XTL BIOPHARMACEUTICALS LTD
Form 6-K
May 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of March, 2013

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 March 31, 2013

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 March 31, 2013.

B. Reviewed Condensed Consolidated Financial Statements as of March 31, 2013.

C. Separate Financial Information as of March 31, 2013 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 March 31, 2013, Pursuant to Regulation 38c(a) of the Israeli Securities Authority.

E. Condensed Pro Forma Interim Consolidated Financial Statements as of March 31, 2013, in accordance with Regulation 38b of the Israeli Securities Regulations (Periodical and Immediate Reports) – 1970.

XTL BIOPHARMACEUTICALS LTD.

DIRECTORS' REPORT ON THE CORPORATION'S STATE OF AFFAIRS

AS OF MARCH 31, 2013

The board of directors of XTL Biopharmaceuticals Ltd. ("**the Company**") hereby presents the Company's directors' report for the three months period ended March 31, 2013.

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 March 31, 2013 ("**the financial statements**"). The directors' report was prepared based on the assumption that the reader also has at its disposal the Company's directors' report for the year ended December 31, 2012.

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.

The Company is a public company traded on the Tel-Aviv Stock Exchange ("**TASE**") and its American Depository Receipts ("**ADRs**") are quoted on the Pink Sheets.

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On July 25, 2012, the Company completed the acquisition of approximately 50.79% of the issued and outstanding share capital of InterCure Ltd. (as of the date of acquisition) ("**InterCure**"), a public company whose shares are traded on the TASE and is engaged in the research, development, marketing and sale of home medical devices for the non-medicinal and non-invasive treatment of various diseases such as hypertension, congestive cardiac failure, insomnia and stress. As of March 31, 2013, the Company holds approximately 45.41% of InterCure's issued and outstanding share capital (see also Note 5 to the annual consolidated financial statements for 2012). On May 16, 2013, the Company's Board approved the conversion of the loan which had been extended to InterCure into 7,620,695 Ordinary shares of InterCure as determined in the acquisition agreement. Following said conversion and as of the date of the approval of the financial statements, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital (As for developments after the reporting period' see note 6 below).

On November 21, 2012, the Company acquired approximately 31.35% of the shares of Proteologics Ltd. ("**Proteologics**"), a public company whose shares are traded on the TASE. As of March 31, 2013, the Company holds approximately 30.88% of Proteologics' issued and outstanding share capital (see also Note 12 to the annual consolidated financial statements for 2012).

As of the date of the financial statements, the Company is in stages of planning for the implementation of a phase 2 clinical trial of the recombinant EPO ("**rHuEPO**") drug for treating Multiple Myeloma patients. As part of said preparations, the Company conducted a study which consists of collecting preliminary data on the existence of specific proteins in the blood of a group of Multiple Myeloma patients to assist in targeting the phase 2 clinical trial protocol. The Company has expanded the study to additional centers in order to collect additional data beyond the original study plan. The data collected in the preliminary study will be combined in the plans and preparations for the implementation of the phase 2 clinical trial, as needed, which the Company expects to obtain approval for its conduct by the end of the fourth quarter of 2013.

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

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

The following are the Company's subsidiaries as of March 31, 2013:

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

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

c. XTL Biopharmaceuticals Inc. ("**XTL Inc.**") **-** a U.S. company incorporated in 1999 under the laws of the State of Delaware, USA 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, USA. As of the date of the approval of the financial statements, XTL Inc. and XTL Development are inactive.

1.2 Significant events during the period

1.2.1 On February 21, 2013, the Company's extraordinary general meeting of shareholders and the general meeting of holders of warrants (series 2) of the Company decided to extend the exercise period of said warrants from February 27, 2013 to December 31, 2013. This decision was subject to the approval of the District Court pursuant to Section 350 to the Israeli Companies Law, 1999. On March 12, 2013, the Court approved the decision to extend the exercise period of the warrants.

1.2.2 In keeping with the negotiations held between the Company and Kitov Pharmaceuticals Ltd. (see Note 18a to the annual consolidated financial statements for 2012), on March 5, 2013, the parties to the transaction decided to cease the negotiations as they failed to yield any binding agreement.

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1.2.3 During the reporting period, holders of the Company's warrants (series 2) exercised 31,410 warrants (series 2) into 31,410 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 1.02 per warrant. The overall proceeds from the exercise of the warrants (series 2) totaled approximately $ 9 thousand (approximately NIS 32 thousand).

1.2.4 **InterCure**

1.2.4.1 On January 21, 2013, InterCure announced that the examination conducted as part of the process of concluding the engagement with Mr. Erez Gavish, the former CEO ("**Mr. Gavish**"), revealed several issues which require inspection in connection with InterCure's actions during Mr. Gavish's term as CEO, including the legal validity granted to the license agreement of October 2011 signed between InterCure and a company controlled by Dr. Benjamin Gavish (Mr. Gavish's father and an interested party in InterCure at the time). InterCure's Board appointed a committee which includes an external attorney hired for this purpose and another director in InterCure in order to investigate the issue and provide the Board conclusions. In addition, a notice was delivered to Mr. Gavish and Dr. Gavish on the establishment of said committee which summoned the two to provide explanations regarding the issues under inspection and requested that they inform any of their future potential partners or investors of the inspection of the legal validity of said license agreement (see more details in paragraph 4.1 below).

1.2.4.2 On March 21, 2013, Prof. Reuven Zimlichman was appointed as InterCure's medical director. According to his consulting agreement, he will provide InterCure services consisting of research and development consulting, intellectual property and medical regulation management. Prof. Zimlichman was granted 130,000 stock options exercisable into 130,000 Ordinary shares of InterCure for an exercise increment of NIS 0.54 per stock option. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. Alternatively, if as a result of the signing of an agreement between InterCure and a medical institution (such as a Health Management Organization) for the sale of InterCure's products through the medical institution the total sales of InterCure's products exceed US$ 175,000, then 30% of the then unvested stock options will vest. The fair value of all the stock options using the Black-Scholes model in accordance with the provisions of IFRS 2 as of the date of InterCure's Board's approval approximates $ 9 thousand. The exercise period of the stock options is a maximum of 10 years from the date of grant.

The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 92.21%, risk-free interest rates of 2.76%-3.21% and expected life of 5-6.5 years.

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

The Company has incurred continuing losses and its entire income at this stage originates from InterCure, a subsidiary in which the control was acquired on July 25, 2012. The Company depends on external financing resources to continue its activities. Based on existing business plans, the Company's management estimates that its outstanding cash and cash equivalent balances, including short-term deposits, will allow the Company to finance its activities through at least into the third quarter of 2014 (independently of InterCure). However, the amount of cash which the Company will need in practice to finance its activities depends on numerous factors which include, but are not limited to, the timing, planning and execution of clinical trials of existing drugs and future projects which the Company might acquire or other business development activities such as acquiring new technologies and/or changes in circumstances which are liable to cause significant expenses to the Company in excess of management's current and known expectations as of the date of these financial statements and which will require the Company to reallocate funds against plans, also due to circumstances beyond its control.

The Company expects to incur additional losses in 2013 arising from research and development activities, evaluating additional technologies and operating activities, which will be reflected in negative cash flows from operating activities. Accordingly, in order to complete the clinical trials aimed at developing a product until obtaining its marketing approval, the Company will be forced to raise additional funds in the future by issuing securities. Should the Company fail to raise additional capital in the future under standard terms, it will be required to dispose of marketable securities held by it or minimize its activities, sell or grant a sublicense to third parties to use all or part of its technologies.

1.3.1 The financial position

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

	March 31, 2013			December 31, 2012		
Line item	Amount	% of total balance sheet		Amount	% of total balance sheet	
	$000			$000		
Total balance sheet	10,421	100	%	11,086	100	%
Equity attributable to equity holders of the Company	6,826	66	%	7,353	66	%
Non-controlling interests	2,001	19	%	2,071	19	%
Current assets	3,330	32	%	3,792	34	%
Investment in associate	2,203	21	%	2,336	21	%
Property, plant and equipment	74	1	%	72	1	%
Intangible assets	4,814	46	%	4,886	44	%
Current liabilities	1,581	15	%	1,649	15	%

Non-current liabilities	13	0	%	13	0	%

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Equity

The Company's equity as of March 31, 2013 (including non-controlling interests) was approximately $ 8,827 thousand. Equity attributable to equity holders of the Company as of March 31, 2013 totaled $ 6,826 thousand, a decrease of approximately $ 527 thousand from December 31, 2012, representing approximately 65% of total balance sheet compared to 66% of total balance sheet as of December 31, 2012. The decrease in equity attributable to equity holders of the Company is mainly a result of the loss for the period (offset by share-based payment expenses).

The balance of non-controlling interests as of March 31, 2013 was approximately $ 2,001 thousand, representing the other shareholdings in InterCure. As of March 31, 2013, the Company holds approximately 45.41% of InterCure's issued and outstanding share capital and approximately 54.72% as of the date of the approval of the financial statements after converting the loan extended to InterCure in the context of the acquisition of July 25, 2012 into shares.

Assets

Total current assets as of March 31, 2013 were approximately $ 3,330 thousand, a decrease of approximately $ 462 thousand, compared to approximately $ 3,792 thousand as of December 31, 2012. The change is primarily a result of a decrease in the Group's balances of cash and short-term deposits which totaled approximately $ 2,720 thousand as of March 31, 2013, a decrease of approximately $ 592 thousand compared to the balances of cash and short-term deposits totaling approximately $ 3,312 thousand as of December 31, 2012. This decrease is mainly a result of the Group's current operations. The balances of cash and short-term deposits as of March 31, 2013, excluding InterCure, totaled approximately $ 2,030 thousand, a decrease of approximately $ 316 thousand compared to the balance as of December 31, 2012, which is mainly explained by the cash flows used in operating activities.

The carrying amount of trade receivables as of March 31, 2013 was approximately $ 99 thousand compared to approximately $ 76 thousand as of December 31, 2012. The balance arises from InterCure's trade receivables.

The average customer days as of March 31, 2013 and December 31, 2012 were 12 and 24 days, respectively. The average customer days as of March 31, 2013 decreased compared to December 31, 2012 due to a change in the mix of sale consisting mainly of an increase in direct sales, channels whose customer days are smaller than those of resellers. The balance of trade receivables mainly arises from sales to UK and U.S. chains. The Company's current standard payment terms for retail distribution channels are 30 credit days and 3-5 days for direct sale channels.

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The carrying amount of inventories as of March 31, 2013 totaled approximately $ 323 thousand compared to approximately $ 299 thousand as of December 31, 2012. The increase in inventories is principally explained by the fact that InterCure has acted to increase inventories since the date of completing the debt refinancing and the transaction with the Company and Medica Fund as described above in order to expand its operations and minimize conveyance costs.

The carrying amount of other accounts receivables in the statement of financial position as of March 31, 2013 totaled approximately $ 166 thousand (approximately $ 112 thousand excluding InterCure) compared to approximately $ 153 thousand as of December 31, 2012 (approximately $ 117 thousand excluding InterCure) with no material change. The balance mainly includes government authorities and prepaid expenses.

The investment in an associate includes the Company's investment in Proteologics. As of March 31, 2013, the investment totaled approximately $ 2,203 thousand compared to approximately $ 2,336 thousand as of December 31, 2012. The investment is recorded in the Company's books at equity. During the period, the Company recorded losses from the investment in an associate totaling approximately $ 190 thousand against an increase in the investment from foreign currency translation differences of foreign operations of approximately $ 51 thousand.

Property, plant and equipment as of March 31, 2013 totaled approximately $ 74 thousand (approximately $ 34 thousand excluding InterCure) compared to approximately $ 72 thousand as of December 31, 2012 (approximately $ 31 thousand excluding InterCure) with no material change.

The carrying amount of intangible assets as of March 31, 2013 was approximately $ 4,814 thousand compared to approximately $ 4,886 thousand December 31, 2012. The balance comprises an amount representing the patent license for the exclusive use of the rHuEPO drug for treating Multiple Myeloma and the related knowhow and studies underlying the patent in a total of approximately $ 2,265 thousand, including transaction costs of approximately $ 187 thousand. The balance also includes technology totaling approximately $ 1,764 thousand and brand name totaling approximately $ 455 thousand from the InterCure acquisition transaction. The change in the carrying amount as of March 31, 2013 compared to December 31, 2012 arises mainly from the current amortization of said technology and brand name.

Current liabilities

The carrying amount of current liabilities as of March 31, 2013 totaled approximately $ 1,581 thousand (approximately $ 658 thousand excluding InterCure), compared to approximately $ 1,649 thousand as of December 31, 2012 (approximately $ 757 thousand excluding InterCure). The decrease is primarily a result of the repayment of liabilities to professional service providers and the payment of grants to officers for the capital raising of 2012.

1.3.2 Analysis of the operating results

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

	Three months ended March 31,		Year ended December 31,
	2013	2012	2012
	$000		
Revenues	673	-	938
Cost of sales	(199)	-	(380)
Gross profit	474	-	558
Research and development expenses	(18)	(17)	(99)
Selling and marketing expenses	(686)	-	(848)
General and administrative expenses	(700)	(384)	(2,769)
Other gains, net	7	-	802
Operating loss	(923)	(401)	(2,356)
Finance income (expenses), net	11	32	45
Earnings (losses) from investment in associate	(190)	-	569
Loss for the period	(1,102)	(369)	(1,742)
Other comprehensive income:			
Foreign currency translation differences	51	-	114
Total other comprehensive income	51	-	114
Total comprehensive loss for the period	(1,051)	(369)	(1,628)

Loss for the period attributable to:			
Equity holders of the Company	(872)	(369)	(1,390)
Non-controlling interests	(230)	-	(352)
Total loss for the period	(1,102)	(369)	(1,742)
Total comprehensive loss for the period attributable to:			
Equity holders of the Company	(821)	(369)	(1,276)
Non-controlling interests	(230)	-	(352)
Total comprehensive loss for the period	(1,051)	(369)	(1,628)

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Revenues

Sales in the three months period ended March 31, 2013 totaled approximately $ 673 thousand, originating from InterCure. InterCure's main sales in U.S. and Canadian markets totaled approximately $ 574 thousand and in the UK totaled approximately $ 91 thousand. In the fourth quarter of 2012, sales in InterCure totaled approximately $ 595 thousand, of which a total of approximately $ 497 thousand is from sales in the U.S. and Canada and approximately $ 95 thousand from sales in the UK.

Gross profit

Gross profit in the three months period ended March 31, 2013 totaled approximately $ 474 thousand and approximately $ 527 thousand without amortizing excess cost in the transaction.

Gross profit as a whole originates from the subsidiary InterCure, whose average gross profit in the reporting periods ranges between 74% and 78%. This profit is affected by the ratio of direct/online sales which have a relatively high profit margin to sales through distributors which have a relatively lower profit margin. Cost of sales includes amortization of excess cost attributable to technology identified in the acquisition in a total of approximately $ 53 thousand.

Research and development expenses

Research and development expenses in the three months period ended March 31, 2013 totaled approximately $ 18 thousand, compared to approximately $ 17 thousand in the corresponding period of last year. Research and development expenses comprise mainly medical regulation costs, clinical insurance expenses and other medical consulting costs. Research and development expenses attributable to InterCure in the reporting period amount to approximately $ 8 thousand.

Selling and marketing expenses

Selling and marketing expenses in the three months period ended March 31, 2013 totaled approximately $ 686 thousand, originating entirely from InterCure. Selling and marketing expenses include advertising expenses (mainly media expenses) of approximately $ 321 thousand compared to a gross profit of approximately $ 527 thousand (less amortization of excess cost), which represents an average contribution (gross profit less direct/online advertising costs divided by direct/online advertising expenses) of about 64%. These expenses also include online sales and marketing services rendered by Giboov in a total of approximately $ 104 thousand and share-based payment of approximately $ 137 thousand in respect of stock options granted to Giboov.

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General and administrative expenses

General and administrative expenses in the three months period ended March 31, 2013 totaled approximately $ 700 thousand, compared to approximately $ 384 thousand in the corresponding period of last year. General and administrative expenses in the reporting period excluding InterCure totaled approximately $ 526 thousand. The increase in general and administrative expenses (excluding expenses attributable to InterCure) in relation to the corresponding quarter of last year is principally explained by the increase in share-based payment to employees and directors in respect of which the expenses in the period are recorded according to the Black and Scholes model and the staircase method so that the expense is higher in initial periods and offset by grants to employees in connection with the capital raising in the corresponding period of last year. Moreover, general and administrative expenses attributable to InterCure in the reporting period totaled approximately $ 174 thousand and consist mainly of salaries, professional services, patent maintenance and share-based payment to directors and employees.

Other gains, net

Other gains in the three months period ended March 31, 2013 totaled approximately $ 7 thousand. These gains arise from the exercise and expiration of stock options in an associate during the reporting period.

Finance income (expenses), net

Finance income, net in the three months period ended March 31, 2013 totaled approximately $ 11 thousand compared to approximately $ 32 thousand in the corresponding period of last year. The decrease in finance income derives mainly from a decrease in exchange rate gains originating from the revaluation of the NIS in relation to the U.S. dollar in respect of balances of NIS financial assets, net.

Losses from investment in associate

The Company incurred losses totaling approximately $ 190 thousand from the investment in Proteologics, recorded at equity. As of March 31, 2013, the Company holds approximately 30.88% of Proteologics' issued and outstanding share capital. In the reporting period, the Company recorded losses totaling approximately NIS 1,967 thousand (approximately $ 531 thousand) (excluding amortization of excess cost totaling approximately $ 82 thousand).

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Taxes on income

The Group did not incur taxes on income (tax benefits) in the three months period ended March 31, 2013 or in the corresponding period of last year.

Loss and comprehensive loss for the period

The loss attributable to equity holders of the Company in the three months period ended March 31, 2013 amounted to approximately $ 872 thousand compared to approximately $ 369 thousand in the corresponding period of last year.

The comprehensive loss attributable to equity holders of the Company in the three months period ended March 31, 2013 amounted to approximately $ 821 thousand compared to approximately $ 369 thousand in the corresponding period of last year. In the first quarter of 2013, the comprehensive loss includes the effect of foreign currency translation differences from the investment in Proteologics whose functional currency is the NIS.

Basic and diluted loss in the three months period ended March 31, 2013 amounted to approximately $ 0.004 per share compared to $ 0.002 in the corresponding period of last year.

Cash flows

Cash flows used in operating activities in the three months period ended March 31, 2013 totaled approximately $ 553 thousand, compared to cash flows used in operating activities of approximately $ 283 thousand in the corresponding period of last year, a negative increase of approximately $ 270 thousand. InterCure's share in the cash flows used in operating activities in the period totaled approximately $ 202 thousand. Cash flows used in the Group's operating activities in the three months period ended March 31, 2013 excluding InterCure totaled approximately $ 351 thousand. The increase compared to the corresponding quarter of last year mainly arises from payments made in the period to professional service providers and the payment of grants to officers in connection with the capital raising round of 2012.

Cash flows provided by investing activities in the three months period ended March 31, 2013 totaled approximately $ 502 thousand compared to approximately $ 982 thousand in the corresponding period of last year. The changes between the periods mostly reflect the movement in short-term deposits in the periods.

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Cash flows provided by financing activities in the three months period ended March 31, 2013 totaled approximately $ 9 thousand, originating from the exercise of stock options (series 2) in the period. Cash flows provided by financing activities in the corresponding period of last year totaled approximately $ 3,770 thousand, originating from the capital raised in the private placement of March 2012 and the exercise of stock options (series 2) in the period.

1.3.3 Financing resources

The Group's income from operations at this stage derives solely from InterCure, the subsidiary. The Group finances its R&D operations from raising capital, its own capital and from current credit from suppliers and service providers. As of March 31, 2013, the Company's balance of cash and cash equivalents and short-term deposits amounted to approximately $ 2,742 thousand (approximately $ 2,053 thousand excluding InterCure). During the period, stock options (series 2) were exercised in a total net amount of approximately $ 9 thousand (see 1.2.4 above).

1.3.4 Pro forma statements

In accordance with Regulation 38b to the Israeli Securities Regulations (Periodic and Immediate reports), 1970 the company prepared condensed pro forma interim consolidated financial statements ("Pro forma statements"). The pro forma statements were presented in order to reflect the group's operating results had the InterCure acquisition transaction been completed on January 1, 2012. For further information see the pro forma interim consolidated financial statements.

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

2.1 Exposure to market risks and their management

a. The person responsible for managing market risks in the Group is Ronen Twito, the Company's Deputy CEO and CFO.

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

c. The policy of the Group in managing market risks - on March 29, 2012, the Board 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. InterCure's Board decided to invest the majority of cash balances in InterCure in short-term dollar-linked deposits and the remaining cash balances in NIS deposits.

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

2.1.1 Exchange rate risk

Most of the Group's revenues and expenses are denominated in U.S. dollars and partly in British Pound against which the Group holds its available liquid resources in or linked to dollars. Nevertheless, in respect of some of the expenses which are denominated in NIS and create exposure to the changes in the exchange rate of the NIS in relation to the dollar, the Group holds part of its liquid resources in NIS, based on the decision of the Board as above, in order to minimize the currency risk.

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. In the first quarter of 2013, the tensions in Israel's northern border persisted in the backdrop of the civil war in Syria as well as the tensions arising from Iran's pursuing of its nuclear plan. In 2012, the domestic security tensions were felt both in the southern border of Israel (Operation "Pillar of Defense" in the Gaza Strip and terrorist attacks from the Sinai border). These factors are liable to harm growth and the market's activity and stability.

As for the global economic crisis which has been felt for the last few years, during the last two years, the European economy showed signs of deterioration as reflected, among others, by lowering the credit rating of several countries in the Eurozone by international rating agencies including France, Spain, Italy, Ireland, Greece, Portugal, Belgium, Cyprus and Slovenia. This credit downgrading has led to the resignation of prime ministers in some of those countries after having been asked to implement extensive budget cuts.

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

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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 (U.S. dollar, which is the Group's functional currency and NIS - based on its needs and the Board'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 have a significant effect on the Group's ability to raise funds in the future in order to finance its plans and activity, which will require the Company to minimize its activities, sell or grant a sublicense to third parties to use all or part of its technologies in order to support its operations (see Note 1b to the annual consolidated financial statements).

As for InterCure, the financial crisis in the main markets of the U.S. and the UK continues to significantly affect InterCure. The developments and crises in the markets in general and particularly the economic slowdown, reduced consumer spending and decrease in the Consumer Confidence Index are all liable to adversely affect InterCure's business results, available cash flows, value of assets, business position, financial covenants, ability to distribute dividends and ability to raise financial resources, if needed, as well as the financing terms of such raising.

2.2 Report of linkage basis

Linkage basis of balance sheet items as of March 31, 2013:

	U.S.$	NIS	Other currencies	Non-monetary	Total
	$000				
Assets:					
Cash and cash equivalents	1,086	582	1	-	1,669
Short-term deposits	502	549	-	-	1,051
Trade receivables	83	3	13	-	99
Other accounts receivable	28	79	-	59	166
Restricted deposits	-	22	-	-	22
Inventories	-	-	-	323	323