XTL BIOPHARMACEUTICALS LTD
Form 6-K
November 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of November, 2012

Commission File Number: **000-51310**

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

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

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

Form 20-F x Form 40-F ¨

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

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

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

Yes ¨ No x

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

Incorporation by Reference: This Form 6-K of XTL Biopharmaceuticals Ltd. dated November 26, 2012 is hereby incorporated by reference into the registration statements on Form F-3 (File No. 333-141529, File No. 333-147024 and File No. 333-153055) filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on March 23, 2007, October 30, 2007 and August 15, 2008, respectively, and the registration statements on Form S-8 (File No. 333-148085, File No. 333-148754 and File No. 333-154795) filed by XTL Biopharmaceuticals Ltd. with the Securities and Exchange Commission on December 14, 2007, January 18, 2008, and October 28, 2008, respectively.

XTL Biopharmaceuticals Ltd. (the "Company") Presents Its Translated From Hebrew Interim Financial Statements as of September 30, 2012

Attached hereto is an English translation (from Hebrew) of our interim financial statements and additional information as submitted on the Tel Aviv Stock Exchange.

The following documents are included:

A. Board of Directors' Report as of September 30, 2012.

B. Reviewed Condensed Consolidated Financial Statements as of September 30, 2012.

C. Separate Financial Information as of September 30, 2012 in accordance with Regulation 38d of the Israeli Securities Regulations (Periodical and Immediate Reports) - 1970.

D. Interim Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure as of September 30, 2012, Pursuant to Regulation 38c(a) of the Israeli Securities Authority.

E. Condensed Pro Forma Interim Consolidated Financial Statements as of September 30, 2012, in accordance with Regulation 38b of the Israeli Securities Regulations (Periodical and Immediate Reports) – 1970.

F. Condensed Pro Forma Interim Consolidated Financial Statements as of June 30, 2012, in accordance with Regulation 38b of the Israeli Securities Regulations (Periodical and Immediate Reports) – 1970.

XTL BIOPHARMACEUTICALS LTD.

DIRECTORS' REPORT ON THE COMPANY'S STATE OF AFFAIRS

AS OF SEPTEMBER 30, 2012

The board of directors of XTL Biopharmaceuticals Ltd. ("**the Company**") hereby presents the Company directors' report for the nine and three-month periods ended September 30, 2012.

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

The directors' report contains, among other, a brief description of the Company's business, its financial position, an analysis of operating results and the effect of events during the reporting period on the data in the consolidated financial statements of the Company as of September 30, 2012 ("**the financial statements**"). The directors' report was prepared based on the assumption that the reader also has at its disposal the directors' report for the year ended December 31, 2011.

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

1.1 A brief description of the Company's business

The Company was incorporated under the Israeli Companies Law on March 9, 1993. The Company is engaged in the development of therapeutics, among others, for the treatment of unmet medical needs, improvement of existing medical treatment and business development in the medical realm.

On July 25, 2012, the Company acquired approximately 50.79% of the issued and outstanding share capital of InterCure Ltd. ("**InterCure**"), a public company whose shares are traded on the Tel-Aviv Stock Exchange ("**TASE**") and which is engaged in research, development, marketing and sales of home therapeutic devices for non-medicinal and non-invasive treatment of various diseases such as hypertension, heart failure, sleeplessness and mental stress. For additional details regarding this acquisition, see item 1.2.11 below.

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As of the reporting date, the Company is in the planning and preparation stages for implementing Phase 2 clinical trial of rHuEPO drug designated to treat multiple myeloma cancer patients . As part of these preparations, the Company conducts a research which includes collection of data relating to the level of specific proteins in the blood of a group of patients with multiple myeloma, which will assist in focusing the Phase 2 clinical trial protocol. These collected research data will be integrated in the above Phase 2 clinical trial. The Company expanded this research to additional centers in order to collect data beyond the original research plan and it estimates that the research will conclude towards the end of 2012. With the conclusion of the above research, the Company will start the procedure to apply for an approval to commence Phase 2 clinical trial which the Company estimates is expected to be issued by the end of the first half of 2013.

On May 29, 2011, the Company received from the U.S. Food and Drug Administration ("**FDA**"), a sub-unit of the Health and Human Services ("**HHS**"), an orphan drug designation for its rHuEPO drug for the treatment of multiple myeloma blood cancer for which it owns a patent through 2019.

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

On November 30, 2011, the Company completed the MinoGuard transaction in the framework of which the Company acquired the activity of MinoGuard Ltd. ("**MinoGuard**"), which was founded by Mor Research Applications Ltd. ("**Mor**"), by obtaining an exclusive license to use MinoGuard's entire technology, including the SAM-101 drug, a combined drug for the treatment of mental disorders focusing on schizophrenia disorder, in return for royalties on sales and milestone payments throughout the clinical development process, without making any other payment. This drug is based on a combination of existing anti-psychotic drugs and a recognized medicinal compound (Minocycline).

For additional details regarding the MinoGuard agreements, see Note 15a to the consolidated financial statements for 2011.

As of September 30, 2012, the Company has several subsidiaries as detailed below:

a. InterCure, a public company whose shares are traded on the TASE (see more details in item 1.2.11 below).

b. Xtepo Ltd. ("**Xtepo**") - an Israeli privately-held company incorporated in November 2009 which holds a license for the exclusive use of the patent for rHuEPO drug for multiple myeloma (see also Note 1 to the Company's financial statements hereby attached).

c. XTL Biopharmaceuticals Inc. ("**XTL Inc.**") a U.S. company incorporated in 1999 under the laws of the State of Delaware and was engaged in development of therapeutics and business development in the medical realm. XTL Inc. has a wholly-owned subsidiary (a sub-subsidiary of the Company), XTL Development Inc. ("**XTL Development**"), which was incorporated in 2007 under the laws of the State of Delaware and was engaged in development of therapeutics for the treatment of diabetic neuropathic pain ("**Bicifadine**"). In March 2010, the Company terminated the agreement with DOV Pharmaceutical Inc., the owner of the Bicifadine patent, and all rights under the agreement were reverted to DOV Pharmaceutical Inc. in coordination with it. As of the date of the approval of the financial statements, XTL Inc. and XTL Development are inactive.

After the date of the statement of financial position, on November 21, 2012, the Company purchased approximately 31.35% issued and outstanding share capital of Proteologics Ltd. ("Proteologics"), a public company traded on the Tel-Aviv Stock Exchange, in consideration of approximately NIS 6.5 million (approximately $ 1.7 million), which were paid in cash (see 4.1.2 below).

The Company is a public company traded on the TASE whose American Depository Receipts ("**ADRs**") are quoted on the Pink Sheets (see also item 1.2.9 below).

During the period, the Company raised through a private placement and exercise of tradable and non-tradable warrants from March 2012 to the date of the approval of the financial statements total net proceeds of approximately $ 4.25 million (approximately NIS 16.1 million). For additional details, see items 1.2.4, 1.2.14 and 4.1.1 below.

1.2 Significant events during the period

1.2.1 On January 29, 2012, 39,000 options which had been granted in 1997 to a service provider expired.

1.2.2 On February 13, 2012 and based on the decisions of the Company's board of directors ("**BOD**") and audit committee of February 12, 2012, the Company announced the convening of an annual general meeting of the

Company's shareholders whose agenda would be the following proposed resolutions:

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1.2.2.1 To reappoint directors - to reappoint, on an individual basis, Messrs. Amit Yonay, Marc Allouche and David Grossman as directors in the Company until the next annual meeting.

1.2.2.2 To reappoint external directors - to reappoint, on an individual basis, Mrs. Dafna Cohen and Mr. Jaron Diament as external directors in the Company for another (second) term from March 19, 2012.

1.2.2.3 To approve a contingent bonus award to the Company's CEO - if the Company effects a capital raising round during a period of 36 months from the date of this resolution, the Company will pay the CEO a bonus equal to 1.2% of the above capital raising amount up to a maximal amount of $ 200 thousand.

1.2.2.4 Subject to the approval of subsection 1.2.2.2 above, the Company will allocate to each of the external directors, at no consideration, 150,000 unregistered options to purchase 150,000 Ordinary shares of the Company of NIS 0.1 par value each (a total of 300,000 options) at an exercise price equal to NIS 0.58633 per option. According to the provisions of IFRS 2, the fair value of all options on the date of approval by the general meeting of the Company using the Black-Scholes model was approximately $ 79 thousand. The maximal option term is 10 years from the grant date. 33% of the options are exercisable immediately after their allocation and the remaining options are exercisable in 24 equal tranches every month from the date of grant over a two-year period.

On March 19, 2012, the annual general meeting of the Company's shareholders was convened and the issues discussed above were approved.

1.2.3 On March 14, 2012, the Company signed a strategic collaboration master agreement with Clalit Health Services - Clalit Research Institute Ltd. ("**the Institute**") and Mor Research Applications Ltd. ("**Mor**") according to which the Institute provides the Company the right to receive contents which are based on the Institute's database in connection with technologies that stem from inventions and patents of Clalit Health Services' physicians, in projects whose content shall be agreed upon by the Company, the Institute and Mor in advance and in writing.

In consideration for the above, the Company shall pay the Institute the cost basis related to the Institute's activity in the framework of any project plus an additional 10% of the total royalties to which Mor is entitled pursuant to its agreements with the Company in connection with each technology for which rights were granted to the Company. This agreement may be terminated by giving a written and advance notice of 180 days by any of the parties on condition that all joint active projects have reached their end.

The Company estimates that access to data through this agreement will enable the Company to evaluate the safety and efficacy data of the technologies under development as well as technologies whose development has not yet commenced.

1.2.4 On March 18, 2012, the Company's BOD approved a private placement to institutional and private (foreign as well as Israeli) investors for a total of approximately $ 2.4 million (approximately NIS 9.1 million). According to the private placement, the Company allocated 11,560,362 Ordinary shares of the Company of NIS 0.1 par value each, 3,853,454 warrants (series A) and 1,926,727 warrants (series B).

Warrants (series A) are each exercisable into one Ordinary share of NIS 0.1 par value from the date of allocation (March 18, 2012) to September 17, 2012 for an exercise increment of NIS 1.046 per share, linked to the U.S. dollar. During the period, 560,000 warrants (series A) were exercised into 560,000 Ordinary shares of the Company of NIS 0.1 par value each for a total amount of approximately $ 155 thousand. On September 17, 2012, the outstanding 3,293,454 warrants (series A) expired. See additional information on the exercise of warrants (series A) in the period in item 1.2.14 below.

Warrants (series B) are each exercisable into one Ordinary share of NIS 0.1 par value from the date of allocation (March 18, 2012) to March 17, 2015 for an exercise increment of NIS 1.124 per share, linked to the U.S. dollar.

1.2.5 On April 12, 2012, the Company's BOD approved the appointment of Dr. Ben-Zion Weiner as an independent director in the Company.

1.2.6 On April 12, 2012, the Company's BOD approved to allocate 1,810,000 options that are exercisable into 1,810,000 Ordinary shares of the Company of NIS 0.1 par value each for an exercise increment of NIS 0.9 per share and pursuant to the Company's approved option plan as follows: 1,710,000 options to the Deputy CEO and CFO and 100,000 options to employees in the Company. Pursuant to the guidance of IFRS 2, the fair value of all options on the grant date (the date of Company's BOD's resolution), using the Black-Scholes model was approximately $ 399 thousand. The maximal option term is 10 years from the grant date. The options are exercisable in twelve equal tranches every quarter over a three-year period.

The value of each option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 153.85%, risk-free interest rate of 3.67%-4.22% and expected life of 5 to 6.5 years.

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1.2.7 Based on the decision of the Company's BOD of April 12, 2012, the Company's BOD approved the convening of an extraordinary general meeting whose agenda will discuss the allocation of 4,408,000 options to a director in the Company that are exercisable into 4,408,000 Ordinary shares of the Company of NIS 0.1 par value each for an exercise increment of NIS 0.9 per share. Pursuant to the guidance of IFRS 2, the fair value of all options on the date of approval by the Company's extraordinary meeting, using the Black-Scholes model, was approximately $ 1,255 thousand. Also, on the agenda of the extraordinary general meeting is the allocation of 1,500,000 options to the Company's CEO that are exercisable into 1,500,000 Ordinary shares of the Company of NIS 0.1 par value each for an exercise increment of NIS 0.9 per share. Pursuant to the guidance of IFRS 2, the fair value of all options on the date of approval by the Company's extraordinary meeting, using the Black-Scholes model, was approximately $ 427 thousand. The maximal option term is 10 years from the grant date. The options will vest in twelve equal tranches every quarter from the date of grant over a three-year period.

On May 29, 2012, the extraordinary general meeting of the Company's shareholders was convened and the allocation of options discussed above was approved.

The value of each option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.09%, risk-free interest rate of 3.90%-4.16% and expected life of 5 to 6.5 years.

1.2.8 On April 12, 2012, the Company entered into an unbinding letter of intent with Kitov Pharmaceuticals Ltd. ("**Kitov**") according to which the Company intends to acquire the entire share capital of Kitov in consideration of the allocation of Company shares and milestone payments throughout the development progress of Kitov's products. Kitov researches and develops combination drugs. Kitov's lead drug is ready for a Phase 3 clinical trial and is focused on pain induced by osteoarthritis and treatment of hypertension. On June 18, 2012, the Company's Board approved to enter into a binding agreement according to which the Company will acquire the entire issued and outstanding share capital of Kitov by a reverse triangular merger subject to the fulfillment of certain prerequisites.

1.2.9 On June 1, 2012, the Company filed an application for relisting its ADRs on the NASDAQ, which is subject to complying with all the required criteria that is examined by the NASDAQ Listing Qualifications Committee, including the criteria of minimum ADR price (according to the different listing criteria). On September 24, 2012, the Company's Board approved to change the number of ADRs such that 20 Ordinary shares of the Company form one ADR, this in order to support the Company's compliance with the NASDAQ's ADR listing requirements. The record date of the change in ADR ratio is October 4, 2012.

1.2.10 On June 10, 2012, the Company was notified by the TASE that effective from June 17, 2012, the Company's securities will be traded on the TA MidCap-50 and on the TA BlueTech-50.

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

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

On July 25, 2012, the transaction was completed after all the prerequisites had been met and the Company acquired 16,839,532 Ordinary shares of InterCure with no par value in consideration of a private placement of 7,165,662 Ordinary shares of the Company of NIS 0.1 par value each whose value on the date of signing the agreement measured according to the quoted market price of the Company's shares on the Tel-Aviv Stock Exchange approximated $ 2.2 million, and which represents a value of InterCure of $ 1.75 million before the money, but after all of InterCure's debts are converted as described above ("**InterCure's adjusted value**"). The fair value of the Company's shares on the date of consummation of the transaction was approximately $ 2,469 thousand.

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

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

As of the date of the approval of the financial statements, the Company's stake in InterCure is approximately 45.41% of the issued and outstanding share capital of InterCure. However, if the Company converts the loan extended to InterCure into shares, its stake in InterCure will be approximately 54.72%. Assuming that all the options granted to employees and directors in InterCure are exercised, and assuming the above loan is converted, the Company's stake in InterCure will be about 51.51%.

After the date of the statement of financial position, InterCure granted 20,185,184 performance contingent options that are exercisable into 20,185,184 Ordinary shares with no par value to Gibuv Ltd. ("**Gibuv**") (see Note 5m below). If the entire performance contingent options granted to Gibuv are exercised, and assuming the conversion of said loan and the exercise of the entire options granted to directors and employees, the Company's stake in InterCure will be approximately 36.15% of the issued and outstanding share capital of InterCure.

1.2.12 On September 9, 2012, the boards of directors of both the Company and Kitov approved the terms of the agreement, as amended by the parties following negotiations, as follows:

1.2.12.1 In return for receiving 100% of Kitov's issued and outstanding share capital, the Company will pay Kitov's shareholders on the date of closing a total of $ 140 thousand and allocate 8,686,733 Ordinary shares of the Company to Kitov's shareholders ("**the additional shares**"), 241,048 warrants to service providers in Kitov to acquire 241,048 Ordinary shares of the Company of NIS 0.1 par value each that are exercisable over a five-year period from the date of allocation at an exercise price equal to NIS 0.01 per share.

The Company will also allocate to Kitov's shareholders and service providers ("**the offerees**") an additional 612,800 warrants ("**the additional warrants**") that are exercisable into 612,800 Ordinary shares of the Company of NIS 0.1 par value each at an exercise price equal to NIS 0.01 per additional share at the earlier of 18 months after the date of closing or after the Company completes a capital raising in the total of $ 4 million. Alternatively, the additional warrants will be cancelled immediately once the offerees receive an amount of $ 160 thousand from the Company, assuming the Company completes a capital raising in the total of $ 4 million as above. All of the securities allocated to the offerees on the date of closing, assuming that all the warrants allocated to the offerees, including the additional warrants, are exercised, will represent approximately 3.99% of the Company's issued and outstanding share capital (approximately 3.59% on a fully diluted basis).

1.2.12.2 After completing the acquisition agreement and subject to the fulfillment of the milestones contingent on the progress in developing Kitov's drugs as stipulated in the acquisition agreement, the Company will pay the offerees up to seven additional payments which might collectively amount to up to $ 61 million ("the milestone payments"). The Company has an exclusive right to convert any of the milestone payments by allocating up to 91,828,110 shares of the Company (assuming all the milestones are met), which will represent up to about 27.76% of the Company's issued and outstanding share capital after the allocation (about 25.70% on a fully diluted basis) and along with the securities issued on the date of closing will represent about 30.65% of the Company's issued and outstanding share capital (about 28.37% on a fully diluted basis).

1.2.12.3 According to the acquisition agreement, the Company has undertaken to carry out a development plan for one of the drugs developed by Kitov. According to this undertaking, the Company will invest up to $ 1.5 million in financing the Phase 3 clinical trial which will begin at the later of three months from the date of consummation of the agreement or six months from the date of signing the acquisition agreement and the clinical trial is expected to last 18 months from commencement.

1.2.12.4 Approving the consolidation of the Company's share capital at a 1:10 ratio such that each 10 Ordinary shares of NIS 0.1 par value are consolidated into one share of NIS 1.0 par value.

1.2.12.5 Appointing Dr. Paul Waymack and Mr. Simcha Rock as directors in the Company until the next annual meeting.

1.2.12.6 Approving the Company's engagement in a service agreement with Dr. Paul Waymack for appointing the latter as the Chairman of the Company's Board and as the director in charge of the clinical and regulatory development of all of the Company's products in return for monthly management fees of $ 9,166, as well as an annual grant at a maximum amount of $ 30 thousand, subject to the approval of the Company's Board.

The acquisition agreement will be completed provided that certain prerequisites are met, including obtaining the approval of the shareholders' meeting for the acquisition agreement, which is scheduled to convene on November 28, 2012, obtaining a pre-ruling from the Israeli tax authorities in accordance with Article 104h to the Income Tax Ordinance (Revised), 1961 so that the sale of Kitov's shares and the allocation of the Company's securities to Kitov are not viewed as a taxable event on the date of closing of the transaction. As of the date of singing the financial statements, no pre-ruling has been obtained from the Israeli tax authorities and the shareholders' meeting has yet to convene.

It should be noted that the Company's shares issued in the transaction will be mostly restricted for a voluntary restriction period and/or by virtue of the provisions of the Israeli Securities Law, 1968 for a period of between six months and two years from the date of allocation.

In order to examine the transaction and convening the extraordinary shareholders meeting, the Company performed a valuation of Kitov's intellectual property as of September 30, 2012 with the assistance of external valuer (BDO Ziv Haft - Consulting and Management Ltd.), which was attached to the Shareholders meeting announcement, determining the fair value of Kitov's intellectual property.

1.2.13 On August 22, 2012, Presidio Pharmaceuticals Inc. ("**Presidio**") requested to terminate its engagement with the Company in effect from August 24, 2012. Following a notification of the termination of the agreement, Presidio's entire DOS technology (including all the patents held by Presidio) will be restored to the Company within 90 days from the date of said notification in accordance with the provisions of the agreement. Presidio is a U.S. biotechnological corporation which received an exclusive global sublicense from the Company in March 2008 (updated in August 2008) for the clinical development, regulation and commercialization of the DOS technology (consisting of products designed to treat Hepatitis C) according to which the Company has certain DOS milestone based rights (see also Note 15a to the consolidated financial statements for 2011).

It is the Company's intention to assess the renewal of the activity in the Hepatitis C area and/or locate strategic partners for the continued development and marketing of drugs for Hepatitis C virus on the basis of Presidio's reverted DOS technology.

1.2.14 During the period, holders of the Company's warrants exercised 5,858,806 warrants (series 2) into 5,858,806 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 1.06 per share for a total consideration of approximately $ 1.8 million (approximately NIS 6.8 million) as well as 560,000 warrants (series A) into 560,000 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 1.09 per share. On September 17, 2012, according to the terms of the private placement from March 2012, 3,293,454 warrants (series A) of the Company expired. See item 4.1.1 below regarding the exercise of warrants after the date of the statement of financial position.

1.2.15 **InterCure**

1.2.15.1 On July 25, 2012, the CEO of a subsidiary (InterCure) was allocated 1,484,551 options which are exercisable into 1,484,551 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per option, based on the quoted market price of InterCure's share as determined in the debt settlement reached with InterCure. According to the provisions of IFRS 2, the fair value of all the options on the date of grant using the Black-Scholes model was approximately $ 132 thousand. In addition, InterCure's Deputy CEO and CFO was allocated 1,000,000 options which are exercisable into 1,000,000 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per option, based on the quoted market price of InterCure's share as determined in the debt settlement reached with InterCure. According to the provisions of IFRS 2, the fair value of all the options on the date of grant using the Black-Scholes model was approximately $ 88 thousand. The maximal term of the options granted to the Deputy CEO and CFO is 10 years from the grant date. The options are exercisable in twelve equal tranches every quarter from the grant date over a three-year period. The value of each option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 90.76%, risk-free interest rate of 3.39%-3.68% and expected life of 5 to 6.5 years.

1.2.15.2 On September 3, 2012, in the context of an extraordinary meeting of InterCure's shareholders, each of the four directors in InterCure was allocated 75,000 options which are exercisable into 300,000 Ordinary shares of InterCure with no par value for an exercise increment of NIS 0.54 per option. According to the provisions of IFRS 2, the fair value of all the options on the date of the approval of the extraordinary meeting of InterCure's shareholders using the Black-Scholes model was approximately $ 26 thousand. The options are exercisable in twelve equal tranches every quarter from the date of grant over a three-year period.

The value of each option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 87.27%, risk-free interest rate of 3.06%-3.53% and expected life of 5 to 6.5 years.

1.2.15.3 On September 24, 2012, InterCure entered into a strategic service agreement with Gibuv Ltd. ("**Gibuv**"), a private company wholly owned by Messrs. Shay Ben-Itzhak and Avner Yassur, for a period of three years for the provision of online marketing and sale services of InterCure's products. The shareholders in Gibuv, Messrs. Shay Ben-Itzhak and Avner Yassur, are known entrepreneurs in the online sales and marketing industry who have also played an active role in marketing and managing companies such as 888 and Empire Online and were Mr. Noam Lanir's co-partners in H.N.P.K. Limited Partnership (the controlling shareholder in Babylon Ltd., a public company). The terms of the agreement are as follows:

1.2.15.3.1 Gibuv's annual sales targets:

According to the strategic agreement, certain sales targets were determined, calculated as total sales of the product's online marketing activity in the six months preceding the end of each calendar quarter (as defined below) multiplied by 2. The calculation of these sales targets also includes sales made by and/or to third parties with which the engagement is performed by Gibuv. A calendar quarter is defined as an accounting quarter based on InterCure's financial statements. The calculation will be performed near the date of the publication of the interim financial statements (it should be noted that the first examination of the sales targets will be done on a non-recurring basis at the end of two calendar quarters from the date of signing the agreement, namely at the end of the second quarter of 2013, and the other examinations will be done every calendar quarter as discussed above).

Based on its compliance with said sales targets, Gibuv will be allocated up to 20,185,184 non-tradable options which are exercisable into InterCure shares for a (dividend adjusted) exercise price of NIS 0.54 per option. Provided that all options are exercised by Gibuv and the exercise price of each option is actually paid, the total proceeds which InterCure stands to receive amount to approximately NIS 10,900,000.

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It should be noted that Gibuv will be entitled to exercise the options under a cashless exercise mechanism in which the minimum exercise price required by the provisions of the TASE's articles of association will be paid. Following is a table describing the total warrants according to annual sales targets:

Number of warrants	Sales targets (in U.S. $)
6,055,555	4,000,000
4,037,037	5,000,000
4,037,037	15,000,000
6,055,555	30,000,000
20,185,184	

The allocation of the warrants and the options of the strategic agreement regarding said allocation (including the PUT and CALL options discussed below) were approved in the general meeting of October 28, 2012.

The fair value of all performance contingent options on the date of the approval by the extraordinary meeting of InterCure's shareholders, Pursuant to the guidance of IFRS 2, using the Monte-Carlo model was approximately $ 2,169 thousand. The maximal option term is 5 years from the grant date.

The value of each option is based on the following assumptions: expected dividend of 0%, expected standard deviation of 93.6%, risk-free interest rate of 2.1%-3.14% and expected life of 5 years.

1.2.15.3.2 The consideration for the services:

According to the provisions of the strategic agreement, during the period of the strategic agreement, InterCure will pay Gibuv a total of $ 40,000 a month, plus VAT, in return for online marketing of InterCure's products ("consideration") as follows:

- The first four months of the strategic agreement period will serve as a grace period during which no consideration will be paid.

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- In respect of the services supplied in the last four months of the first year of the strategic agreement (namely from the ninth month from the beginning of the strategic agreement period until the end of the twelfth moth), the consideration will be paid subject to the fulfillment of an average monthly contribution (revenues from online sales less cost of online advertising and cost of sales of products in the online channels, "**average monthly contribution**") from online marketing of at least $ 50,000.

- Starting from the end of the first year of the strategic agreement period until the end of the strategic agreement period, the consideration for the services will be paid subject to the fulfillment of an average monthly contribution from online marketing of at least $ 140 thousand.

1.2.15.3.3 Online advertising budget:

InterCure will provide monthly online advertising budgets of at least $ 130 thousand in favor of the online sales activity performed by Gibuv, provided that effective from January 2013, the monthly contribution is not less than the total budget discussed above (for example, a monthly advertising budget of $ 100 thousand will yield a contribution of at least $ 100 thousand). In addition, in the first 12 months of the strategic agreement period, InterCure will provide Gibuv a budget of $ 50 thousand in favor of reviewing new advertising channels and methods, provided that InterCure's quarterly expense incurred for the purpose of this activity does not exceed $ 15 thousand.

1.2.15.3.4 Purchase of software:

According to the strategic agreement, InterCure will purchase from a third party the rights to use the Affiliate software program ("**the program**") which will be used by Gibuv in providing the services, including a right for upgrades and technical support throughout the strategic agreement period, all for a monthly fee of $ 153 thousand, half of which will be paid once the strategic agreement period begins and the other half three months later.

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Moreover, during the strategic agreement period, Gibuv will provide the services to InterCure based on InterCure's needs using a media management program which, whereby if the strategic agreement is terminated, Inter Cure will be entitled to purchase the rights to use the media management program, including upgrades and tech support, for a period of three years for a price reflecting a 40% discount on the market price of the media management program on the date of purchase. InterCure will also reimburse Gibuv for the expenses relating to the customization of the media management program in a total of $ 25,000, plus VAT, subject to achieving a sales target arising from the online marketing activity of $ 5 million, whereby if this target is achieved before March 2014, the expenses will be reimbursed in March 2014.

1.2.15.3.5 PUT option:

Upon the signing of the strategic agreement, Gibuv's shareholders will be conferred a non-transferrable PUT option to sell Gibuv's entire share capital to InterCure, in effect after 18 months have elapsed from the beginning of the strategic agreement period ("**the PUT option**").

In consideration of the acquisition of Gibuv, InterCure will pay Gibuv's shareholders the value of Gibuv's business activity, calculated as Gibuv's EBITDA in the last 12 months preceding the date of the PUT option exercise, multiplied by 3 (which will not exceed an amount of $ 110 thousand) ("**the value of the supplier's activity**") with the addition of the intrinsic economic value of the warrants (calculated as the average closing price of InterCure's share on the TASE in the 30 trading days which precede the relevant notification date, less the exercise price of the warrants on the relevant notification date) (the value of the supplier's activity and the intrinsic economic value collectively - "**Gibuv's value**").

The consideration from the exercise of the PUT option will be paid in cash or by the allocation of InterCure shares, at InterCure's exclusive discretion. If InterCure chooses to allocate its shares as consideration, the quoted market price of each share shall be determined based on the average quoted market price of InterCure's shares on the TASE in the 30 trading days which preceded the date of notification of the exercise of the PUT option.

1.2.15.3.6 CALL option:

On the date of signing the strategic agreement, InterCure will be granted a non-transferrable CALL option to purchase Gibuv's entire share capital by InterCure ("**the CALL option**"). The CALL option will come into effect at the end of one year from the beginning of the strategic agreement period and will remain in effect throughout the strategic agreement period, subject to the following terms:

In return for the acquisition of Gibuv, InterCure will allocate to its shareholders warrants in a number that completes a total of 20,185,184 warrants at an exercise price identical to the exercise price detailed above. Alternative, at its exclusive discretion, InterCure will pay the consideration in cash in an amount equivalent to Gibuv's value, as defined above. The CALL option will become effective within 30 days from the date of providing said notification according to the date on which all the various calculations regarding the consideration are made, as described above.

On October 4, 2012, InterCure convened an extraordinary general meeting of the shareholders in order to approve the strategic service agreement with Gibuv as described above.

On October 28, 2012, InterCure's general meeting approved the engagement in the strategic service agreement with Gibuv, including the allocation of warrants and the items of the strategic agreement dealing with the allocation.

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

The Company has recurring losses and no revenues from operations at this stage (except the subsidiary, InterCure, which was initially consolidated in these financial statements following a transaction which was completed in July 2012, see also Note 4 below) and it is dependent on external financing sources. During the period, the Company raised through a private placement and exercise of tradable and non-tradable warrants from March 2012 to the date of the approval of the financial statements total net proceeds of approximately $ 4.25 million (for additional details, see items 1.2.4, 1.2.14 and 4.1.1). After the date of the statement of financial position, on November 21, 2012, the Company purchased approximately 31.35% issued and outstanding share capital of Proteologics, in consideration of approximately NIS 6.5 million (approximately $ 1.7 million), which were paid in cash. In the opinion of the Company's management and based on its business plans, the balances of cash and cash equivalents with the balances of short-term deposits, after the above transaction, will enable the Company to fund its activities through at least into 2014. However, the actual amount of cash the Company will need to fund its operations is subject to many factors, including, but not limited to, the timing, design and execution of the clinical trials of its existing drug candidates, any future projects which may be in-licensed or any other business development activities. For example, changing circumstances and/or acquisition of new technologies may cause the Company to consume capital significantly faster than the management's current anticipation and the Company may need to spend more money than currently expected because of, among others, circumstances beyond its control.

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

1.3.1 **The financial position**

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

Line item	September 30, 2012 Amount $000	% of total balance sheet		December 31, 2011 Amount $000	% of total balance sheet	
Total balance sheet	10,597	100	%	4,073	100	%
Equity attributable to equity holders of the Company	7,119	67	%	3,444	85	%
Non-controlling interests	2,175	21	%	-	0	%
Current assets	5,661	53	%	1,584	39	%
Property, plant and equipment	77	1	%	32	1	%
Intangible assets	4,807	45	%	2,457	60	%
Other investments	52	0	%	-	0	%
Current liabilities	1,290	12	%	629	15	%
Non-current liabilities	13	0	%	-	0	%

Equity

The Company's equity as of September 30, 2012 (including non-controlling interests) was approximately $ 9,294 thousand. Equity attributable to equity holders of the parent company as of September 30, 2012, was approximately $ 7,119, an increase of approximately $ 3,675 thousand from December 31, 2011, representing about 67% of total balance sheet compared to 85% of total balance sheet as of December 31, 2011. The increase in equity is a result of the capital raising which the Company effected under a private placement from March 2012 and exercise of warrants (series 2) and warrants (series A) by holders of warrants during the period for total net proceeds of approximately $ 4.2 million (see items 1.2.4 and 1.2.14 above), the recognition of a gain from a bargain purchase (in connection with the acquisition of InterCure) and less the loss for the period and transactions with non-controlling interests.

Total non-controlling interests as of September 30, 2012 amounted to approximately $ 2,175 thousand, representing the stake of the other shareholders in InterCure. As of September 30, 2012, the Company holds about 45.41% of InterCure's issued and outstanding share capital (about 54.72% assuming that the Company chooses to exercise the convertible loan discussed in item 1.2.11 above).

Assets

Total current assets as of September 30, 2012 amount to approximately $ 5,661 thousand, an increase of approximately $ 4,077 thousand, compared to approximately $ 1,584 thousand as of December 31, 2011. The change is primarily a result of the increase in the Group's balance of cash and short-term deposits which as of September 30, 2012 was approximately $ 5,294 thousand, an increase of approximately $ 3,799 thousand, compared to the baalnce of cash and short-term deposits of approximately $ 1,495 thousand as of December 31, 2011. The increase is explained by the cash received in the capital raising through the private placement and exercise of warrants (series 2) and warrants (series A), as above, and from the first-time consolidation of InterCure's financial statements less negative cash flows from operating activities in the reporting period. The balance of cash and short-term deposits as of September 30, 2012 excluding InterCure's financial data amounted to $ 4,263 thousand, an increase of approximately $ 2,768 thousand compared to the balance as of December 31, 2011, mainly due to the cash received in the private placement and the exercise of the warrants, as above, less negative cash flows from operating activities in the reporting period and the cash invested in InterCure in the transaction consummated on July 25, 2012.

The balance of trade receivables in the statement of financial position as of September 30, 2012 totaled approximately $ 66 thousand arising from the trade receivables of InterCure whose financial statements were consolidated for the first time in this quarter ended September 30, 2012.

The balance of other accounts receivable in the statement of financial position as of September 30, 2012 totaled approximately $ 128 thousand (approximately $ 61 thousand excluding InterCure), compared to approximately $ 68 thousand as of December 31, 2011 - with no material change. The balance mainly consists of Government authorities and prepaid expenses.

Property, plant and equipment as of September 30, 2012 totaled approximately $ 77 thousand (approximately $ 31 thousand excluding InterCure), compared to approximately $ 32 thousand as of December 31, 2011 - with no material change. Property, plant and equipment in InterCure mainly consist of office furniture and equipment and design molds for the InterCure's instruments.

The balance of intangible assets as of September 30, 2012 was approximately $ 4,807 thousand compared to approximately $ 2,457 thousand as of December 31, 2011. The change arises from intangible assets identified in the InterCure acquisition transaction as part of the external appraiser's (BDO Ziv Haft) purchase price allocation ("**PPA**") of InterCure's assets consisting of technology totaling approximately $ 1,909 thousand and brand name totaling approximately $ 488 thousand. These assets are amortized using the straight-line method over a period of nine and ten tears, respectively whose balance as of September 30, 2012 was approximately $ 1,871 thousand and $ 479 thousand, respectively (see the valuation of assets attached to the Company's financial statements). The balance of $ 2,457 thousand of December 31, 2011 mainly consists of the rHuEPO license acquired in the Bio-Gal transaction of August 3, 2010, a balance which has not changed through September 30, 2012.

The balance of other investments as of September 30, 2012 amounts to approximately $ 52 thousand and originates from costs incurred in the period in connection with the Kitov acquisition transaction. There were no other investments as of December 31, 2011.

Current liabilities

The balance of current liabilities as of September 30, 2012 totaled approximately $ 1,290 thousand (approximately $ 759 thousand excluding InterCure), compared to approximately $ 629 thousand as of December 31, 2011. The increase is primarily a result of the growth in the line item of service providers, among others, legal and consulting services in connection with the InterCure transaction, application for relisting the ADRs on the NASDAQ, costs incurred in the Kitov acquisition transaction and an increase in the liability for a bonus to employees in respect of the capital draising during the period as discussed above. InterCure's current liabilities mainly consist of service providers in the advertising field, sales personnel, professional service providers, employees, provisions for returns and current liabilities to Government authorities.

1.3.2 **Analysis of operating results**

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	$000				
Revenues	343	-	343	-	-
Cost of sales	156	-	156	-	-
Gross profit	187	-	187	-	-
Research and development expenses	81	127	38	39	158
Selling and marketing expenses	211	-	211	-	-
General and administrative expenses	1,873	814	898	272	1,078
Other gains, net	795	-	795	-	12
Operating loss	(1,183)	(941)	(165)	(311)	(1,224)
Finance income (expenses), net	(11)	22	15	(26)	17
Total comprehensive loss for the period	(1,194)	(919)	(150)	(337)	(1,207)
Attributable to:					
Equity holders of the Company	(1,094)	(919)	(50)	(337)	(1,207)
Non-controlling interests	(100)	-	(100)	-	-
	(1,194)	(919)	(150)	(337)	(1,207)

Revenues

Sales in the nine and three-month periods ended September 30, 2012 totaled approximately $ 343 thousand. These sales originate from the subsidiary InterCure whose financial statements were consolidated for the first time in these financial statements.

The distribution of InterCure sales in the U.S. and in Canada from the date of consummation of the transaction (July 25, 2012) through September 30, 2012 totaled approximately $ 270 thousand and the sales in Britain from the date of consummation of the transaction through September 30, 2012 totaled approximately $ 71 thousand.

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Gross profit

Gross profit in the nine and three-month periods ended September 30, 2012 totaled approximately $ 187 thousand and $ 262 thousand, respectively, without the amortization of excess cost in the transaction, representing a gross profit of about 55% and 76%, respectively.

The gross profit wholly originates from the subsidiary InterCure whose average gross profit over the periods ranges between 74% and 78%. The gross profit is affected by the proportion between direct/online sales with a relatively high gross profit margin and sales through distributors with lower gross profit margins. The gross profit after the deduction of excess cost (attributable to technology and to inventories identified in the transaction whose amortization amounted to approximately $ 75 thousand) reached about 55%. The gross profit in the period, excluding the amortization of excess cost as above, is about 76%.

Research and development expenses

Research and development expenses in the nine and three-month periods ended September 30, 2012 totaled approximately $ 81 thousand and $ 38 thousand, respectively, compared to approximately $ 127 thousand and $ 39 thousand, respectively, in the corresponding periods of last year. Research and development expenses comprise mainly expenses involving the preparations for carrying out the development plan for rHuEPO drug Phase 2 clinical trial designed to treat cancer patients with multiple myeloma, comprising, among others, research relating to the level of proteins in the blood of patients with multiple myeloma, medical regulation, clinical insurance and other medical consulting costs. The decrease in expenses compared to the corresponding periods of last year is primarily attributable to completing the amortization of the exclusive right to examine medical technology in the field of the immune system at the end of 2011. Research and development expenses attributable to InterCure from the date of consummation of the acquisition transaction through September 30, 2012 totaled approximately $ 6 thousand.

Selling and marketing expenses

Selling and marketing expenses in the nine and three-month periods ended September 30, 2012 totaled approximately $ 211 thousand. Selling and marketing expenses wholly derived from InterCure whose financial statements were consolidated for the first time in these financial statements immediately upon consummation of the transaction on July 25, 2012.

Selling and marketing expenses include advertising expenses of approximately $ 125 thousand (mainly direct/online advertising expenses) compared to gross profit of $ 262 thousand (excluding amortization of excess cost), representing an average contribution of about 110% (gross profit less direct/online advertising costs divided by direct/online advertising expenses).

General and administrative expenses

General and administrative expenses in the nine and three-month periods ended September 30, 2012 totaled approximately $ 1,873 thousand and $ 898 thousand, respectively, compared to approximately $ 814 thousand and $ 272 thousand, respectively, in the corresponding periods of last year. The increase is principally explained by the increase in the line item of share-based payment to directors and employees in respect of which the expenses are recorded using the Black & Scholes model and the graded vesting method, expenses in respect of service providers, among others legal, professional and technological consulting services in connection with the InterCure transaction and application for relisting the ADRs on the NASDAQ and expenses relating to bonuses to employees in connection with raising capital during the period, as specified above. In addition, general and administrative expenses attributable to InterCure from the date of consummation of the transaction through September 30, 2012 totaled approximately $ 132 thousand and comprise mainly salaries, professional services, rent, insurance and share-based payment expenses to directors and employees.

Other gains, net

Other gains in the nine and three-month periods ended September 30, 2012 totaled approximately $ 795 thousand. These gains originate from a gain from a bargain purchase in connection with the InterCure acquisition transaction. In the corresponding periods of last year, the Company did not derive any other gains.

Finance income (expenses) (net)

Finance income (expenses), net in the nine and three-month periods ended September 30, 2012 totaled approximately $ (11) thousand and $ 15 thousand, respectively, compared to finance income (expenses), net in the amount of approximately $ 22 thousand and $ (26) thousand, respectively, in the corresponding periods of last year. The increase in finance expenses is mainly due to exchange rate differences deriving from the appreciation of the dollar in relation to the NIS on the net balance of monetary NIS-assets less interest income on short-term bank deposits.

Taxes on income

The Group had no tax expenses (income) in the nine and three-month periods ended September 30, 2012 and in the corresponding periods of last year.

Loss for the period

The comprehensive loss attributable to equity holders of the Company in the nine and three-month periods ended September 30, 2012 totaled approximately $ 1,094 thousand and $ 50 thousand, respectively, compared to a loss of approximately $ 919 thousand and $ 337 thousand, respectively, in the corresponding periods of last year. The increase in loss is principally explained by the increase in expenses for share-based payment to directors and employees recorded using the Black & Scholes model and the graded vesting method, increased expenses relating to service providers, among others, legal, professional and technological consulting services in connection with the InterCure transaction and application for relisting the ADRs on the NASDAQ, an increase relating to a bonus to employees in respect of the capital raising during the period as discussed above against recording a gain from a bargain purchase in connection with the InterCure acquisition transaction. InterCure's comprehensive loss attributable to equity holders of the company totaled approximately $ 87 thousand (including amortization of excess cost of $ 39 thousand).

Basic and diluted loss per share in the nine and three-month periods ended September 30, 2012 amounted to approximately $ 0.005 and $ 0.000, respectively, compared to approximately $ 0.005 and $ 0.002, respectively, in the corresponding periods of last year. In the nine months ended September 30, 2012, there was no material change in the basic and diluted loss per share compared to the corresponding period of last year, despite the increase in comprehensive loss attributable to equity holders of the Company due to the increase in the weighted number of shares used in the computation of loss per share which embedded the number of shares issued under the private placement from March 2012 and the exercise of warrants during the period on average over the period since their issuance.

Cash flows

Cash flows used in operating activities in the nine and three-month periods ended September 30, 2012 totaled approximately $ 1,098 thousand and $ 471 thousand, respectively, compared to cash flows used in operating activities of approximately $ 1,035 thousand and $ 292 thousand, respectively, in the corresponding periods of last year, an increase of approximately $ 63 thousand and $ 179 thousand, respectively.

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The contribution of InterCure, whose financial statements were consolidated for the first time in these financial statements, to cash flows used in operating activities amounted to approximately $ 181 thousand, arising mainly from repayment of outstanding trade payables following the debt settlement in InterCure. Cash flows used by the Group in operating activities excluding InterCure in the nine and three-month periods ended September 30, 2012 totaled approximately $ 917 thousand and $ 290 thousand, respectively. The decrease is mainly a result of the payments made in the corresponding periods of last year to suppliers and service providers in respect of current and former debts close to the date of the public issuance of March 2011.

Cash flows provided by (used in) investing activities in the in the nine and three-month periods ended September 30, 2012 totaled approximately $ (480) thousand and $ 160 thousand, respectively compared to approximately $ (1,576) thousand and $ 253 thousand, respectively, in the corresponding periods of last year. The decrease in cash flows used in investing activities in the nine months ended September 30, 2012 arises mainly from cash received from the consolidation of InterCure's accounts in the financial statements and from the fact that the Company had placed less cash in short-term bank deposits for periods that exceed three months.

Cash flows provided by (used in) financing activities in the in the nine and three-month periods ended September 30, 2012 totaled approximately $ 4,201 thousand and $ 395 thousand, respectively from raising capital under the private placement from March 2012 and the exercise of warrants (series 2) and warrants (series A) during the period. In the corresponding periods of last year, cash flows provided by (used in) financing activities totaled $ 1,744 thousand and $ (7) thousand from raising capital under the public prospectus from March 2011 as above less issuance expenses paid during the period.

1.3.3 **Financing resources**

The Group's revenues from operations currently derive solely from the subsidiary InterCure. The Group finances its R&D activity by raising capital, by using its own capital and by obtaining current credit from suppliers and service providers. As of September 30, 2012, the Group's balance of cash and cash equivalents and short-term deposits amounted to approximately $ 5,315 thousand (approximately $ 4,284 thousand excluding the cash in InterCure). During the period, trough a private placement (from March 2012) and exercise of warrants (series 2) and warrants (series A), the Company raised a total net amount of approximately $ 4.2 million (see items 1.2.4 and 1.2.14 above). Also, from the date of the statement of financial position through the date of the approval of the financial statements, 192,157 warrants (series 2) were exercised into 192,157 Ordinary shares of the Company of NIS 0.1 par value each for a total amount of approximately $ 53 thousand.

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

2.1 Exposure to market risks and their management

a. The person responsible for managing market risks in the Group in conformity with the BOD's risk management policy is Mr. Ronen Twito, the Company's Deputy CEO and CFO.

b. Description of the market risks to which the Group is exposed - the Group's business activities expose it to a variety of market risks including the changes in the exchange rates of the NIS in relation to the dollar (the Group's functional currency).

c. The Group's market risk management policy - on March 29, 2012, the Company's BOD determined that the Company's management is authorized to act to hold NIS at the required amount for the repayment of NIS-denominated liabilities from time to time and as timely suitable for a consecutive period of nine to twelve months each time. The board of directors of InterCure has decided to invest the majority of the cash balances in InterCure in short-term dollar deposits and the remaining cash in NIS deposits.

d. Supervision of risk management policy - the Group identifies and assesses the principal risks facing it. The financial risk management is performed by the Group subject to the policy approved by the Company's BOD.

2.1.1 **Exchange rate risk**

The majority of the Group's revenues and expenses are denominated in dollars and some in British Pounds against which the Group holds its available liquid resources in or linked to dollars. Nevertheless, some of the expenses are denominated in NIS, which creates exposure to the changes in the exchange rate of the NIS in relation to the dollar. The Group acts to minimize the currency risk by holding its liquid resources in NIS based on the BOD's decision.

As a hedge against economic exposure, which does not significantly contradict the accounting exposure, the Company holds substantially all of its current assets in or linked to dollar.

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

In recent years, the world has experienced several events both in the political-security realm and in the economic realm which have shaken the international markets in general and the Israeli market in particular. The noteworthy of these events in the political-security realm are the violent protests in Israel's neighboring countries which in part have led to dramatic changes in regimes as well as escalated global tension against Iran in the backdrop of its nuclear program.

As for the continuing global economic crisis, during the last 18 months, the European economic condition has deteriorated, as reflected, among others, by international rating agencies lowering the credit rating of several countries in the Eurozone including France, Spain, Italy, Ireland, Greece, Portugal, Belgium, Cyprus and Slovenia. These instances of credit downgrading have led to the resignation of prime ministers in part of these countries because they were asked to enact extensive budget cuts.

Also, during 2011, one of the rating companies lowered the credit rating of the U.S.

The Group's management estimates that since the Group's investment policy is to invest only in bank deposits in currencies that are used for its current needs (the dollar, which is the Group's functional currency and the NIS - based on its needs and the BOD's decision), it is not directly exposed to changes in the market prices of quoted securities. Also, since the Group is in development stages and has no revenues from operations at this stage (excluding InterCure) and its expense budget relies on several suppliers and service providers, the events described above have relatively low impact on its results, compared to companies that sell their products. Nevertheless, since the Group funds its operations mainly from its own capital, as above, the events described above can have a significant effect on the Group's ability to raise funds in the future in order to finance its plans and activity which may require the Company to limit its activity, sell or sublicense some or all of its technologies to third parties in order to support its operations (see Note 1b to the financial statements).

As for InterCure, the financial crisis in the U.S. and in Europe, its principal markets, continues to have an adverse impact on InterCure. The general developments and turmoil in the markets, and particularly the economic slowdown and the decrease in consumer spending and in the Consumer Confidence Index are liable to adversely affect InterCure's business results, liquidity, asset value, business position, financial covenants, ability to distribute dividends and its ability to raise any capital needed for operations or the financial terms of such raising.

2.2 Report of linkage bases

Linkage basis of balance sheet items as of September 30, 2012

	U.S.$	NIS	Other currencies	Non-monetary	Total
	$000				
Assets:					
Cash and cash equivalents	1,635	1,071	1	-	2,707
Short-term deposits	2,009	578	-	-	2,587
Trade receivables	23	-	43	-	66
Other accounts receivable	74	30	-	24	128
Restricted deposits	-	21	-	-	21
Inventories	-	-	-	152	152
	3,741	1,700	44	176	5,661
Liabilities:					
Trade payables	362	72	9	-	443
Other accounts payable	504	343	-	-	847
Employee benefit liabilities	-	13	-	-	13
	866	428	9	-	1,303
Monetary assets less monetary liabilities	2,875	1,272	35	176	4,358

Linkage basis of balance sheet items as of September 30, 2011

	U.S.$	NIS	Other currencies	Non-monetary	Total
	$000				
Assets:					
Cash and cash equivalents	44	155	1	-	200
Short-term deposits	1,208	382	-	-	1,590
Accounts receivable	-	35	-	14	49
Restricted deposits	-	21	-	-	21
	1,252	593	1	14	1,860
Liabilities:					

Trade payables	110	8	-	-	118
Other accounts payable	310	215	-	-	525
	420	223	-	-	643
Monetary assets less monetary liabilities	832	370	1	14	1,217

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2.3 Sensitivity analysis

Reporting on the exposure to financial risks

Sensitivity to changes in the exchange rate of the dollar in relation to the NIS

	Gain (loss) from changes			Gain (loss) from changes	
	+ 10%	+ 5%	30.9.2012	- 5%	- 10%
	$000				
Cash and cash equivalents	107	54	1,071	(54)	(107)
Short-term deposits	58	29	578	(29)	(58)
Accounts receivable	3	2	30	(2)	(3)
Short-term restricted deposits	2	1	21	(1)	(2)
Trade payables	(7)	(4)	(72)	4	7
Other accounts payable	(34)	(17)	(343)	17	34
Employee benefit liabilities	(1)	(1)	(13)	1	1
Exposure in the linkage balance sheet	128	64	1,272	(64)	(128)

3. PART 3 - CORPORATE GOVERNANCE ASPECTS

3.1 Policy of making donations

As of the reporting date, the Company did not determine the policy on making donations and during the reporting period the Company did not make any donations.

3.2 The Company's internal auditor

There was no material modification to the data pertaining to the Company's internal auditor as it was shown in the Company's periodic report for the year ended December 31, 2011. It should be noted that on August 22, 2012, the internal auditor filed an internal audit report to the Company's audit committee and BOD regarding interested party transactions, decisions and reports. On August 26, 2012 and August 30, 2012, the Company's audit committee and BOD respectively held a discussion of the internal audit report and approved its findings.

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3.3 The Company's BOD

3.3.1 In the reporting period, 17 meetings of the BOD were held, 6 meetings of the committee that examines the financial statements/the audit committee, 2 meetings of the compensation committee and one meeting of the nominations committee.

3.3.2 There was no material modification to the data pertaining to directors with accounting and financial qualifications as it was shown in the Company's periodic report for the year ended December 31, 2011.

3.3.3 The Company did not adopt in its articles of association a provision regarding the tenure of independent directors.

3.3.4 On April 12, 2012, Dr. Ben-Zion Weiner was nominated as an independent director in the Company. For additional information, see item 1.2.5 above.

3.4 The Company's auditor

There was no material modification to the data pertaining to the Company's auditor as it was shown in the Company's periodic report for the year ended December 31, 2011.

3.5 Disclosure of the financial statements approval process

The Company's BOD transferred the overall responsibility for the financial statements to the members of the audit committee as the committee that examines the financial statements. Below are the names and details of the members of the committee that examines the financial statements:

Chairman of the committee - Jaron Diament, external director, expert in accounting and financing.

Dafna Cohen - external director, expert in accounting and financing.

Marc Allouche - director, expert in accounting and financing.

As for details of their qualifications, education, experience and knowledge, see chapter D Regulation 26 to the Company's periodic report for 2011.

After being nominated, the committee's members gave the Company a declaration pursuant to the provisions of article 3 to the Israeli Companies Regulations (Directives and Conditions for Approving Financial Statements), 2010 as to having accounting and financing qualifications in accordance with the Israeli Companies Regulations (Conditions and Tests of Directors with Accounting and Financial Qualifications and Directors with Professional Qualifications), 2005.

Several days before the meeting of the committee, the Company's draft consolidated financial statements, draft directors' report, draft report on separate financial information and draft report on the effectiveness of internal control over financial reporting and disclosure are delivered to the members of the committee.

The meeting of the committee that examines the financial statements which was held on November 22, 2012 was also attended, besides the members of the committee, by the Company's CEO, Mr. David Grossman, the Deputy CEO and CFO, Mr. Ronen Twito, the Company's legal advisors, Attorney Ronen Kantor and Attorney Ron Soulema and a representative of the Company's auditors (Kesselman & Kesselman (PwC Israel), CPAs), CPA Ido Heller and CPA Haim Frenkel.

At the meeting of the committee in which the financial statements are discussed, the CEO and Deputy CEO and CFO review in a detailed manner the key points of the financial statements, the Company's financial results, financial position and cash flows. This presentation comprises an analysis and details of the composition of and movement in material items and a comparison is made to previous periods.

In the meeting, a discussion is held in the issue of estimates and judgments made in connection with the preparation of the financial statements as well as valuations used in the preparation of the financial statements and internal controls over financial reporting. In the framework of the discussion, the auditors gave their reference to the review process and to the data in the financial statements. Also, the Company's CEO and Deputy CEO and CFO review significant transactions that were carried out and any changes that occurred in the Company during the reporting period compared to corresponding periods presented. In this framework, a discussion is held during which the members of the committee raise questions regarding the financial statements.

In the framework of the discussion, the committee forms its recommendation to the BOD, among others, about the estimates and judgments made in connection with the financial statements, internal controls over financial reporting, overall financial statements disclosures and appropriateness, accounting policies adopted and the accounting treatment applied to the Company's material issues, valuations and impairment losses of assets, including the assumptions and estimates used to support the data in the financial statements.

The committee that examines the financial statements transferred its recommendations to approve the financial statements to the BOD's members. The members of the Company's BOD believe that the recommendations of the committee that examines the financial statements have been transferred reasonably enough before the discussion, considering the scope and complexity of the recommendations. The Company's BOD stated that a minimum two-day difference between the meeting of the committee in the issue of the Company's financial statements as of September 30, 2012 and the meeting of the Company's BOD in the issue of their approval would be considered a reasonable amount of time.

On November 25, 2012, after it was made clear that the financial statements properly reflect the financial position of the Company and its operating results, the Company's BOD approved the financial statements of the Company as of September 30, 2012 in the presence of the directors: Amit Yonay (Chairman of the Board), Dafna Cohen, Jaron Diament, Marc Allouche and David Grossman.

4. PART 4 - THE CORPORATION'S FINANCIAL REPORTING

4.1 Significant events after the reporting date

4.1.1 After the date of the statement of financial position through the date of approval of the financial statements, holders of the Company's warrants exercised 192,157 warrants (series 2) into 192,157 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 1.06 per option. The total consideration received from the exercise of warrants (series 2) and warrants (series A) amounted to approximately $ 53 thousand (approximately NIS 203 thousand).

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

Proteologics is a public company whose shares are traded on the TASE, engaged in the discovery and development of drugs comprised of various components of the UBIQUITIN system discovered by Dr. Avram Hershko and Dr. Aaron Ciechanover, both 2004 Nobel Prize laureates in Chemistry.

In view of the above purchase, on the same date, the Company contacted Proteologics in a letter demanding that the board of directors of Proteologics exercise its authority and order the appointment of Messrs. Efri Argaman and David Grossman as directors in Proteologics as well as requiring Proteologics to refrain from adopting any decision or executing any transaction which is not in the ordinary course of business until the Company's demand for appointing the directors, as stated above, is met.

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4.2 Critical accounting estimates

There was no material modification to the critical accounting estimates as it was shown in the Company's periodic report for the year ended December 31, 2011.

November 25, 2012		
Date	**Amit Yonay,** ***Chairman of the Board***	**David Grossman,** ***CEO and Director***

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XTL BIOPHARMACEUTICALS LTD.

INTERIM FINANCIAL INFORMATION

AS OF SEPTEMBER 30, 2012

UNAUDITED

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Auditors' review Report to the shareholders of XTL Biopharmaceuticals Ltd.

Introduction

We have reviewed the accompanying financial information of XTL Biopharmaceuticals Ltd (hereafter - the company) and its subsidiaries, which includes the condensed consolidated statement of financial position as of September 30, 2012 and the related condensed consolidated statement of comprehensive loss, changes in shareholders' equity, and cash flows for the nine and three month periods then ended. The Board of Directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting", and they are also responsible to draw up interim financial information based on Chapter D to the Israel Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a consolidated company, which its assets included in consolidation constitute approximately 12.86% of total consolidated assets as of September 30, 2012, and whose revenues included in consolidation are 100% of total consolidated revenues for the nine and three month periods then ended. The condensed interim financial information of this company was reviewed by other independent auditors, whose review report have been presented to us, and our conclusion, insofar as it relates to financial information for this company, is based on review report of the other auditors.

Scope of Review

We conducted our review in accordance with Israeli Review Standard No. 1, issued by the Israeli Institute of Certified Public Accountants, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to what is said in the previous paragraph, based on our review and the report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure provisions of Chapter D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel	Kesselman & Kesselman
November 25, 2012	Certified Public Accountants (Isr.)
	A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 68125, Israel, P.O Box 452 Tel-Aviv 61003
Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.co.il

XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Financial Position

	September 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,707	200	123
Short-term deposits	2,587	1,590	1,372
Trade receivables	66	-	-
Other accounts receivable	128	49	68
Restricted deposits	21	21	21
Inventories	152	-	-
	5,661	1,860	1,584
NON-CURRENT ASSETS:			
Property, plant and equipment	77	36	32
Intangible assets	4,807	2,468	2,457
Other investments	52	-	-
	4,936	2,504	2,489
Total assets	10,597	4,364	4,073
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	443	118	88
Other accounts payable	847	525	541
	1,290	643	629
NON-CURRENT LIABILITIES:			
Employee benefit liabilities	13	-	-
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY:			
Ordinary share capital	5,989	5,335	5,335
Share premium and warrants	147,401	141,385	141,385

Accumulated deficit	(143,598)	(142,999)	(143,276)
Treasury shares	(2,469)	-	-
Reserve from transactions with non-controlling interests	(204)	-	-
	7,119	3,721	3,444
Non-controlling interests	2,175	-	-
Total equity	9,294	3,721	3,444
Total liabilities and equity	10,597	4,364	4,073

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

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

Date of approval of the financial statements by the Company's Board: November 25, 2012

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XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Comprehensive Loss

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales	343	-	343	-	-
Cost of sales	156	-	156	-	-
Gross profit	187	-	187	-	-
Research and development expenses	(81)	(127)	(38)	(39)	(158)
Selling and marketing expenses	(211)	-	(211)	-	-
General and administrative expenses	(1,873)	(814)	(898)	(272)	(1,078)
Other gains, net	795	-	795	-	12
Operating loss	(1,183)	(941)	(165)	(311)	(1,224)
Finance income	31	27	15	(25)	24
Finance expenses	(42)	(5)	-	(1)	(7)
Finance income (expenses), net	(11)	22	15	(26)	17
Total comprehensive loss for the period	(1,194)	(919)	(150)	(337)	(1,207)
Loss for the period attributable to:					
Equity holders of the parent company	(1,094)	(919)	(50)	(337)	(1,207)
Non-controlling interests	(100)	-	(100)	-	-
	(1,194)	(919)	(150)	(337)	(1,207)
Basic and diluted loss per share (in U.S. dollars)	(0.005)	(0.005)	(*)	(0.002)	(0.006)

*) Represents less than $ 0.001.

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

XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital	Share premium and warrants	Accumulated deficit	Treasury shares	Transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance at January 1, 2012 (audited)	5,335	141,385	(143,276)	-	-	3,444	-	3,444
Comprehensive loss for the period	-	-	(1,094)	-	-	(1,094)	(100)	(1,194)
Share-based payment to employees and others	-	-	772	-	-	772	45	817
Issue of shares in business combination	176	2,293	-	(2,469)	-	-	1,858	1,858
Issue of shares and warrants	309	2,109	-	-	-	2,418	-	2,418
Conversion of convertible loan into subsidiary's equity	-	-	-	-	(204)	(204)	372	168
Exercise of warrants	169	1,614	-	-	-	1,783	-	1,783
Balance at September 30, 2012 (unaudited)	5,989	147,401	(143,598)	(2,469)	(204)	7,119	2,175	9,294

	Attributable to equity holders of the Company							
	Share capital	Share premium and warrants	Accumulated deficit	Treasury shares	Transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance at January 1, 2011 (audited)	4,993	139,983	(142,142)	-	-	2,834	-	2,834
Comprehensive loss for the period	-	-	(919)	-	-	(919)	-	(919)
Share-based payment to employees and others	-	-	62	-	-	62	-	62
Issue of shares and warrants	342	1,399	-	-	-	1,741	-	1,741

Exercise of warrants	(*)	3	-	-	-	3	-	3
Balance at September 30, 2011 (unaudited)	5,335	141,385	(142,999)	-	-	3,721	-	3,721

*) Represents less than $ 1 thousand.

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

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XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital	Share premium and warrants	Accumulated deficit	Treasury shares	Transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance at July 1, 2012 (unaudited)	5,777	144,749	(144,020)	-	-	6,506	-	6,506
Comprehensive loss for the period	-	-	(50)	-	-	(50)	(100)	(150)
Share-based payment to employees and others	-	-	472	-	-	472	45	517
Issue of shares in business combination	176	2,293	-	(2,469)	-	-	1,858	1,858
Conversion of convertible loan into subsidiary's equity	-	-	-	-	(204)	(204)	372	168
Exercise of warrants	36	359	-	-	-	395	-	395
Balance at September 30, 2012 (unaudited)	5,989	147,401	(143,598)	(2,469)	(204)	7,119	2,175	9,294

	Attributable to equity holders of the Company							
	Share capital	Share premium and warrants	Accumulated deficit	Treasury shares	Transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance at July 1, 2011 (unaudited)	5,335	141,382	(142,679)	-	-	4,038	-	4,038
Comprehensive loss for the period	-	-	(337)	-	-	(337)	-	(337)
Share-based payment to employees and others	-	-	17	-	-	17	-	17
Exercise of warrants	(*)	3	-	-	-	3	-	3

Balance at September 30, 2011 (unaudited)	5,335	141,385	(142,999)	-	-	3,721	-	3,721

*) Represents less than $ 1 thousand.

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

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XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital	Share premium and warrants	Accumulated deficit	Treasury shares	Transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance at January 1, 2011 (audited)	4,993	139,983	(142,142)	-	-	2,834	-	2,834
Comprehensive loss for the period	-	-	(1,207)	-	-	(1,207)	-	(1,207)
Issue of shares and warrants	342	1,399	-	-	-	1,741	-	1,741
Share-based payment to employees and others	-	-	73	-	-	73	-	73
Exercise of warrants	(*)	3	-	-	-	3	-	3
Balance at December 31, 2011 (audited)	5,335	141,385	(143,276)	-	-	3,444	-	3,444

*) Represents less than $ 1 thousand.

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

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XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	U.S. dollars in thousands				
Cash flows from operating activities:					
Comprehensive loss for the period	(1,194)	(919)	(150)	(337)	(1,207)
Adjustments to reconcile loss to net cash used in operating activities (a)	96	(116)	(321)	45	(105)
Net cash used in operating activities	(1,098)	(1,035)	(471)	(292)	(1,312)
Cash flows from investing activities:					
Acquisition of subsidiary less cash received (d)	733	-	733	-	-
Decrease in restricted deposit	-	25	-	-	25
Decrease (increase) in short-term bank deposits	(1,178)	(1,587)	(561)	253	(1,377)
Purchase of property, plant and equipment	(2)	(11)	(1)	-	(12)
Convertible loan granted to subsidiary	-	-	22	-	-
Other investments	(33)	(3)	(33)	-	(8)
Net cash provided by (used in) investing activities	(480)	(1,576)	160	253	(1,372)
Cash flows from financing activities:					
Proceeds from issue of shares and warrants	2,418	1,741	-	(10)	1,741
Proceeds from exercise of warrants	1,783	3	395	3	3
Net cash provided by (used in) financing activities	4,201	1,744	395	(7)	1,744
Increase (decrease) in cash and cash equivalents	2,623	(867)	84	(46)	(940)
Gains (losses) from exchange differences on cash	(39)	1	(3)	(10)	(3)
Cash and cash equivalents at the beginning of the period	123	1,066	2,626	256	1,066
Cash and cash equivalents at the end of the period	2,707	200	2,707	200	123

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

XTL BIOPHARMACEUTICALS LTD.

Condensed Consolidated Statements of Cash Flows

		Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
		2012	2011	2012	2011	2011
		Unaudited				Audited
		U.S. dollars in thousands				
(a)	Adjustments to reconcile loss to net cash used in operating activities:					
	Income and expenses not involving cash flows:					
	Depreciation and amortization	55	76	53	25	94
	Loss from disposal of property, plant and equipment	-	-	-	-	3
	Share-based payment transactions to employees and others	817	62	517	17	73
	Finance expenses on short-term deposits	(36)	(3)	(22)	28	5
	Gain from bargain purchase	(795)	-	(795)	-	-
	Change in employee benefit liabilities	2	-	2	-	-
	Exchange differences on operating activities	39	(1)	3	10	3
		82	134	(242)	80	178
	Changes in operating asset and liability items:					
	Decrease in trade receivables	13	-	13	-	-
	Decrease in other accounts receivable	2	61	21	10	42
	Decrease in inventories	33	-	33	-	-
	Decrease in trade payables	(28)	(79)	(79)	(15)	(109)
	Decrease in other accounts payable	(6)	(232)	(67)	(30)	(216)
		14	(250)	(79)	(35)	(283)
		96	(116)	(321)	45	(105)
(b)	Additional information on cash flows from operating activities:					
	Interest received	29	5	7	3	11
(c)	Non-cash activities:					

Deferred charges in connection with the acquisition of Kitov in the line item "other investments"	19	-	19	-	-
Issue of treasury shares to subsidiary	2,469	-			