

XTL BIOPHARMACEUTICALS LTD
Form 6-K
March 31, 2011

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

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of March, 2011

Commission File Number: 000-51310

XTL Biopharmaceuticals Ltd.
(Translation of registrant's name into English)

85 Medinat Hayehudim St., Herzliya
Pituach, PO Box 4033,
Herzliya 46140, Israel
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F X Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82- N/A

Incorporation by Reference: This Form 6-K of XTL Biopharmaceuticals Ltd. dated March 31, 2011 is hereby incorporated by reference into the registration statements on Form F-3 (File No. 333-141529, File No. 333-147024 and File No. 333-153055) filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on March 23, 2007 , October 30, 2007 and August 15, 2008, respectively, and the registration statements on Form S-8 (File No. 333-148085, File No. 333-148754 and File No. 333-154795) filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on December 14, 2007, January 18, 2008, and October 28, 2008, respectively.

XTL Biopharmaceuticals Ltd. (the “Company”) Presents Its Translated From Hebrew Financial Statements For The Year Ended On December 31, 2010

Attached hereto is an English translation (from Hebrew) of our financial statements and additional information as submitted on Tel Aviv Stock Exchange. The following documents are included:

1. Chapter A – Description of the Company's Business for the year ending December 31, 2010.
 2. Chapter B – Board of Directors' Report on the Status of the Company for the Year Ending 31 December 2010.
 3. Chapter C – Consolidated Financial Statements as of 31 December 2010.
 4. Chapter D – Additional Company Information.
 5. Chapter E – Report on the Effectiveness of Internal Control Over the Auditing of Financial Statements and the Disclosure.
 6. Chapter F – Separate Financial Information in accordance with Article 9c of the Israeli Securities Regulations (Periodical and Immediate Reports).
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Chapter A – Description of the Company's Business
for the Year Ending 31 December 2010

1 Glossary

1.1 For the purpose of this report, the following terms will be defined as follows:

Multiple Myeloma Multiple Myeloma is one of the forms of blood cancer diseases comprising 10% of all blood cancers and approximately 1% of all malignancies. The disease is characterized by an uncontrollable proliferation of white blood cells of plasma cells type in the bone marrow that result in the formation of malignant cells that damage and destroy parts of the bone. The disease is multiple in its nature as reflected in the formation of a large number of malignant cells. The malignant cells and the secreted proteins are responsible for a series of clinical expressions and complications including bone damage accompanied by pain and fractures, bone marrow damage with anemia (blood deficiency), sensitivity to infections, weakened immune system, damage to the nervous system, renal failure, clotting mechanism disorders, etc. Multiple Myeloma is incurable. Patients diagnosed with the disease have an average life expectancy of 3-5 years.

Plasma Cells A group of cells comprising approximately 2-5% of all white blood cells in the human body. The plasma cells produce immunoglobulin proteins in the body that serve as antibodies in the immune system.

Erythropoietin A hormone produced in the human body by the kidneys. Its known role is to induce the formation of red blood cells in the bone marrow.
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EPO

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Recombinant EPO (Recombinant Erythropoietin) A genetically engineered hormone that is primarily designed to act against various types of anemia, particularly anemia experienced by patients with renal failure (and who are being treated with dialysis), as well as patients suffering from various forms of cancer accompanied by anemia.

Stem Cells Stem cells are undeveloped cells that produce the three types of blood cells. Most stem cells are found in the bone marrow, but some – known as Peripheral Blood Stem Cells (PBSC) – are collected from the bloodstream.

Self (autologous) transplant – the patient receives stem cells from his/her own bone marrow or from his/her peripheral blood.

Neuropathy / Peripheral Neuropathy Damage to the functioning of the nerves responsible for transmitting sensations from the fingertips and legs. In mild cases, neuropathy might cause a feeling of numbness in the hands and feet. In severe cases, pains and stabbing sensation throughout the body to the point where it interferes with the extremities' functioning and movement.

T-Lymphocytes Cells (white blood cells) in the circulatory system that serve as an important component of the immune system. Operates in several ways and is responsible for helping the body fight infections, malignant cells, etc.

Anticancer Effect Anticancer effect is any phenomenon that causes cancer cells to stop reproducing, that eliminates them or 'freezes' their growth and spreading.

Helsinki Committee 1980 A committee that operates by virtue of the Public Health Regulations (Clinical Trials on Human Subjects) Committee 1980 and that is responsible for approving and monitoring clinical trials – for additional information, see Article 17.1 below.

IRB Institutional Review Board – the corresponding committee in the US and around the world to the Helsinki Committee.

FDA Food and Drug Administration – the agency in the United States that inspects and regulates development and registration of drugs in that country.

EMA European Medicines Agency – the European agency responsible for regulating the development and registration of drugs in the EU member nations. To date, approximately 30 countries are members of the EMA¹

Serious Adverse Events Serious Adverse Event (SAE) or Serious Adverse Drug Reaction – any troublesome clinical event, in any dosage, that results in death or causes life-threatening complications or that requires hospitalization or further hospitalization or that ends in a permanent disability or handicap

Activity The laboratory or clinical result that provides an indication of the clinical efficacy of the drug.

Efficiency Proof of the clinical effect of the drug in human clinical trials.

¹ Based on information appearing on the organization's website
<http://www.emea.europa.eu/htms/aboutus/emeaoverview.htm>

Orphan Drug A special track for approval and marketing of pharmaceutical preparations by the American Food and Drug Administration, the FDA. The track is designed to respond to the need to develop drugs for certain populations and for incurable and relatively rare diseases (in the US – diseases with a maximum number of patients of 200,000 and in the EU – diseases that occur in up to 5 patients out of 10,000 patients). Recognition of a drug as an orphan drug grants the manufacturer with a regulatory exclusivity in marketing the drug for a period of 7 years in the US and of 10 years in the EU.

Ethical Drug A patent-protected drug that can only be manufactured and sold by the pharmaceutical that developed it.

2 Description of the General Development of the Company's Business

2.1 General

The company was incorporated in Israel on 9 March 1993 as a private company in accordance with the Israeli Companies Law 1999 (Hereinafter: The Companies Law), under the name Xenograft Technologies Ltd. On 3 July 1995, the company has changed its name to XTL Biopharmaceuticals Ltd., with its defined objectives being the practice of any legal activity. As of the date of this report, the Company is engaged in the development, acquisition, sale, sub-license and business ventures in the medical realm and in therapeutics for the treatment of unmet medical needs as well as improvement of existing medical treatment.

In September 2000, the company shares were listed on the main stock exchange London and the company raised approximately US\$ 50.9 million in a public offering. In August 2004, the company raised US\$ 17.8 million in another offering in the London Stock Exchange. Between that date and October 2007, company shares were listed on the main stock exchange in London. In October 2007, the company was de-listed from the main stock exchange in London and its shares were no longer traded there.

In July 2005, immediately following the amendment of the third addendum of the Securities Law 1968 (Hereinafter: The Law) and the addition of the first stock exchange in London as the stock exchange from which a dual listing can be carried out, the company performed a dual listing of its shares on the Tel-Aviv Stock Exchange Ltd. (Hereinafter The TASE). Since that date and to the date of this report, the company shares are listed on the TASE. Accordingly, since its' listing date on the TASE and until July 2009, the company reported in compliance with the provisions of the foreign law (by virtue of Chapter E3 of the Law). For more information, see the immediate report published by the company on 7 July 2005 (Ref: 2005-02-025750).

On September 1, 2005, the company filed with the Securities & Exchange Commission in the United States (Hereinafter: SEC) an application to list the company's American Depositary Receipts (Hereinafter: ADR) on Nasdaq under the list known as Nasdaq Global Market (Ref: 2005-02-050971). Beginning on that date and until 17 April 2009, the company's ADRs were traded on Nasdaq (See also Article H below). For more information, see the immediate report published by the company on 17 April 2009 (Ref: 2009-02-088053).

In 2005, the Company acquired from VivoQuest Inc. (hereinafter - "VivoQuest"), the exclusive worldwide and perpetual rights to VivoQuest's intangible assets, covering a compound library including certain compounds ("DOS") for the treatment of hepatitis C and other assets. (For further information about the DOS, see Immediate Report published by the Company - (reference no. 2005-02-062344). In the course of 2008, the Company out-licensed the use of the DOS technology to Presidio Pharmaceuticals Inc. (For further information see Item 18.2 below and also the Immediate Report published by the Company on March 20, 2009 (reference no. 2008-02-079572)).

In March 2006, the company, through its private offering, raised approximately US\$ 28 million in consideration for allocation of 4.7 million ADRs and 4.7 million options (to acquire 4.7 million company shares or 2.3 million company ADRs). It should be noted that all the said options have expired on 22 March 2011.

In November 2007, the Company completed a fund raising of \$9.8 million in a private placement in consideration of an allocation of 14.5 million ordinary shares of the Company, p.v. NIS 0.1 each (bearing in mind the share consolidation in June 2009).

In July 2009, the company shares were de-listed from Nasdaq due to a claim of the Nasdaq Audit Committee that the company has failed to comply with some of the listing criteria. Shortly after, the company's ADR began being quoted over the counter (OTC2) on the Pink Sheets, and accordingly, from this date on, the company reports in accordance with Chapter F of the Securities Law and simultaneously reports in compliance with the obligation to report in accordance with the U.S. Securities Exchange Act of 1934 regarding a foreign private issuer whose securities are held by the public. Since the de-listing of the company's ADR from Nasdaq, the company is no longer subject to Nasdaq provisions (for more information, see the immediate report published by the company on 12 July 2009 Ref: 2009-01-167058).

Despite the aforementioned, as of the date of this report, the company is listed in the SEC as a reporting company, and is therefore required to issue reports to the SEC in accordance with U.S. Securities Exchange Act of 1934 provisions. Since the company is not a corporation in the US, these requirements include the submission of a 20-F report (annual report for a foreign company) once a year as well as immediate reports regarding any changes in the company's capital structure. As a result, the company incurs expenses attributed to reporting requirements to the SEC, as aforementioned, that includes, inter alia, the cost of legal advisors in the US, Bank of New York (BONY) costs, and other various costs that were estimated, at the time of this report, to be \$90,000 per year. Company costs mentioned above are as of the date of the report only. Said costs might change in the future based on a change in status, the company's market capitalization and size and/or in accordance with changes in provisions and reporting obligations imposed on the company, as the case may be from time to time.

2 The OTC is an electronic quoting system between brokers that displays quotes, prices and trading volume of securities traded over the counter.

The company holds 100% of the issued and paid-up share capital of the U.S company XTL Biopharmaceuticals Inc. (Hereinafter: XTL Inc.), which was founded in 1999 in accordance with the laws of the state of Delaware in the United States as well as 100% of XTEPO Ltd. (Hereinafter: XTEPO), which was founded in Israel in November 2009 as a part of the Bio Gal transaction (for additional information, see Note 1b of the consolidated financial statements).

Until the start of 2008, the company was involved in the development of drugs primarily used to treat Hepatitis C and B. At the end of 2007, the company ceased the research and development plans of these drugs (with the exception of development of DOS technology, see information in Article 2.1) and an agreement was signed with Yeda Research and Development Ltd. (the technology-transfer entity of the Weizmann Institute of Science) (Hereinafter: Yeda) to revert all the rights to the company's original technologies. For additional information, see company reports from 6 June 2007 and from 29 March 2007 (Ref: 2007-02-418286 and 2007-02-351218 respectively).

XTL Inc. was involved in the development of activities and business pertaining pharmaceutical development. XTL Inc. has a fully owned company, XTL Development Inc.. (Hereinafter XTL Development), which was founded in 2007 in accordance with the laws of the State of Delaware in the US, was involved in business development, pharmaceutical development and primarily in clinical trial management of Bicifadine, a drug for diabetic neuropathic pain. As of the date of this report, XTL Inc. and XTL Development have no business activity. In 2007, the company signed an agreement with DOV Pharmaceutical Inc. (Hereinafter: DOV) to obtain an international license for the Bicifadine. For information about the company's said contractual arrangement, see company report from 16 January 2007 (Ref: 2007-02-012607)

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On 18 November 2008, the company announced that phase 2b of the trial that was conducted on Bicifadine for treating diabetic neuropathic pain did not meet the clinical endpoints that had been established in advance and as such, the trial had failed. As a result of the failure to meet the clinical endpoints of the said trial, the company halted the development of Bicifadine for treating diabetic neuropathic pain, terminated the employment of most of its employees and stopped all maintenance of patents related to Bicifadine in coordination with DOV. In addition, in December 2008, the company underwent a reorganization in order to develop the company's business (Hereinafter: The Plan). The plan included, inter alia, the layoff of most company employees (who were employed in the Bicifadine development project), investment activities, cooperation and acquisition of holdings particularly in companies involved in applicable life science research and in pharmaceutical research and development (biotechnology and pharmaceuticals). For more information about the Plan, see the company report from 9 December 2008 (Ref: 2008-02-348525). On 8 March 2010, XTL Development ended the formal contractual arrangement with DOV with regards to Bicifadine, in which all intellectual property rights to Bicifadine were reverted to DOV. As of the date of this report, the company has certain rights based on milestones in the development plans of drugs for treating Hepatitis C based on DOS technology acquired in 2005 from VivoQuest and that were sold in sub-license to Presidio in 2008 for a cash payment, development milestone payments totaled \$59 million by Presidio and royalties from sales. For information about said agreement, including milestones and actions adopted by the company to control progress in development, see Article 18.2 below.

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On 19 March 2009, the company entered an asset purchase agreement with Bio Gal Ltd. (Hereinafter: Bio Gal) to purchase assets, rights to the patent to use Recombinant Erythropoietin to extend the lives of terminal Multiple Myeloma patients as well as improve the quality of their lives. The parties signed several extensions for the completion date of the transaction, with the last one being valid until 31 August 2010, in order to enable completion of the transaction.

On 31 December 2009, the company's board of directors approved the company's asset purchase agreement to acquire 100% of the shares of XTEPO, a private Israeli company founded by the shareholders of the Bio Gal in order to carry out the aforementioned transaction, which will receive a license for exclusive use of a patent on the Recombinant EPO drug from Bio Gal, while simultaneously investing in XTEPO 1.5 million US dollars from private investors (based on exercise of the options they were given).

In order to execute said acquisition, the company issued approximately 133 million ordinary shares to XTEPO shareholders against 100% of their holdings in XTEPO and by issuing the company's ordinary shares at an exceptional private offering in accordance with the Securities Regulations (Private Offering of Securities in a Listed Company) to XTEPO shareholders (Hereinafter: Exchange of Shares Agreement) that was approved by an extraordinary shareholders meeting on 2 March 2010 so that upon completion of said Exchange of Share Agreement, XTEPO shareholders held (along with their holdings of company share on the eve prior to the exchange of shares) approximately 70.64% of the issued and paid-up share capital of the company and the balance, of 29.36%, were held by company shareholders on the eve of implementation of the Exchange of Shares Agreement.

It should be noted that the Exchange of Shares Agreement stipulated that its implementation was contingent upon, inter alia, fulfillment of the pending conditions listed below: (a) publication of the extraordinary private placement report regarding the allocation of allotted shares; (b) ratification of the Exchange of Shares Agreement by the company's annual general shareholder meeting; (c) exercise of options by XTEPO investors so that on the date of completion of the transaction, XTEPO will have US\$ 1.5 million in hand (d) Israeli tax authority approval of the transaction as an exempt transaction in accordance with Articles 103 and 104 of the Income Tax Ordinance; (e) TASE approval to list allotted shares to XTEPO shareholder.; (f) any other approval required by law to execute the Exchange of Shares Agreement required by law (Hereinafter jointly: Pending Warranty)

On 3 August 2010, all pending warranties required to complete the Exchange of Shares Agreement were fulfilled and all actions required were implemented as required according (See Note 1b of the company's financial statements on 31 December 2010).

On 27 February 2011 and after the date of the report, the company published a prospectus for completion on the Tel Aviv Stock Exchange (hereinafter: TASE) in which the company offered up to 13,210,000 ordinary shares of NIS 0.1 par value each in the company and up to 6,605,000 options (Series 1), registered to exercisable options up to 6,605,000 ordinary shares of the company, for every trading day at the TASE, from their listing date on the TASE and to 27 November 2011 and up to 19,815,000 warrant issues (Series 2), registered on behalf, that can be exercised for up to 19,815,000 ordinary shares of the company on every trading day at the TASE, from the listing date and until 27 February 2013. For more information, see Article 4.1 of the company's board of directors' report and the company report from 27 February 2011 (Ref: 2011-01-063012).

On 7 March 2011, and in accordance with the prospectus published by company as previously mentioned, the company published a supplementary notice (Ref: 2011-01-071685) that, inter alia, reduced the number of securities being offered by the company in accordance with the Prospectus as follows: the new number of securities was established for up to 10,700,000 ordinary shares of NIS 0.1 per share of the company and up to 5,350,000 warrant issues (Series 1), listed on behalf, that can be exercised up to 5,350,000 ordinary shares of the company, on every trading day at the TASE, from their listing date on the TASE and until 27 November 2011 and until 16,050,000 warrant issues (Series 2) listed on their behalf, and that can be exercised for up to 16,050,000 ordinary shares of the company.

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On 7 March 2011 (Ref: 2011-01-072879), the company published an immediate report regarding the results of the bid in accordance with the aforementioned supplementary notice (Hereinafter The Bid) as detailed below:

During the bid, 58 orders to purchase 79,004 with a total value of NIS 10,553,017.

Demand for the balance in the offering was 185% higher and the unit price set in the bid was NIS 132.25.

19 orders to purchase 19,953 units listed at the unit price that is higher than the unit established in the bid – were fully filled.

2 orders to purchase 30,600 units at the price per unit established in the bid, were partially filled. Each of the investors received 74.66% of their order.

37 orders to purchase 28,451 units listed at a unit price that is lower than the price set forth in the bid – were not filled.

The number of units, ordered at unit price, or higher, exceeded the total units offered, resulting in oversubscription. Accordingly, the company exercised its right to allocate additional units as stipulated in Article 2.2.6.2 of the Prospectus and Article 1.4 of the Supplementary Notice above (Hereinafter: The Additional Allocation). Within the confines of the Additional Allocation, the company allotted 6,420 units to ordering parties who submitted the orders at the established unit price, and 95.64% of their orders were filled.

Total immediate consideration (gross) the company received for the securities offered to the public in accordance with the Supplementary Notice, including the Additional Allocation, totaled NIS 6,509,345.

On March 24, 2011, the Company has entered into a term sheet to acquire the activity of MinoGuard Ltd. ("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 making any other payments in cash. MinoGuard was founded in 2007 in order to commercialize combination therapies for treating psychotic diseases, focusing on schizophrenia. The transaction is subject, among others, to due diligence studies, examination of the regulatory track for the continued development of the drug and the approval of the Company's Board. For more information, see Article 18.4 below.

2.2 Below is a chart outlining the structure of the company's holdings as of the date of this report:

2.3 Information about XTEPO

XTEPO is a private company that incorporated and was registered in Israel on 9 November 2009, in accordance with the Companies Law 5759 – 1999 (Hereinafter The Companies Law)

3 The Group's field of activity

Given the completion of the exchange of shares agreement stipulated in Article 2.1 above and as of the date of this report, the company (the company, subsidiaries, including XTEPO, hereinafter jointly The Group) is focused on the planning, research and development for the commercialization of a new indication for use of Recombinant EPO for the treatment of multiple myeloma patients, as detailed below:

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3.1

General

Along with compliance with all pending conditions and completion of the exchange of shares agreement as stipulated in Article 2.1 above, transferred to the Group, via XTEPO, was exclusive usage license of a patent for using the drug Recombinant EPO to treat patients with multiple myeloma that is based on a series of studies that included, inter alia, an empirical observation of patients treated with Recombinant EPO by Prof. Moshe Mittelman. Prof. Moshe Mittelman who serves as a medical director in the company is an internationally renowned hematologist who found in empirical observations that treatment with recombinant EPO may extend the life expectancy of patients with multiple myeloma while significantly improving their quality of life while causing less side effects than those caused by current treatments. During their lab work, Prof. Mittelman and his team found that recombinant EPO had an anticancer effect based on the strengthening of the immune system. For information about the licensing agreement, see Article 18.1 below.

3.2

The Group Drugs

EPO

Recombinant EPO is a drug that is, as of the date of this report, used to treat (i) anemia in patients with renal failure (dialysis) and (ii) anemia in cancer patients. Recombinant EPO was developed, manufactured and marketed by Johnson & Johnson, Hoffman La Roche and Amgen, and generates billions of dollars in sales every year, and is therefore considered a drug with an extremely large market scope. The drug has been administered to millions of patients over the past 20 years, resulting in extensive clinical experience with the drug and safety information about it. As of the date of this report, the Group began preparing for a Phase 2 clinical trial on multiple myeloma patients in Israel and in other countries, in accordance with the clinical protocol that was received as part of the Bio Gal deal and that will be updated by the company ahead of its approval by the FDA and other ministries of health as the case may be. The protocol is based on the information that was collected about the use of recombinant EPO and the expectation that it may prolong the life of multiple myeloma patients while significantly improving their quality of life and causing less side effects than currently available treatments.

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3.3

Drug Development Process – General Description

Drug development is a complex process that generally includes the following primary stages³. Each stage must comply with the health agencies' criteria before the next stage can begin, as follows:

- a) Preclinical Phase – this phase includes trials in labs and on animals in order to demonstrate the efficiency of the drugs in models that simulate the disease for which the drug is being investigated. The preclinical phase also includes trials under meticulous conditions in order to determine whether the drug has any toxic adverse events and to learn about the various characteristics in animals. In addition, the preclinical stage includes development of manufacturing methods under GMP (Good Manufacturing Practice – which is a collection of manufacturing requirements that the drug must comply with in order to allow the administration of the drug to patients in the future).
- b) Phase 1 – this is the first clinical phase in drug development in which an initial test is carried out on humans. The phase is designed to assess the safety of the drug as well as the maximum dosage that can be safely administered to patients. This phase may also include additional tests such as drug dispersal in the body and how long the drug remains in the blood, measurements that will help assess its biological availability, etc. There are instances in which this trial phase is carried out on healthy individuals and in other cases, the trial is carried out on patients with the investigated disease.

³ The description of the stages is general and changes might be made in various drugs. For example, in certain circumstances, Phases 1 and 2, or occasionally 2 and 3 might be merged.

c)Phase 2 – In this phase, an initial test of the efficiency of the drug is carried out in patients. In addition, this phase attempts to determine the optimal dosage of the drug to treat patients. At the same time, the phase continues to test its safety. Several Phase 2 trials are often carried out while the first Phase 2 trial (Phase 2a) is designed to serve as proof of concept and the second Phase 2 trial (Phase 2b) is a broader trial that includes a larger number of patients and that is carried out in a larger number of medical centers than was Phase 2a.

d)Phase 3 – the decisive phase of multinational, multicenter, randomized, placebo controlled, double blind trials. This phase includes the largest number of subjects (hundreds and even thousands) and the trial is carried out in a large number of medical centers around the world. The purpose of this phase is to prove the efficiency and safety of the drug in a large number of patients in a way which simulates as much as possible (more than the previous phases) the manner in which the drug will be used in the clinical practice. Following successful conclusion of this phase, applications can be submitted to the health agencies for receipt of approval to register the drug.

It should be emphasized that the conduct of clinical trials on human beings in each of the phases, Phase 1, Phase 2 and Phase 3 requires the prior approval of the Helsinki Committee/ IRB and of the regulatory agencies in the countries where the clinical trials are being conducted. It should be noted that only successful results in the preliminary phases will guarantee the possibility of moving on to the next stage.

Once all of the said phases (including completion of Phase 3) have been successfully completed, the Group can submit an application for approving the drug's registration by the relevant regulatory agency, e.g. the FDA in the US.

The development process, as previously mentioned, takes many years and requires extensive funding due to the prolonged duration of the trials, the process for obtaining approval, and obtaining information and results from the trials, at the end of which the Group will be able to submit an application for approval to register the drug by the FDA or any corresponding regulatory agency in any other country. Occasionally, the clinical development, including the conduct of clinical trials, is carried out with the assistance of expert subcontractors who are entrusted with operating under the meticulous professional standards dictated by the regulatory requirements.

4 Investment in Company Capital and Shares Transactions

With the exception of the execution of the exchange of shares agreement stipulated in Article 2.1 above, no investment in company capital or any other significant transaction was carried out by any party of interest in the company in the two years preceding the date of this report. After the balance sheet date on 7 March 2011, the company offered shares and options through a prospectus in which one party of interest participated – Mr. Alex Rabinovich (See Article 2.1 above).

5 Distribution of Dividends

Since the date of the company's founding and to the date of this report, the company did not distribute dividends and the company has no 'profits' regarding the profit criterion as stipulated in Article 302 of the Companies Law 1999.

As of the date of this report, the company did not have a distribution of dividends policy.

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Section Two – Additional Information

6Financial Information About the Group's Field of Activity

As of the date of this report, the Group has no significant development operations. Below is financial information about the Group (the financial information for the period preceding the date of completion of the exchange of shares agreement as stipulated in Article 1.3 above refers to the Group's operations not including XTEPO)

Summary of Consolidated Statements on Financial Status \$ in Thousand
on 31 December 2010 on 31 December 2009

Total Assets	3,797	715
Total Liabilities	963	708
Equity	2,834	7

Summary of Consolidated Statements on Profit (Loss) Total\$
in Thousands

For the Year Ending

31 December 2010 31 December 2009 31 December 2008

Revenue	-	-	5,940
Gross Profit	-	-	4,099
R&D Expenses	64	-	11,722
Administrative and General Expenses	1,222	(* (2,429)	3,937
Loss from Depreciation of Intangible Assets	-	-	7,500
Other Profits, Net	30	139	288
Profit (Loss) from Operations	(1,256)	2,568	(18,722)

*) Includes lowered expenses due to forfeiture of options to shares depending on performance of the Company's former CEO and former Chairman (see also 15b of the Financial Statements for 2010).

For information and explanations about the company's operating results and changes that have taken place during the period, see Company's Board of Directors' explanations about the state of the company that is attached as Part B of this report.

7General Environment and Impact of External Factors on the Group's Operations

The cancer drugs market in general, and the treatment of multiple myeloma in particular that is the focus of the Group's drug, is facing an increasing need for new developments to treat patients with various forms of cancer. Despite the progress of the pharmaceutical industry in general, and its impressive achievements over the past several decades, as of the date of this report, drugs for many diseases, including various cancers, are still insufficient treatment both in terms of limited range of action, inefficacy and serious side effects. The increase in average age of the population, which is accompanied by a parallel increase in the number of cancer patients in general, and multiple myeloma cancer in particular, increases the need for new drugs in this field.

As good as any drug may be in alleviating the symptoms of the disease, they are not efficient in all patients. Frequently, many patient populations lack an efficient drug to treat their disease or the phase of the disease that they are in. Furthermore, the drug often positively affects the patient for a certain period of time but then its positive effect wanes. In addition, many drugs trigger extremely serious side effects that occasionally prevent patients from taking the drug.

The target market of the Group's drug is unique. The Group believes that the ability of any drug to capture a market share depends on the drug's short-term and long-term efficacy as well as on its side effects, both absolutely and relative to its competing drugs.

In light of the fact that the Group is developing a new indication for EPO, a drug that already exists and that has been approved for treatment of anemia, the Group expects to receive an exemption for the preclinical trials as well as from the Phase 1 clinical trials. As of the date of this report, the Group has a preliminary plan to initiate Phase 2 clinical trial in patients with multiple myeloma. It should be noted that the company received a preliminary plan as part of the assignment of the patent license agreement. At the same time, and in light of the fact that a prolonged period of time has passed since the date of the preparation of this report, the Company immediately began completion of the transaction in preparation of the trial that includes, inter alia, updating the plan that will be brought before medical agencies for approval prior its implementation.

Studies conducted by Prof. Mittelman revealed that use of recombinant EPO in patients in advanced stages of multiple myeloma significantly contributed to suppression of symptoms of the disease, improved the immune system, stabilized patients health, prolonged their survivability and significantly improved their lives, without causing serious side effects. These properties grant this drug an advantage in most therapeutic properties for which the drug is designed. The Group anticipates that if these properties are expressed in clinical trials as well, a medical agency criteria for drug approval, the drug will capture a large market share in the drug market for treatment of multiple myeloma, including providing a solution to terminally ill patients in the advanced stage of the disease who do not respond well or who demonstrate an insufficient response to currently available treatments. In addition, the Group expects the drug to capture another market share of combining the drug with currently available drugs and therapies. If these projects are realized, the drug's market is estimated at hundreds of millions of dollars a year. However, it should be emphasized that clinical studies include many elements of uncertainty, and the possibility of the Group not succeeding in its attempts to continue to demonstrate the efficiency and safety of the drug or that the drug will prove to be less efficient than expected cannot be ruled out. In addition, the possibility of the development of other drugs by the competition that will compete with the Group's drugs cannot be ruled out.

The Group's assessments regarding the potential of recombinant EPO, of its ability to capture a large market share in the multiple myeloma drug market, include a forward looking statement. This information is uncertain and based on the information the Group has as of the date of this report. It will be emphasized that the results of the trial phases that will be actually conducted might significantly differ from the estimates based on this information, since the continued successful development of recombinant EPO by the Group is not definite.

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Section Three – Description of the Group's Business in its Field of Operation

8 General Information about the Field of Operations

Listed below is a detailed description of the Group's operations including a description of trends, events and developments in the Group's macroeconomic environment that have or are expected to have a significant impact on the Group's operations, as detailed below:

8.1 General

8.1.1 The study by Prof. Mittelman

The clinical observations, carried out under the leadership of Prof. Mittelman, who serves as the Group's Medical Director, of patients in advanced stages of multiple myeloma and their analysis revealed that treatment with recombinant EPO extended the lives of some of the patients beyond what was expected in their condition if they hadn't received the treatment. The results and conclusions derived from said observations were later examined under lab conditions in mouse models for multiple myeloma, which revealed that recombinant EPO has an anticancer effect based on its effect on the activation of T lymphocytes in the immune system.

These findings⁴ raised the premise that recombinant EPO affects the immune system, regardless of the cancerous tumor. Another study conducted by the study team of Prof. Mittelman revealed prominent changes in various immune system parameters in multiple myeloma patients in advanced stages of the disease, and that treatment of these patients with recombinant EPO resulted in improvements in their immune system in terms of its components and in terms of function, a fact that contributes to the prolonged lives of these patients.

⁴ The findings were published by Prof. Mittleman et al - Mittelman M, Zeidman A, Kanter P, Katz O, Oster H, Rund D, Neumann D. Erythropoietin has an anti-myeloma effect – a hypothesis based on a clinical observation supported by animal studies. Eur J Haematol 2004; 72: 155–165. _ Blackwell Munksgaard 2004.

It should be noted that in 2006, a study was published by the Cleveland Clinic and H. Lee⁵ Moffitt Cancer and Research Institute, which retrospectively examined 257 patients who were administered EPO to treat their anemia, that verified the findings of Prof. Mittelman's group – the general survivability of patients treated with EPO improved – the study concluded that a random prospective study would guarantee verification of these findings.

It should be noted that, in addition to the aforementioned, over the past decade, Prof. Mittelman and his research team published several articles on EPO treatment of patients with multiple myeloma⁶.

8.2 Structure of the Group's Fields of Operation and Changes that Have Been Effectuated in it

8.2.1 Multiple Myeloma

Multiple myeloma is a form of blood cancer. The disease is characterized by uncontrollable proliferation of a type of white blood cells known as plasma cells in the bone marrow that causes the accumulation of malignant cells that damage and destroy parts of the bone. This disease has a multiple nature that is expressed in the creation of a large number of accumulations of malignant cells. The malignant cells and the secreted proteins are responsible for a series of clinical expressions and complications, including bone damage with pain and breaks, bone marrow damage accompanied by anemia (blood deficiency), sensitivity to infections, weakening of the immune system, nervous system damage, kidney failure, clotting disorders, etc. The disease is incurable, and the average life expectancy of patients is 3-5 years.

5 R. Baz, E. Walker, T.K. Choueiri, R. Abou Jawde, C. Brand, B. McGowan, E. Yiannaki, S. Andresen, M.A. Hussein - Recombinant Human Erythropoietin Is Associated with Increased Overall Survival in Patients with Multiple Myeloma, *Acta Haematol* 2007;117:162–167, DOI: 10.1159/000097464

6 The published articles are listed below:

(1) Erythropoietin treatment in advanced multiple myeloma is associated with improved immunological functions: could it be beneficial in early disease? doi:10.1111/j.1365-2141.2006.06366. *British Journal of Haematology*, 135, 660–672.; (2) Erythropoietin effects on dendritic cells: Potential mediators in its function as an immunomodulator? doi: 10.1016/j.exphem.2008.07.010. *Society for Hematology and Stem Cells*. Published by Elsevier Inc.; (3) Erythropoietin as an Immunotherapeutic Agent: New Uses For An Old Drug? *Medical Hypotheses and Research*, VOL. 2, NO. 4, October 2005.; (4) Erythropoietin enhances immune responses in mice. DOI 10.1002/eji.200637025. *Eur. J. Immunol.* 2007. 37: 1584–1593.; (5) Non-erythroid activities of erythropoietin: Functional effects on murine dendritic cells. doi:10.1016/j.molimm.2008.10.004. *Molecular Immunology* 46 (2009) 713–721.

The National Cancer Institute estimates that in the US alone, all newly diagnosed cancers in 2010 will reach 1.5 million (approximately 0.5% of the population), with the number of cancer-related deaths totaling 0.6 million (approximately 0.2% of the population)⁷. Of all forms of cancer currently known, the most common forms in the US⁸ are intestinal cancer (approximately 103,000 new patients a year), lung cancer (approximately 223,000 new patients), breast cancer in women (approximately 207,000 new patients) and prostate cancer in men (approximately 218,000 new patients).

Multiple myeloma is a blood cancer that comprises 10% of all blood cancers. As of the date of this report in the US alone there are 69,600 multiple myeloma patients. Every year, 20,200 new cases are diagnosed⁹. This number increases in direct proportion with the average life expectancy around the world. Accordingly, approximately 10,650 patients die in the US every year. Multiple myeloma is largely considered an old person's cancer, since the disease largely appears between the ages of 65-70, although diagnosis of the disease in 50 year olds is not uncommon. In addition, multiple myeloma comprises approximately 1% of all cancer cases and approximately 2% of all cancer-related deaths¹⁰. In addition, it should be noted that multiple myeloma is extremely common among men, and within this group, men of African descent have twice the chance of contracting the disease over Caucasian men.

7 The data is taken from the National Cancer Institute in the US (NCI) <http://www.cancer.gov/cancertopics/what-is-cancer>

8 The data is taken from the "Cancer facts & Figures 2010" report published by the "American Cancer Society".

9 The data is taken from the "Facts 2010-2011" report published by "The Leukemia & Lymphoma Society".

10 The data is taken from the Amen (Israel Association of Myeloma Patients) website - http://www.amen.org.il/site_files/index.he.1024.html

As of the date of this report, there are several recognized therapies used to treat multiple myeloma, including chemotherapy, radiation therapy, bone marrow transplantation and new drugs. Chemotherapy kills cancer cells but also healthy cells in the patient's body, especially active cells such as mucous cells, connective tissue cells, blood cells including immune system cells, reproductive cells, etc. This damage is caused by the treatment, which damages the cancer cells but also the healthy cells in the body and is accompanied by serious side effects, including nausea, vomiting, hair loss, acute pain, etc. In addition, there are biological drugs that are more specific to cancer cells that are known to have milder adverse events than chemotherapy. An example of this type of drug is Thalidomide®, manufactured by Celgene Corporation (Hereinafter Thalidomide), Revlimid, Velcade ® developed by Millennium Pharmaceuticals (Hereinafter Velcade). These biological drugs are characterized by extremely high prices. It should be noted that despite the aforementioned, not one of these drugs cures the disease.

In the Western world, the cancer drug market in general, and the market for multiple myeloma in particular, is characterized by drugs that have been approved for use generally for specific indications. For example, a drug will not be approved to treat multiple myeloma without a specific definition of the type of patients entitled to receive the drug. This definition includes the stage of the disease the patient is in, definition of patients based on previous therapies, etc. The result essentially is that the cancer drug market is composed of multiple patient populations. One of the challenges in developing cancer drugs is the definition of the field being targeted by the drug since there are numerous forms of cancer, each of which has several different stages of disease progression. Any drug that is approved for use is designed for a specific stage in the progression of the type of disease the drug was designed for. In cancer, there are many patient populations for whom there is no suitable treatment and the diseases they have do not have any suitable therapy.

Furthermore, the efficiency of all currently available drugs is limited. Every one of the existing drugs has a significant percentage of patients who fail to respond to them. In addition, the response of many of the patients considered to be responders was extremely partial, not long-lasting, and required taking several drugs concomitantly to achieve the desired clinical result. Cancerous tumors are occasionally so violent that the average life expectancy of patients is limited to months, or occasionally, a mild improvement in the patients' quality of life is sufficient reason for the drug to be considered efficient.

Based on the aforementioned, there is a clinical need for drugs to treat multiple myeloma that will be, on the one hand, efficient and have limited side effects on the other hand. The new indication that the Group intends to develop for recombinant EPO in the treatment of patients with multiple myeloma will try to provide a certain response to this need, i.e.: an efficient drug that does not cause significant side effects.

8.2.2 Legislative Limitations and Special Constraints Applicable to the field of Operations

For information about legislative limitations and constraints to which the Group is subject, see Article 17 below.

8.2.3 Drug Development Processes

The drug development process is multi-phased, and includes the following phases: the preclinical phase, Phase 1, Phase 2 and Phase 3 (for more information, see Article 3.3 above).

In light of the Group's intentions to develop a new indication for the drug recombinant EPO, which is a drug approved for another use, as previously mentioned, and based on the fact that the preclinical phase and Phase 1 clinical trial phases are ones that examine the drug's toxicity and safety respectively, the Group believes that it will be granted an exemption from carrying out these stages and that the drug development process will begin with Phase 2.

The Group's assessment regarding the drug development phases and obtaining an exemption for the preclinical and Phase 1 phases of the clinical trial includes a forward looking statement. This information is not definite and is based on information available to the group as of the date of this report. The actual results may be significantly different from the results derived from this information, since there is no certainty regarding the exemption from carrying out any phase and/or regarding the results of the drug trial to be conducted by the Group.

8.2.4 Critical Success Factors in the Field of Operations

In order to successfully develop a pharmaceutical product, the knowledge and technologies required to facilitate the development of efficient products is needed, as is long-term investments, in the form of financial funding and quality personnel that specialize in the area of operation, clinical planning and development as well as commercialization ability once development has been completed and marketing approval obtained. In addition, ownership of intangible assets (intellectual property) is required that would enable the development and enhancement of the designated product.

The Group has (via its subsidiary as mentioned above) a license for exclusive use of a patent for use of the recombinant EPO to treat multiple myeloma. This, as previously mentioned, is based on the study conducted by Prof. Moshe Mittelman, an internationally renowned hematologist who serves as the Director of Internal Medicine at Ichilov Hospital and as Medical Director in the Group.

8.2.5 Entry Barriers to the Field of Operations

The main entry barrier to the drug development market is the lengthy, multiple year process of development, which is a regulated, thorough and cumulative process, i.e.: failure in any development phase will prevent advancement to the next phase. This type of process that takes many years obviously requires allocation of significant financial resources to finance continued development expenses.

As previously mentioned, ensuring intellectual property ownership is of prime importance, since without ownership, certain substances and products cannot be developed and used, thereby preventing progress in development. In addition, guaranteed ownership of intellectual property rights is required to benefit from the results of development on the one hand, and to ensure that the development is not found in another patent, on the other. Without patent protection, anyone could benefit from the results of the research and development without having had to pay the expenses incurred by the original developer, and in the case of the Group, paid for. Similarly, if development deviates into another patent, there will be an option of blocking all commercial activity by the developer. In order to guarantee commercialization freedom of development products, the relevant licenses needed for product development must be ensured. Furthermore, and in addition to the aforementioned, skilled, professional personnel who are experts in the field are required.

8.2.6 Alternatives to the Product, Field of Operation and Changes

As of the date of this report, the recombinant EPO drug that the Group intends to develop faces no competition for this stage of the disease, based on the fact that the recombinant EPO drug is designed to treat multiple myeloma patients in advanced stages of the disease who were already treated with all current standard therapies. These patients, as previously mentioned, are being treated in this stage with palliative drugs and therapies only (to alleviate pain, etc.). In addition, to the best of company knowledge, as of the date of this report, there is no drug that is being sold or drug in development that works on the immune system like recombinant EPO.

Despite the aforementioned, it is possible that the recombinant EPO drug will be found to be effective in the future for patients who are not terminally ill, when combined with other currently available drugs. If said assessment comes to fruition, the recombinant EPO drug may be used as a substitute and/or supplementary drug to other drugs that are currently available on the market and/or drugs that are currently in development. Multiple myeloma patients who are in the non-terminal stages currently have in the market drugs that have been approved for use, which may make it entry into this market difficult. It should be noted that the development of the new indication for a drug provides an advantage over a drug that was developed from the beginning, in light of the Group's assessment that one or more phases in drug development, particularly Phase 1, would be redundant, since these phases have already been previously carried out during testing of the same product for its original indication but in this case as well, development of a new indication is expected to be lengthy.

It should be noted that in recent years¹¹, treatment of multiple myeloma patients in the various stages is composed of chemotherapy combined with autologous stem cell transplantations or a combination of Thalidomide, dexamethasone (a type of steroid) and Velcade, based on the patient's condition. If said transplantation is carried out, the patients receive initial treatment of high dosages of preliminary chemotherapy. This treatment is largely administered to patients who are under the age of 65.

If the patient is above the age of 65, and his physical condition prevents an autologous stem cell transplantation from being carried out, the standard treatment involves a combination of two or more drugs including Thalidomide, steroids, Velcade, Revlimid and mild chemotherapy.

The aforementioned therapies lead to a median survival time of approximately 30 months in close to 83% of patients who underwent autologous stem cell transplantation (and who were under the age of 65) and a survival time of approximately 24 months in almost 90% of patients (and who were under the age of 65).

It is clarified that the currently available therapies and drugs used to treat multiple myeloma patients have side effects such as neuropathy – peripheral neuropathy, which occasionally might be irreversible and require discontinuation of the therapy for extended periods of time.

¹¹ The aforementioned regarding treatment of multiple myeloma patients and patient survival time was taken from the article by Prof. Ben-Ami Sela, director of the Pathology Chemistry Institute, Sheba Medical Center, Tel-Hashomer that was published on the website www.tevalife.com.

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Another drug currently administered to patients is one known as Velcade (scientific name – Bortezomib) which was approved in 2003 by the FDA and that extends the survivability time of patients with the disease, with 33% of all patients attaining an overall survival time of approximately 5 years, with the survival time among all patients on the drug being 33 months. The drug recombinant EPO that is being developed by the Group may be one that can be administered in combination with this drug.

In addition to the aforementioned, it should be noted that as of the date of this report, several additional drugs are in various phases of clinical trials, and if approved, if and when approved, may constitute an alternative to the recombinant EPO being developed by the Group.

8.2.7 Structure of the competition in the field of operations and changes in it

8.2.7.1 General

The Group's competition in the field includes a wide range of companies around the world, starting with small pharmaceuticals up to the mega multinationals. Multinational marketing of a drug requires access to marketing channels around the world, thus generally forcing small companies to collaborate with large companies in the field. On the one hand, this is a limiting factor for small companies. On the other hand, these giant companies are constantly searching for new drugs in order to broaden the range of drugs they market or in order to increase the amount of developed drugs (drug development pipeline). The need of giant multinationals for new drugs in certain periods makes these companies willing to invest vast sums of money to acquire drug development and marketing rights, which is an opportunity for drug developing companies.

The Group has a preliminary plan to conduct Phase 2 trial that includes the enrollment of approximately 50 patients¹². If a situation arises in which a large number of drugs are in development while the Group is conducting the trial, this might make patient enrollment for Phase 2 and Phase 3 of the trial difficult. The need for a large number of patients in the advanced phases of the clinical trials poses a significant obstacle in drug development that might affect the chances and timetable involved to complete development of the Group's recombinant EPO drug. This problem can frequently be solved by adopting a development strategy that includes, inter alia: accurate definition of the type of patients who will participate in the trial (based on the severity of the disease, type of therapies previously received, other drugs they received concomitant with the investigational drug, etc.); optimal choice of sites to conduct the clinical trials (e.g. some of the trials will be conducted in countries in which certain therapeutic alternatives are not yet being offered to patients or study sites known for their ability to enroll patients into trials with relative speed, etc.); Use of organizations that specialize in clinical study management¹³; interest shown by study doctors who will participate in the study on the drug and how it operates; provision of financial incentive to the study fund of the departments participating in the trial (incentive indirectly serves to improve the conditions of the patients' hospitalization) in order to make sure that they prefer directing patients to clinical trial of the Group's drug over other clinical trials. The Group intends to adopt these types of strategies to ensure a rapid patient enrollment rate and compliance with the scheduled timeframe, although there is no guarantee that this will happen.

¹² This assessment is based on numbers of patients required in clinical studies on other drugs designed to treat multiple myeloma and cancer in general. No comprehensive statistical planning has yet been carried out and the Group still has not convened a discussion on the clinical plan with the regulatory authorities, the FDA and others – and the number of patients that will be ultimately be required may differ from this estimate.

¹³ These companies are known as CRO - Clinical Research Organization.

8.2.7.2 Competition in the Cancer Market

The cancer drug market is extremely large. National medical institutions in the US estimated that the overall cost of treating cancer in 2005 was \$209.9 billion¹⁴. In 2008, sales of all cancer drugs totaled \$48 billion¹⁵ and this number is expected to grow to \$80 billion in 2010. In 2003, a new anticancer drug was approved for use and marketing known as Velcade, which is used to treat multiple myeloma.

In 2008, sales of drugs used to treat multiple myeloma in the US, France, Germany, Italy, Spain, England and Japan totaled \$2.1 billion (and is expected to rise to \$5.3 billion in 2018¹⁶). According to Bloomberg Analyst Reports¹⁷ the sale of Velcade among all drugs used to treat multiple myeloma, comprising approximately 40% of the multiple myeloma drug market while in 2009 Johnson & Johnson (which markets Velcade outside the US) and Japanese pharmaceutical Takeda (which markets Velcade in the US) generated \$1.2 billion in sales. In addition, based on the financial statements of the pharmaceutical Celgene¹⁸ (which markets Revlimid), Revlimid sales in 2010 totaled \$2.47 billion.

Listed below is a table displaying the advantages and disadvantages of the main competing drugs and therapies as of the date of the company's drug report:

14 <http://dceg.cancer.gov/files/genomicscourse/meropol-011007.pdf>

15 According to IMS Health - <http://www.reuters.com/article/idUSN1453543620080515>

16 According to IMS Health - <http://www.reuters.com/article/idUSN1453543620080515>

17 <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aQHENps19ldg>

18 <http://ir.celgene.com/phoenix.zhtml?c=111960&p=irol-newsArticle&ID=1520733&highlight=>

				Comparative Properties		
Company	Type of Therapy / Name of Drug	Route of Administration of Treatment	Drug Intake Frequency	Average Monthly Cost of Treatment in USD	Adverse Events	Efficiency / Survival Time
Celgene Corporation	Thalidomide®	Oral Tablets	One pill per day, dosage occasionally needs to be adjusted based on adverse events	Approx. 1,000	Resulting in congenital defects, peripheral neuropathy (nerve damage), fatigue, constipation, blood clots tendency (including increased risk of deep vein thrombosis), etc.	Single preparation (approximately 30% of patients respond). Combined with another drug, -approximately 50%-60% of patients respond. The drug results in a mild remission of the disease. Response might last a year
Celgene Corporation	Revlimid®	Oral Tablets	Generally, one tablet per day for 21 days followed by a one-week break	Approx. 9,000	Serious injury to bone marrow (sensitivity to infection and suppression of creation of blood platelets (thrombocytes, i.e. risk of life-threatening bleeding), blood clots tendency and embolisms, liver damage, serious damage to bone marrow, damage to digestive system accompanied by nausea, acute diarrhea, etc.	Not tested in comparison to thalidomide (but is considered better) When combined with another drug, - approximately 50%-60% of patients respond. Response can last up to a year
Millennium Pharmaceuticals	Velcade®	Intravenous injection	Two injections per week for two weeks followed by a 10-day break; for a	Approx. 10,000	Acute Peripheral neuropathy (nerve damage) to the point of	Triggers a response in 30% in single treatment and when combined with another

		minimal period of 7-8 cycles	impaired function, digestive disorders and nausea, on rare occasions, liver damage, etc.	drug, in approximately 50%-60%. Response lasts a year. In patients in the advanced stages of the disease, the drug extended life by an average of 12 weeks
Chemotherapy	Infusion or tablets		Suppression of the immune system and bone marrow, hair loss, nausea and vomiting, damage to all cells in the body	20%-30% of patients respond, response lasts less than a year
Bone Marrow Transplant	Intravenous		Extremely aggressive treatment and suitable only for people who are relative healthy (under the age of 65)	Approximately 60%-70% of patients respond to therapy for a period of approx. two-three years

It should be clarified that given the fact that the patients with the disease are treated with a combination of drugs and therapies, as detailed in the table above, they become resistant to the treatment administered to them so that at a certain stage, the treatment combination is no longer beneficial and/or negatively affects (side effects) the patient's condition. As a result, the patient's caregivers tend to change the composition of the treatment and drugs administered to each patient, based on their condition in each stage.

For information about other drugs and therapies that are in competition with the Group's drugs, see Article 8.2.6 above.

8.2.7.3 Methods to Cope with the Competition

In order to successfully cope with the anticipated competition, the Group must position its drug by emphasizing its advantages over the competition. According to the Group, the anticipated advantages of its drug, once it is approved, is based on the premise of a longer life expectancy of patients who take the drug coupled with improved quality of life without any significant side effects. The Group believes that the fact that the drug's possible efficacy in a combination treatment with or after other currently available therapies will reinforce the drug's position and give the company a marketing advantage. Later on, if and when the drug is approved for marketing, these advantages are expected to provide the company with a significant preference that, with the right marketing, will guarantee, according to the Group's estimation, an advantage in the multiple myeloma therapy market.

In addition, among the main factors affecting the ability of a new product to penetrate the drug market and the competition in it are clinical advantages that the product provides and the ability to protect its intellectual property rights. In light of the fact that the group has the license for exclusive use of the patent for the drug recombinant EPO to treat patients with multiple myeloma, the Group believes that its drugs contains the right properties to withstand expected competition.

Several years will pass until the Group's product reaches the market but until it reaches this stage, the chances are that one of the giant pharmaceuticals in the field will try to seek collaboration with the Group in the drug's development and/or marketing.

Group assessments regarding product compatibility and possible penetration into the drug market include a forward looking statement. This information is not definitive and based on currently available information in the company as of the date of this report. Actual results may be significantly different from the results derived from this information, since there is no certainty regarding results of the clinical trial that the Group will conduct on the drug.

9Customers

9.1As of the date of this report, the company did not yet begin marketing and distribution of its products and therefore has no customers.

9.2Potential customers of company products are international or local pharmaceuticals and/or international and/or local distributors.

10Marketing and Distribution

10.1As of the date of this report, the company has not yet begun marketing and distributing its products.

10.2The marketing and distribution strategy reviewed by the company primarily involves strategic partnerships with such companies as international or local pharmaceuticals and/or international and/or local distributors.

11Fixed Assets and Facilities

Company offices are located in Herzliya, in accordance with a rental agreement from 4 August 2010. The basic rental period is for 36 months with an option for an additional 24-month period. In addition, the company has the right to terminate the agreement after 22 months and/or on the date of an alternative tenant in its place, pursuant to approval of the landlord. Monthly rental costs and management fees in accordance with the agreement, began in October 2010, offset by co-payment of the subtenant who subleased 25% of the property (for a one year period) for NIS 19 thousand (USD 5.2 thousand).

12Research and Development

Listed below is a table¹⁹ of clinical trials (in accordance with the preliminary plan the company received as part of the Bio-Gal agreement) that the company intends on carrying out:

Trial Title	Develop-ment Stage of the Trial	Purpose of the Clinical Trial	Study Site	Scheduled number of trial subjects	Number of subjects as of the date of the report	Trial Nature and Status	Performance Timetable	Projected Cost (Estimate)
Recombinant EPO Multiple Myeloma	2	Primary endpoint: extension of life Secondary endpoint: improved quality of life and improvement in various blood parameters	Not yet decided	Approximately 50	0	Not yet submitted to the authorities and/or Helsinki Committee	The trial is expected to begin in the first half of 2011 and last for two-and-a-half years. 20	1-1.5 Million dollars

For more information, see Article 8.2.3 above. It should be noted that no approval has been received that the trial that will be carried out will begin in Phase 2 and not another phase.

¹⁹In accordance with the company's preliminary plan that was accepted within the confines of the Bio Gal agreement (For information, See Note 1b of the financial statement)

²⁰The estimated trial period is a company projection based on the patient enrollment rate in other companies that are conducting clinical trials on multiple myeloma treatments in compliance with FDA standards.

Assuming that the trial detailed above achieves the desired results, the company faces several business options: (1) conducting a Phase 2b extension trial and/or Phase 3; (2) enter a contractual arrangement for a collaboration with a large pharmaceutical company to continue drug development, or (3) granting a license to a large pharmaceutical company to continue development and commercialization of the drug. The factors in choosing which aforementioned option will depend on the company's financial ability and on the suggestions made by other business partners.

As of the date of this report, the company and its medical consultants believe that Phase 3 clinical trial is expected to last between 3-4 years, with an estimated cost of US\$ 10-30 million. This is based, inter alia, on data obtained from the company's regulatory consultants and on a review of the history of clinical trials in companies in the industry.

The Group's assessment regarding the projected expenses for Phase 2 and primarily Phase 3 clinical trial includes a forward looking statement. This information is not definitive and based on currently available information in the company as of the date of this report. Actual results might be significantly different from the results derived from this information since the expected number of patients for the Phase 3 trial, the duration of the trial and the complexity of the trial is uncertain and depends in this phase primarily on variables external to the company such as: decisions made by the FDA and other health institutions, clinical trial results of other companies in the industry and other regulatory issues. The costs incurred in conducting the trial might therefore significantly change.

13 Intangible Assets

13.1 In December 2009²¹, the company entered a contractual arrangement, via XTEPO, with Bio-Gal to acquire the license to use the patent to use recombinant EPO in the treatment of advanced stage multiple myeloma patients and improve the quality of their lives. For additional information about the licensing agreement, see Article 18.3 below.

21 Following amendment of the terms of the contractual arrangement from 18 March 2009 with Bio Gal.

13.2 In August 2005, the Group entered into an agreement to acquire rights and assets from Vivoquest - a private company incorporated in the State of Delaware ("Vivoquest"). Pursuant to the agreement, the Group acquired the usage rights to the development of novel pre-clinical library of compounds for the treatment of Hepatitis C ("DOS"), laboratory equipment and the lease rights to a laboratory used by Vivoquest. In accordance with the agreement, and as of the date of this report, the Group possesses only the usage and development rights concerning which it is obligated to pay up to US\$34 million on the basis of the milestones. Out of this, the amount of \$25 million will be paid by the Group subject to regulatory approval and the actual sale of products. It should be noted that, according to the agreement, the Group has been granted the choice of settling the said amounts either in cash or through the allocation of shares.

13.3 In March 2008 and as amended in August 2008, the Group entered into an agreement to out-license the development rights acquired from Vivoquest to Presidio Pharmaceuticals, Inc. ("Presidio"). For further details regarding the agreement - see Article 18.2 below.

13.4 The company has exclusive license of the patents and patent applications as detailed in the table below:

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Patent Name	Countries in which application was filed	Priority Date	Application No.	Patent No.	Status	Expiration Date**
BIOGAL-001 EP(*)	Europe	30.03.1999	99 91 2039.7	1 067 955	Granted	30.03.2019
BIOGAL-001 CA	Canada	30.03.1999	2,366,674	—	Allowed	30.03.2019
BIOGAL-001 IL2	Israel	30.03.1999	138705	138705	Granted	30.03.2019
BIOGAL-001 JP	Japan	30.03.1999	2000-543153	4456271	Granted	30.03.2019
BIOGAL-001 HK	Hong Kong	30.03.1999	01104635.2	HK1033910	Granted	30.03.2019
BIOGAL-001 US	USA	30.03.1999	09/647,761	6,579,525	Granted	30.03.2019

* valid in Austria, Belgium, France, Germany, Britain, Ireland, Italy, Holland, Spain, Switzerland and Sweden

** Subject to execution of all mandatory annual payments

14 Human Capital

As of the date of this report, the Group has two full-time employees in management and finance and four service providers / consultants who provide the company with management, administrative, medical and financial services (two of whom are executives). For information about the terms of employment of officials, see Regulation 21 in Chapter D of this report.

15 Financing

As of the date of this report, the company has no loans or any liability with the exception of the current liabilities to suppliers, other service providers, employees and members of the board of directors.

16Taxation

16.1Applicable tax rates for the Group under law

Tax Rates:

Company revenue in Israel is subject to the companies tax at the regular rate, in accordance with the provisions of the Law to Amend the Income Tax Ordinance from August 2005, a gradual lowering of companies tax rate was established. As a result of this amendment, the companies tax rate beginning in the 2008 tax year and after are: 2008 – 27%, 2009 – 26%, 2010 – 25%.

On 14 July 2009, the Knesset ratified the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for 2009 and 2010) (Hereinafter: Amendment 2009) that established, inter alia, a gradual reduction in the companies tax rate, from the companies tax rate beginning in 2010 and as follows: 2011 – 24%; 2012 – 23%; 2013 – 22%; 2014 – 21%; 2015 – 20% and 2016 and after – 18%.

For additional information about applicable tax rates for the Group, See Note 21 of the financial statements for 31 December 2010.

16.2On 15 July 2010, the company signed a pre-ruling arrangement with the income tax authorities regarding the exchange of shares agreement in accordance with Articles 103 and 104 of the Income Tax Ordinance. As a result of the contractual arrangement in the agreement, the company had various restrictions imposed and some of the aggregate losses were cancelled for company tax purposes.

Listed below is a summary of the main points of the terms of the agreement:

16.2.1 The balance of losses from the transaction and the balance of the company's capital losses for tax purposes were reduced and established at NIS 80 million (approximately \$22 million) and NIS 0.7 million (approximately \$0.19 million²²) respectively. The contents of this article does not derogate from the authority of the appraiser to determine that the balance of losses is lower than the aforementioned sums.

²² Based on the exchange rate on 31 December 2010, which was NIS 3.665 = 1 USD.

16.2.2 The losses incurred by the company prior to the exchange of shares, following said reduction in Article 1, will not be included in the offset against any revenue attributed to XTEPO (the transferred company) and will not be included in the offset against capital gain from the sale of XTEPO shares.

16.2.3 XTEPO shareholders will not be permitted to sell their rights in the company for two years from the end of the year in which the transaction was completed (Hereinafter The Blocking Period), subject to legislative changes.

16.2.4 The company and XTEPO undertook to maintain the main economic activity that they had on the eve of the transaction during the Blocking Period.

16.2.5 The company will not be permitted to sell its holdings in XTEPO for the entire Blocking Period.

It should be noted that the provisions of Articles 103 and 104 of the Income Tax Ordinance that discuss restructuring and mergers imposes statutory restrictions and various terms on entities participating in the restructuring / merger and, inter alia, limits dilution of holdings both by means of prospectus as well as private placement. A summary of the main restrictions mentioned above do not claim to be a review of the provisions of Articles 103 and 104 of the Income Tax Ordinance and do not constitute a substitute for reading said articles in their entirety.

16.3 Due to said pre-ruling, on 31 December 2010, the company incurred accumulated business losses for tax purposes of US\$ 24 million (approximately NIS 86 million) and accumulated capital losses of US\$ 0.19 million (approximately NIS 0.7 million) that are carried over to the next years. For more information, see Note 21c of the company's financial statements for 31 December 2010.

In addition, as a result of completion of the Bio Gal transaction, company management believes that US subsidiary losses for tax purposes, as of 31 December 2010, of US\$ 15 million to be limited in ability to be used and might be lowered in accordance with local law that deals with changes in control in a company. As previously mentioned in the annual financial statements for 2010, the company is not offsetting deferred taxes for losses for tax purposes since their use in the foreseeable future is not certain.

17 Limitations, standard legislation and special constraints on the field of operation

17.1 Helsinki Committee

A prerequisite for the Group being able to conduct trials is obtaining prior approval from parties certified to approve clinical trials on human subjects in every country in which the Group wishes to conduct the said trial. The trials must comply with the principles in the Helsinki Declaration and must have obtained ethics committee approval in every medical institution in which the trial is being conducted. The doctor and/or the committee of doctors with whom the Group will cooperate will submit the trial protocol to the medical institution's ethics committee. After the discussion during which the committee will determine whether the trial protocol complies with the rules of ethics, and if the protocol is approved, the scheduled trial can begin. Any change in the trial protocol requires an update and a resubmission for ethics committee approval.

Helsinki Committee Approval – as previously mentioned, a prerequisite for approval of use of pharmaceutical products by the Western health agencies, including the Israeli Ministry of Health, and it allows proof of safety and efficiency of pharmaceutical products through clinical trials. In order to conduct clinical trials in Israel that involve human subjects, permission must be obtained in accordance with the study plan (protocol) (Hereinafter Permit) from the committee (known as previously mentioned as the Helsinki Committee), which operates by the virtue of the Public Health Regulations (Clinical Trials on Human Subjects) (Hereinafter: the Public Health Regulations).

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The permit is issued subject to submitting the application for approval by a licensed doctor who will be the principal investigator in charge of the trial, the investigator participating in the clinical trial on human subjects will have the skills and experience in his field to conduct the trial and the trial will comply with the conditions below:

- (a) The anticipated advantages for the participant in the trial and for the company justify the risk and discomfort involved in the trial;
- (b) The clinical and scientific information currently available justifies conducting the requested clinical trial;
- (c) The clinical trial is scientifically planned to facilitate a response to the question being studied, and is described in a clear, detailed and precise manner in the trial protocol;
- (d) The risk to the trial participant is minimized due to the use of proper study methods, and use, whenever possible, of procedures that have already been carried out on human beings or on animals. In addition, trial participants will be closely monitored during the trial and in the follow-up.
- (e) Trial participants will be selected based on the inclusion and exclusion criteria in accordance with the trial protocol
- (f) An informed consent form for the trial is to include all necessary information as described in the procedure;
- (g) The trial protocol includes provisions on protection of participants' privacy and the confidentiality of the collected information;
- (h) The trial protocol includes a mechanism for trial follow-ups;
- (i) Suitable insurance coverage of participants taken out by the trial sponsor;

- (j)The sponsor and the principal investigator are capable of allocating the resources required to properly conduct the trial, including skilled personnel and required equipment
- (k)The nature of the commercial contractual arrangement with the investigator and with the study site does not prejudice any proper conduct of the trial;
- (l)If all or some of the participants in the trial are potentially subject to undue pressure or influence regarding participation in the trial – appropriate measures will be adopted to prevent or minimize said undue pressure or influence.

17.2FDA and EMEA Approval

The product the Group intends to develop and market is a pharmaceutical product. As such, its' manufacturing, sale and marketing is contingent upon obtaining a license in every country that the Group wishes to market the said product. To obtain the said approval, the Group must comply with the licensing requirements, including safety conditions and quality assurance standards required in each of the countries.

The requirements to obtain approval to sell the Group's drug varies from country to country, as does the time needed for the various authorities to conduct tests in each country to obtain the license and costs involved. The lack of a license in a certain country for the Group's product will prevent its sale and accordingly, might harm the Group's revenue. Main markets the Group is targeting include the United States and the European Union.

The Group intends to complete product development, obtain FDA and EMEA approval for the drug's marketing and sale. It will be clarified that every said approval is separate and independent. Said approval will be required in the future for any modification of the product, which will obtain approval or for expanding its current applications.

Once FDA or EMEA approval has been obtained, the Group will be able to market the product only for the indications listed in the approval. The FDA and EMEA can conduct tests and investigations to ensure the Group's compliance with the legal and licensing requirements. In addition, the Group can work to monitor and follow-up its compliance with the FDA requirements via a Quality Control system and by significantly reducing the possibility of failure, and even report them in advance, if detected. Non-compliance with the said requirements can lead to sanctions against the Group, including, publication of a public warning regarding the product (black box warning), imposition of penalties and civilian compensations, refusal to approve new products for the company or to remove licensing from the current product.

It should be noted that today, the FDA is considered the most stringent agency and its approval is a significant sign, indicating the receipt of an approval granted by the other regulatory agencies.

17.3 U.S. Health Care Reform ("Obama Reform")

To the best of company knowledge, the U.S. health care reform will have no effect on the company's financial activity.

18 Substantial Agreements

18.1 Licensing Agreement with Bio Gal

On 31 December 2009, the Group, through XTEPO, entered a contractual arrangement with Bio Gal in an agreement to an exclusive license for a patent (as this term is defined above), that was signed between Bio Gal and Yeda and Mor Research Applications (Hereinafter Mor) (Yeda and Mor hereinafter jointly known as License Owners) in 2002 (Hereinafter: Original Licensing Agreement), for exclusive use of the registered patent of the license owners for the drug recombinant EPO in order to develop a new indication that aims to extend the life of patients with multiple myeloma as well as improve their quality of life (Hereinafter: The Patent). It should be noted that the assignment of the original Licensing Agreement to the company involved obtaining the consent of the license owners, who gave it, and then XTEPO, which was established for the purpose of said agreement, stepped into the shoes of Bio Gal as license owner in every respect.

In accordance with the terms of the original licensing agreement, Bio Gal undertook to manage the study in terms of further development of patents owned by the license owners, including full financing of the study extension, and will own exclusive international licensing rights to development use, marketing, distribution and sale of drugs used to treat multiple myeloma and other types of cancer, as much as the study permits. According to the licensing agreement, Bio Gal will bear all expenses related to preparation, filing, preserving and protecting every patent that will be registered as a result of the study. The exclusive license given to the company (via XTEPO) as previously stated will remain valid for 15 years from the first commercial sale of the drug by Bio Gal or until the end of the patent period in the countries where the patent is registered (whichever is later). It should be noted that the patent is a registered patent in the US since 1999 and in Europe, Israel and Hong Kong, Japan and others as well as in Canada, it should be noted that the company obtained approval for all patent registration requests that it requested. The patent validity is expected to expire in countries in which it is registered in 2019.

In return for said assignment of license and in accordance with the amendments made to the original licensing agreement (the last of which was made in April 2008), the Group will pay Yeda:

1. Annual licensing fee of one percent (1%) of net sales of the EPO drug by the Group and/or its subcontractors (who might operate under a sub license)
2. A one-time payment if one of the following are met: (See also subarticle 3 below that updates the terms of this article) (1) sale of 50% or more of XTEPO shares to a third party (2) merger between XTEPO and a third party (3) sale or transfer of XTEPO's strategic assets (hereinafter Exercise) totaling US\$ 250,000 or 2.5% of XTEPO's gross gains from the Exercise (whichever is lower)
3. Despite the aforementioned, the parties to the agreement decided that the said payments will be deferred to the date of successful completion of Phase 2 of the clinical trial for which the Group will pay Yeda a one-time sum of US\$ 350,000, whichever of the following comes earlier:

a. Capital raising of at least US\$ 2 million by the company or by XTEPO following successful completion of Phase 2 clinical trial

b. Six months from the date of successful completion of Phase 2 clinical trial

18.2 Agreement to Grant Sub License - Presidio

On 19 March 2008, the Group entered a contractual arrangement to grant sub license of DOS with Presidio, a company that incorporated in Delaware and that specializes in drug development and marketing (Hereinafter respectively The Agreement). On 4 August 2008, the Group signed an amendment to the Agreement (Hereinafter Amendment to the Agreement) in which Presidio assumes responsibility for all development, commercialization and patent cost responsibilities, including all resulting costs, regarding the DOS in exchange for an initial payment of US\$ 5.94 million and a future payment of up to US\$ 59 million based on milestones such as submitting an application for registration of the investigational new drug with the FDA (IND – Investigational New Drug), submitting an application for commercialization and marketing of the drug with the FDA or any parallel authority, payment of royalties of between 1% - 10%, based on Presidio's revenue. In addition, the Group is entitled to receive a varying percentage of receipts paid to Presidio if the latter grants a sub license in DOS to a third party.

The company carries out various controls to monitor DOS development progress by Presidio that include, inter alia, receiving updates from Presidio and monitoring FDA publications regarding clinical trials. The company will, from time to time and on a need basis, contact Presidio for additional updates in accordance with the agreement between the company and Presidio.

To the best of the company's knowledge, as of the date of the report, Presidio has yet to begin carrying out any clinical trial based on DOS technology.

18.3 Option Agreement for Exclusive Licensing

On 1 September 2010, the company entered a contractual arrangement with Yeda to acquire the right in which the company would retain exclusivity to examine a medical technology in the immune system that includes two proteins by which target molecules would be examined that may serve as the basis for the development of drugs used to treat immune system-related diseases such as acute hepatitis, rheumatoid arthritis, Crohn's Disease, psoriasis, etc. If the company's review results in a decision to advance said technology, it believes that it will need to recruit a development manager for this technology who will conduct preclinical research and development that includes lab trials and preclinical trials on animals and, if successful, clinical trials on human subjects with the said technology products. In accordance with the agreement, the company received an exclusive right for a period of 15 months beginning on the date of the agreement to examine the medical technology (Hereinafter: The Right) in consideration of payment of US\$ 120,000 (Hereinafter: The Option Fee) that will be paid by the company as follows:

- a. Should the company raise through a public prospectus over US\$ 2 million – the company will settle its liabilities to Yeda in cash, or
- b. If 12 months have passed since the signing of the agreement and the sum raised does not exceed US\$ 2 million, the company will settle its liability to Yeda in cash or through an options offering equivalent in value to said sum, at the company's sole discretion, once approval has been obtained from Yeda regarding the timing of the offering. If the company chooses to settle its liabilities through said options offering, the total number of options to be allotted to Yeda will not exceed 2% of the company capital (on a fully diluted basis) with the exercise price of each option being the nominal value of the company shares.

If the company chooses to exercise its right to obtain usage license, it must announce its intentions to Yeda and then the parties will sign the licensing agreement based on the conditions adopted by Yeda less 15% reduction from the market price for issuance of license as stipulated that is adopted by Yeda.

Yeda will reserve the right to cancel this Agreement after 12 months from the day of the signing of said Agreement if the company failed to complete raising funds that exceed US\$ 1.5 million from any source.

18.4 Acquisition Agreement with MinoGuard

On March 24, 2011, the Company has entered into a term sheet to acquire the activity of MinoGuard Ltd. ("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 making any other payments.

MinoGuard was founded in 2007 in order to commercialize combination therapies for treating psychotic diseases, focusing on schizophrenia. The transaction is subject, among others, to due diligence studies, examination of the regulatory track for the continued development of the drug and the approval of the Company's Board.

19 Legal Proceedings

As of the date of this report, the Group is not facing and is not conducting any legal proceedings of any kind.

20 Objectives and Business Strategy

The Group intends to develop the drug recombinant EPO used to treat patients with multiple myeloma and first and foremost begin conducting Phase 2 clinical trial while creating value for the Group and for the recombinant EPO drug.

Listed below is a table summarizing the strategy and projected goals set by the Company for 2011-2013:

	2011	2012	2013
recombinant EPO	Initiation of clinical trial / obtain approvals to initiate trial	Clinical Trial	Clinical Trial

The trial / obtaining approvals to initiate the trial are expected to begin / to be received in 2011 and continue for a period of two-and-a-half years. ²³.

It should be noted that in addition to the aforementioned, the Group is striving to identify, examine and acquire additional technologies including, inter alia, the development of a new indication for drugs that have been approved for marketing for the treatment of relatively rare and currently incurable diseases. In addition, the Group plans on developing collaborations with large pharmaceuticals to market the EPO and other collaborations to develop its clinical abilities, inter alia, through scientific advisory committee that will be set up, to create collaborations with major research institutions and retain its position in the capital markets.

The Group estimates of business goals and strategy include forward looking statements. This information is uncertain and based on currently available information in the company as of the date of this report. Actual results might be significantly different than the estimates derived from this information, since clinical development of a drug is essentially a process that contains numerous uncertainties and as such, inter alia, there is no certainty that the timetable for development and obtaining initial clinical results from the recombinant EPO will come to fruition in the way expected by the Group's management.

²³ The estimated trial period is a company projection based on the patient enrollment rate in other companies conducting clinical trials on multiple myeloma treatments in compliance with FDA standards.

21 Projected Development for the Upcoming Year

Immediately upon completion of the Bio Gal transaction as described in Article 18.1 above, the company began preparing for the Phase 2 clinical trial. The company plans on carrying out over the course of next year said clinical trial that includes, inter alia, obtaining regulatory approval and initiation of collection of long-term clinical data on patients that will prove the advantages of recombinant EPO in the treatment of patients with multiple myeloma.

For information about clinical trials that the Company intends on conducting, see Article 12 above. Without derogating from the generality of the aforementioned, the Company does not rule out any possibility of filing requests to obtain grants from the Chief Scientist in accordance with the Encouragement of Industrial Research and Development Law, as to be determined by the company's board of directors pursuant to recommendation of company management.

The Group's estimates regarding the developments in the ensuing year, including projected expenses, include forward looking statements. This information is uncertain and based on currently available information in the company as of the date of this report. Actual results might be significantly different from the results derived from this information, since there is no guarantee regarding the future and the results of clinical trials that the group is planning to conduct.

22 Discussion of Risk Factors

Listed below is information about the risk factors that might have crucial effect on the Group's operations and business results.

22.1 Industry Risks

22.1.1 Exposure to Effects of Regulation

The group, like any business involved in the medical field, is subject to approvals, licenses and regulation on the part of government and international organizations related to environmental quality, toxins, medicine, etc. If any amendments are made in the provisions of the law that are related to the Group's activities, this might result in heavy expenses to the Company and even discontinuation of the development of recombinant EPO.

22.1.2 Dependency on External Financing

The Group, like any business in the biotechnology industry, depends on external financing, since it essentially does not have all of the revenues whereas development expenses incurred in development of EPO drug are high. At a certain stage, the Group's financing sources will run out and the Group will not be able to continue financing the drug development activity as previously mentioned. See Note 1c of the company's financial statements.

22.1.3 Dependency on Professional, Skilled Personnel

The Group as a biotechnology company is required to employ skilled personnel who can perform the tasks with consummate professionalism and skill in order to achieve maximum results with maximum supervision.

22.1.4 Dependency on Trial Volunteers

The Group, as an organization in the clinical biotechnology industry that performs trials, requires healthy and sick volunteers to carry out its trials. A frequent difficulty when conducting clinical trials involves the enrollment of volunteer patients due to fierce competition over these patients (particularly when patients are in the advanced stages of their disease) and occasionally due to patients' use of other drugs – which may disqualify them from participating in the trial.

22.1.5

Exposure to Lawsuits

In light of the Group's operations in the clinical trials industry, it is exposed to legal proceedings related to potential adverse events of recombinant EPO. Adverse events of drugs are a known phenomenon, particularly during the development stages. The Group cannot guarantee that no adverse event will be discovered in relation to recombinant EPO, thus creating the possibility that such discovery is to render the Group vulnerable to various lawsuits.

22.1.6

Competition

The Group is exposed to the possibility that competing companies will develop a similar drug to the one developed by it – for additional information about the competition and the products competing with the Group's product, see Article 8.2.7 above.

In addition, it should be noted that the patent is scheduled to expire in 2019 and the drug will become generic. It should further be noted that the patent for using Erythropoietin to treat anemia will shortly expire and there is a risk that in certain countries, the recombinant EPO will be given in off-label-use. The Group, however, believes that this risk is limited since recombinant EPO is a drug that includes the Black Box warning that may deter doctors from prescribing it for off-label-use, and subsequently, from taking the drug in a not according to its label.

22.2

Unique Risks for the Group

22.2.1

Development Failure

The Group, by virtue of being a company in the biotechnology industry, is essentially based on the future potential embodied in the development of recombinant EPO whereas of the date of this report, the company has no revenues. If the Group's expectations regarding the development of recombinant EPO fail to be realized into a product with marketing feasibility, the continued existence of the Group as an independent organization will be in doubt. Since the field in question is drug development, there is no certainty that the Group's trials with recombinant EPO will succeed. As previously mentioned, if these trials fail, the existence of the Group will be in question. It should be emphasized that any clinical study contains numerous elements of uncertainty and the possibility that the Group will fail in its attempt to prove and demonstrate the efficiency and safety of recombinant EPO or if that the trials will reveal the drug to be less efficient than expected cannot be ruled out. In addition, the possibility of the development of other drugs by the competitors that will compete with the Group's drugs and capture a significant share of its market share cannot be ruled out as well.

22.2.2

Relative Dependency on a Key Figure

The Group is moderately dependent on Prof. Moshe Mittelman who serves as the company's medical director²⁴ and who developed the indication of recombinant EPO on which his study is based. If for some reason Prof. Mittelman fails to support scientific / clinical aspects and/or if he no longer serves in his position, then the Group will suffer some damage. If Prof. Mittelman discontinues his work with the Group, some time may pass until the Group finds a replacement for Prof. Mittelman. It should be emphasized that regarding any aspect related to performance or continued performance of the clinical trials on recombinant EPO, the Group believes that Prof. Mittelman's leaving will not cause a significant delay in the Group's clinical activities as specified above.

22.2.3

Intellectual Property Protection

The Group, being a company in the biotechnology industry, is largely based on the possibility of protecting and preserving its intellectual property. Infringement of its intellectual property rights through violation of the patents given to the company can seriously harm the Group's operations. Without protection of the Group's intellectual property, there is nothing stopping any other party from using the Group's developments without having had to incur heavy development expenses. In addition, protecting the patent given to the Group might not withstand legal proceeding that will validate the claims included in it.

²⁴ It should be noted that Prof. Mittelman has been serving as medical director in the company since 4 August 2010.

22.2.4

Marketing and Sales

The Group lacks any manufacturing, marketing and sales facilities. If recombinant EPO does reach the stage at which the Group can commercialize the drug, it will need to collaborate with another organization or try to create a manufacturing, marketing and sales systems to realize the drug's embodied marketing potential.

Below is a table of risk factors that might affect the Group's operations and business' results as well as the Group's assessment with regard to the degree to which these risk factors might affect the Group's operations in general:

Type of Risk	Brief Description	Degree of impact on the group's operations		
		Strong	Moderate	Limited
Industry Risks	Subject to laws and regulation	√		
	Dependency on external financing	√		
	Dependency on professional, skilled personnel		√	
	Dependency on locating trial participants	√		
	Adverse events are liable to occur during use of the drugs and definitely during use of the drugs in development— which can lead to lawsuits		√	
	Development of rival drugs		√	
	Patent expiration in 2019 and failure to obtain orphan drug approval	√		
Risks Unique to the Group	Numerous factors of uncertainty – unsatisfactory results, delay or failure of the Group's drug – no guarantee of trial success or lack of adverse events	√		
	Dependency on a key figure – Prof. Moshe Mittelman who serves as the company's medical director			√
	Due to the strong dependency on patents and protection of intellectual property, there is a possibility of infringement of existing patents		√	
	In the future, when the group's drugs move ahead to the manufacturing stage, the group will be dependent on manufacturers since it is unable to mass produce the drug		√	

XTL BIOPHARMACEUTICALS LTD.

DIRECTORS' REPORT ON THE COMPANY'S STATE OF AFFAIRS

AS OF DECEMBER 31, 2010

The board of directors of XTL Biopharmaceuticals Ltd. ("the Company") hereby presents the Company directors' report for 2010.

The data presented in this report relate to the Company and its subsidiaries on a consolidated basis ("the Group"), unless explicitly stated otherwise.

1. PART 1 - THE BOARD OF DIRECTORS' EXPLANATIONS FOR THE STATE OF THE CORPORATION'S BUSINESS

1.1 Significant events during the year

· On December 31, 2009, the Company signed an amendment to the original agreement entered into with Bio-Gal Ltd. ("Bio-Gal") in March 2009 to acquire 100% of the shares of Xtepo Ltd. ("Xtepo"), an Israeli privately-held company incorporated in November 2009 by Bio-Gal's shareholders for the Bio-Gal transaction ("the Bio-Gal transaction") and which holds the exclusive license to use a patent of EPO drug for multiple myeloma and which will have an amount of approximately \$ 1.5 million in its account on closing by allocating 133,063,688 Ordinary shares of NIS 0.1 par value each of the Company representing after closing about 69.44% of the Company's issued and outstanding share capital. In addition, the amendment to the agreement determines that Bio-Gal will not be entitled to the additional payment of \$ 10 million, as determined in the original transaction outline.

The Company is also 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 either 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 a successful completion of a Phase 2 clinical trial.

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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 others, the signing of an agreement with the Israeli Tax Authority regarding the tax exemption granted to the share swap transaction pursuant to articles 104 and 103 to the Income Tax Ordinance (Revised), 1961.

The agreement with the Israeli Tax Authority was signed on July 15, 2010, based on understandings reached with the Israeli Tax Authority which was approved by the Company, the transferee, Xtepo Ltd. ("Xtepo"), Bio-Gal and their shareholders (see also Note 1b to the financial statements).

Following the closing of the transaction, the Group recognized in its accounts an intangible asset representing the exclusive license to use a patent of EPO drug for multiple myeloma as well as every clinical study and accumulated know-how underlying the patent in a total of approximately \$ 2.3 million, based on its fair value as of the date of initial recognition (August 3, 2010) and this based on an independent external valuation.

Further, with the closing of the Bio-Gal transaction and the resulting change of control, the tax losses of the U.S. subsidiaries which as of December 31, 2010 amounted to approximately \$ 15 million are subject to limitation in use and they may be even reduced due to state tax laws that deal in cases of "change in control". The Company did not recognize deferred taxes for tax losses because their utilization is not probable.

- On January 26, 2010, the Company's Board of directors approved to grant 100,000 share options to an employee in the Company to purchase 100,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.1 per share. Pursuant to the guidance of IFRS 2, the fair value of all share options on the date the Board accepted the decision using the Black-Scholes model was approximately \$ 10 thousand. The option exercise term is for a maximum period of 10 years from the grant date. The options are exercisable in equal installments at the end of every calendar quarter from the date of allocation over a three-year period.
- On March 2, 2010, an extraordinary meeting of the shareholders approved the Bio-Gal transaction and the share swap according to the transaction outline signed between the parties on December 31, 2009 and issued to the public on January 14, 2010.

• On March 2, 2010, the annual general meeting of the Company's shareholders was convened and approved the following issues:

1. Reappoint auditors - approved to reappoint the accounting firm Kesselman & Kesselman as the Company's auditors for 2009 and authorized the Company's board of directors to determine their fees.
2. Reappoint directors - approved to reappoint Messrs. Marc Allouche, Amit Yonay, Boaz Schweiger and David Grossman as directors in the Company until the next annual meeting, as well as to grant each of the directors 150,000 registered unquoted options (except Mr. David Grossman who also acts as the Company's CEO) to purchase 150,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.298 per share. 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 maximum period of 10 years from the grant date, such that 33.33% of the share options are exercisable immediately upon grant and the remaining 66.67% share options are exercisable in equal monthly installments from the grant date over a period of 24 months. On November 22, 2010, Mr. Schweiger ceased to act in his capacity as a director in the Company and, accordingly, 63,747 of the options granted to him have been forfeited.
3. Subject to the completion of the Bio-Gal transaction whose closing occurred on August 3, 2010, the employment terms of Mr. David Grossman, the Company's CEO and director, were approved including the grant of 1,610,000 registered unquoted options 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. 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, such that that 33.33% of the share options are exercisable immediately and the remaining 66.67% share options are exercisable in equal monthly installments from the date of approval by the Board (January 18, 2010) over a period of 24 months.

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.

- In March 2010, the Company terminated the license agreement with DOV Pharmaceutical Inc. in the issue of the Bicifadine compound and all the rights under the agreement were reverted to DOV Pharmaceutical Inc. in coordination with it.
- On August 27, 2010, the Company's Board approved the employment agreement of Prof. Moshe Mittelman as a senior officer - Medical Director of the development plan of the EPO for treating multiple myeloma. It also approved to allocate 640,000 (unregistered) share options to purchase 640,000 Ordinary shares of NIS 0.1 par value each at an exercise price equal to NIS 0.1 per share. Pursuant to the guidance of IFRS 2, the fair value of all share options on the date of Board accepted the decision using the Black-Scholes model was approximately \$ 50 thousand. The option term is for a maximum period of 10 years from the grant date, such that the share options are exercisable in equal monthly installments from the record date over a period of 24 months. Also, upon the commencement of a Phase 2 clinical trial (first-in-man), 50% of the unvested options of Prof. Mittelman shall vest immediately. In addition, upon the termination by the Company with no cause, 25% of Prof. Mittelman's unvested options on the date of termination shall vest immediately.
- 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, the Chron's disease, psoriasis and 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 more than \$ 2 million by a prospectus to the public, the Company is obligated to settle the payment in cash; or
 - (ii) If 12 months after the date of closing of the agreement an amount of more than \$ 2 million was 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 options with equivalent value in lieu of that payment. Total amount of options allocated to Yeda will not exceed 2% of Company's' equity (fully diluted) and the exercise price of each option will be the par value of the Company's shares.

If the Company exercises its right to receive the license to use, it has to notify Yeda of its intention and afterwards the parties will enter into a standard licensing agreement based on Yeda's conditions discounted by 15% of normal market prices for granting such license by Yeda. Yeda is entitled to cancel this agreement 12 months after its closing if the Company does not raise more than \$ 1.5 million from any source whatsoever.

- On September 19, 2010, the Company received from its patent editor a notice that the Canadian Patent Office Record approved the Company a patent which grants exclusive right to use the EPO drug for treating cancer patients with multiple myeloma until 2019 and this besides the existing patents that are registered in the territories and states of the U.S., Austria, Belgium, France, Germany, Britain, Ireland, Italy, Holland, Spain, Switzerland, Sweden, Israel, Hong-Kong and Japan.
- On November 22, 2010, Mr. Schweiger ceased to act in his capacity as a director in the Company. Of the 150,000 share options granted to him, 86,253 share options that were exercised in December 2010 resulted in 86,253 Ordinary shares of NIS 0.1 par value each being issued for a total of approximately \$ 7 thousand. The remaining 63,747 unvested share options have been forfeited.

1.2 The financial position, operating results, liquidity and financing resources

The Company had losses of approximately \$ 1.3 million and negative cash flows from operating activities of approximately \$ 0.75 million in the year ended December 31, 2010. Currently the Company has no revenues from operations and it funds its operations from its own capital and from external sources by way of issuing equity instruments. After the balance sheet date, on March 7, 2011, the Company raised by public issuance of 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) on the Tel-Aviv Stock Exchange a net amount of approximately \$ 1.75 million (approximately NIS 6.3 million) (see also Note 24a). The Company's management believes that the balances of cash and cash equivalents including the proceeds from the above raising will enable the Company to continue operating for a period of approximately 18 months from the date of the statement of financial position. Nevertheless, since the Company has no cash flows from operations and due to the nature of the Company's activity as a research and development company, there is substantial doubt regarding the Company's ability to continue operating as a "going concern" beyond this period. These financial statements include no adjustments of the values of assets and liabilities and the classification thereof, if any, that will apply if the Company is unable to continue operating as a "going concern".

1.2.1 The financial position

Balance sheet highlights (U.S. dollars in thousands)

Line item	December 31, 2010			December 31, 2009		
	Amount \$000	% of total balance sheet		Amount \$000	% of total balance sheet	
Total balance sheet	3,797	100 %		715	100 %	
Equity	2,834	75 %		7	1 %	
Current assets	1,222	32 %		557	78 %	
Property, plant and equipment	35	1 %		23	3 %	
Intangible assets	2,540	67 %		-	0 %	
Other investments	-	0 %		135	19 %	
Short-term liabilities	963	25 %		708	99 %	

Equity

The Company's equity as of December 31, 2010 was approximately \$ 2,834 thousand, an increase of approximately \$ 2,827 thousand from December 31, 2009, representing 75% of total balance sheet compared to 1% of total balance sheet as of December 31, 2009. The increase in equity was primarily a result of issuance of 133,063,688 shares on August 3, 2010, under the Bio-Gal transaction (see also 1.1 above) less the loss in that period.

Assets

Total current assets as of December 31, 2010 was approximately \$ 1,222 thousand, an increase of approximately \$ 665 thousand (119%), compared to approximately \$ 557 thousand as of December 31, 2009. The change was primarily a result of increase in the Group's balances of cash and cash equivalents after raising \$ 1.5 million under the Bio-Gal transaction from August 3, 2010.

The Group's carrying amount of cash and cash equivalents as of December 31, 2010 was approximately \$ 1,066 thousand, an increase of approximately \$ 654 thousand (159%), compared to cash balance of approximately \$ 412 thousand as of December 31, 2009. The change was a result of receiving \$ 1.5 million under the Bio-Gal transaction less payments in the period.

The carrying amount of accounts receivables as of December 31, 2010 totaled approximately \$ 110 thousand, compared to approximately \$ 33 thousand as of December 31, 2009. The increase was primarily a result of growth in the items Government authorities and prepaid expenses which comprised mainly prepaid insurance expenses and expenses relating to the Company's prospectus which was published after the reporting date, on February 28, 2011 (see 4.1 below).

Property, plant and equipment as of December 31, 2010 totaled approximately \$ 35 thousand, compared to approximately \$ 23 thousand as of December 31, 2009. The increase was a result of purchase of computer equipment and office furniture during the period for approximately \$ 22 thousand less depreciation expenses of approximately \$ 10 thousand during the period.

The carrying amount of intangible assets as of December 31, 2010 was approximately \$ 2,540 thousand, compared to the item other investments of approximately \$ 135 thousand as of December 31, 2009. The increase was primarily a result of the acquisition of the exclusive license to use a patent of EPO drug for treating multiple myeloma under the Bio-Gal transaction which was closed on August 3, 2010, as in 1.1 above, for \$ 2,265 thousand including costs involved in the acquisition of the asset of approximately \$ 52 thousand which were capitalized during the period.

Liabilities

The carrying amount of trade payables as of December 31, 2010 totaled approximately \$ 203 thousand, compared to approximately \$ 192 thousand as of December 31, 2009, with no material changes.

The carrying amount of accounts payable as of December 31, 2010 totaled approximately \$ 760 thousand, compared to approximately \$ 516 thousand as of December 31, 2009, an increase of 47%. The increase was primarily a result of growth in accrued expenses to service providers in connection with the preparation of the Company's prospectus, ongoing professional services and liability to the Company's CEO which, as of the reporting date, was not paid.

1.2.2

The operating results

Condensed statements of comprehensive income (loss) (U.S. dollars in thousands)

	Year ended December 31,		
	2010 \$000	2009	2008
Revenues	0	0	5,940
Cost of revenues	0	0	(1,841)
Gross profit	0	0	4,099
Research and development expenses	64	0	11,722
General and administrative expenses	1,222	(2,429)	3,937
Impairment loss of intangible asset	0	0	7,500
Other gains (losses), net	30	139	288
Operating income (loss)	(1,256)	2,568	(18,772)
Finance income (expenses), net	(1)	(4)	314
Income (loss) before taxes on income	(1,257)	2,564	(18,458)
Tax benefit	0	23	31
Net income (loss) for the year attributable to equity holders of the Company	(1,257)	2,587	(18,427)

Revenues from sales

The Company had no sales in 2009 and 2010. Sales in 2008 totaled approximately \$ 5,940 thousand and derived from sale of DOS rights to Presidio.

Gross profit

The Company had no gross profit in 2009 and 2010. The gross profit in 2008 totaled approximately \$ 4,099 thousand and derived from sale of DOS rights to Presidio, as explained in the item sales above.

Research and development expenses

Research and development expenses in 2010 totaled approximately \$ 64 thousand and substantially derived from expenses involved in the implementation of the EPO drug Phase 2 clinical trial development plan designed to treat cancer patients with multiple myeloma comprising, among others, costs in connection with medical regulation, patent registration costs, medical consulting costs and amortization expenses of the exclusive right to examine a medical technology in the field of the immune system. The Group had no research and development expenses in 2009 because the clinical trial of Bicifadine was terminated in November 2008 (see also Note 9c to the financial statements). Research and development expenses in 2008 totaled approximately \$ 11,722 thousand comprising principally expenses involved in the Phase 2b clinical trial of Bicifadine until the Company announced that it had not met its endpoints and, therefore, it was terminated (November 2008).

General and administrative expenses

General and administrative expenses in 2010 totaled approximately \$ 1,222 thousand, compared to general and administrative income (decrease in expenses) of approximately \$ 2,429 thousand in 2009 and expenses of approximately \$ 3,937 thousand in 2008. The increase in general and administrative expenses in 2010 compared to 2009 and the decrease in general and administrative expenses in 2009 compared to 2008 were due mainly to the following reasons:

During 2009, the Company recorded a decrease in general and administrative expenses after expenses from previous years in respect of options of the former chairman and former CEO of the Company were reversed because the terms of the options that were contingent on the performance were not met. The effect of the options which were forfeited immediately after their departure amounted to approximately \$ 4.1 million. General and administrative expenses in 2009 less the effect of the reverse of expenses in respect of options of the former chairman and former CEO of the Company totaled approximately \$ 1,672 thousand, compared to approximately \$ 1,222 thousand in 2010, a decrease of approximately \$ 450 thousand (27%) which mainly arises from the decrease in salary expenses following downsizing steps in the Company in 2009, decrease in office rent expenses (terminating the U.S. office lease contract, changing the Israeli offices while reducing office space) and decrease in the Company's operating expenses as part of the reorganization plan performed by the Company immediately after announcing the failure to achieve the Bicifadine drug clinical trial targets at the end of 2008.

The decrease in salary expenses due to downsizing steps (including in respect of options to employees and service providers and the effect of reverse of expenses, as above) and the decrease in the Company's operating expenses as part of that reorganization plan effected by the Company at the end of 2008 led to a decrease in general and administrative expenses in 2009, compared to 2008.

Other gains (losses)

The Company derived other gains in 2010 of approximately \$ 30 thousand which originated from reduced trade payables provisions of foreign subsidiaries from previous years. The Company derived other gains in 2009 of approximately \$ 139 thousand which originated from agreements entered into with different suppliers in respect of activity in previous years, among others, in respect of the clinical trial of Bicifadine (see Notes 14b(1) to the financial statements). The Company derived other gains in 2008 of approximately \$ 288 thousand which originated from sale of property, plant and equipment. The Group also recorded a loss of \$ 7,500 thousand on impairment of intangible asset (patent), representing the development rights to the Bicifadine because the results of Phase 2b clinical trial of Bicifadine for diabetic neuropathic pain testified that the therapeutic did not meet its endpoints and, therefore, the development activity was terminated (see Note 9c to the financial statements).

Finance expenses

Finance expenses in 2010 totaled approximately \$ 1 thousand and they derived mainly from bank commissions less income on net exchange differences from appreciation of the NIS in relation to the dollar. Finance expenses in 2009 totaled approximately \$ 4 thousand. Finance income in 2008 totaled approximately \$ 314 thousand and it derived mainly from interest income on short-term bank deposits.

Taxes on income

The Company had no tax expenses/income in 2010. The tax benefit in 2009 totaled approximately \$ 23 thousand and it originated from offsetting tax paid by a U.S. subsidiary in previous years against current losses based on regulations published in the U.S. in November 2009 according to which tax paid in previous years may be credited (limited to 5 years) against current losses. The Company had no current tax expenses in 2009 although it presented net income in the year because the net income originated from reverse of expenses from previous years of options which are not deductible for tax purposes.

Further, the Company did not recognize deferred taxes for carryforward losses and current expenses in the reporting year because income and gain are not probable as the Company is a research and development company. The Group's tax income in 2008 totaled approximately \$ 31 thousand originating also from utilization of current losses of U.S. subsidiaries against tax paid in previous years under the law in these jurisdictions.

Comprehensive net income (loss) for the period

Loss in 2010 totaled approximately \$ 1,257 thousand, compared to net income of \$ 2,587 thousand in 2009 and comprehensive loss of approximately \$ 18,427 thousand in 2008. The change in 2010 and 2009 is basically explained by reverse of expenses (decrease of expenses) in a total of approximately \$ 4.1 million which was recorded in 2009 in respect of expenses from previous years of options that were contingent on the performance of the former chairman and CEO of the Company following the non-fulfillment of the option terms and their forfeiture after their departure, which led to offsetting current general and administrative expenses and recording a gain (see also explanation in the item on general and administrative expenses above). Loss in 2009, after the neutralization of the effect of the reversal of the options totaled approximately \$ 1,514 thousand, compared to a loss of approximately \$ 1,257 thousand in 2010. The change arises from reducing current expenses and general streamlining measures expressed by downsizing in keeping with the reorganization plan effected by the Company at the end of 2008, as explained above.

The decrease in loss (increase in income) in 2009 compared to 2008 is mainly a result of reverse of expenses from previous years of options in a total of approximately \$ 4.1 million which reduced general and administrative expenses, of discontinuing research and development of the Bicifadine compound in November 2008 after the clinical trial failed to meet its endpoints thus reducing and even cutting research and development expenses as well as of the efficiency in current general and administrative expenses in furtherance to the reorganization plan effected by the Company, as explained above.

Basic and diluted loss per share in 2010 amounted to approximately \$ 0.011 per share, compared to basic and diluted earnings per share of approximately \$ 0.044 per share and basic and diluted loss per share of approximately \$ 0.315 per share in 2009 and 2008, respectively.

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1.2.3

Cash flows

Cash flows used in operating activities in 2010 totaled approximately \$ 735 thousand, compared to \$ 2,488 thousand and \$ 10,578 thousand in 2009 and 2008, respectively. The main decrease in the cash flows from operating activities in 2010 compared to 2009 is a result of the Group's efficiency measures as part of the reorganization plan effected by the Company at the end of 2008 which continued also in 2009 as well as reducing the activity until the date of closing the Bio-Gal transaction on August 3, 2010 (see also explanation in the item on general and administrative expenses above).

The decrease in cash flows from operating activities in 2009 compared to 2008 derived from discontinuing the clinical trial of Bicifadine which led to cutting down and discontinuing the Group's research and development expenses and from cutting down general and administrative expenses in furtherance to the reorganization effected by the Company.

Cash flows used in investing activities in 2010 totaled approximately \$ 103 thousand, compared to cash flows used in investing activities of \$ 24 thousand in 2009 and cash flows provided by investing activities of approximately \$ 10,915 thousand in 2008. The main increase in the cash flows used in investing activities in 2010 compared to 2009 is a result of purchase of property, plant and equipment and payment for the Bio-Gal transaction costs. The positive cash flows from investing activities in 2008 mainly stems from withdrawal of short-term bank deposits and sale of property, plant and equipment.

Cash flows provided by financing activities in 2010 totaled approximately \$ 1,480 thousand and they mainly stem from the issuance of shares under the Bio-Gal transaction of approximately \$ 1,473 thousand (see Note 1b to the financial statements). The Company had no financing activities in 2009. Cash flows provided by financing activities in 2008 totaled approximately \$ 210 thousand and they mainly stem from refund of stamp duty paid in 2004 for share issuance and exercise of share options.

1.2.4 Emphasis of matter in the Company's auditor's report

"Without qualifying our opinion, we draw your attention to note 1c of the consolidated financial statements, which addresses that during the period ended on December 31, 2010, the Company had a loss in the amount of 1.3 million USD and a negative cash flow from operating activities of 0.75 millions USD. The Company has no revenues from operations at this stage and funds its operations from its own capital and from external sources by way of issuing equity instruments. In March 2011, the Company raised 1.75 million USD; net (approximately 6.3 million NIS) by issuing shares and warrants by way of a public offering. Company's management estimates that the remaining cash and cash equivalent balances including the proceeds from the offering will enable the Company to continue operating for a period of approximately 18 months from the date of the statement of financial position. Nevertheless, since the Company has no cash flows from operations and due to the nature of the Company's activity as a research and development company, there is substantial doubt regarding the Company's ability to continue operating as a "going concern" beyond this period. These financial statements include no adjustments of the values of assets and liabilities and the classification thereof, if any, that will apply if the Company is unable to continue operating as a "going concern"."

1.2.5 Financing resources

The Group finances its activity using equity and suppliers' credit. As of December 31, 2010, the Group's balance of cash and cash equivalents (as well as short-term restricted deposits) amounted to approximately \$ 1,112 thousand. Further, after the reporting date, the Company raised by issuance of shares and share options a net amount of approximately \$ 1.75 million (approximately NIS 6.3 million) (see 4.1 below).

2. PART 2 - EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

2.1 Exposure to market risks and their management

- a. The person responsible for managing market risks in the Group is Mr. Ronen Twito, the Company's CFO.
- b. Description of the market risks to which the Group is exposed - the Group's activities expose it to a variety of market risks including the changes in the exchange rates of the NIS in relation to the dollar, because the Company's functional currency is the dollar and substantially all of its expenses are denominated in dollar and the effect of the crisis in the financial markets.
- c. The policy of the Group in managing market risks - the Group accepted the Board's decision from November 24, 2010 according to which the Company's cash is held in dollars except the amount to settle NIS-denominated liabilities for the subsequent three months. After the reporting date and in furtherance to the capital raising effected by the Company on March 7, 2011 (see 4.1 below), on March 29, 2011, the Company's Board decided to hold the Company's cash in dollars, except the amount to cover NIS-denominated liabilities until the end of 2011.
- d. Supervision of risk management policy - the Group identifies and assesses the principal risks facing it. The financial risks management is performed by the Group subject to the policy approved by the Group's Board and management.

2.1.1

Exchange rate risk

Substantially all of the Company's expenses are denominated in dollars against which the Company holds its available liquid resources in or linked to dollars. Nevertheless, some of the Company's expenses are denominated in NIS, which exposes the Company to changes in the exchange rate of the NIS in relation to the dollar. The Company acts to minimize the currency risk by holding part of its liquid resources in NIS up to the amount of Company's management anticipation of the NIS liabilities.

In order to hedge itself against economic exposure, which does not contradict the accounting exposure, the Company holds substantially all of its current assets in or linked to foreign currency.

2.1.2 Risks arising from changes in the economic environment and the global financial crisis

The Company's management estimates that the global financial crisis and the security events, the recent restless in Arab countries in the Middle East and the latest events in Japan may have a negative impact on the Group's ability to raise funds in order to finance its plans and developments (see Note 1c to the financial statements).

The Company's investment policy is to invest only in bank deposits and, accordingly, it is not exposed to changes in the market prices of quoted securities.

Currently the Company has no sales and it does not expect sales in the foreseeable future.

2.2

Report of linkage basis

Linkage basis of balance sheet items as of December 31, 2010:

	U.S.\$	NIS	Other currencies \$000	Non- monetary	Total
Assets:					
Cash and cash equivalents	853	210	3	-	1,066
Accounts receivable	-	53	-	57	110
Restricted deposits	25	21	-	-	46
	878	284	3	57	1,222
Liabilities:					
Trade payables	161	39	3	-	203
Other accounts payable	406	354	-	-	760
	567	393	3	-	963
Monetary assets less monetary liabilities	311	(109)	-	57	259

Linkage basis of balance sheet items as of December 31, 2009:

	U.S.\$	NIS	Other currencies \$000	Non- monetary	Total
Assets:					