XTL BIOPHARMACEUTICALS LTD
Form 20-F
June 30, 2010

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

FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

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

OR

¨ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____.

Commission file number: 000-51310

XTL BIOPHARMACEUTICALS LTD.
(Exact name of registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

David Grossman
Chief Executive Officer
Kiryat Weizmann Science Park
3 Hasapir Street, Building 3, PO Box 370
Rehovot 76100, Israel
Tel: +972-3-612-7011
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

American Depositary Shares, each representing two Ordinary Shares, par value NIS 0.1	None
(Title of Class)	(Name of each exchange on which registered)

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

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

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

11,913,805 American Depositary Shares	58,561,065 Ordinary Shares

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

Yes ¨ No x

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

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes ¨ No x

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

¨ U.S. GAAP	x International Financial Reporting Standards as issued by the International Accounting Standards Board	¨ Other

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No x

XTL BIOPHARMACEUTICALS LTD.
ANNUAL REPORT ON FORM 20-F

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

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

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

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

Selected Financial Data

The tables below present selected financial data for the fiscal years ended as of December 31, 2009, 2008, 2007, 2006 and 2005. We have derived the selected financial data for the fiscal years ended December 31, 2009, 2008 and 2007, from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Until 2009, we have presented our financial statements using the accounting standards and principles as set forth under United States Generally Accepted Accounting Principles ("US GAAP"). For 2009, we prepared our first set of consolidated financial statements in accordance with IFRS, effective January 1, 2007. The selected financial data for the fiscal years ended as of December 31, 2009, 2008 and 2007 are presented in accordance with IFRS. The selected financial data for the fiscal years ended as of December 31, 2006 and 2005 are presented in accordance with US GAAP and have been derived from our consolidated financial statements that are not included in this annual report. The information presented below in IFRS for the fiscal years ending 2009, 2008 and 2007 is not comparable to the information presented in US GAAP for the fiscal years ending 2006 and 2005. You should read the selected financial data in conjunction with “Item 5. Operating and Financial Review and Prospects,” “Item 8. Financial Information” and “Item 18. Financial Statements.”

In accordance with IFRS:

Consolidated Statements of Comprehensive income:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands (except per share data)		
Revenues	-	5,940	907
Cost of revenues	-	1,841	110
Gross profit	-	4,099	797
Research and development costs	-	11,722	11,500
General and administrative expenses (income)	(2,429)*)	3,937	7,596
Impairment loss of intangible asset	-	7,500	-
Other gains (losses), net	139	288	(8)
Operating income (loss)	2,568	(18,772)	(18,307)
Finance income	6	331	668
Finance costs	10	17	30
Financial income (costs), net	(4)	314	638
Income (loss) before taxes on income	2,564	(18,458)	(17,669)
tax benefit	(23)	(31)	(206)
Net income (loss) for the year attributable to equity holders of the parent	2,587	(18,427)	(17,463)
Basic and diluted earnings (loss) per share (in U.S. dollars) **)	0.044	(0.315)	(0.382)
Weighted average number of issued ordinary shares **)	58,561,065	58,553,864	45,698,564

*) Including reduced expenses which result from forfeiture of shares that were contingent on the performance of the former chairman and CEO, see also Note 16b to the financial statements.

**) After taking into account the capital consolidation effected on June 22, 2009 (see note 16a(2) to the financial statements).

Consolidated Statements of Financial Position Data:

	As of December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Cash, cash equivalents, bank deposits and trading and marketable securities	412	2,924	12,977
Working capital	(151)	1,433	8,532
Total assets	715	3,402	23,378
Long term obligations	-	-	131
Total shareholders' equity	7	1,474	17,878

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In accordance with US GAAP:

Statements of Operations Data:

	Year ended December 31,	
	2006	2005
	U.S. dollars in thousands (except per share data)	
Revenues:		
Reimbursed out-of-pocket expenses	-	2,743
License	454	454
	454	3,197
Cost of revenues:		
Reimbursed out-of-pocket expenses	-	2,743
License	54	54
	54	2,797
Gross profit	400	400
Research and development	10,229	7,313
In-process research and development	-	1,783
General and administrative expenses	5,576	5,457
Business development costs	641	227
Operating loss	(16,046)	(14,380)
Financial and other income, net	1,141	443
Income taxes	(227)	(78)
Loss for the period	(15,132)	(14,015)
Basic and diluted loss per share (in U.S. dollars) **)	(0.375)	(0.412)
Weighted average number of issued ordinary shares **)	40,347,459	34,024,601

**) After taking into account the capital consolidation effected on June 22, 2009 (see note 16a(2) to the financial statements).

Balance Sheet Data:

	As of December 31,	
	2006	2005
	U.S. dollars in thousands	
Cash, cash equivalents, bank deposits and trading and marketable securities	25,347	13,360
Working capital	22,694	11,385
Total assets	26,900	15,151
Long term obligations	738	1,493
Total shareholders' equity	22,760	11,252

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Acquisition of the use patent on Erythropoietin

On March 18, 2009, we entered into an asset purchase agreement with Bio-Gal Ltd. (hereinafter "Bio-Gal"), a private company, for the rights to a use patent on Recombinant Erythropoietin, or rHuEPO, for the treatment of multiple myeloma, or MM. On December 31, 2009, we amended the asset purchase agreement with Bio-Gal, so that XTL shall acquire all the issued and outstanding share capital of XTEPO Ltd. (a special purpose company that was established by Bio-Gal's shareholders who also transferred Bio-Gal's intellectual property rights on rHuEPO and will raise by way of a private placement approximately $1.5 million) (hereinafter "XTEPO"). We intend to develop rHuEPO for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. The course of the disease is progressive, and various complications occur, until death. In the United States alone, there are approximately 56,000 people living with MM, with about 20,000 new cases diagnosed annually, making MM the second most prevalent blood cancer.

In accordance with the terms of the amended asset purchase agreement, we will issue to XTEPO's shareholders approximately 133 million ordinary shares representing 69.44% of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda Research and Development Company Ltd. ("Yeda") upon the earlier of (i) six months from the successful completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO of a minimum amount of $2 million at any time after the completion of the Phase 2. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement, of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010.

Risk Factors

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

Risks Related to Our Business

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

You should consider our prospects in light of the risks and difficulties frequently encountered by development stage companies. We have incurred operating losses since our inception and expect to continue to incur operating losses for the foreseeable future. As of December 31, 2009, we had an accumulated deficit of approximately $141.2 million. We have not yet commercialized any of our drug candidates or technologies and cannot be sure we will ever be able to do so. Even if we commercialize one or more of our drug candidates or technologies, we may not become profitable. Our ability to achieve profitability depends on a number of factors, including our ability to complete our development efforts, consummate out-licensing agreements, obtain regulatory approval for our drug candidates and technologies and successfully commercialize them.

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

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

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

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

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

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

- difficulty in establishing or managing relationships with clinical research organizations and physicians;
- different standards for the conduct of clinical trials and/or health care reimbursement;
- our inability to locate qualified local consultants, physicians, and partners;
- the potential burden of complying with a variety of foreign laws, medical standards and regulatory requirements, including the regulation of pharmaceutical products and treatment; and
- general geopolitical risks, such as political and economic instability, and changes in diplomatic and trade relations.

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

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

Our drug candidates and technologies are either in preclinical or clinical stages. Specifically, subject to the completion of the Bio-Gal transaction (See "Item 10. Additional Information – Material Contracts"), our lead product candidate, Recombinant Erythropoietin (rHuEPO), is planned for a Phase 1-2 clinical program and the Diversity Oriented Synthesis, or DOS program has not yet been tested in humans. In order for our candidates to proceed to later stage clinical testing, they must show positive clinical or preclinical data. While Recombinant Erythropoietin (rHuEPO) has shown promising preclinical data and has also shown promising clinical observation data for the extension and improvement of the quality of life of Multiple Myeloma terminal patients prior to it being acquired by us, preliminary results of pre-clinical, clinical observations or clinical tests do not necessarily predict the final results, and promising results in pre-clinical, clinical observations or early clinical testing might not be obtained in later clinical trials. Drug candidates in the later stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. Any negative results from future tests may prevent us from

proceeding to later stage clinical testing, which would materially impact our corporate strategy and our financial results may be adversely impacted.

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

We have not received, and may never receive, regulatory approval for commercial sale for any of our products. We currently do not have any drug candidates or technologies pending approval with the FDA or with regulatory authorities of other countries. We will need to conduct significant additional research and human testing before we can apply for product approval with the FDA or with regulatory authorities of other countries. In order to obtain FDA approval to market a new drug product, we or our potential partners must demonstrate proof of safety and efficacy in humans. To meet these requirements, we or our potential partners will have to conduct extensive pre-clinical testing and "adequate and well-controlled" clinical trials.

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

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

Following the completion of a clinical trial, regulators may not interpret data obtained from pre-clinical and clinical tests of our drug candidates and technologies the same way that we do, which could delay, limit or prevent our receipt of regulatory approval. In addition, the designs of our ongoing clinical trials were not, and the designs of future clinical trials may not be, reviewed or approved by the FDA prior to their commencement, and consequently the FDA could determine that the parameters of any existing or future studies are insufficient to demonstrate proof of safety and efficacy in humans. Failure to approve a completed study could also result from several other factors, including unforeseen safety issues, the determination of dosing, low rates of patient recruitment, the inability to monitor patients adequately during or after treatment, the inability or unwillingness of medical investigators to follow our clinical protocols, and the lack of effectiveness of the trials.

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

If the clinical trials fail to satisfy the criteria required, the FDA and/or other regulatory agencies/authorities may request additional information, including additional clinical data, before approval of marketing a product. Negative or inconclusive results or medical events during a clinical trial could also cause us to delay or terminate our development efforts. If we experience delays in the testing or approval process, or if we need to perform more or larger clinical trials than originally planned, our financial results and the commercial prospects for our drug candidates and technologies may be materially impaired.

Clinical trials have a high risk of failure. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in clinical trials, even after achieving promising results in earlier trials. It may take us many years to complete the testing of our drug candidates and technologies, and failure can occur at any stage of this process.

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

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

We do not own all of our drug candidates and technologies. We have acquired and/or licensed the rights, patent or otherwise, to our drug candidates from third parties. Specifically, we have acquired (through the acquisition of XTEPO and subject to the completion of the transaction, See "Item 10. Additional Information – Material Contracts"), the use patent on Recombinant Erythropoietin (rHuEPO) for the prolongation of multiple myeloma patients' survival and improvement of their quality of life from Bio-Gal Ltd., who in turn licensed it from Mor Research Applications Ltd. and Yeda, both Israeli private corporations, and we have licensed DOS from VivoQuest, Inc. These license agreements require us to meet development or financing milestones and impose development and commercialization due diligence requirements on us. In addition, under these agreements, we must pay royalties on sales of products resulting from licensed drugs and technologies and pay the patent filing, prosecution and maintenance costs related to the licenses. While we have the right to defend patent rights related to our licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent rights, we will be obligated to cover all of the expenses associated with that effort. If we do not meet our obligations in a timely manner or if we otherwise breach the terms of our agreements, our licensors could terminate the agreements, and we would lose the rights to our drug candidates and technologies. From time to time, in the ordinary course of business, we may have disagreements with our licensors or collaborators regarding the terms of our agreements or ownership of proprietary rights, which could lead to delays in the research, development, collaboration and commercialization of our drug candidates or could require or result in litigation or arbitration, which could be time-consuming and expensive. For a further discussion on our license agreements, the patent rights related to those licenses, and the expiration dates of those patent rights, see "Item 4. Information on the Company - Business Overview - Intellectual Property and Patents" and "Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations," below.

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

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

- assist us in developing, testing and obtaining regulatory approval for some of our compounds and technologies;
- manufacture our drug candidates; and
- market and distribute our products.

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

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

Even if we or our collaborative/strategic partners or potential collaborative/strategic partners receive approval to market our drug candidates, if our products fail to achieve market acceptance, we will never record meaningful revenues.

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

- perceptions by members of the health care community, including physicians, of the safety and efficacy of our products;
- the rates of adoption of our products by medical practitioners and the target populations for our products;
- the potential advantages that our products offer over existing treatment methods or other products that may be developed;
- the cost-effectiveness of our products relative to competing products including potential generic competition;
- the level of off-label use of rHuEPO;
- the availability of government or third-party payor reimbursement for our products;

- the side effects or unfavorable publicity concerning our products or similar products; and
- the effectiveness of our and/or partners' sales, marketing and distribution efforts.

Specifically, (subject to the completion of Bio-Gal transaction) Recombinant Erythropoietin (rHuEPO), if successfully developed and commercially launched for the treatment of multiple myeloma, will compete with both currently marketed and new products marketed by other companies. Health care providers may not accept or utilize any of our product candidates. Physicians and other prescribers may not be inclined to prescribe our products unless our products bring clear and demonstrable advantages over other products currently marketed for the same indications. Because we expect sales of our products to generate substantially all of our revenues in the long-term, the failure of our products to find market acceptance would harm our business and could require us to seek additional financing or other sources of revenue.

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

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

We believe that we will either be able to purchase Recombinant Erythropoietin (rHuEPO) from existing pharmaceutical companies or to enter into collaborative agreements with contract manufacturers or other third-parties to obtain sufficient inventory to satisfy the clinical supply needs for our planned Phase 1-2 development program for the treatment of multiple myeloma. If our contract manufacturers or other third parties fail to deliver our product candidates for clinical use on a timely basis, with sufficient quality, and at commercially reasonable prices, and we fail to find replacement manufacturers or sources, we may be required to delay or suspend clinical trials or otherwise discontinue development and production of our drug candidates.

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

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

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

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

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

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

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

As of June 28, 2010, we had 3 full-time employees. To successfully develop our drug candidates and technologies, we must be able to attract and retain highly skilled personnel, including consultants and employees. The retention of their services cannot be guaranteed.

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

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

Specifically, as per the terms of our amended agreement with Bio-Gal Ltd. and XTEPO, we will be issuing approximately 133 million ordinary shares par value NIS 0.10. representing 69.44% of our then issued and outstanding ordinary share capital. It should be noted that the closing of the transaction is still subject to closing conditions that may not occur. (see “Item 4. Information on the Company - Business Overview - Intellectual Property and Patents” and “Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations,” below).

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

- difficulty and expense of assimilating the operations, technology or personnel of the business;

- our inability to attract and retain management, key personnel and other employees necessary to conduct the business;

- our inability to maintain relationships with key third parties, such as alliance partners, associated with the business;

- exposure to legal claims for activities of the business prior to the acquisition;

- the diversion of our management's attention from our core business; and

- the potential impairment of substantial goodwill and write-off of in-process research and development costs, adversely affecting our reported results of operations.

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

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

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

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

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

- decreased demand for a product;

- injury to our reputation;

- inability to continue to develop a drug candidate or technology;

- withdrawal of clinical trial volunteers; and

- loss of revenues.

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

Risks Related to Our Financial Condition

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

We expect to use, rather than generate, funds from operations for the foreseeable future. Based on our current business plan and forecast, if we do not complete the Bio-Gal transaction or raise capital in the upcoming weeks, we will not be able to continue our operations as a going concern. Our current cash, cash equivalents and bank deposits, will provide us with sufficient resources to fund our operations through the upcoming weeks. Subject to the completion of the Bio-Gal transaction, we shall receive approximately $1.5 million through XTEPO (See “Item 10. Additional Information – Material Contracts”).

Additionally, our business depends on a number of factors, some of which are beyond our control. These factors include:

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

We will likely seek additional capital (excluding the funds from the Bio-Gal transaction) during the next couple of months through a rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount or method of any such financing. The global capital markets have been experiencing extreme volatility and disruption for more than twenty four months. In recent months, the volatility and disruption has increased mainly due to the financial instability and debt of some European countries. Given recent particularly adverse market conditions for small biotechnology companies, additional financing may not be available to us when we need it. We may also be forced to delay raising capital or bear an unattractive cost of capital. If we are unable to obtain additional funds on terms favorable to us or at all, we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our technology. If we raise additional funds by selling ordinary shares, ADRs, or other securities, the ownership interests of our shareholders will be diluted. If we need to raise additional funds through the sale or license of our drug candidates or technology, we may be unable to do so on terms favorable to us or at all. If we are not able to raise capital in a timely manner, there is a material risk regarding our ability to continue as a going concern.

We may not be able to utilize our accumulated net losses owned by the Company in Israel and/or offsetting the tax liability of the Subsidiaries

We have had a “permanent establishment” in the United States, or US, which began in 2005 and ended in 2009 due to the residency of the former Chairman of our Board of Directors and our former Chief Executive Officer in the US, as well as other less significant contacts that we have had with the US. As a result, any income attributable to such US permanent establishment for the years 2005-2009 was subject to US corporate income tax in the same manner as if we were a US corporation. If this is the case, we may not be able to utilize any of the accumulated Israeli loss carryforwards mentioned in our notes to the 2009 financial statements since these losses were not attributable to the US permanent establishment. However, we would be able to utilize losses attributable to the US permanent establishment to offset such US taxable income. As of December 31, 2009, we estimate that these US net operating loss carryforwards are approximately $23 million. These losses can be carried forward to offset future US taxable income, subject to certain limitations due to the shifts in ownership of XTL, that may result from the Bio-Gal transaction (See “Item 10. Additional Information – Material Contracts”) and subject to further limitations in case of a future offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, and expiring through 2029 . US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations. Currently we do not have any activity in the US subsidiaries. However, if the subsidiaries commence operations in the

future, they will be subject to the tax rules mentioned above.

Risks Related to Our Intellectual Property

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

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

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

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

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

Subject to the completion of the Bio Gal transaction (See "Item 10. Additional Information – Material Contracts") we plan to pursue patent protection in the US and in certain foreign countries relating to our development and commercialization of Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. A main use patent (United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer") was submitted by Mor Research Applications Ltd., an Israeli corporation and Yeda Research and Development Company Ltd., an Israeli corporation, in April 1998 and PCT was filed in April 1999. The patent was granted in the United States, certain countries in Western Europe, Israel, Japan, and Hong Kong. A patent application is pending in Canada. Currently, under the license agreement which is

held by XTEPO, we will have exclusive worldwide rights to the above patent for the use of Recombinant Erythropoietin ("rHuEPO") in multiple myeloma. See "Item 4. Information on the Company – Business Overview - Intellectual Property and Patents." However, we cannot guarantee the scope of protection of any issued patents, or that such patents will survive a validity or enforceability challenge, or that any pending patent applications will issue as patents.

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

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

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

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

Risks Related to Our Ordinary Shares and ADRs

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

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

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

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

- developments concerning our drug candidates;
- announcements of technological innovations by us or our competitors;
- introductions or announcements of new products by us or our competitors;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- actual or anticipated variations in interim operating results and near-term working capital;
- expiration or termination of licenses, research contracts or other collaboration agreements;
- conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;
- changes in the market valuations of similar companies; and
- additions or departures of key personnel.

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

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

Future issuances of a substantial number of our ordinary shares, or the perception by the market that those issuances could occur, could cause the market price of our ordinary shares or ADRs to decline or could make it more difficult for us to raise funds through the sale of equity in the future.

Based on our current business plan and forecast, if we do not complete the Bio-Gal transaction or raise capital in the upcoming weeks, we will not be able to continue our operations as a going concern. Our current cash, cash equivalents and bank deposits, will provide us with sufficient resources to fund our operations through the upcoming weeks. However, subject to the completion of the Bio-Gal transaction, we will receive approximately $1.5 million through XTEPO (See "Item 10. Additional Information – Material Contracts").

Also, if we make one or more significant acquisitions in which the consideration includes ordinary shares or other securities, your portion of shareholders' equity in us may be significantly diluted. In addition, pursuant to a license agreement with VivoQuest, Inc., or VivoQuest, a privately held biotechnology company based in the US, we licensed (in all fields of use) certain intellectual property and technology related to VivoQuest's HCV program. Pursuant to the license agreement, we may elect to issue up to an additional $34 million in ordinary shares to VivoQuest in lieu of cash upon achievement of certain milestones. In the future, we may also enter into additional arrangements with other third-parties permitting us to issue ordinary shares in lieu of certain cash payments.

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

To date, we do not know of any shareholders holding 5% or more, which is the limit that requires reporting by the Israeli law.
However, following the closing of the XTEPO transaction, XTEPO's stockholders and their affiliates will hold approximately 70% (including their holdings prior to the Bio-GAL transaction) of our then outstanding ordinary shares. As a result, these persons/companies, either acting alone or together, may have the ability to significantly influence the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons/companies, acting alone or together, may have the ability to effectively control our management and affairs. Accordingly, this concentration of ownership may depress the market price of our ADRs or ordinary shares.

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

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

Our ADRs are quoted on the Pink Sheets market, which may result in them being classified as "Penny Stock".

Our ADRs may become subject to the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell our securities. If our ADRs were considered penny stock, the ability of broker-dealers to sell our ADRs and the ability of our shareholders to sell their ADRs in the secondary market would be limited and, as a result, the market liquidity for our ADRs would be adversely affected. We cannot assure you that trading in our securities will not be subject to these or other regulations in the future.

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

There is a risk that we will be classified as a passive foreign investment company, or PFIC, for certain tax years. If we are classified as a PFIC, a US holder of our ordinary shares or ADRs representing our ordinary shares will be subject to special federal income tax rules that determine the amount of federal income tax imposed on income derived with respect to the PFIC shares. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income in a tax year is at least 50%. The risk that we will be classified as a PFIC arises because cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income and the relative values of passive and non-passive assets, including goodwill. A determination as to a corporation’s status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable year ended December 31, 2008. However, we believe that we were a PFIC for the taxable years ended December 31, 2006 and 2007. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2009 taxable year and possibly in subsequent years. Although we may not be a PFIC in any one year, the PFIC taint remains with respect to those years in which we were or are a PFIC and the special PFIC taxation regime will continue to apply.

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

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

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

Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser's shareholdings would entitle the purchaser to over 45% of the shares in the company, unless there is a shareholder with 45% or more of the shares in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received the approval of the company's shareholders; (2) was from a 25% or greater shareholder of the company which resulted in the purchaser becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. These rules do not apply if the acquisition is made by way of a merger.

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

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

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

notice to them. The depositary will try, as far as is practical, subject to the provisions of the deposit agreement, to vote the shares as our ADR holders instruct. The depositary will not vote or attempt to exercise the right to vote other than in accordance with the instructions of the ADR holders. We cannot assure our ADR holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their shares. In addition, there may be other circumstances in which our ADR holders may not be able to exercise voting rights.

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

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

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

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

Risks Relating to Operations in Israel

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

Our headquarters and some of our planned clinical sites and suppliers are located in Israel. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest, military conflicts and terrorist actions. There has been a significant increase in violence since September 2000, which has continued with varying levels of severity through to the present. This state of hostility has caused security and economic problems for Israel. To date, Israel is facing political tension in its relationships with Turkey, Iran and other Arab neighbor countries. We cannot insure that the political and security situation will not impact our business,. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital.

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

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

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

We have generated all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. Until 2008, substantial amount of our operating expenses were in US dollars (approximately 96% in 2008). Commencing from 2009 (after the failure of the Bicifadine clinical trial) the Company's head office moved back to Israel and thus the portion of our expenses in New Israeli Shekels ("NIS") has increased, mainly due to payment to Israeli employees and suppliers. Additionally, our future activities could lead us to perform a clinical trial in Israel, which may lead us to reassess the US Dollar as our functional currency. As a result, we could be exposed to the risk that the US dollar will be devalued against the NIS or other currencies, and consequentially our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may decide in the future to hold portion of our cash, cash equivalents, bank deposits and marketable securities in NIS, as well as to enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the US dollar or that the timing of any devaluation may lag behind inflation in Israel.

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

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

ITEM 4. INFORMATION ON THE COMPANY

History and Development of XTL

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, currently (subject to the completion of the Bio Gal transaction) for the treatment of multiple myeloma, or MM, and hepatitis C. Our lead compound is Recombinant Erythropoietin, or rHuEPO, a known compound that we are planning to develop for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. The course of the disease is progressive, and various complications occur, until death. This devastating disease affects the bone marrow, bones, kidneys, heart and other vital organs. It is characterized by pain, recurrent infections, anemia and pathological fractures. In the course of the disease, many patients become gradually disabled and bed-ridden. The median duration of survival with chemotherapy and other novel treatments is about five years. Most of these treatments have severe side effects.

We have signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., a private biotechnology company based in Gibraltar, in March 2009. In December 2009, we amended the asset purchase agreement with Bio-Gal Ltd., so that XTL shall acquire from the shareholders of XTEPO Ltd. ("XTEPO"; a special purpose company that was established by Bio-Gal Ltd.'s shareholders who shall receive from Bio-Gal all of Bio-Gal's right on rHuEPO and raised approximately $1.5 million) all of their shares in XTEPO in exchange for the issuance to XTEPO's shareholders of ordinary shares of XTL representing approximately 69.44% of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the success of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the Successful Completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of Phase 2 of an amount of minimum $2 million. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010.

Our second program is the Diversity Oriented Synthesis program, or DOS, which is focused on the development of novel pre-clinical hepatitis C small molecule inhibitors, which we had out-licensed to Presidio Pharmaceuticals, Inc., or Presidio, a private specialty pharmaceutical company based in San Francisco, California, in 2008. Hepatitis C virus (HCV) infection is a major cause of chronic hepatitis, liver cirrhosis and hepatocellular carcinoma. Approximately 170 million people are believed to be infected with HCV worldwide, and an estimated 12,000 deaths from liver disease occur each year in the United States due to HCV infection.

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

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

In January 2007, XTL Development, Inc., our wholly owned subsidiary ("XTL Development"), had signed an agreement with DOV Pharmaceutical, Inc. ("DOV"), to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI) ("the Bicifadine transaction"). XTL Development was developing Bicifadine for the treatment of diabetic neuropathic pain - a chronic condition resulting from damage to peripheral nerves. In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain, and all rights under the agreement reverted to DOV. Since the failure of the Bicifadine phase 2b clinical trial, XTL Development has ceased the prosecution and maintenance of those patents relating to Bicifadine, in coordination with DOV. In March 2010, the agreement was formally terminated.

In 2008, we signed an agreement to out-license the DOS program to Presidio Pharmaceuticals, Inc., or Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. In addition, we will receive royalties on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party.

Our ADRs are quoted on the Pink Sheets, an inter-dealer electronic quotation and trading system in the over-the-counter (OTC) securities market, under the symbol “XTLBY.PK”. Our ordinary shares are traded on the Tel Aviv Stock Exchange under the symbol “XTL”. We operate under the laws of the State of Israel, under the Israeli Companies Act, and in the US, the Securities Act and the Exchange Act.

Our principal offices are located at Kiryat Weizmann Science Park, 3 Hasapir Street, Building 3, PO Box 370 Rehovot 76100, Israel, and our telephone number is +972-3-612-7011. XTL Biopharmaceuticals, Inc., our wholly-owned US subsidiary and agent for service of process in the US, can be reached at XTL Biopharmaceuticals, Inc., c/o Corporation Trust Company, Corporation Trust Center, 1209 N. Orange Street, Wilmington, Delaware 19801, or by telephone at (800) 677-3394. Our primary internet address is www.xtlbio.com. None of the information on our website is incorporated by reference into this annual report.

On November 20, 2007, we completed a private placement of 14,497,004 NIS 0.1 par value ordinary shares (equivalent to 7,248,502 ADRs) at $0.675 per ordinary share (equivalent to $1.35 per ADR). Total proceeds to us from this private placement were approximately $8.8 million, net of offering expenses of approximately $1.0 million. In addition, on March 22, 2006, we completed a private placement of 9,333,334 NIS 0.1 par value ordinary shares (equivalent to 4,666,667 ADRs) at $3.00 per share ($6.00 per ADR), together with warrants for the purchase of an aggregate of 4,666,667 ordinary shares (equivalent to 2,333,333.5 ADRs) at an exercise price of $4.375 ($8.75 per ADR). Total proceeds to us from this private placement were approximately $24.4 million, net of offering expenses of approximately $3.6 million. The private placement closed on May 25, 2006. Since inception, we have raised net proceeds of approximately $137.5 million to fund our activities, including the net proceeds from our 2007 and 2006 private placements.

For the years ended December 31, 2009, 2008, and 2007 our capital expenditures were $0, $2,000 and $65,000, respectively. During 2009, proceeds from disposition of certain unused assets were immaterial (less than $1,000). During 2008, we completed the disposition of certain assets (primarily lab equipment) associated with the DOS program, with $327,000 in proceeds from disposals of those assets in 2008 .During 2007, we completed the disposition of certain unused assets (primarily lab equipment) which were held for sale during 2007, with $308,000 in proceeds from disposals of property and equipment in 2007.

Business Overview

Introduction

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, currently (subject to the completion of Bio Gal transaction) for the treatment of MM and also hepatitis C.

Our lead compound is rHuEPO, which we intend to develop for the survival extension of MM terminal patients' lives.

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

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

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

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

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

Our Strategy

Under our current strategy, and subject to the completion of Bio Gal transaction, we plan to:

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

Products Under Development (See “Item 10. Additional Information – Material Contracts”, regarding Bio-Gal transaction).

rHuEPO for the treatment of MM

Market Opportunity

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

Scientific Background

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

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

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

This clinical observation was further supported by pre-clinical animal studies. These animal studies not only confirmed the anti-myeloma effect of rHuEPO but also detected a new unrecognized hitherto immune-mediated effect to rHuEPO, probably mediated via T cells (Mittelman M., Neumann D., Peled A., Kanter P. and Haran- Ghera N.

(2001) Erythropoietin induces tumor regression and antitumor immune responses in murine myeloma models. PNAS, vol. 98: 9. 5181 - 5186; Katz O, Barzilay E, Skaat A, Herman A, Mittelman M, Neumann D.Erythropoietin induced tumour mass reduction in murine lymphoproliferative models. Acta Haematol. 2005; 114 (3):177-9.). Recently, it was also shown that treatment of stage II-III MM patients with rHuEPO is associated with a significant improvement of various immunological parameters and functions (Prutchi-Sagiv British Journal of Hematology 2006; Prutchi-Sagiv Experimental Hematology 2008; Lifshitz Molecular Immunology 2009).

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

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

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

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

Development Status

We plan on performing a prospective, multi-center, double blind, placebo controlled phase 1-2 study intended to assess safety of rHuEPO when given to patients with advanced MM and demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We intend to initiate the clinical trial in the second half of 2010. We have begun preliminary discussions with potential clinical sites and third party vendors for the planned study.

DOS

Market Opportunity

We had been developing the DOS program for the treatment of hepatitis C, prior to us out-licensing it to Presidio in March 2008. Chronic hepatitis C is a serious life-threatening disease which affects around 170 to 200 million people worldwide, according to a Datamonitor report from April 2005. We estimate that between eight to 10 million of these people reside in the US, Europe and Japan. According to the BioSeeker Group, 20% to 30% of chronic hepatitis patients will eventually develop progressive liver disease that may lead to decomposition of the liver or hepatocellular carcinoma (liver cancer). According to the National Digestive Diseases Information Clearing House, each year 10,000 to 12,000 people die from HCV in the US alone. The Center for Disease Control, or the CDC, predicts that by the end of this decade, the number of deaths due to HCV in the US will surpass the number of deaths due to AIDS.

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

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

Development Status

In March 2008, and as revised in August 2008, we signed an agreement to out-license the DOS program to Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio's income if the DOS program is sublicensed by Presidio to a third party. DOS is a pre-clinical program focused on the development of novel hepatitis C small molecule inhibitors. DOS applies proprietary, fully synthetic chemistry methodologies to rapidly synthesize and diversify complex chemical compounds such as natural products. Compounds in each family inhibited HCV replication in a pre-clinical cell-based assay with potencies against the most prevalent HCV genotypes comparable or superior to clinical stage drugs. They also retained their potency against isolates that are resistant to clinical stage drugs. Presidio is currently in the process of identifying drug leads to be tested in formal toxicological studies in anticipation of the commencement of clinical trials in humans thereafter. See "Item 10. Additional Information -Material Contracts."

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

Intellectual Property and Patent

General

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

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

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

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

rHuEPO for the treatment of MM

A main use patent, United States Patent 6,579,525 “Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer,” was submitted by Mor Research Applications Ltd. and Yeda Research and Development Company Ltd., Israeli corporations, in April 1998 and a PCT was filed in April 1999. The patent was granted in the United States, Europe (Austria, Belgium, France, Germany, Great Britain, Ireland, Italy, Netherlands, Spain, Sweden and Switzerland), Israel, Japan and Hong Kong. A patent application is pending in Canada. The issued patent will expire in 2019. Pursuant to our agreement with Bio-Gal Ltd, and subject to the completion of the Bio-Gal transaction, we will have exclusive worldwide rights to the above patent for the use of rHuEPO in MM.

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

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

DOS

The lead molecules that are included in the VivoQuest license are covered by two issued patents and four patent applications. The patent applications describe both the structure of the compounds and their use for treating HCV infection. The two issued VivoQuest patents will expire in 2023. Additional patent applications, if issued, will expire

in 2023, 2024 and 2025. We have also filed additional patent applications that cover the lead compounds discovered since the licensing of the DOS from VivoQuest. These additional patent applications, if issued, will expire in 2026 and 2027. Based on the provisions of the Patent Term Extension Act, we currently believe that we would qualify for certain patent term extensions.

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

Other Intellectual Property Rights

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

Licensing Agreements and Collaborations

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

Bio-Gal Ltd./XTEPO

We have signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal, a private biotechnology company based in Gibraltar, in March 2009. In December, 2009, we amended the asset purchase agreement with Bio-Gal, so that XTL shall acquire from the shareholders of XTEPO all of their shares in XTEPO in exchange for the issuance to XTEPO's shareholders of ordinary shares of XTL representing approximately 69.44% of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the successful completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of the Phase 2 of an amount of minimum $2 million. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010.

VivoQuest License

In August 2005, we entered into a license agreement with VivoQuest covering a proprietary compound library, including certain HCV compounds. Under the terms of the license agreement, we have exclusive worldwide rights to VivoQuest’s intellectual property and technology in all fields of use. To date we have made approximately $0.9 million in license payments to VivoQuest under the license agreement. The license agreement also provides for additional milestone payments triggered by certain regulatory and sales targets. These additional milestone payments total $34 million, $25 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments to VivoQuest on product sales.

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Presidio License

In March 2008, and as revised August 2008, we signed an agreement to out-license the DOS program to Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio's income if the DOS program is sublicensed by Presidio to a third party.

Bicifadine License

In January 2007, XTL Development had signed an agreement with DOV to in-license the worldwide rights for Bicifadine for the treatment of diabetic neuropathic pain. In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of $7.5 million in cash in 2007. In addition, XTL Development will make milestone payments of up to $126.5 million over the life of the license. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of $5 million in cash, which would have been due upon or after regulatory approval. XTL Development was also obligated to pay royalties to DOV on net sales of Bicifadine. In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain in 2008 and all rights under the agreement reverted to DOV. Since the failure of the Bicifadine phase 2b clinical trial, XTL Development ceased the prosecution and maintenance of those patents relating to Bicifadine, in coordination with DOV. In March 2010, the agreement was formally terminated.

Competition

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

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

Competing Products for Treatment of MM

Although there are commercially available drugs for the treatment of MM, we plan to conduct our clinical trial, as soon as we complete the Bio Gal transaction, so that EPO will be tested and given only to patients who have been treated with all standard therapy for MM. Thus, the drugs below are not in direct competition to our drug. However, EPO may improve the current treatments and therefore may be supplementary to them, as follows:

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

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

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

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

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

Competing Products for Treatment of Chronic Hepatitis C

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

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Supply and Manufacturing

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

rHuEPO for the treatment of MM

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

DOS

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

General

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

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

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

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

Government and Industry Regulation

Numerous governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies, impose substantial regulations upon the clinical development, manufacture and marketing of our drug candidates and technologies, as well as our ongoing research and development activities. None of our drug candidates have been approved for sale in any market in which we have marketing rights. Before marketing in the US, any drug that we

develop must undergo rigorous pre-clinical testing and clinical trials and an extensive regulatory approval process implemented by the FDA, under the Federal Food, Drug and Cosmetic Act of 1938, as amended. The FDA regulates, among other things, the pre-clinical and clinical testing, safety, efficacy, approval, manufacturing, record keeping, adverse event reporting, packaging, labeling, storage, advertising, promotion, export, sale and distribution of biopharmaceutical products.

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

The Company may apply in order to obtain Orphan-drug designation for its Recombinant Erythropoietin. Orphan-drug designation is granted by the FDA Office of Orphan Drug Products to novel drugs or biologics that treat a rare disease or condition affecting fewer than 200,000 patients in the U.S. The designation provides the drug developer with a seven-year period of U.S. marketing exclusivity if the drug is the first of its type approved for the specified indication or if it demonstrates superior safety, efficacy, or a major contribution to patient care versus another drug of its type previously granted the designation for the same indication, as well as with tax credits for clinical research costs, the ability to apply for annual grant funding, clinical research trial design assistance and waiver of Prescription Drug User Fee Act (PDUFA) filing fees.

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

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

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

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

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

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

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

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

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

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

If the FDA grants approval, the approval will be limited to those disease states, conditions and patient populations for which the product is safe and effective, as demonstrated through clinical studies. Further, a product may be marketed only in those dosage forms and for those indications approved in the NDA. Certain changes to an approved NDA, including, with certain exceptions, any changes to labeling, require approval of a supplemental application before the drug may be marketed as changed. Any products that we manufacture or distribute pursuant to FDA approvals are subject to continuing regulation by the FDA, including compliance with cGMP and the reporting of adverse experiences with the drugs. The nature of marketing claims that the FDA will permit us to make in the labeling and

advertising of our products will be limited to those specified in an FDA approval, and the advertising of our products will be subject to comprehensive regulation by the FDA. Claims exceeding those that are approved will constitute a violation of the Federal Food, Drug, and Cosmetic Act. Violations of the Federal Food, Drug, and Cosmetic Act or regulatory requirements at any time during the product development process, approval process, or after approval may result in agency enforcement actions, including withdrawal of approval, recall, seizure of products, injunctions, fines and/or civil or criminal penalties. Any agency enforcement action could have a material adverse effect on our business.

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

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

Organizational structure

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

Property, Plant and Equipment

Since May 2009 we lease temporary offices (on a monthly basis) of approximately 50 square meters, in Ramat Gan, Israel. We have neither any notice period for terminating this lease, nor we are provided any guarantee for it.

Our lease of an aggregate of approximately 414 square meters in Rehovot, Israel, expired in April 2009, and thus our restricted cash deposit that secured the bank guarantee in the amount of $71,000 (which was linked to the Israeli Consumer Price Index) was released.

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. On September 23, 2009, after discussions, the parties agreed to cancel the agreement in consideration of a one-time compensation of $36,000 relating to the termination of the lease, which was paid in full.

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the related notes, prepared in accordance with IFRS (International Financial Reporting Standards) for the years ended December 31, 2009, 2008 and 2007, and as of December 31, 2009 ,2008, 2007 and January 1, 2007 (the effective date of the first adoption of IFRS), contained in “Item 18. Financial Statements” and with any other selected financial data included elsewhere in this annual report.

In April 2009, the Company was delisted from NASDAQ after the failure of the Bicifadine clinical trial. At the same time, the Company became primary listed on TASE (Tel Aviv Stock Exchange) and therefore is not entitled to the exemptions previously granted in Israel due to its listing on NASDAQ.

Pursuant to the requirement to comply with all the Israeli listing requirements, the Company adopted IFRS (International Financial Reporting Standards) as the accounting policy of the Company starting on 2009 and effective since January 1, 2007.

Selected Financial Data -

The tables below present selected financial data for the fiscal years ended as of December 31, 2009, 2008 and 2007. We have derived the selected financial data for the fiscal years ended December 31, 2009, 2008 and 2007 from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with IFRS issued by the IASB. You should read the selected financial data in conjunction with "Item 3. Key Information" and "Item 8. Financial Information" and "Item 18. Financial Statements."

Consolidated Statements of Comprehensive income:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands (except per share data)		
Revenues	-	5,940	907
Cost of revenues	-	1,841	110
Gross profit	-	4,099	797
Research and development costs	-	11,722	11,500
General and administrative expenses (income)	(2,429)*)	3,937	7,596
Impairment loss of intangible asset	-	7,500	-
Other gains (losses), net	139	288	(8)
Operating income (loss)	2,568	(18,772)	(18,307)
Finance income	6	331	668
Finance costs	10	17	30
Financial income (costs), net	(4)	314	638
Income (loss) before taxes on income	2,564	(18,458)	(17,669)
Tax benefit	(23)	(31)	(206)
Net income (loss) for the year attributable to equity holders of the parent	2,587	(18,427)	(17,463)
Basic and diluted earnings (loss) per share (in U.S. dollars) **)	0.044	(0.315)	(0.382)
Weighted average number of issued ordinary shares	58,561,065	58,553,864	45,698,564

*) Including reduced-expenses which result from forfeiture of shares that were contingent on the performance of the former chairman and former CEO, see also Note 16b to the financial statements.

**) After taking into account the capital consolidation effected on June 22, 2009 (see note 16a(2) to the financial statements).

Consolidated Statements of Financial Position Data:

	As of December 31,		
	2009	2008	2007

	U.S. dollars in thousands		
Cash, cash equivalents, bank deposits and trading and marketable securities	412	2,924	12,977
Working capital	(151)	1,433	8,532
Total assets	715	3,402	23,378
Long term obligations	-	-	131
Total shareholders' equity	7	1,474	17,878

Overview

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment multiple myeloma, or MM (subject to the completion of the Bio-Gal transaction), and hepatitis C. To date, we have not received approval for the sale of any of our drug candidates in any market and, therefore, have not generated any commercial revenues from the sales of our drug candidates.

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

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

We did not have revenues in 2009. Our revenues for the year ended December 31, 2008 and 2007 have consisted of license fees from Presidio and from Cubist, respectively. We recognized the license fee revenues from our agreement with Cubist for HepeX-B ratably over the expected life of the arrangement; un-amortized amounts were recorded as deferred revenues. In July 2007, Cubist terminated the license agreement with us. We recognized the upfront non-refundable payment from Presidio as license fee revenue over our period of significant involvement. See “Item 4. Information on the Company – History and Development of XTL.”

We did not have cost of revenues in 2009. Our cost of revenues for the year ended December 31, 2008 consisted of costs related to the DOS program, including cost of patent rights and other assets that were acquired from Vivoquest and later on out-licensed to Presidio. Our cost of revenues for the year ended December 31, 2007 consisted of costs associated with the Cubist program for HepeX-B which consisted primarily of salaries and related personnel costs, consultant fees and other third-parties expenses related to clinical and laboratory development, facilities-related and other expenses relating to the design, development, testing, and enhancement of our former product candidate out-licensed to Cubist. In addition, we recognized license fee expenses associated with our agreement with Yeda proportional to our license fee agreement with Cubist, with unamortized amounts recorded as deferred expenses. On December 31, 2007, we mutually terminated the research and license agreement with Yeda. See “Item 4. Information on the Company – History and Development of XTL.”

We did not have research and development expenses in 2009. Our research and development costs for the years ended December 31, 2008 and 2007 consist primarily of salaries and related personnel costs, consultant fees and other third-parties' expenses related to clinical and laboratory development, license and milestone fees, facilities-related and other expenses relating to the design, development, testing, and enhancement of our product candidates. We capitalize our research and development costs if we have a reasonable base to believe in the assets related to these expenses. Additionally, the Company reviews every quarter the assumptions which lead it to believe in these assets and assesses the necessity to record impairment loss according to IAS 36 (See note 2f to the consolidated financial statements: significant accounting policy - intangible assets). In all other cases the Company expenses the research and development cost as they are incurred. In 2009 the Company did not have any active research and development programs and therefore did not present any expense or asset related to research and development.

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

Our general and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees, director fees and other corporate expenses, including investor relations, and facilities related expenses. We expense our general and administrative expenses as they are incurred. In 2009, we recorded a reversal of non cash option compensation expenses that related to options granted to our former chairman and former CEO in an amount of approximately $ 4.1 million according to IFRS 2 and as a result the net general and administrative expenses ended with negative expenses.

Our business development costs consist primarily of salaries and related expenses for business development personnel, travel, professional fees and transaction advisory fees to third party intermediaries. Our business development activities are related to partnering activities for our drug programs, seeking new development collaborations and in-licensing opportunities. According to IFRS, business development expenses are presented based on the function of expense in general and administrative. Therefore, for the years ended December 31, 2009, 2008 and 2007, business development expenses are not presented in a different line item, as it used to be presented under the US GAAP. We expense our business development expenses as they are incurred. The transaction advisory fee associated with the Bicifadine transaction in the form of a SAR was revalued based on the then current fair value, at each subsequent reporting date. On September 30, 2009, in accordance with IFRS 2 and after the Company's management examined the issue, in furtherance to the Company's financial condition, the classification of the transaction was modified to an equity-settled transaction.

Our results of operations include non-cash compensation expense as a result of the grants of stock options. Compensation expense for awards of options granted to employees and directors represents the fair value of the award recorded over the respective vesting periods of the individual stock options. The expense is included in the respective categories of expense in the statement of comprehensive income. In 2009 we reversed a significant amount of $4.1 million related to the former Chairman's and former CEO's non-cash option compensation expenses granted in August 2005 (and were canceled and re-granted in December 2007) and March 2006, respectively, and which were subject to a market capitalization/share price milestone(s) that were not achieved. According to IFRS 2, due to the fact that these options were linked to market capitalization/share price milestone(s), we were required to reverse the accumulated related expenses that were recorded over the years since the grant date, immediately after their termination from the company in March-April 2009 and after we acknowledged that the milestone(s) were not achieved. We experienced a reduction in non-cash compensation in the fiscal year ended December 31, 2009 (even excluding the reversal of the options related to the former Chairman and CEO) due to the reorganization program of the Company from November 2008 and the reduction in the number of employees (see note 16b to the consolidated financial statements). We expect to incur significant increase on the non-cash compensation for the future, primarily due to the increase in the number of employees and modification to the management option plan following the completion of the Bio-Gal transaction.

For awards of options and warrants to consultants and other third-parties, according to IFRS 2 the treatment of such options and warrants is the same as employee options compensation expense (see note 2n to the consolidated financial statements). We record compensation expense based on the fair value of the award at the grant date.

According to the IFRS 2, the Company recognizes options expenses using the graded vesting method (accelerated amortization). Graded vesting means that portions of a single option grant will vest on several dates, equal to the number of tranches. The company treats each tranche as a separate share option grant; because each tranche has a different vesting period, and hence the fair value of each tranche is different. Therefore, under this method the compensation cost amortization is accelerated to earlier periods in the overall vesting period.

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

Results of Operations

Years Ended December 31, 2009, 2008 and 2007

Revenues. The Company did not produce any revenues for the year ended December 31, 2009, compared to $5,940 thousand and $907 thousand, for the years ended December 31, 2008 and 2007, respectively. Revenues for the year 2008 were due to the recognition of license revenue associated with the Presidio out-licensing agreement. Revenue for the year ended December 31, 2007 was due to the recognition of unamortized deferred revenue upon the termination of the HepeX-B license by Cubist in July 2007. We do not anticipate to recognize material revenue in 2010.

Cost of Revenues. There was no cost of revenues for the year ended December 31, 2009, compared to $1,841 thousand and $110 thousand for the years ended December 31, 2008 and 2007, respectively. Costs of revenues for the year 2008 were due to the out-licensing transaction of the DOS program to Presidio. Costs of revenues for the year ended December 31, 2007 were due to recognition of unamortized license fees that were recorded as deferred expenses upon termination of the HepeX-B license by Cubist in July 2007.

Research and Development Costs. Since the failure of the Bicifadine clinical trial in November, 2008, the Company did not have any research and development activity and therefore no research and development costs were recorded in 2009 (see "2009 Restructuring" below), compared to $11,722 thousand and $11,500 thousand for the years ended December 31, 2008 and 2007, respectively. Research and development costs for the year ended December 31, 2008, includes primarily expenses related to the research and development of the Bicifadine until November 2008. Research and development costs for the year ended December 31, 2007 includes primarily expenses associated with our legacy hepatitis C products, which its related license was terminated in 2007, expenses associated with the pre-clinical DOS program and expenses related to Bicifadine. See 2008 Restructuring below and also see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company.”

Excluding the impact of the Bio-Gal Ltd. transaction and non-cash compensation expenses associated with stock option grants, we might record research and development expenses in 2010 primarily due to future activities, if any, that will present an increase compared to the year ended on December 31, 2009.

General and Administrative Expenses. General and administrative expenses (negative) totaled $2,429 thousand for the year ended December 31, 2009, compared to expenses of $3,937 thousand for the year ended December 31, 2008. The decrease was primarily due to a reversal of non-cash option compensation expenses related to the former Chairman and former CEO of the Company, amounted to approximately $4.1 million (see note 16b to the financial statements), as well as the decrease in professional services and salary expenses resulted from the reduction in the number of employees and general efficiency following the Restructuring plan which commenced in December 2008. General and administrative expenses for the year ended December 31, 2007 totaled $7,596 thousand, which are considered high compared to 2008 and 2009, primarily due to fair value of the Stock Appreciation Rights ("SAR"), which was measured in 2007 at $1,560 thousand, compared to devaluation in its fair value to $7 thousand and $126 thousand in 2008 and 2009 (see notes 2n and 14 to the financial statements), salary and professional services fees related to general and administrative expenses, which were higher as a result of the number of employees and the business capacity of the Company.

Excluding non-cash compensation costs, we expect to increase our level of general and administrative costs during 2010 compared to 2009. This is because during most of 2009, the Company did not have any research and development operations and employed only 3 full time employees.

Other gains (losses), net. There were other gains in the total amount of $139 thousand for the year ended December 31, 2009 mainly due to the settlement agreements that were signed with suppliers regarding the termination of agreements related to the Bicifadine clinical trial and with the landlord of the offices in the United States (see note 15b to the consolidated financial statements), compared to other gains amounted to $288 thousand and other losses amounted to $8 thousand for the years ended December 31, 2008 and 2007, respectively. Other gains for the year ended December 31, 2008, resulted from realization of fixed assets. Other losses for the year ended December 31, 2007 resulted from changes in fair value of financial assets through profit or loss in the amount of $48 thousand, offset by gains resulted from realization of fixed assets in the amount of $40 thousand.

Net Financial expenses. Financial expenses for the year ended December 31, 2009, amounted to $4 thousand compared to net financial income of $314 thousand and $638 thousand for the years ended December 31, 2008 and 2007 respectively. The decrease in the net financial income was due primarily to the reduction of the invested funds during the years and the reduction of the banks' deposit interest rate (see cash flow report to the consolidated financial statements).

Income Taxes. Tax benefit for the year ended December 31, 2009, amounted to $23 thousand compared to income of $31 thousand, and $206 thousand for the years ended December 31, 2008, and 2007, respectively. The income for the year ended December 31, 2009, was due to a carryback claim for the tax years ended December 31, 2003, of the US consolidated tax group consisting of XTL Biopharmaceuticals, Inc. and XTL Development, Inc., which incurred net operating losses for tax purposes in 2008 offset by New York State Franchise tax associated with the US permanent establishment. The carryback losses rule was updated by the IRS in November 2009, According to the updated rule, taxpayers are allowed to extend the carryback period from two to four years and eventually up to five years for net operation losses ("NOLs") incurred in 2008 and 2009 and this enabled the tax claim for year 2003.

The US consolidated tax group filed a carryback claim for those losses for the years ended December 31, 2003 and 2004 in order to receive a refund for US federal income taxes paid for those years. As for the year ended December 31, 2007, the US consolidated tax group incurred net operating losses. The group filed a carryback claim for those losses for the years ended December 31, 2006 and December 31, 2005 to receive a refund for US federal income taxes paid for those years. Our income tax expense (income) is attributable to taxable income (losses) from the continuing operations of our US subsidiaries and the US permanent establishment.

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2009 Restructuring

Following the failure of the Bicifadine trial in November 2008, we terminated the employment of most of our employees. As a result, we incurred a payment of $420 thousand during 2009 related to employee dismissal costs, all of which were accrued in 2008. In February 2009, we appointed a co-CEO whose terms of employment have been approved in March 2010, and which shall come to effect subject to the completion of Bio Gal transaction. In July 2009, we recruited a CFO.

2008 Restructuring

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

In December 2008, we implemented a restructuring plan following the failure of the Bicifadine Phase 2b clinical trial. We notified nine of our remaining employees (six in research and development, two in general and administrative and one in business development) that they will be terminated, representing approximately 75% of our then remaining workforce. In addition, in December 2008, we announced that our then Chief Executive Officer would be departing in 2009. The remaining employees were tasked with seeking potential assets or a company to merge into XTL, or for assisting in the liquidation and/or disposition of XTL’s remaining assets. As a result, we took a charge of $420 thousand in 2008 relating to employee dismissal costs, $110 thousand of which was included in research and development costs, $310 thousand of which was included in general and administrative expenses.

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

Critical Accounting Policies

First-time adoption of IFRS:
Until December 31, 2008, the consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP.

Starting from the three months period ended March 31, 2009, and effective as of January 1, 2007 the Company adopted International Financial Reporting Standards ("IFRS"), pursuant to the provisions of Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" which was published by the Israel Accounting Standards Board. The IFRS are standards and interpretations adopted by the International Accounting Standards Board.

They comprise of:

1. International Financial Reporting Standards (IFRS);

2. International Accounting Standards (IAS); and

3. Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

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These financial statements are in the scope of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") because they are the first IFRS annual financial statements of the Group. The financial statements were prepared in accordance with IFRS that were published and became effective or adopted earlier when the financial statements were prepared (March 2010).

According to IFRS 1, the Company's date of transition to IFRS is January 1, 2007 ("the date of transition"). Comparative figures of the financial statements were restated in order to retroactively reflect the adoption of IFRS from the date of transition. As for the effect of the transition from reporting pursuant to U.S. GAAP to reporting pursuant to IFRS on comparative figures in the financial statements and as for the exemptions that the Company elected pursuant to IFRS 1, see Note 26.

The Company's financial statements as of December 31, 2009, 2008 and 2007 and January 1, 2007 and for each of the three years in the period ended December 31, 2009 have been prepared in accordance with IFRS and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) and include the additional disclosure in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

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

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

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

The proceeds received when the options are exercised into shares net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share-based payments that were granted before November 7, 2002 or that vested before January 1, 2007 are not accounted for retroactively pursuant to IFRS 2, as under the exemption of IFRS 1.

Share-based payments for share appreciation rights with settlement alternatives, at the Company's sole discretion, which were granted to the Company's service provider, were accounted in the past as a cash-settled grant. The Company re-measured the value of the liability at each reporting date. On September 30, 2009, in accordance with IFRS 2 and after the Company's management examined the issue, in furtherance to the Company's financial condition (see Note 1d), the classification of the transaction was modified to an equity-settled transaction.

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The fair value of stock options granted with service conditions is determined using the Black-Scholes valuation model. Such value is recognized as an expense over the service period, net of estimated forfeitures, using the graded vesting method under IFRS 2. The fair value of stock options granted to the former Chairman and CEO with market conditions was determined using a Monte Carlo Simulation method. Such value is recognized as an expense using the accelerated method under IFRS 2. The options of the former Chairman and CEO mentioned above expired after their departure from the Company in March and April, 2009 respectively and the accumulated expenses related to these options recorded over the years were reversed in year 2009 (see note 16b to the consolidated financial statements).

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

Research and development expenses: The Company recognizes research and development expenses in the statement of comprehensive income when such expenses are incurred. An intangible asset arising from a development project is recognized when the following criteria are met:

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. During the reported period, the Group did not capitalize development costs to intangible assets.

The Company recognizes at fair value an intangible asset relating to research and development costs acquired from third parties.

Acquired development assets are not systematically amortized and are tested for impairment annually in accordance with the provisions of IAS 36, "Impairment of Assets".

Government grants for approved projects were deducted from the relevant expense.

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

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Revenue Recognition: Revenues are recognized in the statement of comprehensive income when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received.

The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from transfer of rights to use development which include the Company's involvement during the development period, are recognized on a straight-line basis over the expected term of the agreement.

2. Revenues from sale of DOS development rights to Presidio and rendering of ongoing services by the Company are recognized as follows:

a) The fair value of labor services by the Company's employees is recognized over the service term.

b) The difference between the sale consideration and the fair value of labor services is recognized at the date of transaction as revenues from sale of DOS development rights.

3. Interest income is recognized on a periodic basis using the effective interest method.

Purchase Price Allocation. The purchase price allocation for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values. Additionally, we must determine whether the acquisition is considered to be a business combination according to IFRS 3 or a set of net assets according to IAS 16, because a portion of the purchase price can only be allocated to goodwill in a business combination.

New and amended IFRS standards and IFRIC interpretations:

Below are standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

a) IAS 27 (revised), "Consolidated and Separate Financial Statements" ("IAS 27R") (effective for annual periods beginning on or after July 1, 2009). IAS 27R requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. IAS 27R also specifies the accounting when control of the entity is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. The Company will apply IAS 27R prospectively to all transactions with non-controlling interests from January 1, 2010 and as of today it is not expected to have a material impact on the financial statements.

b) IFRS 3 (revised), "Business Combinations" ("IFRS 3") (effective for annual periods beginning on or after July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3R prospectively to all business combinations from January 1, 2010 and as of today it is not expected to have a material impact on the financial statements.

c) IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 was issued in November 2009 and it represents the first milestone in the three stages planned replacement of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The first issued part replaces the sections of IAS 39 which deal with the classification and measurement of financial assets. Below are summarized principles of IFRS 9:

- Financial assets are classified into one of the two following categories: fair value and amortized cost. The decision to which category a financial asset should be classified is made on initial recognition. This classification is driven by the entity's business model for managing financial instruments and the contractual characteristics of the cash flows from the instrument.

- A hybrid contract with a financial asset host is classified in its entirety into one of the above categories without separating the embedded derivative from a host contract.

- A financial asset is measured after initial recognition at amortized cost only if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and (b) the contractual cash flows under the instrument solely represent payments of principal and interest (in other words, the instrument has only basic features of a loan).

- Financial assets that are debt instruments not meeting the above criteria are measured at fair value through profit or loss.

- Financial assets that are equity instruments should be measured at fair value, as follows:

i. Equity instruments held-for-trading should be measured at fair value.

ii. As for other equity instruments, an entity has an option to choose on initial recognition (irrevocable designation) to recognize subsequent changes in fair value in other comprehensive income. If the above is chosen, there is no recycling of fair value gains and losses to profit or loss even if the instrument is disposed. However, dividends from such instruments will be recognized in profit or loss. Such designation is on an instrument-by-instrument basis. Equity instruments which were not designated as above, should be measured at fair value through profit or loss.

IFRS 9 is effective for years beginning on or after January 1, 2013. Early application is permitted. At this stage, the Company is evaluating the guidance of the standard, its impact on the Company and the time when the Company will adopt it.

d) Amendment to IAS 7, "Cash Flows Statements" ("the amendment to IAS 7"). This amendment is part of the IASB's annual improvements project published in April 2009. This amendment requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities. The amendment to IAS 7 is applied retrospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. The Company will apply this amendment from January 1, 2010 and it is not expected to have a material impact on the financial statements.

e) Amendment to IAS 38, "Intangible Assets" ("the amendment to IAS 38"). This amendment is part of the IASB's annual improvements project published in April 2009. The amendment to IAS 38 clarifies, among others, the requirements in IFRS 3 (revised), "Business Combinations" ("IFRS 3R") regarding the accounting treatment of intangible assets acquired in a business combination. This amendment permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment to IAS 38 is applied prospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. If an entity applies IFRS 3 for an earlier period, the amendment to IAS 38 shall be applied for that earlier period. The Company will apply the amendment to IAS 38 from January 1, 2010. At this stage, the impact, if any, on the financial statements can not be assessed.

f) Amendment to IAS 38, "Intangible Assets" ("the amendment to IAS 38"). This amendment is part of the IASB's annual improvements project published in April 2009. This amendment clarifies, among others, the description of valuation techniques used when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The amendment to IAS 38 is applied prospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. The Company will apply the amendment to IAS 38 from January 1, 2010. At this stage, the impact, if any, on the financial statements can not be assessed.

Impact of Inflation and Currency Fluctuations

We generate all of our revenues and hold most of our cash, cash equivalents and bank deposits in US dollars. While a substantial amount of our operating expenses are in US dollars, we incur a portion of our expenses in New Israeli Shekels. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. Since 2009 (after the failure of the Bicifadine clinical trial) the Company's head office moved to Israel and thus the portion of our expenses in New Israeli Shekels ("NIS") has increased, mainly due to payment to Israeli employees and suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel. To date, our business has not been materially adversely affected by changes in the US dollar exchange rate or by effects of inflation in Israel. Additionally, our future activities could lead us to perform a clinical trial in Israel, which may lead us to reassess our use of the US dollar as ourfunctional currency. As a result, we are exposed to the risk that the US dollar will be devalued against the NIS or other currencies, and consequentially our financial results could be harmed if we are unable to guard against currency fluctuations in Israel.

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

The income of the Company is subject to corporate tax at the regular rate; the guidance of the amendment to the Income Tax Ordinance, 2005 from August 2008 prescribes a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting 2007 are as follows: 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

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

As of December 31, 2009, XTL Biopharmaceuticals Ltd. did not have any taxable income. As of December 31, 2009, our net operating loss carryforwards for Israeli tax purposes amounted to approximately $161 million. Under Israeli law, these net-operating losses may be carried forward indefinitely and offset against future taxable income, including capital gains from the sale of assets used in the business, with no expiration date. According to the proposed pre-ruling agreement with Israeli tax authority (ITA) which is still subject to the approval of the Company's Board and Xtepo shareholders, the Company will be required to waive significant amount from its carryforward tax losses.

Since April 7, 2009, we did not have a “permanent establishment” and activity in the US, and our subsidiaries do not perform any activity. Our board of directors consists of a majority of Israeli residents and our CEO is domiciled in Israel. However, for the period we did have a "permanent establishment" in the US, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if we had income attributable to the permanent establishment in the US, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax.

As of December 31, 2009, we did not earn any taxable income for US federal tax purposes. If we eventually earn taxable income attributable to its US permanent establishment, we would be able to utilize accumulated loss carryforwards to offset such income only to the extent these carryforwards were attributable to its US permanent establishment. As of December 31, 2009, we estimate that these US net operating loss carryforwards are approximately $23 million. These losses can be carried forward to offset future US taxable income, subject to certain limitations due to the shifts in ownership of XTL, related to the Bio-Gal transaction (See “Item 10. Additional Information – Material Contracts”) and subject to future limitations in case of a future offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, and expiring through 2029. US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations. Currently we do not have any activity in the US subsidiaries. However, if the subsidiaries commence operations in the future, they will be subject to the tax rules mentioned above.

Liquidity and Capital Resources

We have financed our operations from inception primarily through various private placement transactions, our initial public offering, a placing and open offer transaction, option and warrant exercises, and private investments in public equities. As of December 31, 2009, we had received net proceeds of approximately $76.3 million from various private placement transactions, including the November 2007 private placement, net proceeds of $45.7 million from our initial public offering in September 2000, net proceeds of $15.4 million from the 2004 placing and open offer transaction, and proceeds of $2.1 million from the exercise of options and warrants.

As of December 31, 2009, we had $0.4 million in cash, cash equivalents, and short-term bank deposits, a decrease of $2.5 million from December 31, 2008. Cash used in operating activities for the year ended December 31, 2009, was $2.5 million, as compared to $10.6 million for the year ended December 31, 2008. This decrease in cash used in operating activities was due primarily to expenses related to the Bicifadine clinical trial that ended in November 2008, as well as, payments according to the separation agreements with senior employees who departed the Company until May 2009. For the year ended December 31, 2009, the net cash used in investing activities totaled at $ 0.02 million, as compared to net cash provided by investing activities of $10.9 million for the year ended December 31, 2008, was primarily the result of the maturity of short-term bank deposits that were used during 2008 and proceeds from sale of fixed assets in amount of $0.3 million. For the year ended December 31, 2009, we did not have any cash impact from financing activities, as compared to $0.2 million for the year ended December 31, 2008, which was the result of refund of stamp duty paid in 2004 for share issuance and exercise of share options.

Continuation of our current operations is dependent upon the generation of additional financial resources either through Bio-Gal transaction (See “Item 10. Additional Information – Material Contracts”) or agreements for the monetization of our residual in the DOS program or through external financing. We currently anticipate that our cash and cash equivalents and restricted short-term bank deposits, will provide us with sufficient resources to fund our operations only for the upcoming weeks. If we do not complete the Bio-Gal transaction or raise capital in a timely manner, we will not be able to continue our operations as a going concern. We do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount, method or timing of any such financing. Such additional financing may not be available when we need it.

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

- the costs involved in closing the Bio-Gal transaction, including the required financing;
- the accuracy of our financial forecasts;
- the timing of the in-licensing, partnering and acquisition of new product opportunities;
- the timing of expenses associated with product development and manufacturing of the proprietary drug candidate that we have acquired from Bio-Gal Ltd. and those that may be in-licensed, partnered or acquired;
- our ability to achieve our milestones under licensing arrangements; and
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights.

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

The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The factors discussed above, taken together with our limited cash and cash equivalents raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. In addition, the report of our independent registered public accounting firm covering our 2009 Consolidated Financial Statements, included in this Annual Report, contains an explanatory paragraph that makes reference to uncertainty about our ability to continue as a going concern.

Off-Balance Sheet Arrangements

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

Obligations and Commitments

As of December 31, 2009, we had known contractual obligations, commitments and contingencies of $34.2 thousands which relate to our vehicle operating lease obligations, of which $28.2 thousands is due within the next year, with the remaining balance due as per the schedule below. According to the agreements we have the sole right to terminate these agreements with two months paid notice.

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

	Payment due by period (in thousands of US$)				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	34.2	28.2	6	—	—
Total	34.2	28.2	6	—	—

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. On September 23, 2009, after discussions, the parties agreed to cancel the agreement in consideration of a one-time compensation of $36 thousand relating to the termination of the lease, which was paid in full.

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Additionally, the VivoQuest license agreement provides for contingent milestone payments triggered by certain regulatory and sales targets. These milestone payments total $34 million, $25 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments on product sales. Pursuant to our out-licensing agreement with Presidio, Presidio is obligated to pay us for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement.

We have undertaken to make contingent milestone payments to DOV Pharmaceutical, Inc. of up to approximately $126.5 million over the life of the license. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of $5 million in cash, which would due upon or after regulatory approval. We were also obligated to make royalty payments on future product sales net sales. We ceased development of Bicifadine in November 2008 and since then both XTL Development and DOV ceased the prosecution and maintenance of those patents relating to the Bicifadine. In March 2010, we formally terminated the license agreement. Therefore, we will not be obligated to make any of the aforesaid payments.

Pursuant to our asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., we will issue to XTEPO's shareholders ordinary shares representing approximately 69.44% of our then issued and outstanding ordinary share capital . We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the Successful Completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of the Phase 2 of an amount of minimum $2 million. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement, of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010. See “Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations” above.

In addition, in January 2007, XTL Development and the company committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. In October 2007, XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the “Definitive Agreements”). Under the terms of the Definitive Agreements, the transaction advisory fee was structured in the form of SARs, in the amount equivalent to (i) 3% of our fully diluted ordinary shares at the close of the transaction (representing 1,659,944 ordinary shares NIS 0.1 par value), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of our fully diluted ordinary shares at the close of the transaction (representing 3,873,203 ordinary shares NIS 0.1 par value), vesting on the “Date of Milestone Event.” The “Date of Milestone Event” shall mean the earlier to occur of (i) positive (i.e., a statistically significant difference between the placebo arm and (x) at least one drug arm in the trial, or (y) the combined drug arms in the trial in the aggregate) results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by us or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain (regardless of indication or whether the study is the first such pivotal trial for Bicifadine conducted thereby), (ii) the filing of a New Drug Application for Bicifadine by us or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to us or XTL Development whereby persons or entities holding a majority of the equity interests of us or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. Payment of the SARs by XTL Development can be satisfied, at our discretion, in cash and/or by issuance of our registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share on the exercise date exceeds the $1.7 grant price for such SAR (fair market value equals (i) the greater of the closing price of an “ADR” on the exercise

date, divided by two, or (ii) the preceding five day ADR closing price average, divided by two). The SARs would have expired on January 15, 2017 or in the event of the termination of our license agreement for the Bicifadine compounds. As of December 31, 2009, the 3% tranche was vested and recorded in our financial statements as capital reserve according to IFRS 2 (see note 2n to the financial statements). The 7% tranche was not vested. In March 2010, we formally terminated the license agreement and therefore all unvested SAR (the 7% tranche) have automatically expired. See also “Item 10. Additional Information - Material Contracts.”

Research and Development, Patents and Licenses

Research and development costs consist primarily of salaries and related personnel costs, consultant fees and other third-parties expenses related to the clinical and laboratory development, license and milestone fees, and facilities-related and other expenses relating to the design, development, testing, and enhancement of product candidates. In 2009 we did not have any research and development activity.

The information below provides estimates regarding the costs associated with the current estimated range of the time that will be necessary to complete that development phase for rHuEPO for the treatment of MM (subject to the completion of the Bio-Gal transaction). We also direct your attention to the risk factors which could significantly affect our ability to meet these cost and time estimates found in this report in Item 3 under the heading “Risk Factors-Risks Related to our Business.”

Following the closing of the agreement with Bio-Gal Ltd., we plan on performing a prospective, multi-center, double blind, placebo controlled phase 1-2 study intended to assess safety of rHuEPO when given to patients with advanced MM and demonstrate its effects on survival, biological markers related to the disease, immune improvements and quality of life. We intend to initiate the clinical trial in the second half of 2010. While we have begun preliminary discussions with potential clinical sites and third party vendors for the planned study, we have not yet determined the size and scope of the study, and as a result, we cannot estimate when such clinical development will end, and the estimated cost to complete the study.

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

The following table sets forth the research and development costs for the years 2008 and 2007 including all costs related to the legacy clinical-stage projects, our pre-clinical activities, and all other research and development programs. We did not carry any research and development activity and costs in 2009 due to the termination of the Bicifadine program, after the failure of the phase 2b clinical trial, in November 2008. As the Bio-Gal transaction is expected to close in the third quarter of 2010, the rHuEPO research and development is expected to start only in the last quarter of 2010. Whether or not and how quickly we complete development of our clinical stage projects is dependent on a variety of factors, including the rate at which we are able to engage clinical trial sites and the rate of enrollment of patients. As such, the costs associated with the development of our drug candidates may change significantly.

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

	Research and Development Expenses in thousand US$ Years ended December 31,		
	2009	2008	2007
Bicifadine		11,038	5,976
DOS	—	684	4,056
Legacy programs			
Research and development costs	—	—	1,524
Less participations	—	—	(56)
Total legacy programs	—	—	1,468
Total Research and development			
Research and development costs	—	11,722	11,556
Less participations	—	—	(56)
	—	11,722	11,500

Trend Information

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following sets forth information with respect to our directors and executive officers as of June 28, 2010.

Name	Age	Position
Amit Yonay	40	Chairman of the Board of Directors
Dafna Cohen	40	Non Executive and External Director
Jaron Diament	42	Non Executive and External Director
Marc Allouche	36	Non Executive Director
Boaz Shweiger	35	Non Executive Director
David Grossman	35	Executive Director and Chief Executive Officer
Ronen Twito	35	Chief Financial Officer

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

Dafna Cohen has served as a director in our company since March 2009. From 2005 to 2009 she served as Treasurer of Emblaze Ltd. (LSE: BLZ). From 2000 to December 2004, Ms. Cohen was an Investment Manager for Leumi Partners., an investment house of the Bank Leumi Group. From 1994-2000, Ms. Cohen worked in the derivatives sector of Bank Leumi. In addition, Ms. Cohen serves as a director of Formula Systems Ltd (Nasdaq: FORTY, TASE: FORTY) since November 2009. Ms. Cohen received a BA in economics and political science and an MBA in finance and accounting from Hebrew University, Jerusalem.

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

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

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

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

Ronen Twito has served as Chief Financial Officer in our company since July 2009. Prior to joining XTL, he served as Corporate Finance Director at Leadcom Integrated Solutions Ltd., an international telecommunications company, specializing in management and implementation of network deployment services (listed on the AIM and TASE) from November 2004 to May 2009. Previously he served as an Audit Manager at Ernst & Young Israel from January 2000 to November 2004. Mr. Twito possesses over 10 years of finance experience in both publicly traded and private companies, which includes IPOs, dual listings, bonds placement, public fund raising, consolidated financial statement and M&As. Mr. Twito is an Israeli Certified Public Accountant and is a member of the Institute of CPAs in Israel. He holds a BSc in Business & Management – Accounting, and a B.Ed in Teaching of accounting, both from the Collman

Management College.

Employment Agreements

Subject to the closing of the Bio-Gal transaction, we have an employment agreement dated January 18, 2010, and effective as of January 1, 2010, with David Grossman, our Chief Executive Officer. Mr. Grossman is entitled to an annual base salary of NIS 336,000. Upon the successful completion of cash fund raising of at least US $10 million in equity on NASDAQ or any other recognized and approved stock exchange (the "Fund Raising"), Mr. Grossman's annual salary shall be raised to NIS 580,000. In the event that a Fund Raising does not occur until July 1, 2010, Mr. Grossman's annual salary shall be raised to NIS 480,000. In the event that the Company completes the Fund Raising and also Another Transaction (as defined below), then Mr. Grossman's annual salary shall be raised to NIS 630,000. (“Another Transaction” shall mean any business combination transaction, merger or acquisition, intellectual property licensing transaction or joint venture e.t.c.). In the event that we complete a Fund Raising within 24 months from the signing date, which is of a cash amount of more than US $3 million, Mr. Grossman shall be entitled to receive a one time bonus equal to 1% of the Fund Raising amount but not more than US $150,000. Mr. Grossman is also entitled to receive benefits comprised of managers' insurance as commonly acceptable for officer holders, and the use of a company car. There is a non-compete clause surviving one year after termination of employment. The employment agreement is not limited in time and may be terminated by either party on a four months prior written notice. Although still subject to the closing of the Bio-Gal transaction, in March 2010, our shareholders (after receiving the approval of the Board of Directors) approved the granting of options to Mr. Grossman to purchase a total of 1,610,000 ordinary shares at an exercise price equal to NIS 0.075 per share. These options shall vest over a three-year period, with 33.33% having vested on the grant date, and the remaining 66.67% shall vest on a monthly basis, commencing from the effective date, over a period of 2 years thereafter for as long as Mr. Grossman's employment with us not terminated. Due to the fact that Mr. Grossman served as a CEO from February, 2009 without any consideration, Mr. Grossman is entitled to receive a one time signing payment of NIS 430,000, which shall be delivered to him in 5 equal monthly installments. In addition, Mr. Grossman will be entitled to receive annual bonus payments at the sole discretion of our Board of Directors.

We have an employment agreement dated July 29, 2009, and effective as of June 24, 2009, with Ronen Twito, our Chief Financial Officer. Mr. Twito is currently entitled to an annual base salary of NIS 318,000. Upon the successful completion of cash fund raising of at least US $10 million in equity on NASDAQ or any other recognized and approved stock exchange (the "Fund Raising"), Mr. Twito's annual salary shall be raised to NIS 550,000. In the event that a Fund Raising does not occur within the first anniversary from the effective date, then Mr. Twito's annual salary shall be raised to NIS 456,000 and to NIS 550,000 upon the completion of the Fund Raising. In the event that the Company completes Fund Raising and also Another Transaction (as defined below), then Mr. Twito's annual salary shall be raised to NIS 600,000. (“Another Transaction” shall mean any business combination transaction, merger or acquisition, intellectual property licensing transaction or joint venture e.t.c.). In the event of a Fund Raising which is of a cash amount more than US $3 million but less than US $10 million, Mr. Twito's annual salary shall be raised, after the first anniversary, to an amount based on a linear calculation of US $3 million – US $10 million applied to the annual salary increase of NIS 456,000 – NIS 550,000 (or in the event Another Transaction is achieved, NIS 600,000). In the event that we complete a Fund Raising of a cash amount of US $15 million, then Mr. Twito shall be entitled to a cash bonus in a NIS amount equal to US $200,000 In the event that the actual fundraising is of an amount of more than US $3 million but less than US $15 million, then Mr. Twito shall be entitled to a linear portion of the cash bonus calculated based on the actual fundraising between US $3 million and US $15 million.

Within the second anniversary of Mr. Twito's employment, he will be entitled to receive bonus payments at the sole discretion of our Board of Directors. Mr. Twito is also entitled to receive benefits comprised of managers' insurance (pension and disability insurance), as commonly acceptable for officer holder, and the use of a company car. There is a non-compete clause surviving one year after termination of employment,. The employment agreement may be terminated by either party on three months prior written notice. In July 2009, our Board of Directors granted options to Mr. Twito to purchase a total of 1,400,000 ordinary shares at an exercise price equal to NIS 0.075 per share. These options shall vest over a three-year period, with 33.33% having vested after 5 month from the agreement date., and the remaining 66.67% shall vest on a monthly basis, commencing from the effective date, over a period of 3 years thereafter for as long as Mr. Twito's employment with the Company is not terminated.

Compensation

The aggregate compensation paid by us and by our wholly-owned subsidiary to all persons who served as directors or officers for the year 2009 (14 persons, including 5 directors and 2 officers ceased to serve in the company during 2009) was approximately $0.7 million, excluding credit of expenses results from forfeited of former Chairman and former CEO option plan (see "Item 5 - Operating and Financial review and Prospects – Selected Financial Data") This amount includes payments made for social security, pension, disability insurance and health insurance premiums of approximately $0.06 million, as well as severance accruals, payments made in lieu of statutory severance, payments for continuing education plans, payments made for the redemption of accrued vacation, and amounts expended by us for automobiles made available to our officers. (See "Item 5 Operating and Financial Review and Prospects – 2009 Restructuring").

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

In March 2009, pursuant to a shareholders' meeting, the monetary compensation was set for each of Mr. Grossman, Mr. Shweiger, Mr. Allouche, Mr. Yonay, Mr. Diament and Ms. Cohen as follows: annual consideration of $10,000 (to be paid in 4 equal quarterly payments), payments of $375 for attendance at each board or committee meeting in person or held by teleconference and reimbursement of reasonable out-of-pocket expenses. Mr. Grossman serves as the Company's CEO since February 11, 2009 and subject to the completion of Bio Gal transaction will be entitled to a compensation package as detailed above in the Employment Agreements paragraph, and therefore will not be entitled to Directors fee.

We granted to three of our directors, Mr. Yonay, Mr. Shweiger and Mr. Allouche, 150,000 options each, to purchase our ordinary shares of NIS 0.1 par value, pursuant to the shareholder meeting of March 2, 2010, exercisable at an exercise price of NIS 0.298 (which is the average of the three-day closing price on TASE prior to the issuance). 33% of the said options are vested and 67% of said options shall vest and be exercisable on a monthly basis, commencing from March 2, 2010, for the duration of two years.

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

- first, our audit committee reviews the proposal for compensation;
- second, provided that the audit committee approves the proposed compensation, the proposal is then submitted to our Board of Directors for review, except that a director who is the beneficiary of the proposed compensation does

not participate in any discussion or voting with respect to such proposal; and

- finally, if our Board of Directors approves the proposal, it must then submit its recommendation to our shareholders, which is usually done in connection with our shareholders' general meeting.

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

Board practices

Election of Directors and Terms of Office

Our Board of Directors currently consists of six members, including our non-executive Chairman. Other than our two external directors, our directors are elected by an ordinary resolution at the annual general meeting of our shareholders. The nomination of our directors is proposed by a nomination committee of our Board of Directors, whose proposal is then approved by the board. The current members of the nomination committee are Amit Yonay (chairman of the nomination committee), Jaron Diament and Dafna Cohen. Our board, following receipt of a proposal of the nomination committee, has the authority to add additional directors up to the maximum number of 12 directors allowed under our Articles. Such directors appointed by the board serve until the next annual general meeting of the shareholders. Unless they resign before the end of their term or are removed in accordance with our Articles, all of our directors, other than our external directors, will serve as directors until our next annual general meeting of shareholders. In March 2010, at an annual general meeting of our shareholders, Amit Yonay, Boaz Shweiger, March Allouche, and David Grossman were re-elected to serve as directors of our company. Dafna Cohen and Jaron Diament were elected to serve as external directors of our company at the March 2009 extraordinary general meeting. Dafna Cohen and Jaron Diament are serving as external directors pursuant to the provisions of the Israeli Companies Law for a three-year term ending in March 2012. After this date, their term of service may be renewed for an additional three-year term.

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

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

External and Independent Directors

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

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

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

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

- the majority of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders voted at the meeting, vote in favor of election of the director, with abstaining votes not being counted in this vote; or

- the total number of shares held by non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

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

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

Dafna Cohen and Jaron Diament serve as external directors pursuant to the provisions of the Israeli Companies Law. They both serve on our audit committee, our nomination committee and our compensation committee.

Audit Committee

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

Our audit committee is currently comprised of three independent non-executive directors. The audit committee is chaired by Jaron Diament, who serves as the audit committee financial expert, with Dafna Cohen and Boaz Shweiger as members. The audit committee meets at least four times a year and monitors the adequacy of our internal controls, accounting policies and financial reporting. It regularly reviews the results of the ongoing risk self-assessment process, which we undertake, and our interim and annual reports prior to their submission for approval by the full Board of Directors. The audit committee oversees the activities of the internal auditor, sets its annual tasks and goals and reviews its reports. The audit committee reviews the objectivity and independence of the external auditors and

also considers the scope of their work and fees.

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

Approval of Compensation to Our Officers

The Israeli Companies Law prescribes that compensation to officers must be approved by a company's Board of Directors.

Our compensation committee consists of three independent directors: Jaron Diament, Dafna Cohen and Marc Allouche. The responsibilities of the compensation committee are to set our overall policy on executive remuneration and to decide the specific remuneration, benefits and terms of employment for directors and the Chief Executive Officer.

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

Internal Auditor

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

Employees

As of June 28, 2010, we had three full-time employees. We and our Israeli employees are subject, by an extension order of the Israeli Ministry of Welfare, to a certain provisions of collective bargaining agreements between the Histadrut, the General Federation of Labor Unions in Israel and the Coordination Bureau of Economic Organizations, including the Industrialists Associations. These provisions principally address cost of living increases, recreation pay, travel expenses, vacation pay and other conditions of employment. We provide our employees with benefits and working conditions equal to or above the required minimum. Other than those provisions, our employees are not represented by a labor union. See also “Item 5. Operating and Financial Review and Prospects - 2009 Restructuring” and “Item 6. Directors, Senior Management and Employees – Employment Agreements” above.

For the years ended December 31, 2009, 2008 and 2007, the number of our employees engaged in the specified activities, by geographic location, are presented in the table below.

	Year ended December 31,		
	2009	2008	2007
Research and Development			
Israel	—	2	2
US	—	—	16
	—	2	18
Financial and general management			
Israel	2	3	4
US	—	2	2
	2	5	6
Business development			
Israel	—	—	—
US	—	1	1
	—	1	1
Total	2	8	25
Average number of full-time employees	3	14	29

Share Ownership

The following table sets forth certain information as of May 31, 2010, regarding the beneficial ownership by our directors and executive officers. All numbers quoted in the table are inclusive of options to purchase shares that are exercisable within 60 days of May 31, 2010.

	Amount and nature of beneficial ownership			
	Ordinary shares beneficially owned excluding options	Options1 exercisable within 60 days of May 31, 2010	Total ordinary shares beneficially owned	Percent of ordinary shares beneficially owned
Amit Yonay2 Chairman of the Board	—	70,833	70,833	*
Marc Allouche2 Director	—	70,833	70,833	*
Dafna Cohen Director	—	—	—	—
Jaron Diament Director	—	—	—	—
David Grossman Director and Chief Executive Officer	—	—	—	—
Boaz Shweiger2 Director	—	70,833	70,833	*
Ronen Twito3 Chief Financial Officer	—	803,704	803,704	1.2%

All directors and executive officers as a group (7 persons)	—	1,016,203	1,016,203	1.6%

(1) Options to purchase ordinary shares.

(2) 70,833 options at an exercise price of NIS 0.298 per ordinary share of NIS 0.1 par value, exercisable until March 1, 2020.

(3) 803,704 options at an exercise price of NIS 0.075 per ordinary share of NIS 0.1 par value, exercisable until June 23, 2019.

* Represents Less than 1% of ordinary shares outstanding.

Share Option Plans

We maintain the following share option plans for our and our subsidiary's employees, directors and consultants. In addition to the discussion below, see Note 16b of our consolidated financial statements, included at "Item 18. Financial Statements."

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

As of December 31, 2009, we have granted to employees, directors and consultants options that are outstanding to purchase up to 2,140,714 ordinary shares of NIS 0.1 par value, pursuant to four share option plans and pursuant to certain grants apart from these plans also discussed below under Non-Plan Share Options.

1999 Share Option Plan

Under a share option plan established in 1999, we granted options to our employees, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 840 of NIS 0.1 par value (4,200 of NIS 0.02 par value before the share consolidation) are outstanding and exercisable as of December 31, 2009, at an exercise price of $2.485 for NIS 0.1 per ordinary share ($ 0.4972 for NIS 0.02 per share, before the share consolidation to NIS 0.1 par value). The options are non-transferable.

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

2000 Share Option Plan

Under a share option plan established in 2000, we granted options to our employees, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 17,960 of NIS 0.1 par value (89,800 of NIS 0.02 par value, before the share consolidation to NIS 0.1 par value) are outstanding and exercisable as of December 31, 2009, at an exercise price of $5.5 for NIS 0.1 par value ($ 1.1 for NIS 0.02 per share, before the share consolidation to NIS 0.1 par value) per ordinary share. The options are non-transferable.

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

2001 Share Option Plan

Under a share option plan established in 2001, referred to as the 2001 Plan, we granted options during 2001-2009, at an exercise price between $ 0.0198 and $4.655 per ordinary share of NIS 0.1 par value. Up to 2,200,000 option of NIS 0.1 par value (11,000,000 options of 0.02 par value, before the share consolidation) were available to be granted under the 2001 Plan. On July 29, 2009, the option pool was increased by 5,000,000 unissued additional ordinary shares of NIS 0.1 par value, as well as 1,026,322 options (NIS 0.1 par value) that reverted to the pool due to departure of employees. As of December 31, 2009, 1,862,914 options are outstanding. Options granted to Israeli employees were in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The options are non-transferable.

The option term is for a period of ten years from the grant date. The options were granted for no consideration. The options vest over a four or three year period. As of December 31, 2009, 1,060,321 options of NIS 0.1 par value are fully vested. As of December 31, 2009, the remaining number of options of NIS 0.1 par value available for future grants under the 2001 Plan is 5,200,777

Non-Plan Share Options

In addition to the options granted under our share option plans, there are 259,000 of NIS 0.1 par value outstanding and exercisable options, as of December 31, 2009, which were granted directors and consultants not under an option plan during 1997-2008. The options were granted at an exercise price between $2.486 and $10.55 per ordinary share. The options expire between 2010 and 2018.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As of June 28, 2010, we are not aware of any beneficial owner holding more than 5% of our outstanding ordinary shares. As of May 31, 2010, there were 10,887,081 ADR's outstanding, held by approximately 6 record holders, whose holdings represented approximately 37% of the total outstanding ordinary shares, of which 5 record holders were in the US.

Related Party Transactions

To our knowledge, there are no related party transactions existing as of June 28, 2010.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Our audited consolidated financial statements are included on pages 1 through 61 of this annual report.

Legal Proceedings

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

Dividend Distributions

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

Significant Changes

We have signed an asset purchase agreement to acquire the rights to develop rHuEPO for the treatment of MM from Bio-Gal Ltd., a private biotechnology company based in Gibraltar, in March 2009. In December, 2009, we amended the asset purchase agreement with Bio-Gal Ltd., so that XTL shall acquire from the shareholders of XTEPO Ltd. ("XTEPO"; a special purpose company that was established by Bio-GAL Ltd.'s shareholders who received from Bio-GAL all of Bio-Gal's right on rHuEPO and raised approximately $1.5 million) all of their shares in XTEPO in exchange for the issuance to XTEPO's shareholders of ordinary shares of XTL representing approximately 69.44% o of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000.upon the successful of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the Successful Completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of the Phase 2 of an amount of minimum $2 million. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement, of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010.

ITEM 9. THE OFFER AND LISTING

Markets and Share Price History

Since July 12, 2005 our shares have been traded on Tel Aviv Stock Exchange (TASE) under the symbol "XTL". As of April 17, 2009, when we were delisted from Nasdaq, then our primary trading market, our dual-listing provisions ceased and since then TASE has become our primary trading market for our securities, and our ADRs are quoted on the Pink Sheets under the symbol "XTLBY.PK", with each ADR representing two NIS 0.1 par value ordinary shares.

On January 27, 2009, we received a Staff Determination Letter from The Nasdaq Stock Market notifying us that the staff of Nasdaq's Listing Qualifications Department determined, using its discretionary authority under Nasdaq Marketplace Rule 4300, that our ADRs would be delisted from Nasdaq. The letter further stated that Nasdaq would suspend trading on our ADRs at the opening of trading on February 5, 2009, unless we appealed Nasdaq's delisting determination. Nasdaq's determination to delist our ADRs was due to the fact we do not meet the stockholder's equity requirement or any of its alternatives and that Nasdaq's belief is that we are a public shell, and that we do not meet the stockholder's equity requirement or any of its alternatives. On February 3, 2009, we appealed the determination by the Nasdaq Listing Qualification Staff to delist our ADRs from the Nasdaq Capital Market. The Nasdaq Office of the General Counsel assigned a date of March 19, 2009, for an oral hearing before the Nasdaq Hearings Panel. Nasdaq’s delisting action has been stayed, pending a final written determination by the Panel following the hearing. At the hearing, we presented our opposition to Nasdaq's arguments and our business plan that among others enabled compliance with all other applicable Nasdaq listing requirements. In April 2009, we received a letter from the NASDAQ Stock Market informing us of their final decision to delist our ADRs from NASDAQ Capital Markets as of April 17, 2009, which has become final and unappealable as of July 2009.

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Following the delisting in April 2009, our ADRs are quoted on the Pink Sheets under the symbol XTLBY.PK). Since September 1, 2005 until April 2009 our primary trading market was NASDAQ Capital Markets. Our ADRs have been traded on the NASDAQ Stock Market under the symbol "XTLB," with each ADR representing ten NIS 0.02 par value ordinary shares (prior to the 1:5 share consolidation, which was resolved on March 18, 2009, and effected in June 2009).

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

American Depositary Shares

The following table presents, for the periods indicated, the high and low market prices for our ADRs as reported on the NASDAQ Stock Market1 since September 1, 2005 and on the Pink Sheets since April 17, 2009, the date on which our ADRs were initially quoted. Prior to the initial quotation of our ADRs on the NASDAQ Stock Market on September 1, 2005, our ADRs were not traded in any organized market and were not liquid.

	US Dollar	
	High	Low
Last Six Calendar Months		
June 2010 (until June 15)	0.08	0.06
May 2010	0.11	0.06
April 2010	0.13	0.11
March 2010	0.13	0.10
February 2010	0.14	0.12
January 2010	0.15	0.09
December 2009	0.15	0.09
Financial Quarters During the Past Two Full Fiscal Years		
Second Quarter of 2010 (until June 15)	0.13	0.06
First Quarter of 2010	0.15	0.09
Fourth Quarter of 2009	0.18	0.09
Third Quarter of 2009	0.22	0.14
Second Quarter of 2009	0.32	0.05
First Quarter of 2009	0.20	0.05
Fourth Quarter of 2008	3.55	0.04
Third Quarter of 2008	4.96	2.95
Second Quarter of 2008	3.93	2.90
First Quarter of 2008	4.39	2.70
Full Financial Years Since Listing		
2009	0.32	0.05
2008	4.96	0.04
2007	4.99	1.10
2006	8.17	2.00

1 Our ADRs are quoted on the Pink Sheets since April 17, 2009. Our ADRs were quoted on the NASDAQ Capital Market since December 3, 2007 until April 17, 2009 and prior to that were quoted on the NASDAQ Global Market.

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The following table sets forth, for the periods indicated, the high and low sales prices of the NIS 0.1 par value ordinary shares (after the 1:5 share consolidation which was resolved on June 22, 2009) on the Tel Aviv Stock Exchange. For comparative purposes only, we have also provided such figures translated into US Dollars at an exchange rate of 3.819 New Israeli Shekel per US Dollar, as reported by the Bank of Israel on June 15, 2010.

	New Israeli Shekel		US Dollar	
	High	Low	High	Low
Last Six Calendar Months				
June 2010 (until June 15)	0.262	0.162	0.069	0.042
May 2010	0.294	0.199	0.077	0.052
April 2010	0.318	0.283	0.083	0.074
March 2010	0.370	0.300	0.097	0.079
February 2010	0.359	0.303	0.094	0.079
January 2010	0.407	0.275	0.107	0.072
December 2009	0.410	0.262	0.107	0.069
Financial Quarters During the Past Two Full Fiscal Years				
Second Quarter of 2010 (until June 15)	0.318	0.162	0.083	0.042
First Quarter of 2010	0.407	0.275	0.107	0.072
Fourth Quarter of 2009	0.468	0.262	0.123	0.069
Third Quarter of 2009	0.597	0.392	0.156	0.103
Second Quarter of 2009	1.285	0.200	0.336	0.052
First Quarter of 2009	0.345	0.095	0.090	0.025
Fourth Quarter of 2008	6.250	0.075	1.637	0.020
Third Quarter of 2008	8.700	5.065	2.278	1.326
Second Quarter of 2008	6.500	4.800	1.702	1.257
First Quarter of 2008	7.500	4.505	1.964	1.180
Full Financial Years Since Listing				
2009	1.285	0.095	0.336	0.025
2008	8.700	0.075	2.278	0.020
2007	10.20	2.275	2.671	0.596
2006	18.50	4.645	4.844	1.214

1 On June 22, 2009 a 1:5 share consolidation was resolved. All figures prior to the effective date were adjusted accordingly.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

Objects and Purposes of the Company

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

Powers and Obligations of the Directors

Pursuant to the Israeli Companies Law and our Articles of Association, a director is not permitted to vote on a proposal, arrangement or contract in which he or she has a personal interest. Also, the directors may not vote on compensation to themselves or any members of their body, as that term is defined under Israeli law, without the approval of our audit committee and our shareholders at a general meeting. The requirements for approval of certain

transactions are set forth below in “Item 10. Additional Information – Memorandum and Articles of Association–Approval of Certain Transactions.” The power of our directors to enter into borrowing arrangements on our behalf is limited to the same extent as any other transaction by us.

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

Indemnification of Directors and Officers; Limitations on Liability

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

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

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

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

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

Approval of Certain Transactions

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

compensation to external directors in the amounts specified in the regulations discussed in “Item 6. Directors, Senior Management and Employees – Directors and Senior Management – Compensation.”

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

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

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

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

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

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

- a merger; and
- approval of interested party transactions that require shareholders approval.

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

Rights Attached to Ordinary Shares

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

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

Transfer of Shares

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

Dividend and Liquidation Rights

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

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

Annual and Extraordinary General Meetings

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

Voting Rights

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

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

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

Voting by Proxy and in Other Manners

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

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

Limitations on the Rights to Own Securities

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

Anti-Takeover Provisions under Israeli Law

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

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

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

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

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

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Rights of Shareholders

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

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

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

Enforceability of Civil Liabilities

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

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

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

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

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

Material Contracts

VivoQuest Inc.

In August 2005, we entered into an asset purchase agreement with VivoQuest, a privately held biotechnology company based in the US, pursuant to which we agreed to purchase from VivoQuest certain assets, including VivoQuest's laboratory equipment, and to assume VivoQuest's lease of its laboratory space. In consideration, we paid $450,000 to VivoQuest, which payment was satisfied by the issuance of ordinary shares having a fair market value in the same amount as of the closing date. In addition, we entered into a license agreement with VivoQuest pursuant to which we acquired exclusive worldwide rights to VivoQuest's intellectual property and technology. The license covers a proprietary compound library, including VivoQuest's lead HCV compounds, that was developed through the use of Diversity Oriented Synthesis, or DOS, technology. The terms of the license agreement include an initial upfront license fee of approximately $941,000 that was paid in our ordinary shares. The license agreement also provides for additional milestone payments triggered by certain regulatory and sales targets. These milestone payments total $34 million, $25 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments on product sales. The asset purchase agreement and the license agreement with VivoQuest were completed in September 2005.

Presidio Pharmaceuticals, Inc.

In March 2008, and as revised August 2008, we signed an agreement to out-license the DOS program to Presidio Pharmaceuticals, Inc., or Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to our DOS program. In accordance with the terms of the license agreement, we received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. In addition, we will receive a royalty on direct product sales by Presidio, and a percentage of Presidio's income if the DOS program is sublicensed by Presidio to a third party.

Bio-Gal Ltd.

On March 18, 2009, we announced that we had entered into an asset purchase agreement with Bio-Gal Ltd, a Gibraltar private company, for the rights to a use patent on Recombinant Erythropoietin (“rHuEPO”) for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. On December 31, 2009, we amended the asset purchase agreement with Bio-Gal Ltd., so that XTL shall acquire a XTEPO Ltd. (a special purpose company that was established by Bio-GAL Ltd.'s shareholders who received from Bio-Gal all of Bio-Gal's right on rHuEPO and raised approximately $1.5 million). We intend to develop rHuEPO for the prolongation of MM patients' survival and improvement of their quality of life. MM is a severe and incurable malignant hematological cancer of plasma cells. In accordance with the terms of the amended asset purchase agreement, we will issue to XTEPO's shareholders ordinary shares representing approximately 69.44% of our then issued and outstanding ordinary share capital. In addition, the parties agreed to cancel a $10 million cash milestone payment to Bio-Gal upon the successful completion of a Phase 2 clinical trial, which was under the original asset purchase agreement. We are also obligated to pay 1% royalties on net sales of the product, as well as a fixed royalty payment in the total amount of $350,000 upon the successful completion of Phase 2. Such payment of $350,000 mentioned above shall be made to Yeda upon the earlier of (i) six months from the Successful Completion of Phase 2 or (ii) the completion of a successful fundraising by XTL or XTEPO at any time after the completion of the Phase 2 of an amount of minimum $2 million. The closing of the transaction is subject to closing conditions including mainly: XTL’s shareholders’ approval, which was obtained at a shareholder meeting on March 2, 2010, and receiving an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement of the Israeli Tax Authorities. Management believes that closing of the transaction shall take place in the third quarter of 2010.

Bicifadine License

In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain in 2008. In January 2007, XTL Development had signed an agreement with DOV to in-license the worldwide rights for Bicifadine. XTL Development was developing Bicifadine for the treatment of diabetic neuropathic pain. In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of $7.5 million in cash in 2007. In addition, XTL Development would have been required to make milestone payments of up to $126.5 million over the life of the license. These milestone payments would have been made in either cash and/or our ordinary shares, at our election, with the exception of $5 million in cash, due upon or after regulatory approval of the product. XTL Development was also obligated to pay royalties to DOV on net sales of Bicifadine. Following our announcement of the failure of the phase 2b clinical trial, we ceased development of Bicifadine for diabetic neuropathic pain in 2008 and all rights under the agreement reverted to DOV. Since the failure of the Bicifadine phase 2b clinical trial, both XTL Development and DOV ceased the prosecution and maintenance of those patents relating to Bicifadine. In March 2010, the agreement was formally terminated.

In addition, XTL Development was committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. Once the Bicifadine license agreement was terminated, the commitment to pay a further transaction advisory fee ceased. In March 2010, we formally terminated the license agreement and therefore all unvested SARs have automatically expired. See also “Item 10. Additional Information - Material Contracts.” See “Item 5 – Operating and Financial Review and Prospects – Obligations and Commitments.”

Exchange Controls

Under Israeli Law, Israeli non-residents who purchase ordinary shares with certain non-Israeli currencies (including dollars) may freely repatriate in such non-Israeli currencies all amounts received in Israeli currency in respect of the ordinary shares, whether as a dividend, as a liquidating distribution, or as proceeds from any sale in Israel of the

ordinary shares, provided in each case that any applicable Israeli income tax is paid or withheld on such amounts. The conversion into the non-Israeli currency must be made at the rate of exchange prevailing at the time of conversion.

Taxation

Subject to the completion of Bio-Gal transaction, we will issue XTEPO's shareholders ordinary shares representing approximately 69.44% of our then issued and outstanding ordinary share capital. As a result of the shifts of ownership, which exceeds 50% over the three year lookback period, the Company's US carry back losses will be subject to certain limitations.

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

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

Israeli Tax Considerations

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

Corporate Tax Rate

The income of the Company is subject to corporate tax at the regular rate; the guidance of the amendment to the Income Tax Ordinance, 2005 from August 2008 prescribes a gradual reduction in the corporate tax rates and the resulting corporate tax rates starting 2007 are as follows: 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

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

Tax Benefits for Research and Development

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

Special Provisions Relating to Taxation under Inflationary Conditions

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

described as follows:

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

- subject to specified limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

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

Israeli Estate and Gift Taxes

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

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

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

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

The capital gains tax imposed on Israeli tax resident individuals on the sale of securities is 20%. With respect to an Israeli tax resident individual who is a “substantial shareholder” on the date of sale of the securities or at any time during the 12 months preceding such sale, the capital gains tax rate was increased to 25%. A “substantial shareholder” is defined as someone who alone, or together with another person, holds, directly or indirectly, at least 10% in one or all of any of the means of control in the corporation. With respect to Israeli tax resident corporate investors, capital gains

tax at the regular corporate rate will be imposed on such taxpayers on the sale of traded shares.

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

Taxation of Dividends

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

The tax rate imposed on dividends distributed by an Israeli company to Israeli tax resident individuals or to non-Israeli residents is set at a rate of 20%. With respect to "substantial shareholders," as defined above, the applicable tax rate is 25%. The taxation of dividends distributed by an Israeli company to another Israeli corporate tax resident is generally exempt from tax.

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

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

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

US Federal Income Tax Considerations

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

- a citizen or resident of the US;

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

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

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

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

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

Taxation of Dividends Paid on Ordinary Shares

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

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

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

- You must include the gross amount of the dividend, not reduced by the amount of Israeli tax withheld, in your US taxable income.

- You may be able to claim the Israeli tax withheld as a foreign tax credit against your US income tax liability. However, to the extent that 25% or more of our gross income from all sources was effectively connected with the conduct of a trade or business in the US (or treated as effectively connected, with limited exceptions) for a three-year period ending with the close of the taxable year preceding the year in which the dividends are declared, a portion of this dividend will be treated as US source income, possibly reducing the allowable foreign tax.

- The foreign tax credit is subject to significant and complex limitations. Generally, the credit can offset only the part of your US tax attributable to your net foreign source passive income. Additionally, if we pay dividends at a time when 50% or more of our stock is owned by US persons, you may be required to treat the part of the dividend attributable to US source earnings and profits as US source income, possibly reducing the allowable credit.

- A US holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent the US holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or, alternatively, to the extent the US holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a US holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute.

- If you do not elect to claim foreign taxes as a credit, you will be entitled to deduct the Israeli income tax withheld from your XTL dividends in determining your taxable income.

- Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld.

- If you are a US corporation holding our stock, the general rule is that you cannot claim the dividends-received deduction with respect to our dividends. There is an exception to this rule if you own at least 10% of our ordinary

shares (by vote) and certain conditions are met.

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

Taxation of the Disposition of Ordinary Shares

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

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

Tax Consequences If We Are A Passive Foreign Investment Company

Special tax rules apply to the timing and character of income received by a US holder of a PFIC. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income in a tax year is at least 50%. The IRS, has indicated that cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income, and the relative values of passive and non- passive assets, including goodwill. Furthermore, because the goodwill of a publicly-traded corporation such as us is largely a function of the trading price of its shares, the valuation of that goodwill is subject to significant change throughout each year. A determination as to a corporation’s status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable years ended December 31, 2009, 2008, 2005 and 2004. However, we believe that we were a PFIC for the taxable years ended December 31, 2007 and 2006. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2010 taxable year and possibly in subsequent years. In addition, even though we may not be a PFIC in any one particular year, the PFIC taint remains, and the special PFIC tax regime will continue to apply.

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

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

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

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

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

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

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

- gain recognized by the US holder upon the disposition of, as well as income recognized upon receiving certain excess distributions on the ordinary shares would be taxable as ordinary income;

- the US holder would be required to allocate the excess distribution and/or disposition gain ratably over such US holder's entire holding period for such ordinary shares;

- the amount allocated to each year other than the year of the excess distribution or disposition and pre-PFIC years would be subject to tax at the highest applicable tax rate, and an interest charge would be imposed with respect to the resulting tax liability;

- the US holder would be required to file an annual return on IRS Form 8621 for the years in which distributions were received on and gain was recognized on dispositions of, our ordinary shares; and

- any US holder who acquired the ordinary shares upon the death of the shareholder would not receive a step-up to market value of his income tax basis for such ordinary shares. Instead such US holder beneficiary would have a tax basis equal to the decedent's basis, if lower.

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

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

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

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

establishment in the US;

- the non-US holder is subject to tax under the provisions of US tax law applicable to US expatriates; or

- the individual non-US holder is present in the US for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Back-Up Withholding

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

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

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

US Federal Income Tax Consequences for XTL

As of March 18, 2009, we did not have a “permanent establishment” in the US. Our board of directors consists of a majority of Israeli residents and our CEO is domiciled in Israel. However, for the period we did have a "permanent establishment" in the US, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if we had income attributable to the permanent establishment in the US, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax.

As of December 31, 2009, we did not earn any taxable income for US federal tax purposes and we do not have a permanent establishment. If we eventually earn taxable income attributable to our US permanent establishment, we would be able to utilize accumulated loss carryforwards to offset such income only to the extent these carryforwards were attributable to our US permanent establishment. As of December 31, 2009, we estimate that these US net operating loss carryforwards are approximately $23 million. These losses, subject to limitation in the case of shifts in ownership of the Company, e.g., a planned offering or capital raise, resulting in a more than 50 percentage point change over a three year lookback period, can be carried forward to offset future US taxable income and expire through 2029.

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

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Documents on Display

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

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while maximizing our income from investments and minimizing our market risk. We invest in government, investment-grade corporate debt securities, and bank deposits in accordance with our investment policy. Some of these instruments in which we invest may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. As of December 31, 2009, our portfolio of financial instruments consists of cash and cash equivalents and restricted short-term bank deposits with multiple institutions. The average duration of all of our investments held as of December 31, 2009, was less than one year. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments.

Foreign Currency and Inflation Risk. We have generated all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. Until 2008, substantial amount of our operating expenses were in US dollars. Commencing from 2009 (after the failure of the Bicifadine clinical trial) the Company's head office moved back to Israel and thus the portion of our expenses in New Israeli Shekels ("NIS") has increased, mainly due to payment to Israeli employees and suppliers. Additionally, our future activities could lead us to perform a clinical trial in Israel, which may lead us to reassess the use of the US dollar as our functional currency. As a result, we are exposed to the risk that the US dollar will be devalued against the NIS or other currencies, and consequentially our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may decide in the future to hold portion of our cash, cash equivalents, bank deposits and marketable securities in NIS as well as to enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the US dollar or that the timing of any devaluation may lag behind inflation in Israel.

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

American Depositary Shares

Fees Payable By ADS Holders. A copy of our Form of Deposit Agreement with The Bank of New York (the "Depositary") (including the Form of American Depositary Receipt or "ADR") was filed with the SEC as an exhibit to our Form F-6 filed on November 28, 2007 (the "Deposit Agreement"). Pursuant to the Deposit Agreement, holders of our ADSs may have to pay to the Depositary, either directly or indirectly, fees or charges up to the amounts set forth in the table below.

Item	Associated Fee	Depositary Action
1.	Taxes and other governmental charges	As applicable
2.	Registration fees in effect for the registration of transfers of shares generally on the share register of XTL or foreign registrar and applicable to transfers of shares to or from the name of the Depositary or its nominee or the custodian or its nominee on the making of deposits or withdrawals	As applicable
3.	Expenses incurred by the Depositary	• Cable, telex and facsimile transmission (where expressly provided for in the Deposit Agreement) • Foreign currency conversion into U.S. dollars
4.	$5.00 or less per 100 ADSs (or portion thereof)	Execution and delivery of ADRs for distributions and dividends in shares and rights to subscribe for additional shares or rights of any other nature and surrender of ADRs for the purposes of withdrawal, including the termination of the Deposit Agreement
5.	$0.02 or less per ADS (or portion thereof)	Any cash distribution made pursuant to the Deposit Agreement, including, among other things: • cash distributions or dividends; • distributions other than cash, shares or rights; • distributions in shares; and • rights of any other nature, including rights to subscribe for additional shares.
6.	A fee for the distribution of securities equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit	Distributions of securities other than cash, shares or rights

	of such securities	
7.	A fee of $.02 or less per ADS (or portion thereof) for depositary services, which will accrue on the last day of each calendar year, provided, however, that no fee will be assessed to the extent a fee of $.02 was charged pursuant to Item 5 above during that calendar year	As applicable
8.	Any other charge payable by the Depositary, any of the Depositary's agents, including its custodian, or the agents of the Depositary's agents in connection with the servicing of shares or other deposited securities	As applicable

Fees Paid to XTL by the Depositary. As of January 1, 2009 through June 28, 2010, the Company has not received any fees, direct payments or indirect payments from The Bank of New York.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures. Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934. As of December 31, 2009, an evaluation was performed under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures as of December 31, 2009 were effective.

(b) Internal controls over financial reporting. Our management is responsible for establishing and maintaining adequate control over financial reporting, as such term is defined in Rule 13a-15(f) of the exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management believes our internal control over financial reporting was effective as of December 31, 2009.

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

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an audit report as of December 31, 2009 and dated June 28, 2010 relating to the financial statements which appear in this Annual Report on Form 20-F for the year ended December 31, 2009.

(c) Internal controls. There have been no significant changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

Not applicable.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Jaron Diament, chairperson of our audit committee, is an audit committee financial expert, as defined by applicable SEC regulations, and is independent in accordance with applicable SEC regulations.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct applicable that applies to all employees, directors and officers of our company, including our principal executive officer, principal financial officer, principal accounting officer or controller and other individuals performing similar functions. A copy of our Code of Conduct can be found on our website (www.xtlbio.com) and may also be obtained, without charge, upon a written request addressed to our investor relations department, XTL Biopharmaceuticals Ltd., PO Box 370, Rehovot 76100, Israel.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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

Principal Accountant Fees and Services

We were billed the following fees for professional services rendered by PWC, for the years ended December 31, 2009 and 2008.

	2009	2008
	(in thousands US$)	
Audit fees	62	79
Audit-related fees	-	36
Tax fees	-	2
All Other fees	8	22
Total	70	139

The audit fees for the years ended December 31, 2009 and 2008, respectively, were for professional services rendered for the audit of our annual consolidated financial statements, review of interim consolidated financial statements, statutory audits, and review of the outline report related to the Bio Gal transaction in 2009.

The audit-related fees for the years ended December 31, 2009 and 2008, respectively, were for Sarbanes Oxley compliance (only in 2008) and were also for assurance and related due diligence services related to accounting

consultations in connection with our fundraising activities in 2008, including issuance of comfort letters, and consents and assistance with review of documents filed with the SEC.

Tax fees for the years ended December 31, 2009 and 2008, respectively, were for services related to tax compliance, including the preparation of tax returns (only for XTL Biopharmaceuticals Ltd.), tax planning and tax advice, including assistance with tax audits and appeals, and tax advice related to our in-licensing activities.

Other fees for the years ended December 31, 2009 and 2008 relate to expense reimbursement, primarily travel and related.

For the fiscal year ended December 31, 2009 and 2008, all of our audit-related fees, tax fees and other fees were pre-approved by our audit committee.

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

Not applicable.

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

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant differences between our corporate governance practices and those required of a U.S. domestic issuer under the NASDAQ Stock Market Rules.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-61 of this Annual Report.

ITEM 19. EXHIBITS

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

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

10.33	Employment Agreement, dated as of January 1, 2006, between XTL Biopharmaceuticals Ltd. and Bill Kessler. *

10.34	Securities Purchase Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd., and the purchasers named therein. #
10.35	Registration Rights Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd. and the purchasers named therein. #
10.36	License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated March 19, 2008. #
10.37	Amended and Restated License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated August 4, 2008. &,>
10.38	Services Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., Quoque Bioventures LLC and Antecip Bioventures LLC. +
10.39	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC. +
10.40	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC. +
10.41	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Antecip Bioventures LLC. +
10.42	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC. +
10.43	Asset Purchase Agreement, dated as of March 18, 2009 between XTL Biopharmaceuticals Ltd. and Bio-Gal Ltd. &, >
10.44	Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Biogal Ltd. (under its previous name Haverfield Ltd.) and Biogal Advanced Biotechnology Ltd. dated January 7, 2002. &, >
10.45	Amendment to Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Haverfield Ltd. and Biogal Advanced Biotechnology Ltd. effective as of April 1, 2008. &, >
10.46	Amended and Restated Asset Purchase Agreement, Originally dated as of March 18, 2009, by among XTEPO Ltd. and Bio-Gal Ltd.
10.47	Share Transfer Agreement, made as of December 31, 2009, by and among XTEPO Ltd., XTL Biopharmaceuticals Ltd., and all of the shareholders and option holders of XTL Biopharmaceuticals Ltd.
10.48	Notice of Termination Agreement to Bicifadine License, dated March 4, 2010.
10.49	Employment Agreement, dated as of January 18, 2010, between XTL Biopharmaceuticals Ltd. and David Grossman.
10.50	Employment Agreement, dated as of July 29, 2009, between XTL Biopharmaceuticals Ltd. and Ronen Twito.
21.1	List of Subsidiaries
23.1	Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd, dated June 28, 2010.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 28, 2010.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 28,

	2010.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 28, 2010

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

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

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

Incorporated by reference from the annual report on Form 20-F filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on March 27, 2008.

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

& Incorporated by reference from the annual report on Form 20-F filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on April 6, 2009.

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

SIGNATURES

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

XTL BIOPHARMACEUTICALS LTD.
(Registrant)

Signature: /s/ David Grossman
David Grossman
Chief Executive Officer

Date: June 28, 2010

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

INDEX

Kesselman & Kesselman
Certified Public Accountants
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REPORT OF THE AUDITORS

To the shareholders of

XTL BIOPHARMACEUTICALS LTD.

We have audited the consolidated Statements of Financial Position of XTL Biopharmaceuticals Ltd. (hereafter - the "Company") and its subsidiaries as of December 31, 2009, December 31, 2008, December 31, 2007 and January 1, 2007, and the related consolidated statements of Comprehensive Income, changes in equity and cash flows for each of the three years ended December 31, 2009. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973, and in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2009, December 31, 2008, December 31, 2007 and January 1, 2007, and the consolidated comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2009, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010.

Without qualifying our opinion, we draw your attention to note 1d of the consolidated financial statements, which addresses, the Company's ability to continue operating as a going concern, is dependent on the completion of the Bio-Gal Transaction and the ability to raise additional funds as part of this transaction, or from alternative sources. The transaction has not yet been completed, among other things, due to the requirement to obtain approval of XTEPO Ltd's shareholders and the company's board to the proposed pre-ruling agreement of the Israeli Tax Authorities. Notwithstanding, there is uncertainty regarding completion of the Bio- Gal Transaction and the ability to raise funds as part of this transaction, or from alternative sources. Therefore, there is substantial doubt regarding the Company's ability to continue operating as a going concern. 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.

Kesselman & Kesselman
Certified Public Accountants (Israel)
A Member of PricewaterhouseCoopers International Limited
Tel Aviv, Israel
28 June 2010

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2009	2008	2007	January 1, 2007
		U.S. dollars in thousands			
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	5	412	2,924	2,377	4,400
Short-term deposits	6	-	-	10,600	20,845
Financial assets at fair value through profit or loss		-	-	-	102
Assets held for sale		-	-	-	18
Employee benefit assets	13	-	12	-	-
Accounts receivable	7	33	305	654	609
Income taxes receivable		72	49	270	-
Restricted deposits		40	71	-	-
		557	3,361	13,901	25,974
NON-CURRENT ASSETS:					
Restricted deposits		-	-	61	172
Employee benefit assets	13	-	-	16	-
Fixed assets	9	23	41	106	490
Intangible assets	10	-	-	9,294	1,808
Other investments	1b	135	-	-	-
Deferred tax assets		-	-	-	48
		158	41	9,477	2,518
Total assets		715	3,402	23,378	28,492
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Trade payables	11	192	416	2,144	941
Other accounts payable	12	516	1,058	1,665	1,834
Income taxes payable		-	-	-	143
Deferred revenue		-	-	-	399
Retirement benefit obligation	13	-	447	-	-
Liability for share appreciation rights	14	-	7	1,560	-
		708	1,928	5,369	3,317
NON-CURRENT LIABILITIES:					
Retirement benefit obligation		-	-	131	223
Deferred revenue		-	-	-	398

		-	-	131	621
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:	16				
Share capital		1,445	1,445	1,444	1,072
Share premium		139,786	139,786	139,577	131,153
Accumulated deficit		(141,224)	(139,757)	(123,143)	(107,671)
Total equity		7	1,474	17,878	24,554
Total liabilities and equity		715	3,402	23,378	28,492

Amit Yonay	David Grossman	Ronen Twito
Chairman of the Board	Director and CEO	CFO

Date of approval of the financial statements by the Company's Board: June 28, 2010

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

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2009	2008	2007
		U.S. dollars in thousands (except per share data)		
Revenues	17	-	5,940	907
Cost of revenues	17	-	1,841	110
Gross profit		-	4,099	797
Research and development costs	18	-	11,722	11,500
General and administrative expenses	19	(2,429)*)	3,937	7,596
Impairment loss of intangible asset	10	-	7,500	-
Other gains (losses), net	20	139	288	(8)
Operating income (loss)		2,568	(18,772)	(18,307)
Finance income	21	6	331	668
Finance costs	21	10	17	30
Financial income (costs), net		(4)	314	638
Income (loss) before taxes on income		2,564	(18,458)	(17,669)
tax benefit	22	(23)	(31)	(206)
Net income (loss) for the year attributable to equity holders of the parent		2,587	(18,427)	(17,463)
Basic and diluted earnings (loss) per share (in U.S. dollars) **)	23	0.044	(0.315)	(0.382)

*) Including reduced expenses which result from forfeiture of shares that were contingent on the performance of the former chairman and CEO, see also Note 16b.

**) After taking into account capital consolidation effected on June 22, 2009, see Note 16a(2).

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

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Year ended December 31, 2009			
	Note	Share capital	Share premium	Accumulated deficit	Total
		U.S. dollars in thousands			
Balance at January 1, 2009		1,445	139,786	(139,757)	1,474
Net income for the year		-	-	2,587	2,587
Share-based payment to employees and others	16	-	-	(4,180)	(4,180)
Transfer to equity for liability for share appreciation rights	14	-	-	126	126
Balance at December 31, 2009		1,445	139,786	(141,224)	7

		Year ended December 31, 2008			
	Note	Share capital	Share premium	Accumulated deficit	Total
		U.S. dollars in thousands			
Balance at January 1, 2008		1,444	139,577	(123,143)	17,878
Loss for the year		-	-	(18,427)	(18,427)
Share-based payment to employees and others	16	-	-	1,813	1,813
Exercise of options	16	1	32	-	33
Refund of stamp duty on share issuance		-	177	-	177
Balance at December 31, 2008		1,445	139,786	(139,757)	1,474

		Year ended December 31, 2007			
	Note	Share capital	Share premium	Accumulated deficit	Total
		U.S. dollars in thousands			
Balance at January 1, 2007		1,072	131,153	(107,671)	24,554
Loss for the year		-	-	(17,463)	(17,463)
Issue of shares	16	372	8,420	-	8,792
Share-based payment to employees and others	16	-	-	1,991	1,991
Exercise of options	16	-*)	4	-	4

Balance at December 31, 2007	1,444	139,577	(123,143)	17,878

*) Less than $ 1,000.

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

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2009	2008	2007
		U.S. dollars in thousands		
Cash flows from operating activities:				
Net income (loss) for the year attributable to equity holders of the parent		2,587	(18,427)	(17,463)
Adjustments to reconcile net income (loss) to net cash used in operating activities (a)		(5,075)	7,849	3,543
Net cash used in operating activities		(2,488)	(10,578)	(13,920)
Cash flows from investing activities:				
Decrease (increase) in restricted deposit	6	31	(10)	113
Decrease in short-term bank deposits	10	-	10,600	10,245
Purchase of intangible assets	9	-	-	(7,500)
Purchase of fixed assets	9, 20	-	(2)	(65)
Proceeds from sale of fixed assets and held for sale assets		-	327	308
Other investments	1b	(55)	-	-
Net cash provided by (used in) investing activities		(24)	10,915	3,101
Cash flows from financing activities:				
Proceeds from issue of shares	16	-	-	8,792
Refund of stamp duty paid in 2004 for share issuance		-	177	-
Exercise of options	16	-	33	4
Net cash provided by financing activities		-	210	8,796
Increase (decrease) in cash and cash equivalents		(2,512)	547	(2,023)
Cash and cash equivalents at the beginning of the year		2,924	2,377	4,400
Cash and cash equivalents at the end of the year		412	2,924	2,377

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

XTL BIOPHARMACEUTICALS LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Note	Year ended December 31, 2009	2008	2007
			U.S. dollars in thousands		
(a)	Adjustments to reconcile net income (loss) to net cash used in operating activities:				
	Income and expenses not involving cash flows:				
	Depreciation and amortization	9,10	13	39	108
	Loss (gain) on sale of fixed assets	20	5	(288)	(40)
	Share options granted to directors, employees and service providers	16	(4,180)	1,813	1,991
	Impairment of intangible assets	10	-	7,500	-
	Impairment of fixed assets	9	-	-	105
	Change in intangible assets	10	-	1,783	-
	Change in retirement benefit obligation, net	13	(435)	320	(108)
	Change in liability for share appreciation rights	14	119	(1,553)	1,560
	Change in deferred taxes	22	-	-	48
	Proceeds from sale of securities at fair value through profit or loss, net		-	-	54
	Change in fair value of financial assets at fair value through profit or loss		-	-	48
	Finance costs on restricted deposit		-	-	(2)
			(4,478)	9,614	3,764
	Changes in operating asset and liability items:				
	Change in deferred revenues		-	-	(797)
	Decrease (increase) in accounts receivable	7	249	570	(315)
	Decrease in other accounts payable	12	(542)	(607)	(312)
	Increase (decrease) in trade payables	11	(304)	(1,728)	1,203
			(597)	(1,765)	(221)
			(5,075)	7,849	3,543
(b)	Additional information on cash flows from operating activities:				
	Interest received		3	390	921

Interest paid	-	3	4
Refund of taxes on income	-	262	-
Payment of taxes on income	-	2	165

(c) Non-cash investing activities for the year ended December 31, 2009 total at approximately $ 80 thousand and it derives from deferred charges in connection with Bio-Gal (Xtepo) transaction which were recorded in the line item "other investments" (see Note 1b below).

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

XTL BIOPHARMACEUTICALS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

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

XTL Biopharmaceuticals Ltd. ("the Company") is engaged in the acquisition and development of therapeutics, among others, for the treatment of unmet medical needs. The Company was incorporated under the Israeli Companies Ordinance on March 9, 1993. The Company owns 100% of a U.S. company, XTL Biopharmaceuticals Inc. ("XTL Inc."), which was incorporated in 1999 under the laws of the State of Delaware.

XTL Inc. is engaged in development of therapeutics and business development in the medical realm. XTL Inc. has a wholly-owned subsidiary, XTL Development Inc. ("XTL Development"), which was incorporated in 2007 under the laws of the State of Delaware and is engaged in development of therapeutics for the treatment of diabetic neuropathic pain ("Bicifadine"). The company and the subsidiaries ("the group") have one operating segment.

On November 18, 2008, the Group announced that the Phase 2b clinical trial of Bicifadine (which was acquired in 2007 from DOV Pharmaceutical. Inc. ("DOV")) failed to meet its endpoints and, as a result, the Group ceased its development and as a result the group ceased development of Bicifadine for diabetic neuropathic pain, and all rights under the agreement reverted to DOV. Since the failure of the Bicifadine phase 2b clinical trial, XTL Development has ceased the prosecution and maintenance of those patents relating to the Bicifadine, in coordination with DOV. As for the termination of the license agreement, see note 25.

In December 2008, the Company implemented a restructuring plan which included, among others, terminating most of its employees following the failure of the lead clinical compound, Bicifadine, in the clinical trial. As of the date of the financial statements, the Company is seeking to complete the Bio-Gal transaction (see also b below), cooperation and acquisition of holdings mainly in companies engaged in applied research in the life science and in the research and development of drugs (biotechnology and pharmaceuticals). Further, the Company has certain milestone rights in the development of treatment for hepatitis C ("DOS") from Presidio Pharmaceuticals Inc. ("Presidio"), a U.S. privately-held biotechnology company (see c and Note 15a(3) below).

The Company is a public company traded on the Tel-Aviv Stock Exchange and the Company's American Depositary Receipts ("ADR") are quoted on the Pink Sheets, an inter-dealer electronic quotation and trading system in the over-the-counter (OTC) securities market, under the symbol “XTLBY.PK”.

On April 16, 2009, the NASDAQ's listing qualification department informed the Company that its ADRs will be delisted from NASDAQ on April 17, 2009 since the Company did not meet the minimum listing requirements for trading on the stock exchange. Effective this date, the Company is subject to the Pink Sheets regulatory framework in the U.S.. As a result of the above, the Company can not enjoy the relieves under the Securities Regulations (Periodic and Immediate Reports of Foreign Corporation), 2000 and it is required to publish reports in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

b. In furtherance to the restructuring plan, in March 2009, the Company entered into an asset purchase agreement with Bio-Gal Ltd. for the rights to use a patent on Recombinant Erythropoietin ("EPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. In accordance with agreement, the Company will issue Bio-Gal Ordinary shares representing just under 50% of the issued share capital of the Company at closing date. In addition, the Company will make milestone payments of $ 10 million in cash upon the successful

completion of a Phase 2b clinical trial. The Company's Board may, in its sole discretion, issue additional shares to Bio-Gal in lieu of such cash payment. The Company is also obligated to pay 1% royalties on net sales of the product.

XTL BIOPHARMACEUTICALS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont)

On December 31, 2009, the Company's Board approved and Bio-Gal amended the asset purchase agreement with Bio-Gal Ltd. so that the Company shall acquire 100% of the shares of Xtepo Ltd. ("Xtepo"), an Israeli privately-held company incorporated by Bio-Gal's shareholders for the transaction and that after the transaction will hold the exclusive license to use a patent of EPO drug and approximately $ 1.5 million in cash, by allocating 133,063,688 Ordinary shares of NIS 0.1 par value each of the Company representing after their allocation 69.44% of the Company's issued and outstanding share capital. An 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.
In addition, the company is obligated to pay 1% royalties on net sales of the product as well as fixed royalties payment in the total amount of $ 370 thousand, upon the successful of phase 2. Such payment of $ 370 thousand shall be made upon the earlier of:

1. The completion of a successful fundraising by the Company or Xtepo at any time after the successful completion of the phase 2 of an amount of minimum $ 2 million.
2. Six months from the successful completion of phase 2.

The closing of the transaction is subject to obtaining an approval from the Tax Authorities to carry out the share swap pursuant to section 103 and 104 to the Income Tax Ordinance and to obtaining approval that warrants in Xtepo were exercised so Xtepo will hold approximately $1.5 million at the date of transaction and additional contingent conditions.

During the year 2009 the Company capitalized direct expenses associated with the transaction in the amount of $ 135 thousand that were recorded as "Other investments".

c. In 2005, the Company acquired patent rights and other assets of VivoQuest Inc. ("VivoQuest"), covering a compound library, which includes certain compounds for the development of the DOS. Part of these rights was sold during 2008 to Presidio.

d. As of December 31, 2009, the Company has accumulated losses in the amount of approximately $ 141.2 million and equity in the amount of $ 7 thousand. The continuation of the Company's operations is dependent on closing the Bio-Gal transaction and obtaining its funds or raising funds from alternative sources.

As stated in b above, on December 31, 2009, the Company signed an amendment to the agreement with Bio-Gal. Likewise, on March 2, 2010, at a shareholders' meeting, the Company's shareholders approved the new outline for the Bio-Gal transaction as stated above. As of the date of the approval of these financial statements, an approval from XTEPO's shareholders and XTL's Board to the proposed pre-ruling agreement of the Israeli Tax Authorities and approval that warrants in Xtepo were exercised so Xtepo will hold approximately $1.5 million at the date of transaction, has yet to be obtained, which constitute contingent conditions along with additional contingent conditions required for the closing of the transaction.

The Company's management estimates that the required approvals are expected to be obtained within a reasonable period of time and will enable closing, raising funds and continuation of operations. However, closing the transaction and such raising are subject to uncertainty. If the transaction and raising are not effected in the coming weeks, there

are significant doubts about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the carrying amounts and classification of assets and liabilities that might result, if any.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

First-time adoption of IFRS:

1. Until December 31, 2008, the consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP.

Starting from the three months period ended March 31, 2009, the Company adopted International Financial Reporting Standards ("IFRS") and this pursuant to the provisions of Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" which was published by the Israel Accounting Standards Board. The IFRS are standards and interpretations adopted by the International Accounting Standards Board.

They comprise:

1. International Financial Reporting Standards (IFRS),
2. International Accounting Standards (IAS), and
3. Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

These financial statements are in the scope of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") because they are the first IFRS annual financial statements of the Group. The financial statements were prepared in accordance with IFRS that were published and became effective or adopted earlier when the financial statements were prepared (March 2010).

According to IFRS 1, the Group's date of transition to IFRS is January 1, 2007 ("the date of transition"). Comparative figures of the financial statements were restated in order to retroactively reflect the adoption of IFRS from the date of transition. As for the effect of the transition from reporting pursuant to U.S. GAAP to reporting pursuant to IFRS on comparative figures in the financial statements and as for the exemptions that the Company elected pursuant to IFRS 1, see Note 26.

2. The Company's financial statements as of December 31, 2009, 2008 and 2007 and January 1, 2007 and for each of the three years in the period ended December 31, 2009 have been prepared in accordance with IFRS and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) and include the additional disclosure in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of retirement assets, financial assets at fair value through profit or loss and liability for share appreciation rights at fair value.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. The Group's operating cycle is 12 months.

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

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). The Company wholly owns all subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

c. Foreign currency translation of transactions and balances:

1. Functional and presentation currency:

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

Below are the changes in the reporting periods in the exchange rate of the U.S. dollar ("the dollar") in relation to the NIS and the representative exchange rates:

Year ended	Change in the exchange rate of U.S. $ 1 %
December 31, 2009	(0.71)
December 31, 2008	(1.14)
December 31, 2007	(8.97)
December 31, 2006	(8.21)

As of	Exchange rate of U.S. $ 1 NIS
December 31, 2009	3.775
December 31, 2008	3.802

December 31, 2007	3.846
December 31, 2006	4.225

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Transactions and balances:

Transactions in a currency other than the functional currency ("foreign currency") are recorded on initial recognition at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate at the balance sheet date. Exchange differences are recognized in the statement of comprehensive income in the line item finance income (costs). Non-monetary assets and liabilities are translated into the functional currency at the exchange rate at the date of the transaction.

d. Fixed assets:

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

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Laboratory equipment	10 - 20
Computers	33
Office furniture and equipment	6 - 16

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected life of the improvement.

The residual value and useful life of an asset are reviewed at least each year-end and the changes are accounted for as a prospective change in accounting estimate.

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

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

e. Financial assets:

1. Classification:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. The Company's management determines the classification

of its financial assets at initial recognition.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a) Financial assets at fair value through profit or loss:

This category contains two sub-categories: financial assets held for trading purposes and financial assets at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if designated to this category by management. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading purposes and it is probable that they will be disposed of within one year after the date of the financial position.

b) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the financial position. These maturities are classified as non-current assets. The Group's loans and receivables are included in the line items: "accounts receivable", "cash and cash equivalents" and "restricted deposits" on the face of the statement of financial position (see also i below).

c) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment therein within 12 months after the date of the financial position.

d) Held-to-maturity investments:

Held-to-maturity investments are non-derivatives financial assets with fixed or determinable payments and fixed maturity that the Company's management has the positive intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be "tainted" and reclassified as available-for-sale. In the reported periods, the Group did not hold investments that were classified to this category.

2. Recognition and measurement:

Regular purchases and sales of financial assets are recognized on the date of disposal of the transaction which is the date on which the asset is transferred to the Group or transferred by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within "other gains (losses), net" in the period in which they arise.

As for the measurement of the fair value of the Company's financial instruments, see Note 4.

3. Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle the financial assets and liabilities on a net basis or realize the asset and settle the liability simultaneously.

4. Impairment of financial assets:

Financial assets carried at amortized cost:

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

f. Intangible assets:

Research and development:

Research expenses are recognized in the statement of income when incurred. An intangible asset arising from a development project is recognized when the following criteria are met:

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. During the reported period, the Group did not capitalize development costs to intangible assets.

The Company recognized at fair value an intangible asset relating to research and development costs acquired from third parties.

Acquired development assets are not systematically amortized and are tested for impairment annually in accordance with the provisions of IAS 36, "Impairment of Assets" (see g below).

Government grants for approved projects were deducted from the relevant expense.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Impairment of non-financial assets:

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

As for testing impairment of acquired development assets, see f above.

h. Government grants:

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

i. Cash and cash equivalents:

Cash and cash equivalents includes cash in hand, short-term bank deposits, other short-term highly liquid investments with original maturities of three months or less.

j. Share capital:

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

k. Trade payables:

Trade payables are the Group's obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

l. Taxes on income:

Taxes on income in the statement of comprehensive income comprise current and deferred taxes.

1. Current taxes:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Deferred taxes:

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

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are taken to the statement of comprehensive income based on tax laws that have been enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of comprehensive income represents the changes in said balances during the reported period.

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

Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority. Deferred tax asset has not recognized in the Group's accounts because the availability of taxable income in the future is not probable.

m. Employee benefits:

1. Post-employment benefits:

The Company operates various pension plans. The plans are generally funded through payments to insurance companies or trustee-administered pension funds. These plans represent defined contribution plans because the Company pays fixed contributions into an independent separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

According to the Company's liability to employees for whom there are plans that represent defined benefit plan, the amounts of the benefits that the employee eligible to compensation will receive on retirement is defined by the number of years of service and its last salary.

The Company's liability to other employees who are part of the defined contribution plan is to pay fixed contributions to an independent separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service

in the current and prior periods.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The liability recognized in the statements of financial position is the present value of the defined benefit obligation at balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

The present value of the obligation is determined by discounting the estimated future cash flows (after taking into account estimated salary increases) using interest rates of Government debentures that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

According to IAS 19, "Employee Benefits" ("IAS 19"), the discount rate used to compute the actuarial obligation is determined by reference to market yields at the balance sheet date of high quality corporate bonds. However, IAS 19 states that in countries where there is no deep market in such bonds, the market yields on Government debentures shall be used.

As stated above, the interest rate used by the Company in discounting the estimated future cash flows for computing the actuarial obligation was determined using interest rates of high quality NIS Government debentures since the Company's management believes that there is no market with heavy trade in corporate bonds in Israel.

To the Company's management best knowledge, the issue of whether in Israel there is deep market in corporate bonds is being examined by the Israel Accounting Standards Board and the Securities Authority with the assistance of the Bank of Israel. If, in the future, these entities accept a decision that differs from the Company's decision, as above, the Company may be required to correct the results it reported on in these financial statements.

The Company recognizes actuarial gains and losses arising from changes in actuarial assumptions and differences between assumptions made in the past and actual results in the statement of comprehensive income in the period in which they arise.

The liabilities for compensation is measured at fair value.

The above liabilities comprise "plan assets" as defined in IAS 19 and, accordingly, they were offset from the balance of retirement benefit obligation for the balance sheet presentation.

As stated above, for defined contribution plan the Company buys insurance policies and pays contributions to pension and compensation funds against its liability to pay pension and retirement. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

2. Paid annual leave and sick leave:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Share-based payment transactions:

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

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

The proceeds received when the options are exercised into shares net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share-based payments that were granted before November 7, 2002 or that vested before January 1, 2007 are not accounted for retroactively pursuant to IFRS 2, as under the exemption of IFRS 1.

Share-based payments for share appreciation rights with settlement alternative which were granted to the Group's service provider were accounted in the past as a cash-settled grant. The Company remeasured the value of the liability at each reporting date. On September 30, 2009, in accordance with IFRS 2 and after the Company's management examined the issue, in furtherance to the Company's financial condition (see Note 1d), the classification of the transaction was modified to an equity-settled transaction. The company has no obligation to settle the transaction in cash.

o. Revenue recognition:

Revenues are recognized in the statement of comprehensive income when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received.

The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from transfer of rights to use development which include the Group's involvement during the development period, are recognized on a straight-line basis over the expected term of the agreement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Revenues from sale of DOS development rights to Presidio and rendering of ongoing services by the Company are recognized as follows:

a) The fair value of labor services by the Group's employees is recognized over the service term.

b) The difference between the sale consideration and the fair value of labor services is recognized at the date of transaction as revenues from sale of DOS development rights.

3. Interest income are recognized on a periodic basis using the effective interest method.

p. Earnings (loss) per share:

1. Basic earnings per share is calculated by dividing income or loss attributable to equity holders of the parent by the weighted average number of Ordinary shares outstanding during the period.

2. For the purpose of calculating diluted earnings or loss per share, the number of Ordinary shares shall be the average Ordinary shares calculated in basic earnings per share plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. Potential Ordinary shares are taken into account as above only when their conversion is dilutive (decreases the earnings or increases the loss per share).

q. Leases:

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

r. Non-current assets (or disposal groups) held-for-sale:

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. These assets are stated at the lower of carrying amount and fair value less costs to sell. Non-current assets (or disposal groups) classified as held-for-sale are presented separately from other assets in the statements of financial position. The liabilities of disposal groups that are classified as held-for-sale are presented separately from the other liabilities in the statements of financial position.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. New and amended IFRS standards and IFRIC interpretations:

Below are standards and amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

a) IAS 27 (revised), "Consolidated and Separate Financial Statements" ("IAS 27R") (effective for annual periods beginning on or after July 1, 2009). IAS 27R requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. IAS 27R also specifies the accounting when control of the entity is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. The Company/Group will apply IAS 27R prospectively to all transactions with non-controlling interests from January 1, 2010.

b) IFRS 3 (revised), "Business Combinations" ("IFRS 3") (effective for annual periods beginning on or after July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3R prospectively to all business combinations from January 1, 2010.

c) IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 was issued in November 2009 and it represents the first milestone in the three stages planned replacement of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The first issued part replaces the sections of IAS 39 which deal with the classification and measurement of financial assets. Below are summarized principles of IFRS 9:

- Financial assets are classified into one of the two following categories: fair value and amortized cost. The decision to which category a financial asset should be classified is made on initial recognition. This classification is driven by the entity's business model for managing financial instruments and the contractual characteristics of the cash flows from the instrument.

- A hybrid contract with a financial asset host is classified in its entirety into one of the above categories without separating the embedded derivative from a host contract.

- A financial asset is measured after initial recognition at amortized cost only if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and (b) the contractual cash flows under the instrument solely represent payments of principal and interest (in other words, the instrument has only basic features of a loan).

- Financial assets that are debt instruments not meeting the above criteria are measured at fair value through profit or loss.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Financial assets that are equity instruments should be measured at fair value, as follows:

  i. Equity instruments held-for-trading should be measured at fair value.

  ii. As for other equity instruments, an entity has an option to choose on initial recognition (irrevocable designation) to recognize subsequent changes in fair value in other comprehensive income. If the above is chosen, there is no recycling of fair value gains and losses to profit or loss even if the instrument is disposed. However, dividends from such instruments will be recognized in profit or loss. Such designation is on an instrument-by-instrument basis. Equity instruments which were not designated as above, should be measured at fair value through profit or loss.

IFRS 9 is effective for years beginning on or after January 1, 2013. Early application is permitted. At this stage, the Company is evaluating the guidance of the standard, its impact on the Company and the time when the Company will adopt it.

d) Amendment to IAS 7, "Cash Flows Statements" ("the amendment to IAS 7"). This amendment is part of the IASB's annual improvements project published in April 2009. This amendment requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities. The amendment to IAS 7 is applied retrospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. The Group will apply this amendment from January 1, 2010 and it is not expected to have a material impact on the financial statements.

e) Amendment to IAS 38, "Intangible Assets" ("the amendment to IAS 38"). This amendment is part of the IASB's annual improvements project published in April 2009. The amendment to IAS 38 clarifies, among others, the requirements in IFRS 3 (revised), "Business Combinations" ("IFRS 3R") regarding the accounting treatment of intangible assets acquired in a business combination. This amendment permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment to IAS 38 is applied prospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. If an entity applies IFRS 3 for an earlier period, the amendment to IAS 38 shall be applied for that earlier period. The Group will apply the amendment to IAS 38 from January 1, 2010. At this stage, the impact, if any, on the financial statements can not be assessed.

f) Amendment to IAS 38, "Intangible Assets" ("the amendment to IAS 38"). This amendment is part of the IASB's annual improvements project published in April 2009. This amendment clarifies, among others, the description of valuation techniques used when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The amendment to IAS 38 is applied prospectively for annual periods beginning on or after January 1, 2010. Earlier application is permitted. The Group will apply the amendment to IAS 38 from January 1, 2010. At this stage, the impact, if any, on the financial statements can not be assessed.

NOTE 3:- CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

a. Share-based payments as well as liability for share appreciation rights (see Note 2n) - in evaluating the fair value and the recognition method of share-based payment, the Company's management is to estimate, among others, different parameters included in the computation of the fair value of the options and the Company's results and the number of options that will vest. Actual results and estimates to be made in the future may significantly differ from current estimates.

b. Intangible assets - in testing impairment of intangible assets of research and development, the Company's management is to estimate, among others, the probable endpoints of trials conducted by the Company, the commercial technical feasibility of the development and the resulting economic benefits. Actual results and estimates to be made in the future may significantly differ from current estimates.

c. Taxes on income and deferred taxes - the Group is subject to taxes in Israel and in the U.S. Significant judgment is required by the Company's management in determining the provision for income taxes. There are many transactions and calculations in the ordinary course of the Group for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxes in the period in which such determination is made.

Carryforward tax losses of the Group total approximately $ 175 million (the Company - approximately $ 161 million) for which no deferred taxes were recognized because their utilization in the foreseeable future is not probable. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in Note 22c.

NOTE 4:- FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a. Financial risk management:

1. Financial risk factors:

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

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

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

a) Market risk:

Foreign exchange risk:

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

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

The Company treasury's risk management policy is to hedge between 75% and 100% of anticipated cash flows in each major foreign currency for the subsequent 12 months.

As of December 31, 2009, if the Group's functional currency had weakened by 10% against the NIS with all other variables held constant, post-tax profit for the year would have been $ 8 thousand lower (2008 - post-tax loss $ 9 thousand higher and 2007 - post-tax loss $ 17 thousand higher), mainly as a result of foreign exchange gains on translation of NIS-denominated accounts receivable and margins on exchange rate changes of cash and cash equivalents. Profit is less sensitive to movement in the exchange rate in relation to the NIS in 2009 than in 2008 mainly because of the fact that the group had no development activity and the decreased amount of the Company's cash balances.

b) Credit risk:

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and other financial institutions as well as outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

See Note 4b for further disclosure on credit risk.

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

c) Liquidity risk:

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

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

As of December 31, 2009, 2008 and 2007 and as of January 1, 2007, the maturity of the Group's financial liabilities is less than one year from each of the reporting dates.

2. Capital risk management:

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

In order to maintain or adjust the capital structure, the Group may take variety of measures such as issue new shares or sell assets to reduce debts.

b. Financial instruments:

1. Financial instruments by category:

As of December 31, 2009, 2008 and 2007 and January 1, 2007, all financial assets were classified in the category loans and receivables except for financial assets at fair value through profit or loss which were classified to assets at fair value through profit or loss. Likewise, all financial liabilities as of such dates were classified in the category other financial liabilities at amortized cost except for liability for share appreciation rights which was classified to liabilities at fair value through profit or loss.

2. Credit quality of financial assets:

The credit quality of financial assets that are not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	December 31,		January 1,
2009	2008	2007	2007
	U.S. dollars in thousands		
Cash at banks, short-term deposits and restricted deposits:			

AAA	-	1,305	6,187	11,319
AA+	440	-	-	-
AA	-	1,056	6,505	-
AA-	10	632	341	14,088
Cash not in banks	2	2	5	10
	452	2,995	13,038	25,417

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
Cash at bank and on hand	358	2,700	2,314	473
Short-term bank deposits	54	224	63	3,927
	412	2,924	2,377	4,400

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

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
NIS	81	24	55	228
U.S. dollar	331	2,897	2,316	4,172
U.K. Pound	-	3	6	-
	412	2,924	2,377	4,400

The carrying amount of cash and cash equivalents is a reasonable approximation of the fair value because the effect of discounting is immaterial.

NOTE 6:- SHORT-TERM DEPOSITS

The deposits are short-term deposits at banks, denominated in U.S. dollars with maturity of more than three months but less than one year. The average interest on the deposits as of December 31, 2007 and January 1, 2007 was 4.89% and 5.37%, respectively.

NOTE 7:- ACCOUNTS RECEIVABLE

a. Composition:

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
Accrued income	-	-	61	317
Government authorities	8	69	21	8
Prepaid expenses	21	211	553	259
Other receivables	4	25	19	25

	33	305	654	609

b. The carrying amount of other accounts receivable which represent monetary items is denominated in the following currencies:

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
NIS	8	2	40	12
U.S. dollar	4	92	61	338
Total	12	94	101	350

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

NOTE 8:- ADDITIONAL INFORMATION ABOUT INVESTMENT IN SUBSIDIARY

Name and country of incorporation	% interest held	Scope of investments	Dividends received or receivable
XTL Biopharmaceuticals Inc., incorporated in Delaware	100% equity interest and voting rights	31.12.2009 - $ (1,728) thousand 31.12.2008 - $ (11,106) thousand 31.12.2007 - $ 5,116 thousand 1.1.2007 - $ 702 thousand	- - - -

XTL BIOPHARMACEUTICALS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- FIXED ASSETS

a. Composition of fixed assets and accumulated depreciation, by major classes, and the movement therein in 2009 are:

	Cost				Accumulated depreciation					
	Opening book amount	Additions during the year	Disposals during the year	Closing book amount	Opening book amount	Additions during the year	Disposals during the year	Closing book amount	Depreciated cost December 31, 2009	2008
	U.S. dollars in thousands									
Office furniture and equipment (including computers)	162	-	(24)	138	121	13	(19)	115	23	41
Leasehold improvements	141	-	(141)	-	141	-	(141)	-	-	-
	303	-	(165)	138	262	13	(160)	115	23	41

Composition of fixed assets and accumulated depreciation, by major classes, and the movement therein in 2008 are:

	Cost				Accumulated depreciation					
	Opening book amount	Additions during the year	Disposals during the year	Closing book amount	Opening book amount	Additions during the year	Disposals during the year	Closing book amount	Depreciated cost December 31, 2008	2007
	U.S. dollars in thousands									
Office furniture and equipment (including computers)	318	2	(158)	162	216	28	(123)	121	41	102
Leasehold improvements	141	-	-	141	141	-	-	141	-	-
Laboratory equipment	119	-	(119)	-	115	-	(115)	-	-	4
	578	2	(277)	303	472	28	(238)	262	41	106

XTL BIOPHARMACEUTICALS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- FIXED ASSETS (Cont.)

Composition of fixed assets and accumulated depreciation, by major classes, and the movement therein in 2007 are:

	Cost				Accumulated depreciation						
	Opening book amount	Additions during the year	Disposals during the year	Closing book amount	Opening book amount	Additions during the year	Impairment	Disposals during the year	Closing book amount	Depreciated cost December 31, 2007	Depreciated cost January 1, 2007
	U.S. dollars in thousands										
Office furniture and equipment (including computers)	383	65	(130)	318	279	33	-	(96)	216	102	104
Leasehold improvements	572	-	(431)	141	572	-	-	(431)	141	-	-
Laboratory equipment	1,281	-	(1,162)	119	895	61	105	(946)	115	4	386
	2,236	65	(1,723)	578	1,746	94	105	(1,473)	472	106	490

b. Additional information:

1. In 2007, the Group's management examined the recoverable amount of fixed assets and recorded an impairment of laboratory equipment of $ 105 thousand. The impairment has been charged in research and development costs.

2. In 2009, depreciation of fixed assets of $ 13 thousand has been charged in general and administrative expenses (2008 - $ 28 thousand and 2007 - $ 28 thousand) and no depreciation has been charged in research and development costs (2008 - $ 0 thousand and 2007 - $ 66 thousand).

NOTE 10:- INTANGIBLE ASSETS

a. On November 18, 2008, the Company published the results of Phase 2b clinical trial of Bicifadine for diabetic neuropathic pain which testified that the therapeutic did not meet its endpoints and, therefore, the development activity was ceased. On this date, an intangible asset of $ 7.5 million representing the acquired development rights was impaired, see also Note 26d(4).

b. As part of the Company's license agreement with VivoQuest (see Note 15a(3)), the Company allocated the acquisition cost to fixed assets and intangible assets, based on the fair value at the date of acquisition.

Composition of acquisition cost:

	U.S. dollars in thousands
Fair value of Company's shares issued upon acquisition	1,391
Cash paid	400
Direct acquisition costs	148
Total acquisition cost	1,939
Assets arising on acquisition:	
Fixed assets	113
Intangible assets:	
In-process research and development assets	1,783
Employment contracts with professional staff	43
Total intangible assets	1,826
Total assets arising on acquisition	1,939

In 2008 and 2007, depreciation of rights to employees service of $ 11 thousand and $ 14 thousand have been charged in research and development expenses, respectively.

In 2008, the Company signed and amended an agreement to out-license the DOS program to Presidio and, accordingly, research and development assets of $ 1,783 thousand have been attributed to cost of revenues (see Note 15a(3) below).

NOTE 11:- TRADE PAYABLES

a. Composition:

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
Open accounts	170	416	2,144	941
Checks payable	22	-	-	-
Total	192	416	2,144	941

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

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

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
NIS	36	16	143	135
U.S. dollar	156	400	2,001	806
Total	192	416	2,144	941

NOTE 12:- OTHER ACCOUNTS PAYABLE

a. Composition:

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
Employees and payroll accruals	122	39	44	52
Government authorities	-	8	23	33
Accrued expenses	394	1,003	1,570	1,683
Other	-	8	28	66
Total	516	1,058	1,665	1,834

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

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

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
NIS	132	87	109	381
U.S. dollar	384	971	1,556	1,453
Total	516	1,058	1,665	1,834

NOTE 13:- RETIREMENT BENEFIT OBLIGATION

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

b. The Company's obligation for pension payment in Israel and the Company's obligation for compensation payments to employees in Israel for whom the applicable obligation is pursuant to section 14 to the Severance Pay Law, are covered by fixed contributions in defined contribution plans. The amounts contributed as above are not reflected in the statements of financial position. During 2009, all company's employees were covered pursuant to section 14 to the severance pay law.

The amount recognized as an expense for defined contribution plans in 2009, 2008 and 2007 is $ 17 thousand, $ 35 thousand and $ 57 thousand, respectively.

c. The Company has an obligation to pay compensation to employees which is a defined benefit plan for which compensation reserves and managers' policies exist and the Group companies make contributions. The net amount of compensation obligations included in the statement of financial position as of December 31, 2009, 2008, 2007 and January 1, 2007 reflect the difference between the pension obligation and the plan assets, as outlined below.

The amounts recognized in the statement of financial position are determined as follows:

	December 31,			January 1,
	2009	2008	2007	2007
	U.S. dollars in thousands			
Present value of fully or partially funded obligations	-	27	33	219
Fair value of plan assets	-	(39)	(49)	(191)
Present value of unfunded obligations	-	(12)	(16)	28

The movement in the retirement benefit obligation which represents a defined benefit plan over the reporting periods is as follows:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Balance at the beginning of the year	27	33	219
Current service cost	-	-	46
Interest cost	-	2	8
Benefits paid	(39)	(10)	(165)
Actuarial losses (gains)	12	2	(75)

Balance at the end of the year	-	27	33

NOTE 13:- RETIREMENT BENEFIT OBLIGATION (Cont.)

The movement in the fair value of the plan assets over the reporting periods is as follows:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Balance at the beginning of the year	39	49	191
Expected return on plan assets	-	2	6
Actuarial gains (losses)	-	(2)	1
Employer contributions	-	-	16
Benefits paid	(39)	(10)	(165)
Balance at the end of the year	-	39	49

The amounts recognized in the statement of comprehensive income are as follows:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Current service cost	-	-	46
Interest cost	-	2	8
Actuarial losses (gains)	12	4	(76)
Expected return on plan assets	-	(2)	(6)
	12	4	(28)

Of the total amount included in salary expenses, a charge of $ 1 thousand for the year ended December 31, 2008 (2007 - $ (22) thousand) was included in research and development costs and a charge of $ 12 thousand for the year ended December 31, 2009 (2008 - $ 1 thousand and 2007 - $ (14) thousand) was included in general and administrative expenses.

The actual return on plan assets in the years ended December 31, 2009 and 2008 was less than $ 1 thousand and in the year ended December 31, 2007 was $ 7 thousand.

The principal assumptions used in computing defined benefit plan are as follows:

	December 31,		January 1,
2009	2008	2007	2007
	U.S. dollars in thousands		
Discount rate -	2.884	5.276	5.111

Israeli CPI rate	-	(0.4)	2.5	1.29
Expected return on plan assets	-	2.884	5.276	5.111
Expected employee turnover	-	47.17	47.17	47.17
Future salary increases	-	(0.4)	2.5	1.29

The expected return on plan assets is determined by considering the expected available returns on the assets underlying the current investment policy.

NOTE 13:- RETIREMENT BENEFIT OBLIGATION (Cont.)

Assumptions regarding future mortality experience are set in accordance with published statistics and the experience gained in this issue in Israel.

Since that as of December 31, 2009, the Company's employees have signed on section 14 to the severance pay law and they are covered by fixed contributions in defined contribution plans, no contributions in post-employment benefit plans are expected for the year ending December 31, 2010.

d. The group records a provision in its books relates to retirement agreements signed with executive officers and employees. As of December 31, 2008 and 2007, the liability related to these agreements totaled $ 447 thousand and $ 131 thousand, respectively. As of December 31 2009 the group has no liability for retirement agreements other than the defined contribution plans as aforementioned in b.

NOTE 14:- LIABILITY FOR SHARE APPRECIATION RIGHTS

In January 2007, XTL Development entered into a binding term sheet whereby it committed to pay a transaction advisory fee to certain third party intermediaries in connection with the DOV Transaction. In October 2008, the Company and XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the "Definitive Agreements"). Under the terms of the Definitive Agreements, the transaction advisory fee is structured in the form of Stock Appreciation Rights, or SARs, in the amount equivalent to (i) 3% of the Company's fully diluted Ordinary shares at the close of the transaction, representing 8,299,723 Ordinary shares before the capital consolidation of 2009 (1,659,945 shares after the capital consolidation), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of the Company's fully diluted Ordinary shares at the close of the transaction, representing 19,366,019 Ordinary shares before the capital consolidation of 2009 (3,873,204 shares after the capital consolidation), vesting on the "Date of Milestone Event." The "Date of Milestone Event" shall mean the earlier to occur of (i) positive results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by the Company or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain, (ii) the filing of a New Drug Application for Bicifadine by the Company or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to the Company or XTL Development whereby persons or entities holding a majority of the equity interests of the Company or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. Payment of the SARs by XTL Development can be satisfied, at the Company's discretion, in cash and/or by issuance of the Company's registered Ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one Ordinary share on the exercise date exceeds the $0.34 grant price, before the capital consolidation effected on June 2009 ($ 1.7 after the capital consolidation), for such SAR.

The SARs expire on January 15, 2017. As of December 31, 2009, the 3% tranche was vested and the 7% tranche was not vested. In the event of the termination of the Company's license agreement for the Bicifadine compounds, any unvested SARs will expire. In March 2010, the Company formally terminated the license agreement with DOV and therefore all unvested SARs have automatically expired. (see note 25)

NOTE 14:- LIABILITY FOR SHARE APPRECIATION RIGHTS (Cont.)

As stated in Note 2n, since September 30, 2009 the share appreciation right instrument is carried to equity.

The Company used a Black & Scholes model as the fair value pricing model for the SAR as described above. The following assumptions under this method were used for the valuation of the SAR for each reporting date: expected volatility of: 124% - 59%; risk-free interest rates (in dollar terms) of 2.9% - 4.2%; dividend yield of 0%; and remaining contractual life of 9 – 7.3 years, respectively.

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty and contingent milestone payments:

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

In accordance with the terms of the license agreement with DOV, the subsidiary will make milestone payments of up to $ 126.5 million, in cash or its shares (at its election) over the life of the license, of which up to $ 115 million will be due upon regulatory approval of the product. The subsidiary is also obligated to pay royalties to DOV on sales of Bicifadine.

In November 2008, the Company announced that the Phase 2b clinical trial failed to meet its endpoints and, as a result, the Company ceased development of Bicifadine (see also note 25).

2. The subsidiary is committed to pay an advisory fee (in cash or by issuance of shares) to a third party in connection with the DOV transaction (see also Note 14 above).

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

In connection with the VivoQuest transaction (the "Transaction"):

a) the Company issued the fair value equivalent of $1,391,000 of its Ordinary shares (1,314,420 Ordinary shares (262,884 after the capital consolidation), calculated based upon the average of the closing prices per share for the period commencing two days before, and ending two days after the closing of the transaction), made cash payments of approximately $ 400,000 to cover VivoQuest's operating expenses prior to the closing of the Transaction, and incurred $ 148,000 in direct expenses associated with the Transaction;

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b) the Company agreed to make additional contingent milestone payments triggered by certain regulatory and sales targets, totaling up to $ 34 million, $ 25 million of which will be due upon or following regulatory approval or actual product sales, and payable in cash or Ordinary shares at the Company's election. No contingent consideration has been paid pursuant to the license agreement as of the balance sheet date, because none of the milestones have been achieved; and

c) the Company agreed to make royalty payments on future product sales.

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

b. Operating lease commitments:

On April 6, 2009, a subsidiary, XTL Inc. informed Suga Development Inc. ("Suga") on the termination of the lease agreement. Similarly, XTL Inc. addressed Suga with a request to use their best efforts to re-rent the premises and to mitigate any damage. On September 23, 2009, after discussions, the parties agreed to cancel the agreement in consideration of a one-time compensation of $ 36 thousand relating to the termination of the lease agreement which was fully paid.

As of December 31, 2009, the Company leases three vehicles under an operating lease. The lease agreements expire in 2011. Vehicle lease expense for the years ended December 31, 2009, 2008 and 2007 were $ 25 thousand, $ 26 thousand and $ 15 thousand, respectively. To secure the lease of only two vehicles, the Company provided a bank guarantee which is secured by a restricted deposit of $ 40 thousand.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Contingent liabilities:

In 2009, the Company reached a compromise with a service provider of a wholly-owned subsidiary who demanded from the subsidiary $ 37 thousand. In the framework of an arbitration, the parties reached an agreement on $ 9 thousand compensation which was fully paid.

NOTE 16:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

a. Share capital:

1. Composition:

	Number of shares				Amount			
	Authorized December 31,		Issued and outstanding December 31,		Authorized December 31,		Issued and outstanding December 31,	
	2009	2008	2009	2008	2009	2008	2009	2008
	Thousand				U.S. dollars in thousands			
Ordinary shares of NIS 0.1 *)	700,000	-	58,561	-	18,543	-	1,445	-
Ordinary shares of NIS 0.02	-	500,000	-	292,805	-	2,630	-	1,445

	Number of shares				Amount			
	Authorized December 31,	January 1,	Issued and outstanding December 31,	January 1,	Authorized December 31,	January 1,	Issued and outstanding December 31,	January 1,
	2007	2007	2007	2007	2007	2007	2007	2007
	Thousand				U.S. dollars in thousands			
Ordinary shares of NIS 0.02	500,000	300,000	292,655	220,124	2,630	1,420	1,444	1,072

*) Traded on the Tel-Aviv Stock Exchange. As of December 31, 2009, Ordinary share of NIS 0.1 was traded at NIS 0.272.

2.

Ordinary shares confer upon their holders voting rights and right to participate in the shareholders' meeting, right to receive earnings and the right to participate in the excess of assets upon liquidation of the Company.

On March 18, 2009, the extraordinary shareholders' meeting approved the following:

a) that the share capital of the Company be consolidated so that each 5 shares of NIS 0.02 par value shall be consolidated into one (1) share of NIS 0.1 par value.

b) that the authorized share capital of the Company be increased from NIS 10,000,000 par value divided into 100,000,000 Ordinary shares of NIS 0.1 par value to NIS 70,000,000 divided into 700,000,000 Ordinary shares of NIS 0.1 par value.

c) that the ADR ratio be amended from one (1) ADR representing two (2) Ordinary shares of NIS 0.1 par value to one (1) ADR representing twenty (20) Ordinary shares of NIS 0.1 par value.

NOTE 16:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

d) due to the capital consolidation, the amount of share options granted before the capital consolidation and the exercise price were adjusted accordingly.

On June 22, 2009, the share capital was consolidated and the authorized share capital of the Company was increased, as stated above. The change in the conversion ratio of ADR was not effected because the Board accepted a decision that such change in not required.
On July 10, 2009, the SEC informed that the Company's ADRs were delisted from NASDAQ. The Company's ADRs continue to be traded on the Pink Sheets, an inter-dealer electronic quotation and trading system in the over-the-counter (OTC) securities market.

3. In November 2007, the Company completed a private placement of 72,485,020 Ordinary shares of NIS 0.02 par value (14,497,004 Ordinary shares of NIS 0.1 par value after the capital consolidation) each at $ 0.135 per share. Total proceeds to the Company from this private placement were approximately $ 8.8 million, net of offering expenses of approximately $ 1 million.

b. Share-based payment:

Below is information about share-based payments granted to the Group's directors, employees and service providers during the reported years (all data presented below reflect the capital consolidation occurred in June 22, 2009(see a above).

1. In April 2007, the Company's Board granted 70,000 share options to employees in the Group to purchase 70,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.87 per share. The fair value of all share options using the Black-Scholes model was $ 1.0 per option on the grant date and a total of $ 70 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every anniversary of the grant date over a four-year period.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 50.62%, risk-free interest rate of 4.6% and expected life of six years.

As of December 31, 2009, all options were either forfeited or expired.

The Company's Board also granted 30,000 share options to service providers of the Company to purchase 30,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.87 per share. The fair value of all share options using the Black-Scholes model was $ 0.75 per option on the grant date and a total of $ 23 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every anniversary of the grant date over a two-year period.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 50.62%, risk-free interest rate of 4.53% and expected life of three years.

2. In August 2007, the Company granted 4,000 share options to a director to purchase 4,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.02 per share. The fair value of all share options using the

Black-Scholes model was $ 0.55 per option on the grant date and a total of $ 2.2 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every quarter of the grant date over a three-year period.

NOTE 16:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 50.98%, risk-free interest rate of 4.69% and expected life of six years.

As of December 31, 2009, all options were either forfeited or expired.

3. In January 2008, the Company's Board granted 859,060 share options to employees in the Company to purchase 859,060 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.575 per share. The fair value of all share options using the Black-Scholes model was $ 0.9 per option on the grant date and a total of $ 770 thousand for all options. The option term is for a period of 10 years from the grant date.

The options are exercisable as follows:

a) 799,300 options of which one-quarter is exercisable immediately and the balance is exercisable on a straight-line basis every anniversary of the grant date over three years

b) 24,000 options are exercisable immediately

c) 35,760 options are exercisable on a straight-line basis every anniversary of the grant date over four years

The average value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 65%, risk-free interest rate of 2.95% and expected life of five years.

As of December 31, 2009, 718,636 options were either forfeited or expired and 140,424 options are outstanding.

The Company's Board also granted 64,000 share options to service providers of the Company to purchase 64,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.575 per share. The fair value of all share options using the Black-Scholes model was $ 0.82 per option on the grant date and a total of $ 53 thousand for all options. The option term is for a period of 10 years from the grant date. The options vest as follows: 15,000 options are exercisable immediately, 45,000 options are exercisable on a straight-line basis every anniversary of the grant date over three years and 4,000 options are exercisable on a straight-line basis every anniversary of the grant date over two years.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 50.62%, risk-free interest rate of 4.53% and expected life of three years.

As of December 31, 2009, 4,000 options were either forfeited or expired and 60,000 options are outstanding.

4. In December 2007, the Company canceled 1,850,000 options (with performance-related conditions) that were granted to the Chairman in August 2005 to purchase 1,850,000 shares of NIS 0.1 each at an exercise price equal to $ 1.77 per share and granted to the Chairman 1,850,000 new options to purchase 1,850,000 shares of NIS 0.1 each at an exercise price equal to $ 1.8 per share. All other exercise terms remained exactly the same as those of the cancelled options. The fair value of all share options was between $ 2.315 and $ 2.98 per option and a total of $ 4,916 thousand for all options.

NOTE 16:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 50%, risk-free interest rate of 4.6% and expected life of 1.43 to 4.37 years.

As of December 31, 2009, all options were either forfeited or expired.

5. In March 2008, the Company's Board granted 50,000 share options to employees in the Company to purchase 50,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.595 per share. The fair value of all share options using the Black-Scholes model was $ 0.95 per option on the grant date and a total of $ 48 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every anniversary of the grant date over a four-year period.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 63.65%, risk-free interest rate of 2.65% and expected life of six years.

As of December 31, 2009, all options were either forfeited or expired.

6. In May 2008, the Company granted 8,000 share options to service providers of the Company to purchase 8,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.55 per share. The fair value of all share options using the Black-Scholes model was $ 0.75 per option on the grant date and a total of $ 6 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every anniversary of the grant date over a two-year period.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 72.78%, risk-free interest rate of 2.59% and expected life of three years.

As of December 31, 2009, all options were either forfeited or expired.

7. In July 2008, the Company granted 60,000 share options to a director in the Company to purchase 60,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.75 per share. The fair value of all share options using the Black-Scholes model was $ 1.1 per option on the grant date and a total of $ 65 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every month of the grant date over a three-year period.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 64.92%, risk-free interest rate of 3.67% and expected life of six years.

As of December 31, 2009, all options were either forfeited or expired.

8. In August 2008, the Company granted 4,000 share options to a director in the Company to purchase 4,000 Ordinary shares of NIS 0.1 each at an exercise price equal to $ 1.84 per share. The fair value of all share options using the Black-Scholes model was $ 1.15 per option on the grant date and a total of $ 4.5 thousand for all options. The option term is for a period of 10 years from the grant date. The options are exercisable on a straight-line basis every quarter of the grant date over a three-year period.

NOTE 16:- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (Cont.)

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 64.94%, risk-free interest rate of 3.51% and expected life of six years.

As of December 31, 2009, all options were either forfeited or expired.