XTL BIOPHARMACEUTICALS LTD
Form 20-F
April 06, 2009

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, 2008

OR

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

OR

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

Commission file number: 000-51310

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

Israel
(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

David Grossman
Co-Chief Executive Officer
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

American Depositary Shares, each representing ten Ordinary Shares, par value NIS 0.02	The NASDAQ Capital Market
(Title of Class)	(Name of each exchange on which registered)

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

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

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

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

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

Yes o No ý

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 o No ý

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 ý No o

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 ý Non-accelerated filer £

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

ý U.S. GAAP £ International Financial Reporting Standards as issued by the International Accounting Standards Board £ Other

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

Item 17 o Item 18 £

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

Yes o No ý

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 US generally accepted accounting principles, or US GAAP. All references herein to "dollars" or "$" are to US dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

Selected Financial Data

The table below presents selected statement of operations and balance sheet data for the fiscal years ended and as of December 31, 2008, 2007, 2006, 2005 and 2004. We have derived the selected financial data for the fiscal years ended December 31, 2008, 2007, and 2006, and as of December 31, 2008 and 2007, from our audited consolidated financial statements, included elsewhere in this report and prepared in accordance with US GAAP. We have derived the selected financial data for fiscal years ended December 31, 2005 and 2004 and as of December 31, 2006, 2005 and 2004, from audited financial statements not appearing in this report, which have been prepared in accordance with US GAAP. You should read the selected financial data in conjunction with “Item 5. Operating and Financial Review and Prospects,” “Item 8. Financial Information” and “Item 18. Financial Statements.”

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	$ —	$ —	$ —	$ 2,743	$ 3,269
License	5,940	907	454	454	185
	5,940	907	454	3,197	3,454
Cost of Revenues					
Reimbursed out-of-pocket expenses	—	—	—	2,743	3,269
License (with respect to royalties)	—	110	54	54	32
	—	110	54	2,797	3,301
Gross Margin	5,940	797	400	400	153

Research and development					
Research and development costs	11,490	18,998	10,229	7,313	11,985
Less participations	—	56	—	—	—
	11,490	18,942	10,229	7,313	11,985
In-process research and development	—	—	—	1,783	—
General and administrative	5,143	5,582	5,576	5,457	4,134
Business development costs	(1,102)	2,008	641	227	810
Operating loss	(9,591)	(25,735)	(16,046)	(14,380)	(16,776)
Other income (expense):					
Financial and other income, net	314	590	1,141	443	352
Income taxes	31	206	(227)	(78)	(49)
Loss for the period	$ (9,246)	$ (24,939)	$ (15,132)	$ (14,015)	$ (16,473)
Loss per ordinary share					
Basic and diluted	$ (0.03)	$ (0.11)	$ (0.08)	$ (0.08)	$ (0.12)
Weighted average shares outstanding	292,769,320	228,492,818	201,737,295	170,123,003	134,731,766

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

Acquisition of the use patent on Erythropoietin

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

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

Risk Factors

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

Risks Related to Our Business

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

You should consider our prospects in light of the risks and difficulties frequently encountered by development stage companies. We have incurred operating losses since our inception and expect to continue to incur operating losses for the foreseeable future. As of December 31, 2008, we had an accumulated deficit of approximately $149.1 million. We have not yet commercialized any of our drug candidates or technologies and cannot be sure we will ever be able to do so. Even if we commercialize one or more of our drug candidates or technologies, we may not become profitable. Our ability to achieve profitability depends on a number of factors, including our ability to complete our development efforts, consummate out-licensing agreements, obtain regulatory approval for our drug candidates and technologies and successfully commercialize them.

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

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

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

We depend on independent clinical investigators, and other third-party service providers to conduct the clinical trials of our drug candidates and technologies, and we expect to continue to do so. We also may, from time to time, engage a clinical research organization for the execution of our clinical trials. We rely heavily on these parties for successful execution of our clinical trials, but we do not control many aspects of their activities. Nonetheless, we are responsible for confirming that each of our clinical trials is conducted in accordance with the general investigational plan and protocol. Our reliance on these third parties that we do not control does not relieve us of our responsibility to comply with the regulations and standards of the US Food and Drug Administration, or the FDA, and/or other foreign

regulatory agencies/authorities relating to good clinical practices. Third parties may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or the applicable trial's plans and protocols. The failure of these third parties to carry out their obligations could delay or prevent the development, approval and commercialization of our products, or could result in enforcement action against us.

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

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

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

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

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

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

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

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

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

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

- obtaining regulatory approvals to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

- slower than expected rates of patient recruitment due to narrow screening requirements;
- the inability of patients to meet protocol requirements imposed by the FDA or other regulatory authorities;
- the need or desire to modify our manufacturing process;
- delays, suspension, or termination of the clinical trials due to the institutional review board responsible for overseeing the study at a particular study site; and
- government or regulatory delays or “clinical holds” requiring suspension or termination of the trials.

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

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

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

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

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

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

We do not own all of our drug candidates and technologies. We have acquired and/or licensed the rights, patent or otherwise, to our drug candidates from third parties. Specifically, we have acquired the use patent on Recombinant Erythropoietin (rHuEPO) for the prolongation of multiple myeloma patients' survival and improvement of their quality of life from Bio-Gal Ltd., , who in turn licensed it from Mor Research Applications Ltd. and Yeda Research and Development Company Ltd., both Israeli private corporations, and we have licensed DOS from VivoQuest, Inc. These license agreements require us to meet development or financing milestones and impose development and commercialization due diligence requirements on us. In addition, under these agreements, we must pay royalties on sales of products resulting from licensed drugs and technologies and pay the patent filing, prosecution and maintenance costs related to the licenses. While we have the right to defend patent rights related to our licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent

rights, we will be obligated to cover all of the expenses associated with that effort. If we do not meet our obligations in a timely manner or if we otherwise breach the terms of our agreements, our licensors could terminate the agreements, and we would lose the rights to our drug candidates and technologies. From time to time, in the ordinary course of business, we may have disagreements with our licensors or collaborators regarding the terms of our agreements or ownership of proprietary rights, which could lead to delays in the research, development, collaboration and commercialization of our drug candidates or could require or result in litigation or arbitration, which could be time-consuming and expensive. For a further discussion on our license agreements, the patent rights related to those licenses, and the expiration dates of those patent rights, see “Item 4. Information on the Company - Business Overview - Intellectual Property and Patents” and “Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations,” below.

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

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

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

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

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

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

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

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

Specifically, Recombinant Erythropoietin (rHuEPO), if successfully developed and commercially launched for the treatment of multiple myeloma, will compete with both currently marketed and new products marketed by other companies. Health care providers may not accept or utilize any of our product candidates. Physicians and other prescribers may not be inclined to prescribe our products unless our products bring clear and demonstrable advantages

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

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

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

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

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

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

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

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

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

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

obsolete or noncompetitive.

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

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

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

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

Specifically, as per the terms of our agreement with Bio-Gal Ltd., we will be issuing 58.0 million ordinary shares par value NIS 0.10 (equivalent to 290.0 million ordinary shares par value NIS 0.02) and we may at our option issue 100.4 million ordinary shares par value NIS 0.10 (equivalent to 500.2 million ordinary shares par value NIS 0.02) to Bio-Gal Ltd. on a successful completion of a Phase 2 clinical trial (see "Item 4. Information on the Company - Business Overview - Intellectual Property and Patents" and "Item 4. Information on the Company - Business Overview - Licensing Agreements and Collaborations," below).

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

- difficulty and expense of assimilating the operations, technology or personnel of the business;
- our inability to attract and retain management, key personnel and other employees necessary to conduct the business;
- our inability to maintain relationships with key third parties, such as alliance partners, associated with the business;
- exposure to legal claims for activities of the business prior to the acquisition;
- the diversion of our management's attention from our core business; and
- the potential impairment of substantial goodwill and write-off of in-process research and development costs, adversely affecting our reported results of operations.

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

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

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

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

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

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

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

- decreased demand for a product;

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

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

Risks Related to Our Financial Condition

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

We expect to use, rather than generate, funds from operations for the foreseeable future. Based on our current business plan and forecast, we believe that our current cash, cash equivalents and bank deposits provide us with sufficient resources to fund our operations through July 2009; however, the actual amount of funds that we will need will depend on many factors, some of which are beyond our control. These factors include:

- the progress in successfully meeting the closing conditions for the agreement with Bio-Gal Ltd., including a financing;
- the progress of our planned research activities;
- the accuracy of our financial forecasts;
- the number and scope of our planned development programs;
- our ability to establish and maintain current and new licensing or acquisition arrangements;
- our ability to achieve our milestones under our licensing arrangements;
- the costs involved in enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

We do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount or method of any such financing. The global capital markets have been experiencing extreme volatility and disruption for more than twelve months. In recent months, the volatility and disruption have reached unprecedented levels. Given recent particularly adverse market conditions for small biotechnology companies, additional financing may not be available to us when we need it. We may also be forced to delay raising capital or bear an unattractive cost of capital. If we are unable to obtain additional funds on terms favorable to us or at all, we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our technology. If we raise additional funds by selling ordinary shares, ADRs, or other securities, the ownership interests of our shareholders will be diluted. If we need to raise additional funds through the sale or license of our drug candidates or technology, we may be unable to do so on terms favorable to us or at all. If we are not able to raise

capital in a timely manner, there is a material risk regarding our ability to continue as a going concern.

It is possible that we may be subject to taxation in the US, which could significantly increase our tax liability in the US for which we may not be able to apply the net losses accumulated in Israel.

We have had a “permanent establishment” in the United States, or US, which began in 2005, due to the residency of the former Chairman of our Board of Directors and our Chief Executive Officer in the US, as well as other less significant contacts that we have with the US. This may continue in 2009 as well. As a result, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. If this is the case, we may not be able to utilize any of the accumulated Israeli loss carryforwards reflected on our balance sheet as of December 31, 2008 since these losses were not attributable to the US permanent establishment. However, we would be able to utilize losses attributable to the US permanent establishment to offset such US taxable income. As of December 31, 2008, we estimate that these US net operating loss carryforwards are approximately $22.6 million. These losses can be carried forward to offset future US taxable income, subject to limitation in the case of shifts in ownership of XTL, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, and expiring through 2028. US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations.

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

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

Risks Related to Our Intellectual Property

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

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

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

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

We also rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable. Trade secrets are difficult to protect. While we require our employees, collaborators and consultants to enter into

confidentiality agreements, this may not be sufficient to adequately protect our trade secrets or other proprietary information. In addition, we share ownership and publication rights to data relating to some of our drug candidates and technologies with our research collaborators and scientific advisors. If we cannot maintain the confidentiality of this information, our ability to receive patent protection or protect our proprietary information will be at risk.

Specifically, we plan to pursue patent protection in the US and in certain foreign countries relating to our development and commercialization of Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. A main use patent (United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer") was submitted by Mor Research Applications Ltd., an Israeli corporation and Yeda Research and Development Company Ltd., an Israeli corporation, in April 1998 and PCT was filed in April 1999. The patent was granted in the United States, Europe, Israel and Hong Kong. Patent applications are pending in Canada and Japan. Currently, under the license agreement which we are acquiring from Bio-Gal Ltd., we will have exclusive worldwide rights to the above patent for the use of Recombinant Erythropoietin ("rHuEPO") in multiple myeloma. See "Item 4. Information on the Company – Business Overview - Intellectual Property and Patents." However, we cannot guarantee the scope of protection of any issued patents, or that such patents will survive a validity or enforceability challenge, or that any pending patent applications will issue as patents.

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

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

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

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

Risks Related to Our Ordinary Shares and ADRs

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

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

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

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

- developments concerning our drug candidates;
- announcements of technological innovations by us or our competitors;
- introductions or announcements of new products by us or our competitors;

- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- actual or anticipated variations in interim operating results and near-term working capital;
- expiration or termination of licenses, research contracts or other collaboration agreements;

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

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

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

Future issuances of a substantial number of our ordinary shares, or the perception by the market that those issuances could occur, could cause the market price of our ordinary shares or ADRs to decline or could make it more difficult for us to raise funds through the sale of equity in the future. We believe that our cash, cash equivalents and bank deposits as of December 31, 2008 provide us with sufficient resources to fund our operations through July 2009; however, prior to the end of that period it will be necessary for us to return to the capital markets through the sale of ADRs or ordinary shares.

Also, if we successfully close the Bio-Gal Ltd. transaction or make one or more significant acquisitions in which the consideration includes ordinary shares or other securities, your portion of shareholders' equity in us may be significantly diluted. In addition, pursuant to a license agreement with VivoQuest, Inc., or VivoQuest, a privately held biotechnology company based in the US, we licensed (in all fields of use) certain intellectual property and technology related to VivoQuest's HCV program. Pursuant to the license agreement, we may elect to issue up to an additional $34.6 million in ordinary shares to VivoQuest in lieu of cash upon achievement of certain milestones. Additionally, pursuant to the Bio Gal Ltd. agreement, we may issue 100.4 million ordinary shares par value NIS 0.10 (equivalent to 500.2 million ordinary shares par value NIS 0.02) upon a successful Phase 2 program. In the future, we may also enter into additional arrangements with other third-parties permitting us to issue ordinary shares in lieu of certain cash payments.

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

Following the planned closing of the Bio-Gal Ltd. transaction, Bio-Gal Ltd.'s stockholders and their affiliates will hold approximately 49% of our then outstanding ordinary shares. As a result, these persons, acting together, may have the ability to significantly influence the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons, acting together, may have the ability to effectively control our management and affairs. Accordingly, this concentration of ownership may depress the market price of our ADRs or ordinary shares.

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

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

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

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

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

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

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

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

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

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

There is a risk that we will be classified as a passive foreign investment company, or PFIC, for certain tax years. If we are classified as a PFIC, a US holder of our ordinary shares or ADRs representing our ordinary shares will be subject to special federal income tax rules that determine the amount of federal income tax imposed on income derived with respect to the PFIC shares. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive

income in a tax year is at least 50%. The risk that we will be classified as a PFIC arises because cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income and the relative values of passive and non-passive assets, including goodwill. A determination as to a corporation's status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable year ended December 31, 2008. However, we believe that we were a PFIC for the taxable years ended December 31, 2006 and 2007. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2009 taxable year and possibly in subsequent years. Although we may not be a PFIC in any one year, the PFIC taint remains with respect to those years in which we were or are a PFIC and the special PFIC taxation regime will continue to apply.

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

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

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

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

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

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

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

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

about the meeting enough in advance to withdraw the ordinary shares. If we ask for our ADR holders' instructions, the depositary will notify our ADR holders of the upcoming vote and arrange to deliver our voting materials and form of notice to them. The depositary will try, as far as is practical, subject to the provisions of the deposit agreement, to vote the shares as our ADR holders instruct. The depositary will not vote or attempt to exercise the right to vote other than in accordance with the instructions of the ADR holders. We cannot assure our ADR holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their shares. In addition, there may be other circumstances in which our ADR holders may not be able to exercise voting rights.

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

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

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

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

Risks Relating to Operations in Israel

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

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

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

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

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

We have generated all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. In the past, a substantial amount of our operating expenses were in US dollars (approximately 96% in 2008), and we incurred a portion of our expenses in New Israeli Shekels and in certain other local currencies. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may in the future enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New

Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel.

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

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

ITEM 4. INFORMATION ON THE COMPANY

History and Development of XTL

We are a biopharmaceutical company engaged in the acquisition and development of pharmaceutical products for the treatment of unmet medical needs, particularly the treatment of multiple myeloma, or MM, and hepatitis C.

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

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

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

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

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

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

as a result we ceased development of Bicifadine for diabetic neuropathic pain.

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

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

Our principal offices are located at Kiryat Weizmann Science Park, 3 Hasapir Street, Building 3, PO Box 370 Rehovot 76100, Israel, and our telephone number is +972-8-930-4444. XTL Biopharmaceuticals, Inc., our wholly-owned US subsidiary and agent for service of process in the US, can be reached at XTL Biopharmaceuticals, Inc., c/o Corporation Trust Company, Corporation Trust Center, 1209 N. Orange Street, Wilmington, Deleware 19801, or by telephone at (800) 677-3394. Our primary internet address is www.xtlbio.com. None of the information on our website is incorporated by reference into this annual report.

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

For the years ended December 31, 2008, 2007, and 2006 our capital expenditures were $2,000, $65,000 and $21,000, respectively. During 2008, we completed the disposition of certain assets (primarily lab equipment) associated with the DOS program, with $327,000 in proceeds from disposals of those assets in 2008.During 2007, we completed the disposition of certain unused assets (primarily lab equipment) which were held for sale during 2007, with $308,000 in proceeds from disposals of property and equipment in 2007. There were no material divestitures during the year ended December 31, 2006.

Business Overview

Introduction

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

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

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

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

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

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

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

Our Strategy

Under our current strategy, we plan to:

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

Products Under Development

rHuEPO for the treatment of MM

Market Opportunity

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

Scientific Background

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

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

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

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

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

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

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

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

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

Development Status

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

DOS

Market Opportunity

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

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

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

Development Status

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

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

Intellectual Property and Patents

General

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

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

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

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

rHuEPO for the treatment of MM

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

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

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

DOS

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

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

Other Intellectual Property Rights

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

Licensing Agreements and Collaborations

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

Bio-Gal Ltd.

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

VivoQuest License

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

Presidio License

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

Bicifadine License

In January 2007, XTL Development had signed an agreement with DOV to in-license the worldwide rights for Bicifadine, a serotonin and norepinephrine reuptake inhibitor (SNRI). XTL Development was developing Bicifadine for the treatment of diabetic neuropathic pain - a chronic condition resulting from damage to peripheral nerves. In accordance with the terms of the license agreement, XTL Development paid an initial up-front license fee of $7.5 million in cash in 2007. In addition, XTL Development will make milestone payments of up to $126.5 million over the life of the license, of which up to $115 million will be due upon or after regulatory approval of the product. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of $5 million in cash, due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine. In November 2008, we announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result we ceased development of Bicifadine for diabetic neuropathic pain in 2008.

Competition

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

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

Competing Products for Treatment of MM

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

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

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

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

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

Competing Products for Treatment of Chronic Hepatitis C

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

Supply and Manufacturing

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

rHuEPO for the treatment of MM

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

DOS

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

General

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

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

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

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

Government and Industry Regulation

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

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

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

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

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

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

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

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

- slow patient enrollment due to the nature of the clinical trial plan, the proximity of patients to clinical sites, the eligibility criteria for participation in the study or other factors;

- inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials or delays in approvals from a study site's review board;

- longer treatment time required to demonstrate efficacy or determine the appropriate product dose;

- insufficient supply of the drug candidates;

- adverse medical events or side effects in treated patients; and
- ineffectiveness of the drug candidates.

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

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

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

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

Should we wish to market our products outside the US, we must receive marketing authorization from the appropriate foreign regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, companies are typically required to apply for foreign marketing authorizations at a national level. However, within the EU, registration procedures are available to companies wishing to market a product in more than one EU member state. Typically, if the regulatory authority is satisfied that a company has presented adequate evidence of safety, quality and efficacy, then the regulatory authority will grant a marketing authorization. This foreign regulatory approval process, however, involves risks similar or

identical to the risks associated with FDA approval discussed above, and therefore we cannot guarantee that we will be able to obtain the appropriate marketing authorization for any product in any particular country. Our current development strategy calls for us to seek marketing authorization for our drug candidates outside the United States.

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

Organizational structure

Our wholly-owned subsidiaries, XTL Biopharmaceuticals, Inc. and XTL Development, Inc., are each incorporated in Delaware.

Property, Plant and Equipment

We lease an aggregate of approximately 414 square meters in Rehovot, Israel, expiring in April 2009. To our knowledge, there are no environmental issues that affect our use of the properties that we lease.

There are no encumbrances on our rights in these leased properties or on any of the equipment that we own. However, to secure the lease agreements in Israel, we provided a bank guarantee in the amount of approximately $68,000, linked to the Israeli Consumer Price Index. As of December 31, 2008, the guarantee is secured by pledge on a restricted deposit amounting to $71,000, which is included in the balance sheet as a restricted deposit.

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the related notes, prepared in accordance with US GAAP for the years ended December 31, 2008, 2007 and 2006, and as of December 31, 2008 and 2007, contained in "Item 18. Financial Statements" and with any other selected financial data included elsewhere in this annual report.

Selected Financial Data

The table below presents selected statement of operations and balance sheet data for the fiscal years ended and as of December 31, 2008, 2007, 2006, 2005 and 2004. We have derived the selected financial data for the fiscal years ended December 31, 2008, 2007, and 2006, and as of December 31, 2008 and 2007, from our audited consolidated financial statements, included elsewhere in this annual report and prepared in accordance with US GAAP. We have derived the selected financial data for fiscal years ended December 31, 2005 and 2004 and as of December 31, 2006, 2005 and 2004, from audited financial statements not appearing in this annual report, which have been prepared in accordance with US GAAP. You should read the selected financial data in conjunction with "Item 5. Operating and Financial Review and Prospects," "Item 8. Financial Information" and "Item 18. Financial Statements," including the related notes.

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	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except share and per share amounts)				
Statements of Operations Data:					
Revenues					
Reimbursed out-of-pocket expenses	$ —	$ —	$	$ 2,743	$ 3,269
License	5,940	907	454	454	185
	5,940	907	454	3,197	3,454
Cost of Revenues					
Reimbursed out-of-pocket expenses	—	—	—	2,743	3,269
License (with respect to royalties)	—	110	54	54	32
	—	110	54	2,797	3,301
Gross Margin	5,940	797	400	400	153
Research and development					
Research and development costs	11,490	18,998	10,229	7,313	11,985
Less participations	—	56	—	—	—
	11,490	18,942	10,229	7,313	11,985
In-process research and development	—	—	—	1,783	—
General and administrative	5,143	5,582	5,576	5,457	4,134
Business development costs	(1,102)	2,008	641	227	810
Operating loss	(9,591)	(25,735)	(16,046)	(14,380)	(16,776)
Other income (expense):					
Financial and other income, net	314	590	1,141	443	352
Income taxes	31	206	(227)	(78)	(49)
Loss for the period	$ (9,246)	$ (24,939)	$ (15,132)	$ (14,015)	$ (16,473)
Loss per ordinary share					
Basic and diluted	$ (0.03)	$ (0.11)	$ (0.08)	$ (0.08)	$ (0.12)

Weighted average shares outstanding	292,769,320	228,492,818	201,737,295	170,123,003	134,731,766

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

Overview

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

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

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

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

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

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

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

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

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

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

For awards of options and warrants to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the vesting period for the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. We record compensation expense based on the

fair value of the award at the reporting date. Unvested options are revalued at every reporting period and amortized over the vesting period in order to determine the compensation expense.

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

Results of Operations

Years Ended December 31, 2008 and 2007

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

Cost of Revenues. There was no cost of revenues for the year ended December 31, 2008. The $110,000 of cost of revenues for the year ended December 31, 2007 was due to the recognition of unamortized license fees that were recorded as deferred expenses upon termination of the HepeX-B license by Cubist in July 2007.

Research and Development Costs. Research and development costs net of participations decreased by $7,452,000 to $11,490,000 for the year ended December 31, 2008, as compared to $18,942,000 for the year ended December 31, 2007. The decrease in research and development costs was due primarily to the absence of the $7.5 million initial upfront license fee paid to DOV in 2007 in connection with the in-licensing of Bicifadine, the absence of $1,477,000 in development expenses associated with our legacy hepatitis C projects that were terminated in 2007, and also due to a decline of $3,361,000 in expenses associated with the pre-clinical DOS program that we out-licensed to Presidio in 2008, offset by an increase of $4,830,000 in clinical development expenses associated with the now terminated Bicifadine clinical program. See 2008 Restructuring below and also see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company.”

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

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

Business Development Costs. Business development costs decreased by $3,110,000 to a negative expense, or income of $1,102,000 for the year ended December 31, 2008, as compared to expenses of $2,008,000 for the year ended December 31, 2007. The decrease in business developments costs was due primarily to the reversal of $1,553,000 in transaction advisory fees in the form of stock appreciation rights associated with the in-licensing of Bicifadine in 2008 that was recorded in 2007. The transaction advisory fee in the form of a SAR is revalued, based on the then current fair value, at each subsequent reporting date, until payment of the stock appreciation rights have been satisfied (see “Item 10. Additional Information -Material Contracts” and “Item 4. Information on the Company”).

Financial and Other Income. Financial and other income for the year ended December 31, 2008, decreased by $276,000 to $314,000, as compared to financial and other income of $590,000 for the year ended December 31, 2007. The decrease in financial and other income was due primarily to a lower level of invested funds when compared to the comparable period last year.

Income Taxes. Income tax expense increased by $175,000 to a negative expense, or income of $31,000 for the year ended December 31, 2008, as compared to a negative expense, or income, of $206,000 for the year ended December 31, 2007. The negative expense for the year ended December 31, 2008, was due to a carryback claim to the year ended December 31, 2004 of the US consolidated tax group consisting of XTL Biopharmaceuticals, Inc. and XTL Development which incurred net operating losses in 2008 offset by New York State Franchise tax associated with the US permanent establishment. The US consolidated tax group will file a carryback claim for those losses to the year ended December 31, 2004 in order to receive a refund for US federal income taxes paid for that year. For the year ended December 31, 2007, the US consolidated tax group incurred net operating losses. The group filed a carryback claim for those losses to the years ended December 31, 2006 and December 31, 2005 to receive a refund for US federal income taxes paid for those years. Our income tax expense (income) is attributable to taxable income (losses) from the continuing operations of our US subsidiaries and the US permanent establishment. This income is eliminated upon consolidation of our financial statements.

Years Ended December 31, 2007 and 2006

Revenues. Revenues for the year ended December 31, 2007, increased by $453,000 to $907,000, as compared to revenues of $454,000 for the year ended December 31, 2006. The increase in revenues for the year ended December 31, 2007, was due to the recognition of unamortized deferred revenue upon termination of the HepeX-B license by Cubist in July 2007.

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

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

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

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

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

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

2008 Restructuring

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

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

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

Critical Accounting Policies

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

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

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

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

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

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

Accruals for Clinical Research Organization and Clinical Site Costs. We make estimates of costs incurred to date in relation to external clinical research organizations, or CROs, and clinical site costs. We analyze the progress of clinical trials, including levels of patient enrollment, invoices received and contracted costs when evaluating the adequacy of the amount expensed and the related prepaid asset and accrued liability. Significant judgments and estimates must be made and used in determining the accrued balance in any accounting period. With respect to clinical

site costs, the financial terms of these agreements are subject to negotiation and vary from contract to contract. Payments under these contracts may be uneven, and depend on factors such as the achievement of certain events, the successful accrual of patients, the completion of portions of the clinical trial or similar conditions. The objective of our policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical site costs are recognized based on our estimate of the degree of completion of the event or events specified in the specific clinical study or trial contract.

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

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

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

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

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R changes the accounting for business combinations. Among the more significant changes, it expands the definition of a business and a business combination, changes the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and income tax uncertainties. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. We were required to adopt SFAS 141R on January 1, 2009. We are currently assessing the impact that SFAS 141R may have on its consolidated financial statements in the event of a future acquisition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. An ownership interest in subsidiaries held by parties other than the parent should be presented in the consolidated statement of financial position within equity, but separate from the parent's equity. SFAS 160 requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for

similarly as equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The statement shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. We were required to adopt SFAS 160 on January 1, 2009. We do not expect the adoption of this Statement to have a material effect on our consolidated financial statements, since as of December 31, 2008, we did not have any non-controlling interests.

In December 2007, the FASB ratified EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" ("EITF 07-1"). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. EITF 07-1 shall be applied using a modified version of retrospective transition for those arrangements in place at the effective date. Companies are required to report the effects of applying EITF-07-1 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. We were required to adopt EITF 07-1 on January 1, 2009. We do not expect the adoption of EITF 07-1 to have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

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

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

Impact of Inflation and Currency Fluctuations

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

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

Israeli companies are generally subject to income tax at the corporate tax rate of 27% in 2008 (29% in 2007), which will be reduced as follows: 2009 - 26%, 2010 and after - 25%.

As of December 31, 2008, XTL Biopharmaceuticals Ltd. did not have any taxable income. As of December 31, 2008, our net operating loss carryforwards for Israeli tax purposes amounted to approximately $153.5 million. Under Israeli law, these net-operating losses may be carried forward indefinitely and offset against future taxable income, including capital gains from the sale of assets used in the business, with no expiration date.

As of December 31, 2008, we had a “permanent establishment” in the US, which began in 2005 due to the residency of our former Chairman of the Board of Directors and the departing Chief Executive Officer in the US. This may continue in 2009 as well. Any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if we had income attributable to the permanent establishment in the US, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax. As of the signing date of our financial statements, there was a change in our Board and senior management composition, such that the residences of our newly appointed Chairman and co-Chief Executive Officer were outside of the United States, as of the end of the first quarter of 2009.

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

Liquidity and Capital Resources

We have financed our operations from inception primarily through various private placement transactions, our initial public offering, a placing and open offer transaction, and option and warrant exercises. As of December 31, 2008, we had received net proceeds of approximately $76.4 million from various private placement transactions, including the November 2007 private placement, net proceeds of $45.7 million from our initial public offering, net proceeds of $15.4 million from the 2004 placing and open offer transaction, and proceeds of $2.1 million from the exercise of options and warrants.

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

We currently anticipate that our cash and cash equivalents and restricted short-term bank deposits are sufficient to finance our operations through July 2009. Continuation of our current operations after utilizing our current cash reserves is dependent upon the generation of additional financial resources either through agreements for the monetization of our residual in the DOS program or through external financing. These matters raise substantial doubt about our ability to continue as a going concern. We do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount, method or timing of any such financing. Such additional financing may not be available when we need it.

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

- the costs involved in closing the Bio-Gal transaction, including the required financing;
- the accuracy of our financial forecasts;
- the timing of the in-licensing, partnering and acquisition of new product opportunities;

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

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

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

Off-Balance Sheet Arrangements

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

Obligations and Commitments

As of December 31, 2008, we had known contractual obligations, commitments and contingencies of $464,000. Of this amount, $0 relates to research and development agreements. The $464,000 relates to our operating lease obligations, of which $457,000 is due within the next year, with the remaining balance due as per the schedule below.

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

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

future unpaid lease payments, approximately $335,000 as of March 31, 2009. The $335,000 is included in operating lease obligations in the table above.

Additionally, the VivoQuest license agreement provides for contingent milestone payments triggered by certain regulatory and sales targets. These milestone payments total $34.6 million, $25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at our election. In addition, the license agreement requires that we make royalty payments on product sales. Pursuant to our out-licensing agreement with Presidio, Presidio is obligated to pay us for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement.

We have undertaken to make contingent milestone payments to DOV Pharmaceuticals, Inc. of up to approximately $126.5 million over the life of the license, of which approximately $115.0 million will be due upon or following regulatory approval of the drugs. These milestone payments may be made in either cash and/or our ordinary shares, at our election, with the exception of $5 million in cash, which would due upon or after regulatory approval. We are also obligated to make royalty payments on future product sales net sales. We ceased development of Bicifadine in November 2008.

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

In addition, in January 2007, XTL Development and the company committed to pay a transaction advisory fee to certain third party intermediaries in connection with the in-license of Bicifadine from DOV. In October 2008, XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the "Definitive Agreements"). Under the terms of the Definitive Agreements, the transaction advisory fee was structured in the form of SARs, in the amount equivalent to (i) 3% of our fully diluted ordinary shares at the close of the transaction (representing 8,299,723 ordinary shares), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of our fully diluted ordinary shares at the close of the transaction (representing 19,366,019 ordinary shares), vesting on the "Date of Milestone Event." The "Date of Milestone Event" shall mean the earlier to occur of (i) positive (i.e., a statistically significant difference between the placebo arm and (x) at least one drug arm in the trial, or (y) the combined drug arms in the trial in the aggregate) results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by us or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain (regardless of indication or whether the study is the first such pivotal trial for Bicifadine conducted thereby), (ii) the filing of a New Drug Application for Bicifadine by us or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to us or XTL Development whereby persons or entities holding a majority of the equity interests of us or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. Payment of the SARs by XTL Development can be satisfied, at our discretion, in cash and/or by issuance of our registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share on the exercise date exceeds the $0.34 grant price for such SAR (fair market value equals (i) the greater of the closing price of an "ADR" on the exercise date, divided by ten, or (ii) the preceding five day ADR closing price average, divided by ten). The SARs expire on January 15, 2017. In the event of the termination of our license agreement for the Bicifadine compounds, any unvested SARs will expire. As of December 31, 2008, the 3% tranche was vested and the 7% tranche was not vested. In the event of the termination of our license agreement with DOV, any unvested SARs will expire. See also "Item 10. Additional Information - Material Contracts."

Research and Development, Patents and Licenses

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

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

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

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

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

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

	Years ended December 31,			
	2008	2007	2006	Cumulative, as of December 31, 2008
Bicifadine (includes $7.5 million initial upfront license fee in 2007)	$ 10,806,000	$ 13,476,000	$ —	$ 24,282,000
DOS	684,000	4,056,000	4,653,000	10,633,000
Legacy programs12				
Research and development costs	—	1,466,000	5,576,000	94,704,000
Less participations	—	(56,000)	—	(17,018,000)
Total legacy programs	—	1,410,000	5,576,000	77,686,000
Total Research and development				
Research and development costs	11,490,000	18,998,000	10,229,000	129,619,000
Less participations	—	(56,000)	—	(17,018,000)
	11,490,000	18,942,000	10,229,000	112,601,000

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

2 Legacy programs include, XTL-2125, XTL-6865, HepeX-B and early stage discovery research activities that ceased in 2003.

Trend Information

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following sets forth information with respect to our directors and executive officers as of March 31, 2009. Except as noted, the business address for each of the following is Kiryat Weizmann Science Park, Building 3, POB 370, Rehovot 76100, Israel.

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

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

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

Marc Allouche has served as a director in our company since March 2009. He is currently actively involved in independent business ventures. He had served as the head of the Alternative Investments Division of Harel Insurance Investments & Financial Services Ltd. (TASE: HARL), from January 2008 until January 2009, focused on venture capital, private equity and real estate investments. From March 2006 to July 2007, Mr. Allouche served as Executive Vice President of investments and strategic development of SGPA Ltd., a French holding company and concurrently was CEO of one of its portfolio companies, operating in the retail sector in France for turn-around purposes. From November 2002 to December 2005, Mr. Allouche was a Senior Manager in the private equity advisory group of Russel Bedford International, in charge of corporate finance transaction services and restructuring advisory services. From 2001 to 2002, Mr. Allouche was involved in the creation of an Israeli-French software start-up (in strategic alliance with ENST – Telecom Paris) operating within the Telecommunications arena. From 2000 to 2001, Mr.

Allouche served a Vice President at Nessuah Zanex Venture Capital Company Ltd., then running a Life Sciences venture capital vehicle, and was concurrently also Managing Director of one of its healthcare portfolio companies for turn-around purposes. In addition, from 1998 to 2000, Mr. Allouche was a Senior Advisor in the Corporate Finance division of KPMG International - Somekh Chaikin. From 1996 to 1998, Mr. Allouche was a Senior Consultant at the Audit division and the Transaction Services / Corporate Finance division of Price Waterhouse in Paris. Mr. Allouche received a BA in economics and management and an MBA with major in corporate finance and accounting from Dauphine University, Paris. He is also a Chartered Public Accountant in France.

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

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

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

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

Bill Kessler has served as our Director of Finance since January 2006 and as our principal finance and accounting officer since July 2006. Mr. Kessler has over 15 years of corporate and Wall Street experience, working with publicly-traded and private companies in Israel and the United States. During 2005, Mr. Kessler served as a consultant to our company, where he spearheaded the process of listing XTL for trading on NASDAQ. From October 2003 until December 2005, Mr. Kessler served as a financial consultant to Keryx, and from April 2001 until September 2003, Mr. Kessler served as the controller of Keryx. From 1996-2000, Mr. Kessler served as Chief Financial Officer for TICI Software Systems Ltd., an Israeli based software development and consulting company. From 1990-1993, Mr. Kessler worked as a research analyst at Wertheim Schroder & Co., covering media and entertainment companies. Mr. Kessler holds a B.A., Magna Cum Laude, from Yeshiva University, and an M.B.A., from Columbia University. Mr. Kessler will be leaving XTL in May 2009.

Employment Agreements

We have an employment agreement dated February 10, 2006, and effective as of January 1, 2006, with Bill Kessler, our Director of Finance. Mr. Kessler is currently entitled to an annual base salary of $135,000. He is entitled to receive bonus payments at the discretion of the Chief Executive Officer and as set by our Board of Directors. Mr. Kessler shall also be entitled to receive one or more grants of options to purchase our ordinary shares, on terms and conditions set by our Board of Directors. Mr. Kessler is also entitled to receive benefits comprised of managers' insurance (pension and disability insurance), a continuing education plan, and the use of a company car. There is a non-compete clause surviving one year after termination of employment, preventing Mr. Kessler from competing directly with us. The employment agreement may be terminated by either party on three months prior written notice. In January 2008, our Board of Directors granted options to Mr. Kessler to purchase a total of 500,000 ordinary shares at an exercise price equal to $0.315 per share (equal to the closing price of our ADRs on the NASDAQ Stock Market

on the date of grant divided by ten). These options vest over a four-year period, with 25% having vested on grant date, and with the remainder vesting equally on each of the one-, two- and three-year anniversaries of the issuance of the options. The options are exercisable for a period of ten years from the date of issuance, and were granted under the Share Option Plan 2001. In June 2006, our Board of Directors granted options to Mr. Kessler to purchase a total of 500,000 ordinary shares at an exercise price equal to $0.60 per share (the price of our ADRs in the private placement that we completed on March 22, 2006 and which closed on May 25, 2006, divided by ten, which was above the market price of our ADRs on the NASDAQ Stock Market on such date divided by ten). These options vest over a four-year period and are exercisable for a period of ten years from the date of issuance, and were granted under the Share Option Plan 2001. Mr. Kessler will be leaving XTL in May 2009.

Compensation

The aggregate compensation paid by us and by our wholly-owned subsidiary to all persons who served as directors or officers for the year 2008 (eleven persons) was approximately $1.0 million. This amount includes payments made for social security, pension, disability insurance and health insurance premiums of approximately $0.1 million, as well as severance accruals, payments made in lieu of statutory severance, payments for continuing education plans, payments made for the redemption of accrued vacation, and amounts expended by us for automobiles made available to our officers.

We granted our former directors 5,020,000 options to purchase ordinary shares in 2008, pursuant to shareholder meetings, exercisable at a weighted average price of $0.208 per ordinary share (the closing price of our ADRs on the NASDAQ Stock Market on the date of grant divided by ten), and expire ten years after date of grant. As of March 18, 2009, 1,443,874 of these options were forfeited. The remaining vested options expire three months after March 18, 2009, the resignation date of the former directors.

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

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

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

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

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

Board practices

Election of Directors and Terms of Office

Our Board of Directors currently consists of six members, including our non-executive Chairman. Other than our two external directors, our directors are elected by an ordinary resolution at the annual general meeting of our shareholders. The nomination of our directors is proposed by a nomination committee of our Board of Directors, whose proposal is then approved by the board. The current members of the nomination committee are Amit Yonay, (chairman of the nomination committee), Jaron Diament and Dafna Cohen. Our board, following receipt of a proposal

of the nomination committee, has the authority to add additional directors up to the maximum number of 12 directors allowed under our Articles. Such directors appointed by the board serve until the next annual general meeting of the shareholders. Unless they resign before the end of their term or are removed in accordance with our Articles, all of our directors, other than our external directors, will serve as directors until our next annual general meeting of shareholders. In March 2009, at an extraordinary general meeting of our shareholders, David Grossman and Boaz Shweiger were re-elected to serve as directors of our company and Marc Allouche and Amit Yonay were elected to serve as directors of our company. Dafna Cohen and Jaron Diament were elected to serve as external directors of our company at the March 2009 extraordinary general meeting. Dafna Cohen and Jaron Diament are serving as external directors pursuant to the provisions of the Israeli Companies Law for a three-year term ending in March 2012. After this date, their term of service may be renewed for an additional three-year term.

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

None of our directors are entitled to receive any severance or similar benefits upon termination of his or her service.

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

External and Independent Directors

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

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

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

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

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

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

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

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

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

requirements of both the SEC and NASDAQ.

Audit Committee

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

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

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

Approval of Compensation to Our Officers

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

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

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

Internal Auditor

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

Compliance with NASDAQ Corporate Governance Requirements

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

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

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

Employees

As of March 31, 2009, we had 5 full-time equivalent employees. We and our Israeli employees are subject, by an extension order of the Israeli Ministry of Welfare, to a certain provisions of collective bargaining agreements between the Histadrut, the General Federation of Labor Unions in Israel and the Coordination Bureau of Economic Organizations, including the Industrialists Associations. These provisions principally address cost of living increases, recreation pay, travel expenses, vacation pay and other conditions of employment. We provide our employees with benefits and working conditions equal to or above the required minimum. Other than those provisions, our employees are not represented by a labor union. See also “Item 5. Operating and Financial Review and Prospects - 2008 Restructuring” and “Item 6. Directors, Senior Management and Employees – Employment Agreements” above.

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

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

Share Ownership

The following table sets forth certain information as of March 31, 2009, regarding the beneficial ownership by our directors and executive officers. All numbers quoted in the table are inclusive of options to purchase shares that are exercisable within 60 days of March 31, 2009.

	Amount and nature of beneficial ownership			
	Ordinary shares beneficially owned excluding options	Options1 exercisable within 60 days of March 31, 2009	Total ordinary shares beneficially owned	Percent of ordinary shares beneficially owned
Amit Yonay Chairman of the Board	—	—	—	—
Marc Allouche Director	—	—	—	—
Dafna Cohen Director	—	—	—	—
Jaron Diament Director	—	—	—	—
David Grossman Director and co-Chief Executive Officer	—	—	—	—
Boaz Schweiger Director	—	—	—	—
Ron Bentsur2 Co-Chief Executive Officer	201,010	3,583,334	3,784,344	1.3%
Bill Kessler3 Director of Finance	50,000	500,000	550,000	*
All directors and executive officers as a group (7 persons)	251,010	4,083,334	4,334,344	1.5%

(1) Options to purchase ordinary shares

(2) 2,333,334 options at an exercise price of $0.774 per ordinary share, expiring three months after Mr. Bentsur's departure; and 1,250,000 options at an exercise price of $0.315, expiring three months after Mr. Bentsur's departure. Mr. Bentsur will leaving XTL imminently.

(3) 250,000 options at an exercise price of $0.60 per ordinary share, expiring one year after Mr. Kessler's departure; and 250,000 options at an exercise price of $0.315, expiring one year after Mr. Kessler's departure.

* Represents Less than 1% of ordinary shares outstanding.

Share Option Plans

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

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

than the fair market value of our ordinary shares on the date of grant, unless otherwise determined by our Board of Directors.

As of December 31, 2008, we have granted to employees, directors and consultants options that are outstanding to purchase up to 30,825,178 ordinary shares, pursuant to four share option plans and pursuant to certain grants apart from these plans also discussed below under Non-Plan Share Options.

1999 Share Option Plan

Under a share option plan established in 1999, we granted options to our employees which are held by a trustee under section 3(i) of the Tax Ordinance, of which 4,200 are outstanding and exercisable as of December 31, 2008, at an exercise price of $0.497 per ordinary share. The options are non-transferable.

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

2000 Share Option Plan

Under a share option plan established in 2000, we granted options to our employees which are held by a trustee under section 3(i) of the Tax Ordinance, of which 89,800 are outstanding and exercisable as of December 31, 2008, at an exercise price of $1.10 per ordinary share. The options are non-transferable.

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

2001 Share Option Plan

Under a share option plan established in 2001, referred to as the 2001 Plan, we granted options during 2001-2008, at an exercise price between $0.106 and $0.931 per ordinary share. Up to 11,000,000 options were available to be granted under the 2001 Plan, of which 7,446,177 are outstanding. Options granted to Israeli employees were in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The options are non-transferable.

The option term is for a period of ten years from the grant date. The options were granted for no consideration. The options vest over a four year period. As of December 31, 2008, 3,681,952 options are fully vested. As of December 31, 2008, the remaining number of options available for future grants under the 2001 Plan is 2,872,273.

Non-Plan Share Options

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

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

Related Party Transactions

For the years ended December 31, 2007 and 2006 we leased approximately 100 meters of office space from Keryx subject to a rent sharing agreement for $4,500 and $15,000, respectively. The rent sharing agreement was terminated as of March 31, 2007. In addition, our co-Chief Executive Officer had provided consulting services to Keryx through January 2008 for no compensation, and our Director of Finance provides consulting services to Keryx; however, the amount of their time devoted to this endeavor and the compensation they receive, if any, is immaterial. Our former Chairman of the Board is the Chairman and CEO of Keryx. During 2007, a company controlled by one of our former directors purchased $6,500 in lab equipment that we had disposed of in our Israeli facility.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Our audited consolidated financial statements are included on pages F-1 through F-40 of this annual report.

Legal Proceedings

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

Dividend Distributions

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

Significant Changes

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

ITEM 9. THE OFFER AND LISTING

Markets and Share Price History

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

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

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

American Depositary Shares

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

organized market and were not liquid.

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

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

The following table sets forth, for the periods indicated, the high and low sales prices of the ordinary shares on the Tel Aviv Stock Exchange. For comparative purposes only, we have also provided such figures translated into US Dollars at an exchange rate of 4.188 New Israeli Shekel per US Dollar, as reported by the Bank of Israel on March 31, 2009.

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

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

Objects and Purposes of the Company

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

Powers and Obligations of the Directors

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

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

Indemnification of Directors and Officers; Limitations on Liability

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

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

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

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

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

Approval of Certain Transactions

The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder, as defined in the Israeli Companies Law, is a director, general manager, chief business manager, deputy general manager, vice general manager, executive vice president, vice president, other manager directly subordinate to the managing director or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's

position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder. Each person listed in the table under “Directors and Senior Management,” which is displayed under “Item 6. Directors, Senior Management and Employees – Directors and Senior Management,” holds such office in our Company. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the Board of Directors, or a committee thereof. Arrangements regarding the compensation of directors also require audit committee and shareholders approval, with the exception of compensation to external directors in the amounts specified in the regulations discussed in “Item 6. Directors, Senior Management and Employees – Directors and Senior Management – Compensation.”

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

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

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

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

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

- any amendment to the Articles of Association;
- an increase of the company's authorized share capital;
- a merger; and
- approval of interested party transactions that require shareholders approval.

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

Rights Attached to Ordinary Shares

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

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

Transfer of Shares

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

Dividend and Liquidation Rights

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

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

Annual and Extraordinary General Meetings

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

Voting Rights

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

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

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

Voting by Proxy and in Other Manners

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

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

Limitations on the Rights to Own Securities

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

Anti-Takeover Provisions under Israeli Law

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

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

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

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

The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder holds more than 90% of the outstanding shares. If, as a result of an acquisition of shares, the purchaser will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the purchaser offered to purchase will be transferred to it. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within three months following

the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the purchaser may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares of the company. Israeli tax law treats specified acquisitions, including a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does US tax law. These laws may have the effect of delaying or deterring a change in control of us, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our securities.

Rights of Shareholders

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

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

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

Enforceability of Civil Liabilities

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

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

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

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

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

interest at the annual statutory rate set by Israeli regulations prevailing at that time. Judgment creditors must bear the risk of unfavorable exchange rates.

Material Contracts

VivoQuest Inc.

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

Presidio Pharmaceuticals, Inc.

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

Bio-Gal Ltd.

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

Bicifadine License

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

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

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

Exchange Controls

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

Taxation

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

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

Israeli Tax Considerations

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

Tax Reforms

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

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

Corporate Tax Rate

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

Tax Benefits for Research and Development

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

Special Provisions Relating to Taxation under Inflationary Conditions

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

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

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

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

Israeli Estate and Gift Taxes

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

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

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

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

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

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

Taxation of Dividends

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

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

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

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

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

US Federal Income Tax Considerations

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

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

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

relevant to any particular shareholder based on the shareholder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax, or the special US federal income tax rules applicable in special circumstances, including to US holders who:

- have elected mark-to-market accounting;
- hold our ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- own directly, indirectly or by attribution at least 10% of our voting power;
- are tax exempt entities;

- are persons who acquire shares in connection with employment or other performance of services; and
- have a functional currency that is not the US dollar.

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

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

Taxation of Dividends Paid on Ordinary Shares

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

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

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

- You must include the gross amount of the dividend, not reduced by the amount of Israeli tax withheld, in your US taxable income.
- You may be able to claim the Israeli tax withheld as a foreign tax credit against your US income tax liability. However, to the extent that 25% or more of our gross income from all sources was effectively connected with the conduct of a trade or business in the US (or treated as effectively connected, with limited exceptions) for a three-year period ending with the close of the taxable year preceding the year in which the dividends are declared, a portion of this dividend will be treated as US source income, possibly reducing the allowable foreign tax.

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

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

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

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

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

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

Taxation of the Disposition of Ordinary Shares

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

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

Tax Consequences If We Are A Passive Foreign Investment Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the item is effectively connected with the conduct by the Non-US holder of a trade or business in the US and, in the case of a resident of a country which has a tax treaty with the US, the item is attributable to a permanent establishment in the US;
    - the Non-US holder is subject to tax under the provisions of US tax law applicable to US expatriates; or
- the individual non-US holder is present in the US for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Back-Up Withholding

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

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

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

US Federal Income Tax Consequences for XTL

As of December 31, 2008, we had a “permanent establishment” in the US, which began in 2005 due to the residency of our former Chairman of the Board of Directors and departing Chief Executive Officer in the US. This may continue into 2009 as well. Any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if we had income attributable to the permanent establishment in the US, we may be subject to an additional branch profits tax of 30% on our US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless we qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. We would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax. As of the signing date of our financial statements, there was a change in our Board and senior management composition, such that the residence of our newly appointed Chairman and co-Chief Executive Officer were outside of

the United States, as of the end of the first quarter of 2009.

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

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

Documents on Display

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

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while maximizing our income from investments and minimizing our market risk. We invest in government, investment-grade corporate debt securities, and bank deposits in accordance with our investment policy. Some of these instruments in which we invest may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. As of December 31, 2008, our portfolio of financial instruments consists of cash and cash equivalents and restricted short-term bank deposits with multiple institutions. The average duration of all of our investments held as of December 31, 2008, was less than one year. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments.

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures. Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934. As of December 31, 2008, an evaluation was performed under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures as of December 31, 2008, were effective.

(b) Internal controls over financial reporting. Management's responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report of Management on Internal Control over Financial Reporting ("Report of Management") included in this Annual Report under Exhibit 99.1, management assessed the Company's internal control over financial reporting as of December 31, 2008, in relation to criteria for effective internal control over financial reporting as described in "Internal Control — Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management, including the chief executive officer and chief financial officer, concluded the Company's internal control over financial reporting is effective as of December 31, 2008.

The Report of Management is included in this Annual Report under Exhibit 99.1. Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report of the Company's effectiveness of internal control over financial reporting as of December 31, 2008, included in the report of Kesselman & Kesselman dated April 6, 2009, relating to the financial statements which appear in this Annual Report on Form 20-F for the year ended December 31, 2008.

(c) Internal controls. There have been no changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

Not applicable.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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

Principal Accountant Fees and Services

We were billed the following fees for professional services rendered by PWC, for the years ended December 31, 2008 and 2007.

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

The audit fees for the years ended December 31, 2008 and 2007, respectively, were for professional services rendered for the audit of our annual consolidated financial statements, review of interim consolidated financial statements, and statutory audits.

The audit-related fees for the years ended December 31, 2008 and 2007, respectively, were for Sarbanes Oxley compliance and were also for assurance and related due diligence services related to accounting consultations in connection with our fundraising activities in 2008 and 2007, including issuance of comfort letters, and consents and assistance with review of documents filed with the SEC and the United Kingdom Listing Authority.

Tax fees for the years ended December 31, 2008 and 2007, respectively, were for services related to tax compliance, including the preparation of tax returns, tax planning and tax advice, including assistance with tax audits and appeals, and tax advice related to our in-licensing activities.

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

For the fiscal year ended December 31, 2008 and 2007, all of our audit-related fees, tax fees and other fees were pre-approved by our audit committee.

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

Not applicable.

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

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-40 of this Annual Report.

ITEM 19. EXHIBITS

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

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

10.34	Securities Purchase Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd., and the purchasers named therein
10.35	Registration Rights Agreement, dated October 25, 2007, by and among XTL Biopharmaceuticals Ltd. and the purchasers named therein
10.36	License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated March 19, 2008

10.37	Amended and Restated License Agreement By and Between XTL Biopharmaceuticals Ltd. and Presidio Pharmaceuticals, Inc. dated August 4, 2008 >
10.38	Services Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., Quoque Bioventures LLC and Antecip Bioventures LLC.+
10.39	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC+
10.40	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC.+
10.41	Stock Appreciation Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Antecip Bioventures LLC.+
10.42	Registration Rights Agreement, dated as of October 15, 2008, by and among XTL Biopharmaceuticals Ltd., XTL Development Inc., and Quoque Bioventures LLC.+
10.43	Asset Purchase Agreement, dated as of March 18, 2009 between XTL Biopharmaceuticals Ltd. and Bio-Gal Ltd. >
10.44	Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Biogal Ltd. (under its previous name Haverfield Ltd.) and Biogal Advanced Biotechnology Ltd. dated January 7, 2002 >
10.45	Amendment to Research and License Agreement Between Yeda Research and Development Company Ltd., Mor Research Applications Ltd., Haverfield Ltd. and Biogal Advanced Biotechnology Ltd. effective as of April 1, 2008 >
21.1	List of Subsidiaries
23.1	Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd, dated April 6, 2009
23.2	Consent of Somekh Chaikin, a member firm of KPMG International, dated April 6, 2009
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 6, 2009
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 6, 2009
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 6, 2009
99.1	Report of Management on Internal Control Over Financial Reporting dated April 6, 2009

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

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

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

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

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

SIGNATURES

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

XTL BIOPHARMACEUTICALS LTD.
(Registrant)

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

Date: April 6, 2009

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

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Kesselman & Kesselman
Certified Public Accountants
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of XTL Biopharmaceuticals Ltd. and its subsidiaries (collectively – the "Company") consolidated financial statements and of its internal control over financial reporting as of December 31, 2008, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the consolidated balance sheets of the Company as of December 31, 2008 and 2007 and the Consolidated Statements of Operations, Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006, and for the cumulative period from January 1, 2001 to December 31, 2008. We did not audit the cumulative totals of the Company for the period from March 9, 1993 (date of incorporation) to December 31, 2000, which totals reflect a deficit of $25,201,000 accumulated during the development stage. Those cumulative totals were audited by another independent registered public accounting firm whose report, dated May 3, 2005, expressed an unqualified opinion on the cumulative amounts through December 31, 2000. Our opinion, insofar as it relates to amounts included for that period is based on the report of the other independent registered public accounting firm, mentioned above. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company at December 31, 2008 and 2007, and the results of their operations, changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 2008 and for the cumulative period from March 9, 1993 to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1a(3) to the financial statements, the Company incurred significant losses from operations and has

an accumulated deficit at December 31, 2008 which raise substantial doubt about the Company’s ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1a(3). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

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

Tel-Aviv, Israel
April 6, 2009

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

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

Tel Aviv, Israel
May 3, 2005

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

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

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

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

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

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

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

	Year ended December 31			Period from March 9, 1993+ to December 31,
	2008	2007	2006	2008
Revenues:				
Reimbursed out-of-pocket expenses	—	—	—	6,012
License	5,940	907	454	7,940
	5,940	907	454	13,952
Cost of revenues:				
Reimbursed out-of-pocket expenses	—	—	—	6,012
License (with respect to royalties)	—	110	54	250
	—	110	54	6,262
Gross margin	5,940	797	400	7,690
Research and development costs (includes $7,500 initial upfront license fee in 2007 and also includes non-cash stock option compensation of $78, $141, and $173, in 2008, 2007 and 2006, respectively)	11,490	18,998	10,229	123,607
Less – participations	—	56	—	11,006
	11,490	18,942	10,229	112,601
In-process research and development costs	—	—	—	1,783
General and administrative expenses (includes non-cash stock option compensation of $1,735, $1,784, and $1,992, in 2008, 2007 and 2006, respectively)	5,143	5,582	5,576	45,313
Business development costs (includes stock appreciation rights compensation (income) of ($1,553) and $1,560 in 2008 and 2007, respectively, and also includes non-cash stock option compensation of $85, $22, and $15, in 2008, 2007 and 2006, respectively)	(1,102)	2,008	641	6,060
Operating loss	9,591	25,735	16,046	158,067
Financial and other income, net	314	590	1,141	9,188
Loss before taxes on income	9,277	25,145	14,905	148,879
Taxes on income	(31)	(206)	227	229
Loss for the period	9,246	24,939	15,132	149,108
Basic and diluted loss per ordinary share	$ 0.03	$ 0.11	$ 0.08	
Weighted average number of shares used in computing basic and diluted loss per ordinary share	292,769,320	228,492,818	201,737,295	

+ Incorporation date, see Note 1a.

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

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

	Preferred shares		Ordinary shares	
	Number of shares	Amount	Number of shares	Amount
Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2005:				
Comprehensive loss - loss for the period	—	—	—	—
Employee stock options expenses	—	—	—	—
Non-employee stock option expenses	—	—	—	—
Exercise of share warrants in 2000	—	—	1,499,980	7
Exercise of share warrants in 2001	—	—	208,000	1
Exercise of employee stock options in 1999	15,600	**	—	—
Exercise of employee stock options in 2000	—	—	162,500	1
Exercise of employee stock options in 2001	—	—	59,138	**
Exercise of employee stock options in 2002	—	—	38,326	**
Exercise of employee stock options in 2003	—	—	854,100	4
Exercise of employee stock options in 2004	—	—	50,000	**
Exercise of employee stock options in 2005	—	—	3,786,825	17
Issuance of share capital in 1993, net of $912 issuance expenses	7,705,470	45	—	—
Issuance of share capital in 1994, net of $22 issuance expenses	717,500	5	—	—
Issuance of share capital in 1996, net of $646 issuance expenses	6,315,810	49	—	—
Issuance of share capital in 1998, net of $1,650 issuance expenses	26,319,130	139	—	—
Issuance of share capital in 1999, net of $49 issuance expenses	2,513,940	12	—	—
Issuance of share capital in 2000	—	—	15,183,590	75
Issuance of shares in 2004, net of $2,426 issuance expenses	—	—	56,009,732	247
Issuance of ordinary shares in 2005 in respect of license and purchases of assets (Note 3)	—	—	1,314,420	6
Bonus shares	7,156,660	41	19,519,720	97
Conversion of preferred shares into ordinary shares	(50,744,110)	(291)	50,744,110	291
Receipts in respect of share warrants (expired in 1999)	—	—	—	—
Initial public offering (“IPO”) of the Company’s shares under a prospectus dated September 20, 2000, net of $5,199 issuance expenses	—	—	23,750,000	118
Balance at December 31, 2005	—	—	173,180,441	864

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

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

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

	Additional paid-in capital	Deficit accumulated during the development stage	Total
Changes during the period from March 9, 1993 (date of incorporation) to December 31, 2005 :			
Comprehensive loss - loss for the period	—	(99,791)	(99,791)
Employee stock options expenses	3,095	—	3,095
Non-employee stock option expenses	183	—	183
Exercise of share warrants in 2000	340	—	347
Exercise of share warrants in 2001	74	—	75
Exercise of employee stock options in 1999	**	—	**
Exercise of employee stock options in 2000	—	—	1
Exercise of employee stock options in 2001	26	—	26
Exercise of employee stock options in 2002	20	—	20
Exercise of employee stock options in 2003	—	—	4
Exercise of employee stock options in 2004	19	—	19
Exercise of employee stock options in 2005	1,494	—	1,511
Issuance of share capital in 1993, net of $912 issuance expenses	5,545	—	5,590
Issuance of share capital in 1994, net of $22 issuance expenses	2,103	—	2,108
Issuance of share capital in 1996, net of $646 issuance expenses	5,314	—	5,363
Issuance of share capital in 1998, net of $1,650 issuance expenses	12,036	—	12,175
Issuance of share capital in 1999, net of $49 issuance expenses	1,189	—	1,201
Issuance of share capital in 2000	16,627	—	16,702
Issuance of shares in 2004, net of $2,426 issuance expenses	15,183	—	15,430
Issuance of ordinary shares in 2005 in respect of license and purchases of assets (Note 3)	1,385	—	1,391
Bonus shares	(138)	—	—
Conversion of preferred shares into ordinary shares	—	—	—
Receipts in respect of share warrants (expired in 1999)	89	—	89
Initial public offering (“IPO”) of the Company’s shares under a prospectus dated September 20, 2000, net of $5,199 issuance expenses	45,595	—	45,713
Balance at December 31, 2005	110,179	(99,791)	11,252

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

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

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

	Ordinary shares		Additional paid-in capital
	Number of shares	Amount	
Balance at December 31, 2005 - brought forward	173,180,441	864	110,179
Changes during 2006:			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	7
Employee stock option compensation expenses	—	—	2,173
Exercise of stock options	277,238	1	96
Issuance of share warrants, net of $681 issuance expenses	—	—	4,565
Issuance of shares, net of $2,956 issuance expenses	46,666,670	207	19,591
Balance at December 31, 2006	220,124,349	1,072	136,611
Changes during 2007:			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	13
Employee stock option compensation expenses	—	—	1,934
Exercise of stock options	45,416	**	4
Issuance of shares, net of $993 issuance expenses	72,485,020	372	8,420
Balance at December 31, 2007	292,654,785	1,444	146,982
Changes during 2008:			
Comprehensive loss - loss for the period	—	—	—
Non-employee stock option compensation expenses	—	—	13
Employee stock option compensation expenses	—	—	1,885
Exercise of stock options	150,541	1	32
Return of stamp tax paid on 2004 share issuance	—	—	177
Balance at December 31, 2008	292,805,326	1,445	149,089

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

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

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

	Deficit accumulated during the development stage	Total
Balance at December 31, 2005 - brought forward	(99,791)	11,252
Changes during 2006:		
Comprehensive loss - loss for the period	(15,132)	(15,132)
Non-employee stock option compensation expenses	—	7
Employee stock option compensation expenses	—	2,173
Exercise of stock options	—	97
Issuance of share warrants, net of $681 issuance expenses	—	4,565
Issuance of shares, net of $2,956 issuance expenses	—	19,798
Balance at December 31, 2006	(114,923)	22,760
Changes during 2007:		
Comprehensive loss - loss for the period	(24,939)	(24,939)
Non-employee stock option compensation expenses	—	13
Employee stock option compensation expenses	—	1,934
Exercise of stock options	—	4
Issuance of shares, net of $993 issuance expenses	—	8,792
Balance at December 31, 2007	(139,862)	8,564
Changes during 2008:		
Comprehensive loss - loss for the period	(9,246)	(9,246)
Non-employee stock option compensation expenses	—	13
Employee stock option compensation expenses	—	1,885
Exercise of stock options	—	33
Return of stamp tax paid on 2004 share issuance	—	177
Balance at December 31, 2008	(149,108)	1,426

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

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

	Year ended December 31			Period from March 9, 1993 + to December 31,
	2008	2007	2006	2008
CASH FLOWS FROM OPERATING ACTIVITIES:				
Loss for the period	(9,246)	(24,939)	(15,132)	(149,108)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation and amortization	39	108	243	3,219
Linkage difference on restricted deposits	—	(2)	(10)	(9)
Acquisition of in-process research and development	—	—	—	1,783
Gain on disposal of property and equipment	(288)	(40)	(57)	(367)
Increase (decrease) in liability in respect of employee severance obligations	333	(70)	8	1,499
Impairment charges	—	105	—	485
Gain from sales of investment securities	—	—	—	(410)
Other income related to exchange of shares	—	—	(100)	(100)
Loss (gain) from trading securities	—	48	(2)	46
Stock option based compensation expenses	1,898	1,947	2,180	9,303
Stock appreciation rights compensation expense (income)	(1,553)	1,560	—	7
Loss (gain) on amounts funded in respect of employee severance pay funds	4	(2)	(1)	(90)
Deferred tax asset	—	48	(48)	—
Changes in operating assets and liabilities:				
Decrease (increase) in other receivables and prepaid expenses	570	(315)	(178)	(354)
Increase (decrease) in accounts payable and accrued expenses	(2,335)	892	910	1,474
Decrease in deferred gain	—	(797)	(400)	—
Net cash used in operating activities	(10,578)	(21,457)	(12,587)	(132,622)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Decrease (increase) in short-term bank deposits	10,600	10,245	(20,845)	—
Decrease (increase) in restricted deposits	(10)	113	(52)	(62)
Investment in investment securities	—	—	—	(3,363)
Proceeds from sales of investment securities	—	—	—	3,773
Proceeds from sales of trading securities	—	54	—	54
Employee severance pay funds	—	(17)	(18)	(926)
Purchase of property and equipment	(2)	(65)	(21)	(4,109)
Proceeds from disposals of property and equipment	327	308	103	887
Acquisition in respect of license and purchase of assets	—	—	—	(548)
Net cash provided by (used in) investing activities	10,915	10,638	(20,833)	(4,294)

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

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

	Year ended December 31			Period from March 9, 1993+ to December 31,
	2008	2007	2006	2008
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital and warrants - net of share issuance expenses	—	8,792	24,363	137,526
Return of stamp tax paid on 2004 share issuance	177	—	—	177
Exercise of share warrants and stock options	33	4	97	2,137
Proceeds from long-term debt	—	—	—	399
Proceeds from short-term debt	—	—	—	50
Repayment of long-term debt	—	—	—	(399)
Repayment of short-term debt	—	—	—	(50)
Net cash provided by financing activities	210	8,796	24,460	139,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	547	(2,023)	(8,960)	2,924
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,377	4,400	13,360	—
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,924	2,377	4,400	2,924
Supplementary information on investing and financing activities not involving cash flows:				
Issuance of ordinary shares in respect of license and purchase of assets	—	—	—	1,391
Conversion of convertible subordinated debenture into shares	—	—	—	1,700
Supplemental disclosures of cash flow information:				
Income taxes paid, net of refunds	(260)	165	136	362
Interest paid	3	4	—	357

\+ Incorporation date, see Note 1a.

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

a. General

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

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

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

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

2) In 2005, the Company licensed from VivoQuest Inc. ("VivoQuest"), a US privately-held company, perpetual, exclusive, and worldwide rights to VivoQuest's intellectual property and technology, covering a proprietary compound library, which includes VivoQuest's lead hepatitis C compounds (the "DOS program"). In addition, the Company also acquired from VivoQuest certain assets. In 2008, the Company out-licensed the rights to the DOS program to Presidio Pharmaceuticals, Inc. ("Presidio"), a US privately-held company.

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

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

3)

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

5) The preparation of the financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported expenses during the reporting periods. Actual results may vary from these estimates.

b. Functional currency

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

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

c. Principles of consolidation

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

d. Impairment of long-lived and intangible assets

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

e. Cash equivalents

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Marketable securities

Pursuant to SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company's marketable securities (debt securities mainly in the form of debentures through 2004) have been designated as available-for-sale. Available-for-sale securities are carried at fair value, which is determined based upon the quoted market prices of the securities, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a component of shareholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in “financial and other income - net.” The Company views its available-for-sale portfolio as available for use in its current operations. Interest, premium and discount amortization, and dividends on securities classified as available-for-sale are included in “financial and other income- net.” At December 31, 2006, the Company had trading securities, which were carried at their fair value based upon the quoted market prices of those investments at period end. Accordingly, net realized and unrealized gains and losses on trading securities were included in “financial and other income - net.” The Company disposed of these trading securities during 2007. As of December 31, 2008, the Company held no marketable securities.

g. Property and equipment

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

Annual rates of depreciation are as follows:

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

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

h. Intangible assets

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

i. Uncertainty in income taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 clarifies the criteria for recognizing tax benefits related to uncertain tax positions under SFAS No. 109, “Accounting for Income Taxes,” (“SFAS 109”) and requires additional

financial statement disclosure. FIN 48 prescribes a new recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also specifies how tax benefits related to uncertain tax positions are to be recognized, measured, and derecognized in financial statements, and provides transition and interim-period guidance, among other provisions. The adoption of FIN 48 has had no impact on the Company's consolidated results of operations and financial position, since the Company has had no uncertain tax positions that fall within FIN 48.

j. Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax basis of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when these differences are reversed. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized (see also Note 9 – Income Taxes).

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

k. Research and development costs and participations

Research and development costs are expensed as they are incurred and consist primarily of salaries and related personnel costs, fees paid to consultants and other third-parties for clinical and laboratory development, license and milestone fees, and facilities-related and other expenses relating to the design, development, testing, and enhancement of product candidates. Participations from government for development of approved projects were recognized as a reduction of expense as the related costs are incurred.

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

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. The Company's adoption of EITF 07-3 did not have a material effect on the Company's consolidated financial statements.

l. Revenue recognition

The Company recognized the revenue from its licensing agreements with Presidio (see Note 3) and Cubist (see Note 4) under the provisions of the Emerging Issues Task Force ("EITF") No. 00-21 "Revenue Arrangements with Multiple Deliverables" and Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition." Under those pronouncements, companies are required to allocate revenues from multiple-element arrangements to the different elements based on sufficient objective and reliable evidence of fair value. Since the Company did not have the ability to determine the fair value of each unit of accounting, the Cubist agreement was accounted for as one unit of accounting, after failing the separation criteria, and the Company recognized each payment on the Cubist agreement ratably over the expected life of the arrangement.

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

inception of the agreement and (2) the fees are nonrefundable.

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

The Company recognizes revenue net of any value added taxes.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Business development costs

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

n. Loss per share

Basic and diluted losses per share are presented in accordance with SFAS No. 128 "Earnings per share" ("SFAS 128"), for all the years presented. Outstanding share options and warrants have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all the years presented. The total weighted average number of ordinary shares related to outstanding options, warrants and stock appreciation rights excluded from the calculations of diluted loss per share were 51,624,903, 48,634,047, and 34,921,782 for the years ended December 31, 2008, 2007, and 2006, respectively. These figures exclude performance condition or market-related condition options and stock appreciation rights that had not vested during the applicable periods.

o. Comprehensive loss

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

p. Stock- based compensation

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

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

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

Under SFAS 123R, the fair value of stock options granted with service conditions or with performance conditions was determined using the Black-Scholes valuation model. Such value is recognized as an expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123R. The fair value of stock options granted with market conditions was determined using a Monte Carlo Simulation method. Such value is recognized as an expense using the accelerated method under SFAS123R. Both the Black-Scholes model and the Monte Carlo simulation method take into account a number of valuation parameters.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

* Incorporation date, see Note 1a.

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

q. Fair value measurements

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

r. Recently issued accounting pronouncements in the United States

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”). SFAS 141R changes the accounting for business combinations. Among the more significant changes, it expands the definition of a business and a business combination, changes the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer’s income tax valuation allowance and income tax uncertainties. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company will be required to adopt SFAS 141R on January 1, 2009. The Company is currently assessing the impact that SFAS 141R may have on its consolidated financial statements in the event of a future acquisition.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51” (“SFAS 160”). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. An ownership interest in subsidiaries held by parties other than the parent should be presented in the consolidated statement of financial position within equity, but separate from the parent's equity. SFAS 160 requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for similarly as equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the

amounts of consolidated net income attributable to the parent and to the noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The statement shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. The Company will be required to adopt SFAS 160 on January 1, 2009. The Company does not expect the adoption of this Statement to have a material effect on the Company's consolidated financial statements, since as of December 31, 2008, the Company did not have any non-controlling interests.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2007, the FASB ratified EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" ("EITF 07-1"). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. EITF 07-1 shall be applied using a modified version of retrospective transition for those arrangements in place at the effective date. Companies are required to report the effects of applying EITF-07-1 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. The Company will be required to adopt EITF 07-1 on January 1, 2009. The Company does not expect the adoption of EITF 07-1 to have a material effect on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

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

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

NOTE 2 - BICIFADINE TRANSACTION

a. License Agreement with DOV Pharmaceutical, Inc.

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

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

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

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

NOTE 2 - BICIFADINE TRANSACTION (continued)

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

In January 2007, XTL Development entered into a binding term sheet whereby it committed to pay a transaction advisory fee to certain third party intermediaries in connection with the DOV Transaction. In October 2008, the Company and XTL Development entered into definitive agreements with the third party intermediaries with respect to the binding term sheets signed in 2007 (the "Definitive Agreements"). Under the terms of the Definitive Agreements, the transaction advisory fee is structured in the form of Stock Appreciation Rights, or SARs, in the amount equivalent to (i) 3% of the Company's fully diluted ordinary shares at the close of the transaction (representing 8,299,723 ordinary shares), vesting immediately and exercisable one year after the close of the transaction, and (ii) 7% of the Company's fully diluted ordinary shares at the close of the transaction (representing 19,366,019 ordinary shares), vesting on the "Date of Milestone Event." The "Date of Milestone Event" shall mean the earlier to occur of (i) positive (i.e., a statistically significant difference between the placebo arm and (x) at least one drug arm in the trial, or (y) the combined drug arms in the trial in the aggregate) results from any adequately-powered trial that is intended from its design to be submitted to the US Food and Drug Administration as a pivotal trial of Bicifadine conducted by the Company or XTL Development, or by a licensee thereof, which included the recent Phase 2b randomized, double blind, placebo controlled study in diabetic neuropathic pain (regardless of indication or whether the study is the first such pivotal trial for Bicifadine conducted thereby), (ii) the filing of a New Drug Application for Bicifadine by the Company or XTL Development, or by a licensee thereof, or (iii) the consummation of a merger, acquisition or other similar transaction with respect to the Company or XTL Development whereby persons or entities holding a majority of the equity interests of the Company or XTL Development prior to such merger, acquisition or similar transaction no longer hold such a majority after the consummation of such merger, acquisition or similar transaction. Payment of the SARs by XTL Development can be satisfied, at the Company's discretion, in cash and/or by issuance of the Company's registered ordinary shares. Upon the exercise of a SAR, the amount paid by XTL Development will be an amount equal to the amount by which the fair market value of one ordinary share on the exercise date exceeds the $0.34 grant price for such SAR (fair market value equals (i) the greater of the closing price of an American Depositary Receipt ("ADR") on the exercise date, divided by ten, or (ii) the preceding five day ADR closing price average, divided by ten). The SARs expire on January 15, 2017. As of December 31, 2008, the 3% tranche was vested and the 7% tranche was not vested. In the event of the termination of the Company's license agreement for the Bicifadine compounds, any unvested SARs will expire.

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

The Company used a Black & Scholes model as the fair value pricing model for the SAR as described above. The following assumptions under this method were used for the valuation of the SAR as of December 31, 2008 and 2007: expected volatility of: 87% and 59%; risk-free interest rates (in dollar terms) of 2.9% and 4.2%; dividend yield of 0% and 0%; and remaining contractual life of 8 and 9 years, respectively.

NOTE 3 –VIVOQUEST AND PRESIDIO TRANSACTIONS

a. License and Asset Purchase Agreement with Vivoquest

During September 2005, the Company licensed from VivoQuest perpetual, exclusive, and worldwide rights to VivoQuest's intellectual property and technology, covering a proprietary compound library, which includes VivoQuest's lead hepatitis C compounds (the Diversity Oriented Synthesis, or DOS program). In addition, the Company acquired from VivoQuest certain assets, including VivoQuest's laboratory equipment, assumed VivoQuest's lease of its laboratory space and certain research and development employees. The Company executed this transaction in order to broaden its pipeline and strengthen its franchise in infectious diseases. See also b. below, for the out-licensing of the DOS program in 2008.

XTL BIOPHARMACEUTICALS LTD.
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NOTE 3 - VIVOQUEST AND PRESIDIO TRANSACTIONS (continued)

In connection with the VivoQuest transaction (the "Transaction"):

(1) the Company issued the fair value equivalent of $1,391,000 of its ordinary shares (1,314,420 ordinary shares, calculated based upon the average of the closing prices per share for the period commencing two days before, and ending two days after the closing of the transaction), made cash payments of approximately $400,000 to cover VivoQuest's operating expenses prior to the closing of the Transaction, and incurred $148,000 in direct expenses associated with the Transaction;

(2) the Company agreed to make additional contingent milestone payments triggered by certain regulatory and sales targets, totaling up to $34.6 million, $25.0 million of which will be due upon or following regulatory approval or actual product sales, and payable in cash or ordinary shares at the Company's election. No contingent consideration has been paid pursuant to the license agreement as of the balance sheet date, because none of the milestones have been achieved. The contingent consideration will be recorded as part of the acquisition costs in the future; and

(3) the Company agreed to make royalty payments on future product sales.

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

The purchase price consisted of:

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

The tangible and intangible assets acquired consisted of the following:

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

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

b. License Agreement with Presidio Pharmaceuticals, Inc.

In March 2008, and as revised in August 2008, the Company signed an agreement to out-license the DOS program to Presidio, a specialty pharmaceutical company focused on the discovery, in-licensing, development and commercialization of novel therapeutics for viral infections, including HIV and HCV. Under the terms of the license agreement, as revised, Presidio becomes responsible for all further development and commercialization activities and costs relating to the Company's DOS program. The Company has no further development responsibilities relating to the DOS Program. In accordance with the terms of the license agreement, the Company received a $5.94 million, non-refundable, upfront payment in cash from Presidio and will receive up to an additional $59 million upon reaching certain development and commercialization milestones. Presidio is also obligated to pay the Company for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement. In addition, the Company will receive a royalty on direct product sales by Presidio, and a percentage of Presidio’s income if the DOS program is sublicensed by Presidio to a third party. The $5.94 million payment from Presidio was recorded as license revenue for the year ended December 31, 2008.

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

NOTE 4 - LICENSE AGREEMENT WITH CUBIST

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

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

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

NOTE 5 - PROPERTY AND EQUIPMENT

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

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

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

NOTE 5 - PROPERTY AND EQUIPMENT (continued)

b. In 2007 the Company downsized its facilities in Rehovot, Israel, and determined to dispose of certain unused assets (primarily lab equipment). Under the provisions of SFAS 144, the Company's management reviewed the carrying value of certain property and equipment (primarily laboratory equipment), and recorded an impairment charge in "research and development costs" in the amount of $105,000 for the year ended December 31, 2007. The Company completed the disposition of its assets held for sale during 2007, with $308,000 in proceeds from disposals of property and equipment in 2007. Subsequent to out-licensing the DOS program to Presidio, the Company completed the disposition of certain assets (primarily lab equipment) associated with the DOS program during 2008, with $327,000 in proceeds from disposals of those assets in 2008. As of December 31, 2008 and 2007, there were no assets held for sale.

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

NOTE 6 - EMPLOYEE SEVERANCE OBLIGATIONS

a. The Company

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

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

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

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

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

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

b. The Subsidiary and XTL Development

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

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

NOTE 6 - EMPLOYEE SEVERANCE OBLIGATIONS (continued)

c. Severance

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

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

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

NOTE 7 - SHAREHOLDERS' EQUITY

a. Share Capital and Warrants

As of December 31, 2008, American Depositary Receipts, representing the Company's ordinary shares ("ADRs"), trade on the NASDAQ Capital Market, with each ADR representing ten ordinary shares. As of December 31, 2008, the Company's ordinary shares are also traded on the Tel Aviv Stock Exchange ("TASE"). On October 31, 2007, the Company's ordinary shares were delisted from the London Stock Exchange ("LSE"), pursuant to the October 2, 2007 vote at the Company's extraordinary general meeting of shareholders.

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

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

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

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

As of December 31, 2008, 2007 and 2006, no warrants have been exercised and no warrants have been cancelled. The Company used the Black & Scholes fair value option pricing model to value the warrants issued in 2006. The following assumptions under this method were used: expected volatility of 48%; risk-free interest rate (in dollar terms) of 4.8%; dividend yield of 0%; and expected life of 4.8 years. The fair value of the warrants issued was $0.22 per warrant, and was recorded as additional paid-in capital.

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

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

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

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

b. Stock Option Plans

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

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

As of December 31, 2008, the Company has granted to employees, directors and consultants options that are outstanding to purchase up to 30,825,178 ordinary shares, under the four remaining share option plans discussed below and pursuant to certain grants apart from these plans also discussed below.

(a) 1998 Share Option Plan

Under a share option plan established in 1998 ("the 1998 Plan"), the Company granted options to employees during 1998. All of the options granted under this plan expired during the year ended December 31, 2008. There are no options available for grant under this plan.

(b) 1999 Share Option Plan

Under a share option plan established in 1999 ("the 1999 Plan"), the Company granted options to employees during 1999, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 4,200 are outstanding and exercisable as of December 31, 2008, at an exercise price of $0.497 per ordinary share. The option term is for a period of 10 years from the grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. There are no options available for grant under this plan.

(c) 2000 Share Option Plan

Under a share option plan established in 2000 ("the 2000 Plan"), the Company granted options to employees during 2000, which are held by a trustee under section 3(i) of the Tax Ordinance, of which 89,800 are outstanding and exercisable as of December 31, 2008, at an exercise price of $1.10 per ordinary share. The option term is for a period of 10 years from grant date. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. There are no options available for grant under this plan.

(d) 2001 Share Option Plan

Under a share option plan established in 2001 ("the 2001 Plan"), the Company has granted options during 2001-2008, at an exercise price between $0.106 and $0.931 per ordinary share. Up to 11,000,000 options were available to be

granted under the 2001 Plan, of which 7,446,177 are outstanding as of December 31, 2008. Options granted to Israeli employees were in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The option term is for a period of 10 years from the grant date. The options vest over a three to four year period. As of December 31, 2008, 3,681,952 options are fully vested. As of December 31, 2008, the remaining number of options available for future grants under the 2001 Plan is 2,872,273.

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(e) Non-Plan Share Options

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

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

	Year ended December 31					
	2008		2007		2006	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance outstanding at beginning of year	28,434,947	0.62	32,475,238	0.63	24,268,975	0.59
Changes during the year:						
Granted1	9,565,300	0.26	9,620,000	0.36	11,740,000	0.70
Exercised2	(32,833)	0.11	(45,416)	0.11	(277,238)	0.35
Cancelled	—	—	(9,250,000)	0.35	—	—
Reclassified3	—	—	—	—	(125,000)	0.25
Expired	(4,523,822)	0.62	(3,947,536)	0.70	(2,074,505)	0.60
Forfeited	(3,259,441)	0.41	(417,339)	0.60	(1,056,994)	0.57
Balance outstanding at year end4	30,184,151	0.53	28,434,947	0.62	32,475,238	0.63
Balance exercisable at year end4	14,084,935	0.59	12,477,311	0.72	14,145,370	0.72

1 In 2008, the exercise price of the options granted to employees and directors was equal to the share price on the grant date. In 2007, the exercise price of the options granted to employees and directors was greater than, equal to, or less than the share price on the grant date (see (b) and (c) below). In 2006, the exercise price of options granted to directors was equal to or less than the share price on the grant date (see (a) and (c) below).

2

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

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

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

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

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable	Weighted-average remaining contractual life (years)	Weighted-average exercise price
$0.100-$0.299	4,878,301	9.5	$ 0.206	3,344,420	9.4	$ 0.198
$0.300-$0.399	14,195,559	1.7	$ 0.347	5,153,834	1.5	$ 0.349
$0.400-$0.499	54,200	2.3	$ 0.497	54,200	2.3	$ 0.497
$0.500-$0.699	2,170,291	2.7	$ 0.600	1,507,791	2.1	$ 0.600
$0.700-$0.899	7,199,400	7.1	$ 0.776	2,338,290	6.8	$ 0.781
$0.900-$1.100	411,400	0.9	$ 0.968	411,400	0.9	$ 0.968
$2.110	1,275,000	1.7	$ 2.110	1,275,000	1.7	$ 2.110
	30,184,151	4.3	$ 0.528	14,084,935	4.3	$ 0.590

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(a) In December 2007, the Company canceled 9,250,000 options that were granted to its then Chairman of the Board (the "Chairman") in August 2005, at an exercise price of $0.354 per share (the "Original Options"), and granted to the Chairman 9,250,000 options (the "New Options") on the exact same remaining terms and conditions as the Original Options (including the remainder of the exercise period of the Original Options), with the exception of the exercise price, which is equal to $0.36 per option (a price greater than the closing price on the date of grant of the New Options). Since the exercise price of the New Options are greater than the exercise price of the Original Options and were granted on the exact same remaining terms and conditions, in accordance with SFAS 123R, no incremental compensation cost is recognized and the compensation cost continues to be recognized according to the Original Options as described below. As of December 31, 2008, 3,083,333 options that were granted to the Chairman are vested (the first market condition milestone was reached and therefore 1/3 of the options were vested). With the resignation of the Chairman in March 2009, the remaining unvested options were forfeited in 2009 (see also Note 13 – Subsequent Events).

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

In August 2005, the Company's shareholders granted one of its non-executive directors, options to purchase a total of 2,000,000 ordinary shares at an exercise price equal to $0.354 per ordinary share (which was below market price on the date of grant). These options were exercisable for a period of five years from the date of issuance, and were granted under the same terms and conditions as the 2001 Plan. The options were to vest upon achievement of certain market conditions (in each case, 1/3 of the options will vest upon achievement of a certain market condition). As of December 31, 2008, 666,667 options that were granted to one of the Company's non-executive directors were vested (the first market condition milestone was reached and therefore 1/3 of the options were vested). With the resignation of the non-executive director in November 2008, the remaining unvested options were forfeited, and the remaining vested portion expired in February 2009. The compensation expenses were amortized using the accelerated method.

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

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(b) In March 2006, the Company's board of directors granted the Company's Chief Executive Officer ("CEO") options to purchase a total of 7,000,000 ordinary shares at an exercise price equal to $0.774 per ordinary share (closing price of the Company's ADRs on last trading day prior to official appointment, divided by ten; closing price of the Company's ADRs on grant date, divided by ten was $0.784). These options are exercisable for a period of 10 years from the date of issuance, and granted under the same terms and conditions as the 2001 Plan. Of these, 2,333,334 options shall vest as follows: 777,782 options on the one-year anniversary of the issuance of the options and 194,444 options at the end of each quarter thereafter for the following two years. The balance of the options shall vest upon achievement of certain market conditions or performance conditions (2,333,333 of the options shall vest upon achievement of a certain market capitalization or working capital condition and 2,333,333 of the options shall vest upon achievement of another market capitalization or working capital condition). In addition, in the event of a merger, acquisition or other change of control or in the event that the Company terminates the CEO, either without cause or as a result of his death or disability, or he terminates his agreement for good reason, the exercisability of any of the options granted to him that are unexercisable at the time of such event or termination shall accelerate and the time period during which he shall be allowed to exercise such options shall be extended by two years from the date of the termination of his agreement. Additionally, the Company's board of directors shall have the discretion to accelerate all or a portion of the CEO's options at any time. As of December 31, 2008, 2,138,890 of the options granted to the CEO have vested. The compensation expenses for the options that vest upon achievement of certain market conditions or performance conditions are amortized using the accelerated method. Upon the imminent departure of the CEO, the unvested market and performance condition options shall be forfeited.

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

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

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

In August 2008, the Company granted options to a non-executive director to purchase 20,000 ordinary shares, at an exercise price equal to $0.368 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). The options are exercisable for a period of ten years from date of grant.

In July 2008, the Company's shareholders granted options to a non-executive director to purchase 300,000 ordinary shares, at an exercise price equal to $0.350 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). The options are exercisable for a period of ten years from date of grant.

In March 2008, the Company's board of directors granted options to an employee to purchase a total of 250,000 ordinary shares at an exercise price equal to $0.319 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). These options are exercisable for a period of 10 years from the date of issuance, and were granted under the Company's 2001 Plan.

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Notes to the Consolidated Financial Statements (continued)

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

In January 2008, the Company's board of directors granted options to its employees to purchase a total of 4,295,300 ordinary shares at an exercise price equal to $0.315 per ordinary share (a price equal to the closing price of the Company's ADRs on the grant date, divided by ten). These options are exercisable for a period of 10 years from the date of issuance, and were granted under the Company's 2001 Plan.

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

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

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

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

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

The Company used a Black & Scholes model as the fair value option pricing model for the service condition awards described above. The following assumptions under this method were used for the stock options granted during the years ended December 31, 2008, 2007 and 2006: weighted average expected volatility of: 72%, 51% and 48%, respectively; weighted average risk-free interest rates (in dollar terms) of 2.4%, 4.6% and 5.0%, respectively; dividend yield of 0%, respectively; and weighted average expected life of 3.7, 6.0 and 5.7 years, respectively. The weighted average fair value of options granted during the years ended December 31, 2008, 2007 and 2006 using the model was $0.13, $0.20 and $0.27 per option, respectively.

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

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

(d) For the years ended December 31, 2008, 2007 and 2006, non-cash compensation relating to options granted to employees and directors was $1,885,000 (of which $78,000 was charged to research and development costs, $1,722,000 was charged to general and administrative expenses and $85,000 was charged to business development costs), $1,934,000 (of which $134,000 was charged to research and development costs, $1,778,000 was charged to general and administrative expenses and $22,000 was charged to business development costs), and $2,173,000 (of which $170,000 was charged to research and development costs, $1,990,000 was charged to general and administrative expenses and $13,000 was charged to business development costs), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2008 was $2,469,000, and the weighted average period over which it is expected to be recognized is 1.3 years.

3) The following table summarizes options granted to consultants (including consultants and members of the scientific advisory board and other third-party service providers) under the Company's stock option plans, as discussed above:

	Year ended December 31					
	2008		2007		2006	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance outstanding at beginning of year	732,708	0.35	760,000	0.31	525,000	0.33
Changes during the year:						
Granted1	360,000	0.31	150,000	0.37	120,000	0.29
Exercised	(117,708)	0.25	—	—	—	—
Reclassified2	—	—	—	—	125,000	0.25
Expired	(150,000)	0.20	—	—	(10,000)	0.50
Forfeited	(183,973)	0.34	(177,292)	0.20	—	—
Balance outstanding at year end3	641,027	0.38	732,708	0.35	760,000	0.31
	416,027	0.42	507,708	0.35	448,334	0.36

Balance exercisable at year end3						

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

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

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

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

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable	Weighted-average remaining contractual life (years)	Weighted-average exercise price
0.100-0.299	57,056	1.0	$ 0.286	57,056	1.0	$ 0.286
0.300-0.399	388,971	7.2	$ 0.322	163,971	4.6	$ 0.331
0.500-0.699	195,000	3.0	$ 0.538	195,000	3.0	$ 0.538
	641,027	5.4	$ 0.384	416,027	3.4	$ 0.422

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

NOTE 7 - SHAREHOLDERS' EQUITY (continued)

(a) The Company used the Black & Scholes fair value option pricing model. The following assumptions under this method on grant date were used in 2008: weighted average expected volatility of 67%; weighted average risk-free interest rates (in dollar terms) of 2.8%, dividend yield of 0%, and weighted average expected life of 3.8 years. The weighted average fair value of options granted during the year using the model was $0.16 per option. The following assumptions under this method on grant date were used in 2007: weighted average expected volatility of 51%; weighted average risk-free interest rates (in dollar terms) of 4.5%; dividend yield of 0%; and weighted average expected life of 3.0 years. The weighted average fair value of options granted during the year using the model was $0.14 per option. The following assumptions under this method on grant date were used in 2006: weighted average expected volatility of 49%; weighted average risk-free interest rates (in dollar terms) of 4.6%; dividend yield of 0%; and weighted average expected life of 4.5 years. The weighted average fair value of options granted during the year using the model was $0.13 per option.

(b) For the years ended December 31, 2008, 2007 and 2006, non-cash compensation relating to options granted to consultants were $13,000 (of which $0 was charged to research and development costs, $13,000 was charged to general and administrative expenses and $0 was charged to business development costs), $13,000 (of which $7,000 was charged to research and development costs, $6,000 was charged to general and administrative expenses and $0 was charged to business development costs), and $7,000 (of which $3,000 was charged to research and development costs, $2,000 was charged to general and administrative expenses and $2,000 was charged to business development costs), respectively. The total compensation costs related to nonvested awards not recognized as of December 31, 2008 was $0, and the weighted average period over which it is expected to be recognized is 0 years.

4) In regards to the transaction advisory fee in the form of stock appreciation rights see Note 2b.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

a. Royalty and Contingent Milestone Payments

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

In accordance with the terms of the license agreement with DOV, XTL Development will make milestone payments of up to $126.5 million, in cash and/or ordinary shares of the Company over the life of the license, of which up to $115 million will be due upon or after regulatory approval of the product. XTL Development is also obligated to pay royalties to DOV on net sales of Bicifadine. In November 2008, the Company announced that the Phase 2b clinical trial failed to meet its primary and secondary endpoints, and as a result the Company ceased development of Bicifadine.

XTL Development is also committed to pay a transaction advisory fee to third party intermediaries in regards to the DOV Transaction (see also Note 2).

The VivoQuest license agreement provides for milestone payments triggered by certain regulatory and sales targets. These milestone payments total $34.6 million, $25.0 million of which will be due upon or following regulatory approval or actual product sales, and are payable in cash or ordinary shares at the Company's election. In addition, the license agreement requires that we make royalty payments on product sales. Pursuant to the Company's out-licensing agreement, Presidio is obligated to pay the Company for any contingent milestone consideration owed to VivoQuest pursuant to the XTL and VivoQuest license agreement (see also Note 3).

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

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

In March 2008, all of the closing conditions related to the termination of the Research and License agreement dated April 7, 1993, as amended between Yeda and the Company were completed. As the per termination agreement, Yeda assumed all of the Company's contingent liabilities related to the Office of the Chief Scientist of the Government of Israel (the “OCS”). As of December 31, 2007, the maximum amount of the contingent liability in respect of royalties related to those projects to the OCS was $17,426,000. As of December 31, 2008, there were no further contingent liability owed to the OCS.

b. Operating lease commitments

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

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

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

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

NOTE 9 - INCOME TAXES

a. The Company

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

Under this law, results for tax purposes are measured in real terms, adjusted according to changes in the Israeli consumer price index (hereinafter the “CPI”). Through December 31, 2007, the Company was taxed under this law. Results for tax purposes were measured on a real basis and were adjusted to reflect the increase in the Israeli CPI. As explained in Note 1b, the financial statements are presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate, both on an annual and cumulative basis, causes a difference between taxable income and income reflected in these financial statements (see also Note 1j).

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

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

NOTE 9 - INCOME TAXES (continued)

Tax rates in Israel applicable to income

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

US Federal Income Tax Consequences

As of December 31, 2008, the Company had a "permanent establishment" in the US, which began in 2005 due to the residency of the former Chairman of the Board of Directors and the Chief Executive Officer in the US. Any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if the Company was a US corporation. The maximum US corporate income tax rate (not including applicable state and local tax rates) is currently at 35%. In addition, if the Company had income attributable to the permanent establishment in the US, the Company may be subject to an additional branch profits tax of 30% on its US effectively connected earnings and profits, subject to adjustment, for that taxable year if certain conditions occur, unless the Company qualified for the reduced 12.5% US branch profits tax rate pursuant to the United States-Israel tax treaty. The Company would be potentially able to credit any foreign taxes that may become due in the future against its US tax liability in connection with income attributable to its US permanent establishment and subject to both US and foreign income tax. As of the signing date of the these financial statements, there was a change in the Company's Board and senior management composition, such that the residence of the Company's newly appointed Chairman of the Board and its Co-Chief Executive Officer were outside of the United States as of the end of the first quarter of 2009.

As of December 31, 2008, the Company did not earn any taxable income for US federal tax purposes. If the Company eventually earns taxable income attributable to its US permanent establishment, the Company would be able to utilize accumulated loss carryforwards to offset such income only to the extent these carryforwards were attributable to its US permanent establishment, subject to limitation in the case of shifts in ownership of the Company, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period. For the year ended December 31, 2008, the Company was subject to a State franchise tax of $10,000 in regards to the permanent establishment.

b. The Subsidiary and XTL Development

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

c. Current tax losses for tax purposes

1) Company

Israeli income tax of the Company is computed on the basis of the income in Israeli currency as determined for statutory purposes. The Company has incurred losses for tax purposes from inception. The loss carryforwards for tax purposes as of December 31, 2008 are approximately $153.5 million, which may be offset against future taxable income generated from a business, (including capital gains from the sale of assets used in the business) with no expiration date. However, any income attributable to the "permanent establishment" in the US would be subject to US

corporate income tax and, possibly, branch profit taxes. If this is the case, the Company may not be able to utilize any of the accumulated Israeli loss carryforwards as of December 31, 2008, since these losses were not attributable to the US permanent establishment.

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

NOTE 9 - INCOME TAXES (continued)

2) Subsidiary and XTL Development

The Subsidiary and XTL Development are taxed under applicable US tax laws. The Subsidiary is remunerated under a cost plus agreement with the Company. The Subsidiary and XTL Development will file consolidated returns for US federal income tax purposes. Because the group consisting of the Subsidiary and XTL Development has incurred net operating losses for 2008, the group will file a carryback claim for those losses to the year ended December 31, 2004 in order to receive a refund for US federal income taxes paid for that year. Similarly, because the group consisting of the Subsidiary and XTL Development had incurred net operating losses for 2007, the group filed a carryback claim for those losses to the years ended December 31, 2006 and 2005, and in 2008 received a refund for US federal income taxes paid for those years. These refunds are reflected on the Company's consolidated balance sheet in "other receivables and prepaid expenses."

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

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

	2008 ($ in thousands)		2007 ($ in thousands)		2006 ($ in thousands)	
	Company	Subsidiaries1	Company	Subsidiaries1	Company	Subsidiaries1
Net loss (income) before income taxes	514	8,763	10,354	14,791	15,363	(458)
Income taxes (benefit)	10	(41)	—	(206)	—	227
Net loss (income) for the year	524	8,722	10,354	14,585	15,363	(231)

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

	2008	2007	2006
Subsidiaries2		($ in thousands)	
Income taxes for the reported year:			
Current	(41)	(254)	275
Deferred (in respect of the reporting period)	—	48	(48)
	(41)	(206)	227

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

d. Deferred income taxes

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

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

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

NOTE 9 - INCOME TAXES (continued)

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

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

e. Reconciliation of the theoretical tax expense to actual expense

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see a. above), and the actual tax expense:

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

f. Tax assessments

1) Income taxes

The Company files income tax returns in Israel. The Company received tax assessments for the years up to and including the 1998 tax year. The Company’s tax returns until 2004 are considered final.

The Company and Subsidiary have filed income tax returns in the US federal jurisdiction and in various states. The Company files US income tax returns since it had a permanent establishment in the US, which began in 2005. For Subsidiary tax returns, the general three year statute of limitations has expired for years prior to and including 2004. Tax years 2005 through 2008 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process, and the Company and Subsidiary have not been audited for tax

purposes since incorporation.

2) Uncertain tax positions

As noted in Note 1i above, the Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 has had no impact on the Company's consolidated results of operations and financial position, since the Company has had no uncertain tax positions that fall within FIN 48.

3) Withholding taxes

In 2006, the Company paid $48,000 to settle an assessment received from the Israeli tax authorities in 2005 related to withholding taxes for the periods of 2001-2004.

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

NOTE 10 - RESTRUCTURING

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

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

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

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Short-term bank deposits

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

b. Other receivables and prepaid expenses:

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

** Represents an amount less than $1,000

c. Accrued expenses:

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

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

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued)

d. Financial and other income - net

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

* During 2001 the Company acquired 20% of the shares of US-based iviGene Corporation (“iviGene”) for $1 million and agreed to fund certain research activities at iviGene which were charged to research and development costs in the consolidated statement of operations. During 2002, the Company terminated funding research activities at iviGene. In November 2006, Oragenics Inc. (“Oragenics”) acquired the outstanding stock of iviGene owned by the Company in exchange for shares of its common stock at a fair value of $100,000 (representing less than 1% of Oragenics shares outstanding). Oragenics’ common stock is listed on the American Stock Exchange with the ticker symbol “ONI.” As a result of the exchange, the Company recorded other income of $100,000. The fair market value of the stock of Oragenics at December 31, 2006 was recorded on the Company's balance sheet under trading securities. During 2007, the Company disposed of the Oragenics stock.

NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Linkage terms of balances in non-dollars currency

1) As follows:

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

The above balances do not include Israeli currency balances linked to the dollar.

2) Data regarding the changes in the exchange rate of the dollar and the Israeli CPI:

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

b. Concentration of credit risks

Most of the Company's cash and cash equivalents and bank deposits at the balance sheet dates were deposited with Israel or Israel-related banks. The Company is of the opinion that the credit risk in respect of those balances is remote.

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

NOTE 13 - SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

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

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

NOTE 13 - SUBSEQUENT EVENTS (continued)

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