by Sublicensees, including a breakdown of such royalties according to identity of Sublicensees, country, currency and amounts of sales in respect of which such royalties were received, the currency of the royalty payments and date of receipt thereof; and

(iv) deductions applicable, as provided in the definition of "Net Sales";

and

6.4.2.2. any other matter reasonably necessary to enable the determination of the amounts of payments due in respect of Payment Milestones payable hereunder.

6.5. The Company shall keep, and shall cause Sublicensees to undertake to keep complete, accurate and correct books of account and records consistent with sound business and accounting principles and practices and in such form and in such details as to enable the determination of the amounts due to Yeda in terms hereof. The Company shall retain, and shall cause Sublicensees to undertake to retain the aforegoing books of account for 5 (five) years after the end of the relevant calendar quarter for which a report was provided under this clause 6.5 above.

6.6. Yeda shall be entitled to appoint representatives to inspect during normal business hours and subject to prior notice, the Company's books of account, records and other documentation (including technical data and lab books) to the extent relevant and necessary for the ascertainment or verification of the amounts due to Yeda under this clause 6, provided however that Yeda may only exercise such right once per calendar year (unless due to findings of such inspection, follow-up inspections are required by Yeda) and shall coordinate such inspection with the Company in advance including providing the Company with a list in advance of those representatives of Yeda who shall make such inspection or have access to the inspection results (**"the List of Representatives"**). Any such representatives shall be required to sign a confidentiality and non-use agreement in customary form reasonably acceptable to the Company, prior to performing any such audit. Such representatives may disclose to Yeda only information with respect to the accuracy of reports and payments delivered under this Agreement and shall disclose any further information only to a person appearing on the List of Representatives, except that in the case of a breach of this Agreement by the Company, such representatives may disclose to Yeda any information specifically relating to the parties' rights and obligations under this Agreement. The Company shall take reasonable steps so that all such books of account, records and other documentation of the Company are available for inspection as aforesaid at a single location, if possible. The Company shall, at the request of Yeda in accordance with clause 4.8.3.7 above, appoint an auditor and other experts, if applicable, to inspect all books of account, records and other documentation of any Sublicensees. Yeda will bear the costs of such audit or inspection, provided that in the event that any such audit or inspection of the Company and/or Sublicensees as aforesaid reveals any underpayment by the Company to Yeda in respect of any year of this Agreement in an amount exceeding 5% (five percent) of the amount actually paid by the Company to Yeda in respect of such year then the Company shall (in addition to paying Yeda the shortfall together with interest thereon in accordance with clause 11.6 below), reimburse Yeda for Yeda's reasonable out-of-pocket costs of such inspection. In the event of an overpayment by the Company in respect of any year of this Agreement, such overpayment may be set-off against subsequent amounts payable by the Company to Yeda.

7. **CONFIDENTIALITY**

7.1. **"Yeda Confidential Information"** means information or data relating to the Patents or the Licensed Information disclosed by Yeda to the Company, except that Yeda Confidential Information shall not include information that: (i) was known to the Company at the time it was disclosed, other than by previous disclosure under a confidentiality agreement by or on behalf of Yeda; (ii) is at the time of disclosure or later becomes publicly known under circumstances involving no breach of this Agreement; (iii) is lawfully and in good faith made available to the Company by a third party who is not subject to obligations of confidentiality to Yeda with respect to such information; or (iv) is independently developed by the Company without the use of or reference to Yeda Confidential Information, as demonstrated by documentary evidence.

The Company shall maintain in confidence all Yeda Confidential Information, as well as, subject to clause 7.6 below, this Agreement and the terms hereof, except with regard to that portion, if any, of the Yeda Confidential Information expressly released by Yeda from this obligation of confidentiality by notice in writing to the Company to such effect. Notwithstanding the foregoing, the Company may disclose to its personnel and consultants and to Affiliated Entities, potential or actual Sublicensees and/or Subcontractors the Yeda Confidential Information to the extent necessary or useful for the exercise by it of its rights hereunder or in the fulfilment of its obligations hereunder, provided that such personnel, consultants, Sublicensees, Affiliated Entities and Subcontractors are bound by similar undertakings of confidentiality in writing. The Company shall be responsible and liable to Yeda for any breach by its personnel, consultants, Sublicensees, Affiliated Entities and Subcontractors of such undertakings of confidentiality as if such breach were a breach by the Company itself.

7.2. In addition to and without derogating from the aforegoing, the Company undertakes not to make mention of the names of Yeda, the Inventors, the Institute or any scientists or other employees of the Institute or any employee of Yeda 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, unless the prior written approval of Yeda thereto has been obtained.

7.3. Notwithstanding the provisions of clauses 7.1 and 7.2 above, the Company shall not be prevented from mentioning the name of Yeda, the Inventors, the Institute and/or any scientists or other employees of the Institute or any employee of Yeda or from disclosing any information if, and to the extent that, the Company (a) is required or reasonably deems it appropriate to disclose such information in order to fulfil its obligations or exercise its rights under this Agreement including for the purposes of obtaining approval or permission for the exercise of the Licence, registering any of the Products with the FDA and/or any other relevant health authority or (b) is required to disclose such information in the fulfilment of any legal duty owed to any competent authority (including a duty to make regulatory filings). For clarity, mention in a private placement memorandum or a public offering registration shall not be deemed fulfilment of a legal duty to a competent authority, and any such mention shall not be subject to Yeda's approval if in the form set out in **Appendix G** hereto, or, if in any other form, shall be subject to Yeda's approval which shall not be withheld or a response to a request for such approval delayed unreasonably.

7.4. Yeda shall maintain in confidence all information received by Yeda from the Company which has been designated by the Company in writing and in advance as confidential or which otherwise should be reasonably be understood under the circumstances as being confidential (including, copies of Sublicence agreements and amendments thereto as well as all reports provided under clauses 5 and 6 above), except and to the extent that: (i) 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 Yeda of this obligation of confidentiality) or is released by the Company from this obligation of confidentiality by notice in writing; (ii) Yeda is required to disclose such information in order to fulfil its obligations under this Agreement (including in connection with the filing and prosecution of patent applications in accordance with the provisions of clause 3 above or as needed in order to enforce its rights under this Agreement in a legal action); or (iii) Yeda is required to disclose such information in fulfilment of any legal duty owed to any competent authority (the Company hereby acknowledging that it is aware that such competent authority may not be bound by any confidentiality obligations and may disclose or be required to disclose such information to a third party, whether by order of court or by law or otherwise). For the avoidance of doubt, the provisions of this clause 7.4 shall not apply in respect of any information (not being Licensed Information) independently developed at the Institute without the use of or reference to the confidential information received from the Company.

7.5. For the avoidance of doubt, Yeda shall have the right to allow the scientists of the Institute to 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, on the condition that, to the extent that the information to be published or disclosed is Licensed Information which 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 45 (forty-five) days before the making of any such publication or disclosure and the Company shall have failed to notify Yeda in writing, within 15 (fifteen) 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 15 (fifteen) 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 (which has been specified in said notice) in respect of which there are reasonable grounds (which have also been specified in said notice) requiring the postponement of such publication or disclosure so as not adversely to affect the Company's interests under the Licence because such Licensed Information is patentable subject-matter for which patent protection should be sought, then Yeda shall not permit such publication or disclosure unless and until there shall first have been filed an appropriate patent application in respect of the material to be published or disclosed as aforesaid. The Company acknowledges that it is aware of the importance to the researchers of publishing their work and, accordingly, the Company will not unreasonably oppose such publications.

7.6. The terms of this Agreement shall be kept by both parties in confidence, with the exception that: (a) the Company shall have the right to disclose the minimum amount of information in respect of this Agreement and the terms therein as required by a regulatory body or applicable law due to the fact that the Company is a publicly traded company; (b) the Company will have the right to disclose this Agreement in confidence to any bona fide prospective investor in Company, acquirer of Company or Sublicensee, provided that they will be subject to customary confidentiality obligations; and (c) each party may disclose factual statements relating to the relationship created by this Agreement without the disclosure of any financial details thereof in the form set out in **Appendix H** hereto, without the prior written approval of the other party, or, if in any other form, subject to the prior written approval of the other party, which shall not be withheld or a response to a request for such approval delayed unreasonably.

8. **RESERVED**

9. **NO ASSIGNMENT**

The Company may not assign or encumber all or any of its rights or obligations under this Agreement or arising therefrom, save for (a) an assignment of all of its rights and obligations hereunder to a single entity which is the acquirer of the Company under a merger or similar arrangement, or (b) an assignment which has been approved in advance, in writing, by Yeda, such approval, not to be withheld unreasonably. Any consideration received by the Company in respect of: (i) an assignment of its rights hereunder to which Yeda consents as aforesaid; or (ii) a merger or similar arrangement, if at the time of such merger or similar arrangement all or substantially all of the business of the Company relates to the Products, shall be deemed to be Sublicensing Receipts and the provisions of clause 6 above shall apply with respect thereto, *mutatis mutandis*.

10. **EXCLUSION OF LIABILITY AND INDEMNIFICATION**

10.1. Yeda, the Inventors, the Institute and the directors, officers and employees of Yeda and/or of the Institute (hereinafter collectively **"the Indemnitees"**) shall not be liable for any claims, demands, liabilities, costs, losses, damages or expenses (including legal costs and attorneys' fees) of whatever kind or nature (all of the aforegoing, collectively, **"Liabilities"**) caused to or suffered by any person or entity (including the Company or any Sublicensee or any Distributor or any Subcontractor) that directly or indirectly result from the exercise of the Licence, including directly or indirectly resulting from or encountered in connection with: (i) the development, manufacture, sale or use of any of the Products by the Company, any Sublicensee, any Distributor, any Subcontractor or any person acting in the name of or on behalf of any of the aforegoing, or acquiring, directly or indirectly, any of the Products from any of the aforegoing; or (ii) the exploitation or use by the Company or any Sublicensee or any Distributor or any Subcontractor of the Licensed Information or any part thereof, including of any data or information given, if given, in accordance with this Agreement.

10.2. In the event that any of the Indemnitees should incur or suffer any Liabilities that result from the exercise of the Licence as aforesaid in clause 10.1 above, or shall be requested or obliged to pay to any person or entity any amount whatsoever as compensation for any Liabilities as aforesaid in clause 10.1 above, then the Company shall indemnify and hold harmless such Indemnitees from and against any and all such Liabilities (including, for the avoidance of doubt, legal costs and attorneys' fees). Without limiting the generality of the aforegoing, the Company's indemnification as aforesaid and the exclusion of liability in clause 10.1 above shall extend to product liability claims and to damages, claims, demands, liabilities, losses, costs and expenses (in each case whether based in tort, contract or otherwise) attributable to death, personal injury or property damage or to penalties imposed on account of the violation of any law, regulation or governmental requirement. Notwithstanding the aforegoing, the Company will not be liable and will not be required to indemnify an Indemnitee to the extent that any Liabilities result from the gross negligence or wilful misconduct of such Indemnitee.

10.3. The Company shall at its own expense insure its liability pursuant to clause 10.2 above during the period beginning on the date of the signing of this Agreement and continuing during the entire period that a Product is sold in any country, plus an additional period of 7 (seven) years. 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 the stage of development, and shall be subscribed for from a reputable insurance company. [The named insured under such insurances shall be the Company, the Inventors, Yeda and the Institute and the beneficiaries thereof shall include also the respective employees, officers and directors of Yeda and the Institute. 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 named insured (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 Yeda in writing at least 30 (thirty) days in advance of the expiry or cancellation of the policy or policies. The Company hereby undertakes to comply punctually with all obligations imposed upon it under such policy or policies and in particular, without limiting the generality of the aforegoing, to pay in full and punctually all premiums and other payments for which it is liable pursuant to such policy or policies. The Company shall be obliged to submit to Yeda copies of the aforesaid insurance policy or policies within 14 (fourteen) days of a request by Yeda therefor.

10.4. The provisions of this clause 10 shall survive the termination of this Agreement for whatsoever reason.

11. **TERM AND TERMINATION**

11.1. The term of this Agreement shall commence as of the date of signature of this Agreement and, unless otherwise agreed to in writing or early terminated as set forth below, shall continue in full force and effect until the occurrence of the later of the following:

11.1.1. the date of expiry of the last of the Patents; or

11.1.2. the expiry of a continuous period of 11 (eleven) years after the First Commercial Sale in any country during which there shall not have been a First Commercial Sale of any Product in the United States, any member country of the European Union, Japan, China or any other country being a member of the OECD.

Following the expiration of this Agreement, the Company shall have a royalty-free, fully paid-up, perpetual, irrevocable, non-exclusive, worldwide licence (with the right to grant sublicences through multiple tiers of sublicences) to use the Licensed Information for the research, development, production, marketing and sale of Products.

11.2. The Company may terminate this Agreement without cause upon 60 (sixty) days' prior written notice to Yeda, provided that Company undertakes, in such notice, to refrain indefinitely from developing, manufacturing, formulating, producing, marketing and/or selling Products.

11.3. Notwithstanding anything to the contrary contained in this Agreement, Yeda shall be entitled to terminate this Agreement in the event that:

11.3.1. the Company shall fail to achieve any of the Development Milestones by the date set out for such Development Milestone, subject to permitted extensions of such date pursuant to clause 5.8 above; or

11.3.2. commercial sale of Products shall have commenced and thereafter there shall be a period of 6 (six) months or more during which no sales of any Product shall take place (except as a result of force majeure or other factors beyond the control of the Company) (**"the No-Sale Period**"), provided however to the extent that the Company shall provide reasons for the absence of sales, with the relevant explanations and a reasonable plan to overcome the obstacles and re-launch the Product during the No-Sale Period, then Yeda will agree to extend the No-Sale Period for an additional 12 (twelve) months, provided that the royalty term set out in clause 6.1.6 above shall be extended by the same No Sale Period (for the avoidance of doubt, including the extension of the No-Sale Period, as aforesaid).

11.4. Without derogating from the aforegoing, Yeda shall be entitled to terminate this Agreement (unless previously terminated in accordance with the provisions of this Agreement), by written notice to the Company (effective immediately), if the Company commences a legal action in which it challenges the validity of any of the Patents. If any such challenge is unsuccessful, the Company shall (in addition to Yeda's right to terminate pursuant to this clause 11.4) pay to Yeda liquidated damages in the amounts of US $8,000,000 (eight million United States Dollars), such liquidated damages being a genuine pre-estimate of the damage that would be incurred by Yeda as a result of any such challenge.

11.5. Without derogating from the parties' rights hereunder or by law to any other or additional remedy or relief, it is agreed that either Yeda or the Company may terminate this Agreement and the Licence hereunder by serving a written notice to that effect on the other upon or after: (i) the commitment of a material breach hereof by the other party, which material breach cannot be cured or, if curable, which has not been cured by the party in breach within 45 (forty-five) days after receipt of a written notice from the other party in respect of such breach, or (ii) the granting of a winding-up order in respect of the other party, or upon an order being granted against the other party for the appointment of a receiver, or if such other party passes a resolution for its voluntary winding-up, or if a temporary or permanent liquidator or receiver is appointed in respect of such other party, or if a temporary or permanent attachment order is granted on such other party's assets, or a substantial portion thereof, or if such other party shall seek protection under any laws or regulations, the effect of which is to suspend or impair the rights of any or all of its creditors, or to impose a moratorium on such creditors, or if anything analogous to any of the aforegoing in this clause 11.5 above under the laws of any jurisdiction occurs in respect of such other party; provided that in the case that any such order or act is initiated by any third party, the right of termination shall apply only if such order or act as aforesaid is not cancelled within 90 (ninety) days of the grant of such order or the performance of such act.

11.6. Any amount payable hereunder by one of the parties to the other, 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 rate of 1.5% (one point five percent) per month or *pro rata* for part thereof.

11.7. Upon early termination of this Agreement for whatever reason, (but specifically excluding expiration of this Agreement due to the passage of time): (i) all rights in and to the Licensed Information and the Patents shall revert to Yeda and the Company shall not be entitled to make any further use thereof and the Company shall deliver to Yeda all drawings, plans, diagrams, specifications, other documentation, models or any other physical matter in the Company's possession containing or embodying the Licensed Information; and (ii) the Company shall grant to Yeda a nonexclusive, perpetual, royalty-bearing, sublicenseable, worldwide licence in respect of the Company's Information solely to research, develop, produce, market and sell Products. In this clause 11.7 above, the term **"the Company's Information"** shall mean: (a) any patents and patent applications owned and controlled by the Company that claim an invention, the practice of which would fall within the scope of a Valid Claim; (b) any other intellectual property rights with respect to any product, material, method, process, technique, know-how, data, information or other result which (i) does not form part of the Licensed Information; (ii) is developed in the course of the performance by the Company of the development work pursuant to clause 5 above; and (iii) relates to the making, using or selling or Products; and (c) the right to reference any regulatory filing or approval, filed or obtained by the Company in respect of the Products, including communications with the regulatory authorities, the drug master file and any data, information or document covered by data protection or data exclusivity with respect to Products.

11.8. In addition, upon early termination of this Agreement by Yeda, Yeda shall be obligated to comply with the terms of clause 4.6.3.1 with respect to Sublicensees, and the relevant Sublicensees shall be deemed third party beneficiaries of such obligation.

11.9. The termination of this Agreement for any reason shall not relieve the either party of any obligations which shall have accrued prior to such termination.

11.10. The parties' respective rights, obligations and duties under clauses 6.4.1, 6.4.2 (for the calendar quarter in which the Agreement is terminated), 6.5, 6.6, 7, 10, 12, 13, 14 and 15 as well as any rights, obligations and duties which by their nature extend beyond the expiration or termination of this Agreement, shall survive any expiration or termination of this Agreement.

12. **NOTICES**

Any notice or other communication required to be given by one party to the other under this Agreement shall be in writing and shall be deemed to have been served: (i) if personally delivered, when actually delivered; or (ii) if sent by facsimile, the next business day after receipt of confirmation of transmission; or (iii) 10 (ten) days after being mailed by certified or registered mail, postage prepaid (for the purposes of proving such service—it being sufficient to prove that such notice was properly addressed and posted) to the respective addresses of the parties set out below, or to such other address or addresses as any of the parties hereto may from time to time in writing designate to the other party hereto pursuant to this clause 12:

12.1. to Yeda at:

P.O. Box 95
Rehovot 76100
Israel
Attention: the CEO
Facsimile: (08) 9470739

12.2. to the Company at:

Medinat Hayeudim 85 St.,
Herzeliya Pituach 46766.,
Israel
Attention: the CEO
Facsimile: (09) 9519727

13. **VALUE ADDED TAX**

The Company shall pay to Yeda all amounts of Value Added Tax due by law with respect to payments to be made under this Agreement. All amounts referred to in this Agreement shall be exclusive of Value Added Tax.

14. **GOVERNING LAW AND JURISDICTION**

This Agreement shall be governed in all respects by the laws of Israel and the parties hereby submit to the exclusive jurisdiction of the competent Israeli courts, except that Yeda may bring suit against the Company in any other jurisdiction outside Israel in which the Company has assets or a place of business.

15. **MISCELLANEOUS**

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

15.2. This 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. No party has, in entering into this Agreement, relied on any warranty, representation or undertaking, except as may be expressly set out herein.

15.3. This Agreement may be executed in any number of counterparts (including counterparts transmitted by telecopier or fax), each of which shall be deemed to be an original, but all of which taken together shall be deemed to constitute one and the same instrument.

15.4. 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.

15.5. If any provision of this Agreement is held to be unenforceable under applicable law, then such provision shall be modified as set out below and the balance of this Agreement shall be interpreted as if such provision were so modified and shall be enforceable in accordance with its terms. The parties shall negotiate in good faith in order to agree on the terms of an alternative provision which complies with applicable law and achieves, to the greatest extent possible, the same effect as would have been achieved by the invalid or unenforceable provision.

15.6. Nothing contained in this Agreement shall be construed to place the parties in a relationship of partners or parties to a joint venture or to constitute either party an agent, employee or a 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.

15.7. All payments to be made to Yeda hereunder shall be made in US Dollars by banker's cheque or by bank transfer to Yeda's bank account, the details of which are as follows: Bank Leumi le–Israel B.M., 200 Herzl Street, Rehovot branch #930, account no. 12370011; swift: LUMIIILITTLV, Routing Number: IL010930, IBAN no. IL18 0109 3000 0001 2370 011.

All payments to be made to Yeda hereunder shall be made free and clear of, and without any deduction for or on account of, any set-off, counterclaim or tax, except for set-off to the extent permitted pursuant to the final sentence of clause 6.6 above.

15.8. Each party agrees to execute, acknowledge and deliver such further documents and instruments and do any other acts, from time to time, as may be reasonably necessary, to effectuate the purposes of this Agreement.

15.9. None of the provisions of this Agreement shall be for the benefit of, or enforceable by, any person who is not a party to this Agreement, save for clauses 7 and 10 above.

IN WITNESS WHEREOF the parties hereto have set their signatures as of this 7 day of January 2014.

for **YEDA RESEARCH AND DEVELOPMENT COMPANY LIMITED**	for **XTL BIOPHARMACEUTICALS LTD.**
Signature: /s/	Signature: /s/
Name	Name:
Title	Title:
Date:	Date:

APPENDIX A(1)

YEDA PATENTS

PATENT CARD

9513

Title: SYNTHETIC PEPTIDES AND PHARMACEUTICAL COMPOSITIONS COMPRISING THEM FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: MOZES Edna, WAISMAN Ari

Country	Application	Publication	Grant	Status	Pending action
Israel	28/03/1995 - 113159	-	-	Abandoned	
PCT	27/03/1996 - PCT/US96/04206	03/10/1996 - WO 96/30057	-	Published	
Israel*	27/03/1996 - 117686	-	117686 - 01/02/2001	Granted	Annuity due 27.3.14 (last renewal)
U.S.A*	27/03/1996 - 08/913,994	-	6,613,536 - 02/09/2003	Granted	Annuity due 2.3.15 (last renewal)

*Both patents expire in March 2016.

2001-004

Title: SYNTHETIC HUMAN PEPTIDES AND PHARMACEUTICAL COMPOSITIONS COMPRISING THEM FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: MOZES Edna

Country	Application	Publication	Grant	Status	Pending action
Israel	26/02/2001 - 141647	-	-	Abandoned	-
PCT	26/02/2002 - PCT/IL02/00148	06/09/2002 – WO 02/067848	-	Published	-
Australia	26/02/2002 - 2002233618	-	2002233618 - 12/04/2007	Granted	Annuity due 26.2.14
Canada	26/02/2002 - 2,439,051	-	2,439,051 - 02/02/2010	Granted	Requires reinstatement by 26.2.14 as annuity was not paid.
Eurasian Patent	26/02/2002 - 200300939	30/12/2004 -	009465 - 26/10/2008	Validated	-
Russian Federation	26/02/2002 - 200300939	30/12/2004 -	009465 - 26/10/2008	Granted	Annuity due 26.2.14
European Patent Office	26/02/2002 - 02700553.7	17/12/2003 - 1 370 575	1 370 575 - 22/11/2006	Validated	-
Austria	26/02/2002 - 02700553.7	-	AT E 346094 T1 - 22/11/2006	Granted	Annuity due 26.2.14

Denmark	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Finland	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
France	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Germany	26/02/2002 - 02700553.7	-	60216243.2 - 22/11/2006	Granted	Annuity due 26.2.14
Ireland	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Italy	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Liechtenstein	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	(Renews automatically with Switzerland)
Spain	26/02/2002 - 02700553.7	-	ES 2275832 T3 - 22/11/2006	Granted	Annuity due 26.2.14
Sweden	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Switzerland	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
The Netherlands	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
United Kingdom	26/02/2002 - 02700553.7	-	1 370 575 - 22/11/2006	Granted	Annuity due 26.2.14
Hong Kong	26/02/2002 - 04102596.0	16/07/2004 - 1059790A	HK 1059790 - 27/04/2007	Granted	Annuity due 26.2.14
Hungary	26/02/2002	-	-	Pending	Annuity due 26.2.14
	P0600778				

India	26/02/2002 - 01347/DELNP/2003	-	232386 – 16/03/2009	Granted	Annuity due 26.2.14
Israel	26/02/2002 - 157550	-	157550 - 01/09/2010	Granted	Annuity due 26.2.16
Japan	26/02/2002 - 2002-567220	24/02/2005 - 2005-505493	4316886 - 29/05/2009	Granted	Annuity due 29.5.14
Korea	26/02/2002 - 2003-7011235	03/12/2003 - 2003-92004	860735 - 23/09/2008	Granted	Annuity due 23.9.14
Mexico	26/02/2002 - PA/A/2003/007622	-	249470 - 24/09/2007	Granted	Annuity due 26.2.17
Norway	26/02/2002 - 20033718	-	331820 - 10/04/2012	Granted	Annuity due 26.2.14
U.S.A	20/08/2007 - 11/894,472	22/05/2008 - US-2008-0119390	7,858,738 - 28/12/2010	Granted	Annuity due 28.6.14

APPENDIX A(2)

YEDA KNOW-HOW

1. A method to dissolve the peptide (hCDR1) in PBS for the tolerogenic administration.

2. Mode of injection of hCDR1 for the prevention of an autoimmune response.

3. Characterization of the isotypes of the antibodies produced following a chronic treatment with hCDR1.

4. Binding of hCDR1 to MHC class II on APC in comparison with control peptides.

5. Determination of complement C3 levels in sera of mouse models and effects of treatment with hCDR1.

6. Assays for the evaluation of the effects of treatment with hCDR1 in the presence of immunosuppressive drugs (such as Methotrexate, Mofetil Mycophenolate, Immuran) used for the treatment of lupus (especially lupus nephritis).

7. Methods to assess the effects of treatment with hCDR1 on CNS lupus (pathology and behavior dysfunction) in spontaneous and induced experimental SLE.

8. Determination of anti-NMDA specific antibodies in sera of mice with induced lupus and the effects of hCDR1 on the latter.

9. Induction of neurogenesis and expression of BDNF in brains of SLE afflicted mice following treatment with hCDR1.

10. Methods to determine B cell dysfunction and the effect of hCDR1 on the latter especially in the target organs of lupus, namely, brain and kidney.

11. Evaluation of hCDR1 activity using a short term in vitro assay. This method was used in one of our publications and is written in the Methods section. However, because this technology can be used in the future to determine whether a patient might be a responder to the treatment of hCDR1 (which is not mentioned in the publication) we think that it might be the most important know how of the whole list.

APPENDIX B(1)

ASSIGNED PATENTS

2003-119

Title: PARENTERAL FORMULATIONS OF A PEPTIDE FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS **Inventors:** COHEN-VERED Sharon, KLINGER Ety, GILBERT Adrian, NAFTALI Ezmira, WEINSTEIN Vera

Country	Application	Publication	Grant	Status	Pending action
U.S.A	14/01/2003 - 60/439,950	-	-	Expired	
PCT	14/01/2004 - PCT/US04/000955	05/08/2004 - WO 2004/064788	-	Published	
India	14/01/2004 - 3481/DELNP/2005		235111 - 25/06/2009	Granted	Annuity due 14.1.14
U.S.A	14/01/2004 - 10/758,572	16/09/2004 - 2004-0180059	7,294,687 - 13/11/2007	Granted	Annuity due 13.5.15
Mexico	14/01/2004 - PA/a/2005007552	-	260529 - 12/09/2008	Granted	Annuity due 14.1.18

2003-120

Title: PARENTERAL FORMULATIONS OF SYNTHETIC PEPTIDES FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: COHEN-VERED Sharon, KLINGER Ety, GILBERT Adrian, NAFTALI Ezmira, WEINSTEIN Vera

Country	Application	Publication	Grant	Status	Pending action
U.S.A	14/01/2003 - 60/439,918	-	-	Expired	
PCT	14/01/2004 - PCT/US04/000948	05/08/2004 – WO 2004/064787	-	Published	
Canada	14/01/2004 - 2,513,320	-	-	Examination	Requires reinstatement by 14.1.14 as annuity was not paid, along with filing a response to the pending office action. Instructions issued 31.12.13.
China	14/01/2004 - 200480006987.2	17/05/2006 - CN1774259A	ZL 200480006987.2 - 28/12/2011	Granted	Annuity due 14.1.14
European Patent Office	14/01/2004 - 04702215.7	16/11/2005 - 1 594 434	-	Examination	Annuity due 14.1.14
Israel	14/01/2004 - 169574	24/08/2012 -	-	Examination	Pending office action from 14.10.13. Response due 14.2.14.
Japan	14/01/2004 - 2006-500956	27/07/2006 - 2006-517540	4817068 - 09/09/2011	Granted	Annuity due 9.9.14

APPENDIX B(2)

ASSIGNED KNOW-HOW

APPENDIX C

DEVELOPMENT PROGRAM

APPENDIX D

IND APPLICATION FOR EDRATIDE

APPENDIX E

Existing Patents that Must be Maintained

1. **Yeda Case Number: 2001-004.**

Title: PARENTERAL FORMULATIONS OF SYNTHETIC PEPTIDES FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: COHEN-VERED Sharon, KLINGER Ety, GILBERT Adrian, NAFTALI Ezmira, WEINSTEIN Vera

Countries in which Existing Patents in this patent family must be maintained:

- USA
- Canada
- UK
- Germany
- France
- Switzerland
- Netherlands
- Japan
- India

2 **Yeda Case Number**: 2003-119

Title: PARENTERAL FORMULATIONS OF A PEPTIDE FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: COHEN-VERED Sharon, KLINGER Ety, GILBERT Adrian, NAFTALI Ezmira, WEINSTEIN Vera

Countries in which Existing Patents in this patent family must be maintained:

- India
- U.S.A

3 **Yeda Case Number:** 2003-120

Title: PARENTERAL FORMULATIONS OF SYNTHETIC PEPTIDES FOR THE TREATMENT OF SYSTEMIC LUPUS ERYTHEMATOSUS

Inventors: COHEN-VERED Sharon, KLINGER Ety, GILBERT Adrian, NAFTALI Ezmira, WEINSTEIN Vera

Countries in which Existing Patents in this patent family must be maintained:

- China

- Japan

APPENDIX F

OCS GRANTS

APPENDIX G

FORM OF DISCLOSURE – PRIVATE PLACEMENT OR PUBLIC OFFERING

[TBD]

APPENDIX H

FACTUAL DISCLOSURE FORM

[TBD]

EX-10.14 3 v373623_ex10-14.htm EXHIBIT 10.14

PROTEOLOGICS LTD.

INTERIM FINANCIAL INFORMATION

AS OF SEPTEMBER 30, 2013

UNAUDITED

INDEX

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CONDENSED STATEMENT OF FINANCIAL POSITION

	September 30,		December 31,
	2013	2012	2012
	Unaudited		Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	12,049	8,335	10,437
Financial assets at fair value through profit or loss	10,821	27,644	22,421
Bank deposits - restricted as to use	365	334	364
Accounts receivable	123	820	416
Assets held for sale	628	-	-
	23,986	37,133	33,638
NON-CURRENT ASSETS:			
Property, plant and equipment	-	2,096	1,966
Intangible assets	-	210	166
	-	2,306	2,132
Total assets	23,986	39,439	35,770
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Liability for discontinued operation	1,235	-	-
Trade payables	157	638	517
Other accounts payable	1,149	2,314	2,013
Deferred revenues	-	3,191	2,068
	2,541	6,143	4,598
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	-	118	218
Total liabilities	2,541	6,261	4,816
EQUITY:			
Share capital and premium	79,323	79,005	79,056
Capital reserve	26,384	26,384	26,384
Options	11,117	11,117	11,117
Accumulated deficit	(95,379)	(83,328)	(85,603)
Total equity	21,445	33,178	30,954
Total liabilities and equity	23,986	39,439	35,770

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

November 25, 2013			
Date of approval of the financial statements	Mordechai Menashe Chairman of the Board	Sagi Ben Ishai Chief Executive Officer	Eran Mazor Director *)

* The Company's Board at its meeting held on November 25, 2013, empowered this director to sign on these financial statements due to the fact that there is no senior financial officer in the Company.

CONDENSED STATEMENTS OF OPERATIONS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues from rendering of research and development services	3,638	10,649	-	4,153	13,436
Cost of revenues from rendering of research and development services	(1,935)	(8,671)	-	(2,836)	(10,716)
Research and development expenses, net	(5,963)	(5,399)	(1,834)	(1,335)	(6,946)
General and administrative expenses	(2,433)	(4,447)	(180)	(1,480)	(5,645)
Expenses relating to discontinued operation	(2,253)	-	(2,253)	-	-
Capital gain	4	1	-	-	1
Operating loss	(8,942)	(7,867)	(4,267)	(1,498)	(9,870)
Finance income	763	1,512	146	372	1,464
Finance expenses	(1,241)	(16)	(371)	(4)	(429)
Finance income (expenses), net	(478)	1,496	(225)	368	1,035
Loss before taxes on income	(9,420)	(6,371)	(4,492)	(1,130)	(8,835)
Taxes on income	(4)	-	(4)	-	-
Comprehensive loss	(9,424)	(6,371)	(4,496)	(1,130)	(8,835)
Loss per share - basic and fully diluted (in NIS)	(0.63)	(0.43)	(0.30)	(0.08)	(0.60)

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

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Share capital and premium	Capital reserve	Options	Accumulated deficit	Total equity
	NIS in thousands				
Balance at January 1, 2013 (audited)	79,056	26,384	11,117	(85,603)	30,954
Exercise of options	267	-	-	(35)	232
Comprehensive loss for the period	-	-	-	(9,424)	(9,424)
Cost of share-based payment	-	-	-	(317)	(317)
Balance at September 30, 2013 (unaudited)	79,323	26,384	11,117	(95,379)	21,445
Balance at January 1, 2012 (audited)	75,643	26,384	14,400	(77,841)	38,586
Expiration of options	3,283	-	(3,283)	-	-
Exercise of options	79	-	-	(10)	69
Comprehensive loss for the period	-	-	-	(6,371)	(6,371)
Cost of share-based payment	-	-	-	894	894
Balance at September 30, 2012 (unaudited)	79,005	26,384	11,117	(83,328)	33,178
Balance at July 1, 2013 (unaudited)	79,259	26,384	11,117	(90,392)	26,368
Exercise of options	64	-	-	(8)	56
Comprehensive loss for the period	-	-	-	(4,496)	(4,496)
Cost of share-based payment	-	-	-	(483)	(483)
Balance at September 30, 2013 (unaudited)	79,323	26,384	11,117	(95,379)	21,445
Balance at July 1, 2012 (audited)	79,005	26,384	11,117	(82,438)	34,068
Comprehensive loss for the period	-	-	-	(1,130)	(1,130)
Cost of share-based payment	-	-	-	240	240
Balance at September 30, 2012 (unaudited)	79,005	26,384	11,117	(83,328)	33,178
Balance at January 1, 2012 (audited)	75,643	26,384	14,400	(77,841)	38,586
Expiration of options	3,283	-	(3,283)	-	-
Exercise of options	130	-	-	(18)	112
Comprehensive loss for the period	-	-	-	(8,835)	(8,835)
Cost of share-based payment	-	-	-	1,091	1,091
Balance at December 31, 2012 (audited)	79,056	26,384	11,117	(85,603)	30,954

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

CONDENSED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
Cash flows from operating activities:					
Comprehensive loss	(9,424)	(6,371)	(4,496)	(1,130)	(8,835)
Adjustments to reconcile comprehensive loss to net cash used in operating activities:	421	(5,419)	1,815	(1,998)	(5,458)
Net cash used in operating activities	(9,003)	(11,790)	(2,681)	(3,128)	(14,293)
Cash flows from investing activities:					
Purchase of property, plant and equipment	(36)	(236)	-	(17)	(356)
Purchase of intangible assets	(13)	(30)	-	(17)	(30)
Proceeds from sale of property, plant and equipment	23	3	-	-	3
Proceeds from sale of financial assets at fair value through profit or loss, net	10,940	10,937	1,700	2,860	16,054
Investment in deposits restricted as to use, net	(1)	(4)	(1)	(1)	(34)
Net cash provided by investing activities	10,913	10,670	1,699	2,825	15,637
Cash flows from financing activities:					
Proceeds from exercise of options	232	69	56	-	112
Net cash provided by financing activities	232	69	56	-	112
Increase (decrease) in cash and cash equivalents	2,142	(1,051)	(926)	(303)	1,456
Cash and cash equivalents at the beginning of the period	10,437	9,192	13,226	8,664	9,192
Exchange differences on cash and cash equivalents	(530)	194	(251)	(26)	(211)
Cash and cash equivalents at the end of the period	12,049	8,335	12,049	8,335	10,437

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

CONDENSED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
(a) Adjustments to reconcile comprehensive loss to net cash used in operating activities:					
Income and expenses not involving cash flows:					
Loss (gain) from fair value change in financial assets at fair value through profit or loss	660	(351)	53	(277)	(245)
Depreciation and amortization	1,532	619	1,202	179	794
Employee benefit liabilities, net	(218)	38	(248)	7	138
Decrease (increase) in accounts receivable	293	(21)	368	(144)	383
Exchange differences on cash and cash equivalents	530	(194)	251	26	211
Capital gain from property, plant and equipment, net	(4)	(1)	-	-	(1)
Cost of share-based payment	(317)	894	(483)	240	1,091
	2,476	984	1,143	31	2,371
Changes in operating asset and liability items:					
Liability for Company's discontinued operation	1,235	-	1,235	-	-
Decrease in trade payables	(360)	(565)	(208)	(855)	(567)
Decrease in other accounts payable	(862)	(254)	(355)	(475)	(555)
Decrease in deferred revenues	(2,068)	(5,584)	-	(699)	(6,707)
	(2,055)	(6,403)	672	(2,029)	(7,829)
	421	(5,419)	1,815	(1,998)	(5,458)
(b) Information on investing and financing activities not involving cash flows:					
Purchase of property, plant and equipment on credit	-	119	-	119	-
(c) Cash paid and received during the period for:					
Taxes paid	3	4	-	1	21
Interest received	759	1,120	146	217	1,305

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

NOTE 1:- GENERAL

a. These financial statements have been prepared in a condensed format as of September 30, 2013 and for the nine and three months periods then ended. These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2012 and for the year then ended and accompanying notes.

b. On August 21, 2013, the Company's Board directed the Company's management, among others (a) to act to locate potential buyers for the Company's activity in the Ubiquitin field which then was the Company's main area of activity; (b) to form immediately an action plan to the Company which derives from the accepted decision. It was further decided to empower the Board's sub-committee to examine as soon as possible and to bring before the Board its recommendations regarding alternative businesses for the Company.

The above decisions were accepted, among others, because the products that the Company develops in the Ubiquitin field are in early development stages and the Board anticipates that the financing sources that are currently available for the Company are no longer sufficient to bring these products to a significant milestone.

c. On September 20, 2013, the control over the Company was transferred from a former significant shareholder, XTL Biopharmaceuticals Ltd., to ZMIHA Investment House Ltd., a public company whose shares are traded on the TASE while all Company's directors, except outside directors, resigned and other directors were nominated in their place. On October 31, 2013, Mr. Sagi Ben Ishai was nominated as the Company's CEO (replacing Mr. Joshua Josh Levine who also resigned on September 20, 2013) and on November 3, Mr. Eliyahu Yoresh was appointed as the Company's chairman of the Board.

In furtherance to the above decision from August 21, 2013, the Company's Board and management accepted at their meetings held during the third quarter of 2013, decisions the key elements of which are as followed: (a) to discontinue the Company's activity, including the main activity in the Ubiquitin field; (b) to act to conclude the existing engagements of the Company in connection with its activity, including termination of all contracts and commitments relating to the Ubiquitin activity; (c) to act to release from the lease agreement for the Company's offices in Rehovot, among others, through early termination, assignment or lease to a sub-lessee; (d) to dismiss all of the Company's employees; (e) to continue the search attempts for potential buyers to the IP and the property, plant and equipment used by the Company's activity; (f) to convene the Board as soon as possible to discuss ways to continue the Company.

As a result of the above, during the nine and three months periods ended September 30, 2013, the Company recorded expenses relating to discontinued operation of approximately NIS 2,253 thousand (of which an amount of NIS 1,046 thousand in respect of depreciation of property, plant and equipment).

NOTE 1:- GENERAL (Cont.)

d. As of the date of the issuance of this report, the Company dismissed all of its employees (except pregnant or postnatal employees in respect of whom the Company addressed the officer in charge of women employment to receive a permit to dismiss them).

e. As of the date of the approval of the financial statements, the Company has no significant business activity, except holding of securities. As a result, since October 1, 2013, the Company is a "public shell" without significant business activity.

Since its inception, the Company was engaged in the research and development of therapeutics through knowhow and expertise it possessed in the Ubiquitin system.

f. On November 11, 2013, the Company filed with the Tel-Aviv District Court an application for a creditors' arrangement under section 350 to the Companies Law, 1999 whose purpose is to cause that all of the Company's debts in respect of the discontinued operation will be paid to its creditors and it will be discharged from all its liabilities, including contingent liabilities whose cause as of the date of the approval of the creditors' arrangement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Preparation format of the interim financial statements:

The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970

b. New standards, interpretations and amendments applied for the first time by the company:

The significant accounting policies and methods of computation adopted in the preparation of the interim financial statements are consistent with those adopted in the preparation of the annual financial statements, except as noted below.

Non-current asset or group of assets held for sale:

Non-current asset or group of assets is classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are presented separately as current assets at the lower of their carrying amount and fair value less costs to sell.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 19 (Revised 2011), "Employee Benefits": ("IAS 19(R)")

In June 2011, the IASB issued IAS 19 (Revised) which is to be applied commencing January 1, 2013. The key amendments address the accounting treatment of defined benefit plans. The first-time application of IAS 19(R) did not have a material effect on the Company's financial statements.

IFRS 13, "Fair Value Measurement":

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The provisions of IFRS 13 are applied prospectively as from January 1, 2013 and they do not apply to comparative figures.

The first-time application of IFRS 13 did not have a material effect on the Company's financial statements.

NOTE 3:- ADDITIONAL SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. Addressing the Chief Scientist in connection with the agreement between the Company and GlaxoSmithKline LLC:

The Company and the Chief Scientist at the Ministry of Industry and Trade ("the Scientist") had a dialogue with the purpose of putting an end to a dispute regarding the Scientist demand to receive royalties from all Company's revenues, including from revenues whose source is the collaboration with GSK. For the meantime, the parties halted, with no time frame, mutual procedures in order to allow the clarification of the dispute in the right spirit.

The Company's maximal exposure varies between 3% and 4% (by periods) of total Company's revenues from GSK ranges between NIS 947 thousand and NIS 1,262 thousand in respect of the Company's revenues from GSK agreement.

Currently, the Company can not assess the potential effects of the above on the Company. Accordingly, no provision was recorded in the Company's financial statements.

NOTE 3:- ADDITIONAL SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

b. During the nine months period ended September 30, 2013, 266,679 options were exercised into 266,679 shares for a cumulative amount of NIS 232 thousand.

c. On July 30, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ("the Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5% and taxing revaluation gains effective from January 1, 2014.

These changes had no effect on the Company's financial statements.

- - - - - - - - - - -

Exhibit 21.1

SUBSIDIARIES OF XTL BIOPHARMACEUTICALS LTD.

Name of Subsidiary	Jurisdiction of Incorporation
InterCure, Ltd.	Israel
InterCure, Inc.	Delaware
InterCure UK	UK
XTEPO, Ltd.	Israel
XTL Biopharmaceuticals, Inc.	Delaware
XTL Development, Inc.	Delaware

EX-23.1 5 v373623_ex23-1.htm 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. 333-147024 and File No. 333-153055) and Form S-8 (File No. 333-148085, File No. 333-148754 and File No. 333-154795) of XTL Biopharmaceuticals Ltd. of our report dated March 31, 2014, which appears in this Form 20-F.

Tel-Aviv, Israel
March 31, 2014

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

EX-23.2 6 v373623_ex23-2.htm EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference of our report dated March 7, 2013 on the financial statements of Proteologics Ltd, which appears in XTL Biopharmaceuticals Ltd. 2012 Annual Report on Form 20-F.

Tel-Aviv, Israel
March 31, 2014

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

Exhibit 31.1

CERTIFICATION

I, Josh Levine, 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/ Josh Levine

Josh Levine

Chief Executive Officer

Date: April 2, 2014

Exhibit 31.2

CERTIFICATION

I, David Kestenbaum, 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/ David Kestenbaum

David Kestenbaum

Chief Financial Officer

Date: April 2, 2014

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 USC. 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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Josh Levine, Chief Executive Officer of the Company, and David Kestenbaum, Chief Financial Officer of the Company, certify, pursuant to 18 USC. 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/ Josh Levine
Josh Levine
Chief Executive Officer

/s/ David Kestenbaum
David Kestenbaum
Chief Financial Officer

Date: April 2, 2014