
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 September, 2014

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 4614001, 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 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

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 September 2, 2014 is hereby incorporated by reference into 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.
INTERIM FINANCIAL INFORMATION

AS OF JUNE 30, 2014

UNAUDITED

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>June 30,</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	<u>Unaudited</u>		<u>Audited</u>
<u>U.S. dollars in thousands</u>			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,676	995	2,887
Short-term deposits	584	1,058	1,278
Trade receivables	144	97	126
Other accounts receivable	531	168	473
Restricted deposits	188	22	23
Inventories	301	265	302
	<u>4,424</u>	<u>2,605</u>	<u>5,089</u>
NON-CURRENT ASSETS:			
Investment in associate	-	1,965	-
Property, plant and equipment, net	27	70	61
Intangible assets, net	2,773	4,740	2,865
	<u>2,800</u>	<u>6,775</u>	<u>2,926</u>
<u>Total assets</u>	<u><u>7,224</u></u>	<u><u>9,380</u></u>	<u><u>8,015</u></u>

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>June 30,</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	525	662	615
Other accounts payable	823	707	604
	<u>1,348</u>	<u>1,369</u>	<u>1,219</u>
NON-CURRENT LIABILITIES:			
Employee benefit liabilities	27	13	11
	<u>27</u>	<u>13</u>	<u>11</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Ordinary share capital	6,180	6,001	6,093
Share premium and options	148,146	147,489	148,327
Accumulated deficit	(147,126)	(144,935)	(146,073)
Treasury shares	(1,501)	(2,469)	(2,091)
Foreign currency translation adjustments of foreign operations	-	181	-
Reserve from transactions with non-controlling interests	9	9	9
	<u>5,708</u>	<u>6,276</u>	<u>6,265</u>
Non-controlling interests	141	1,722	520
	<u>5,849</u>	<u>7,998</u>	<u>6,785</u>
Total equity	<u>5,849</u>	<u>7,998</u>	<u>6,785</u>
Total liabilities and equity	<u>7,224</u>	<u>9,380</u>	<u>8,015</u>

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

David Bassa
Chairman of the Board

Josh Levine
Chief Executive Officer

David Kestenbaum
Chief Financial Officer

Date of approval of the financial statements by the Company's Board: August 31, 2014.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues	967	1,185	380	512	2,369
Cost of sales	(270)	(387)	(113)	(188)	(741)
Gross profit	697	798	267	324	1,628
Research and development expenses	(90)	(43)	(40)	(25)	(113)
Selling and marketing expenses	(725)	(1,294)	(321)	(608)	(1,691)
General and administrative expenses	(1,217)	(1,394)	(488)	(694)	(2,048)
Impairment of intangible assets	-	-	-	-	(1,729)
Impairment of fixed and intangible assets in subsidiary	(141)	-	(141)	-	-
Other gains, net	-	10	-	3	1,059
Operating loss	(1,476)	(1,923)	(723)	(1,000)	(2,894)
Finance income	15	39	13	18	61
Finance expenses	(10)	(13)	-	(3)	(35)
Finance income, net	5	26	13	15	26
Losses from investment in associate	-	(449)	-	(259)	(845)
Loss for the period	(1,471)	(2,346)	(710)	(1,244)	(3,713)
Other comprehensive income (loss): Items which can be classified to profit or loss:					
Foreign currency translation differences	-	68	-	17	108
Reclassification of foreign currency translation adjustments to Other gains, net	-	-	-	-	(221)
Total other comprehensive income (loss)	-	68	-	17	(113)
Total comprehensive loss for the period	(1,471)	(2,278)	(710)	(1,227)	(3,826)
Loss for the period attributable to:					
Equity holders of the Company	(1,249)	(1,875)	(563)	(1,003)	(2,476)
Non-controlling interests	(222)	(471)	(147)	(241)	(1,237)
Total comprehensive loss for the period attributable to:	(1,471)	(2,346)	(710)	(1,244)	(3,713)
Equity holders of the Company	(1,249)	(1,807)	(563)	(986)	(2,589)
Non-controlling interests	(222)	(471)	(147)	(241)	(1,237)

	<u>(1,471)</u>	<u>(2,278)</u>	<u>(710)</u>	<u>(1,227)</u>	<u>(3,826)</u>
Basic and diluted loss per share (in U.S. dollars)	<u>(0.005)</u>	<u>(0.008)</u>	<u>(0.002)</u>	<u>(0.004)</u>	<u>(0.011)</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Six months ended June 30, 2014								
	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Reserve from transactions with non-controlling interests		Total	Non-controlling interests	Total equity
					U.S. dollars in thousands				
Balance as of January 1, 2014 (audited)	6,093	148,327	(146,073)	(2,091)	9	6,265	520	6,785	
Loss for the period	-	-	(1,249)	-	-	(1,249)	(222)	(1,471)	
Total comprehensive loss	-	-	(1,249)	-	-	(1,249)	(222)	(1,471)	
Share-based payment to employees and others	-	-	196	-	-	196	6	202	
Share-based payment to vendor	*)	37	-	-	-	37	-	37	
Sale of treasury shares	-	(197)	-	590	-	393	(163)	230	
Exercise of warrants and stock options into shares	87	(21)	-	-	-	66	-	66	
Balance as of June 30, 2014 (unaudited)	<u>6,180</u>	<u>148,146</u>	<u>(147,126)</u>	<u>(1,501)</u>	<u>9</u>	<u>5,708</u>	<u>141</u>	<u>5,849</u>	

*) Represents an amount lower than USD 1 thousand.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Six months ended June 30, 2013									
Attributable to equity holders of the Company									
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non- controlling interests	Total	Non- controlling interests	Total equity
U.S. dollars in thousands									
Balance as of January 1, 2013 (audited)	5,997	147,475	(143,560)	(2,469)	114	(204)	7,353	2,071	9,424
Loss for the period	-	-	(1,875)	-	-	-	(1,875)	(471)	(2,346)
Other comprehensive income	-	-	-	-	68	-	68	-	68
Total comprehensive loss	-	-	(1,875)	-	68	-	(1,807)	(471)	(2,278)
Share-based payment to employees and others	-	-	500	-	-	-	500	335	835
Conversion of convertible loan into capital in subsidiary	-	-	-	-	-	213	213	(213)	-
Exercise and expiration of stock options in associate	-	-	-	-	(1)	-	(1)	-	(1)
Exercise of warrants and stock options into shares	4	14	-	-	-	-	18	-	18
Balance as of June 30, 2013 (unaudited)	<u>6,001</u>	<u>147,489</u>	<u>(144,935)</u>	<u>(2,469)</u>	<u>181</u>	<u>9</u>	<u>6,276</u>	<u>1,722</u>	<u>7,998</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three months ended June 30, 2014								
	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Reserve from transactions with non-controlling interests		Total	Non-controlling interests	Total equity
U.S. dollars in thousands									
Balance as of April 1, 2014 (unaudited)	6,093	148,167	(146,626)	(1,501)	9	6,142	286	6,428	
Loss for the period	-	-	(563)	-	-	(563)	(147)	(710)	
Other comprehensive loss	-	-	-	-	-	-	-	-	
Total comprehensive loss	-	-	(563)	-	-	(563)	(147)	(710)	
Share-based payment to employees and others	-	-	63	-	-	63	2	65	
Issuance of shares	-	-	-	-	-	-	-	-	
Sale of treasury shares	-	-	-	-	-	-	-	-	
Exercise of warrants and stock options into shares	87	(21)	-	-	-	66	-	66	
Balance as of June 30, 2014 (unaudited)	<u>6,180</u>	<u>148,146</u>	<u>(147,126)</u>	<u>(1,501)</u>	<u>9</u>	<u>5,708</u>	<u>141</u>	<u>5,849</u>	

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Three months ended June 30, 2013									
Attributable to equity holders of the Company									
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non- controlling interests	Total	Non- controlling interests	Total equity
U.S. dollars in thousands									
Balance as of April 1, 2013 (unaudited)	5,998	147,483	(144,146)	(2,469)	164	(204)	6,826	2,001	8,827
Loss for the period	-	-	(1,003)	-	-	-	(1,003)	(241)	(1,244)
Other comprehensive income	-	-	-	-	17	-	17	-	17
Total comprehensive loss	-	-	(1,003)	-	17	-	(986)	(241)	(1,227)
Share-based payment to employees and others	-	-	214	-	-	-	214	175	389
Conversion of convertible loan into capital in subsidiary	-	-	-	-	-	213	213	(213)	-
Exercise of warrants and stock options into shares	3	6	-	-	-	-	9	-	9
Balance as of June 30, 2013 (unaudited)	<u>6,001</u>	<u>147,489</u>	<u>(144,935)</u>	<u>(2,469)</u>	<u>181</u>	<u>9</u>	<u>6,276</u>	<u>1,722</u>	<u>7,998</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year ended December 31, 2013								
	Attributable to equity holders of the Company								
	Share capital	Share premium and options	Accumulated deficit	Treasury shares	Foreign currency translation adjustments of foreign operations	Reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance as of January 1, 2013 (audited)	5,997	147,475	(143,560)	(2,469)	114	(204)	7,353	2,071	9,424
Loss for the year	-	-	(2,476)	-	-	-	(2,476)	(1,237)	(3,713)
Other comprehensive loss	-	-	-	-	(113)	-	(113)	-	(113)
Total comprehensive loss	-	-	(2,476)	-	(113)	-	(2,589)	(1,237)	(3,826)
Share-based payment to employees and others	-	-	(7)	-	-	-	(7)	(58)	(65)
Issuance of shares and warrants	90	876	-	-	-	-	966	-	966
Exercise of options in associate	-	-	-	-	(1)	-	(1)	-	(1)
Sale of treasury shares	-	(52)	-	378	-	-	326	(43)	283
Conversion of convertible loan into capital in subsidiary	-	-	-	-	-	213	213	(213)	-
Other	-	-	(30)	-	-	-	(30)	-	(30)
Exercise of warrants into shares	6	28	-	-	-	-	34	-	34
Balance as of December 31, 2013 (audited)	<u>6,093</u>	<u>148,327</u>	<u>(146,073)</u>	<u>(2,091)</u>	<u>-</u>	<u>9</u>	<u>6,265</u>	<u>520</u>	<u>6,785</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Loss for the period	(1,471)	(2,346)	(710)	(1,244)	(3,713)
Adjustments to reconcile loss to net cash used in operating activities (a)	130	1,125	166	576	1,214
Net cash used in operating activities	(1,341)	(1,221)	(544)	(668)	(2,499)
<u>Cash flows from investing activities:</u>					
Proceeds from sale of investment in associate	291	-	-	-	3,054
Increase in restricted deposit	(165)	-	(165)	-	-
Decrease (increase) in short-term bank deposits	701	582	703	(1)	366
Purchase of property, plant and equipment	(10)	(10)	(4)	(2)	-
Purchase of intangible assets	-	(73)	-	-	(84)
Other investments	-	-	4	-	-
Net cash provided by (used in) investing activities	817	499	538	(3)	3,336
<u>Cash flows from financing activities:</u>					
Sale of treasury shares	230	-	-	-	283
Proceeds from exercise of stock options into shares	66	18	66	9	34
Net cash provided by financing activities	296	18	66	9	317
Increase (decrease) in cash and cash equivalents	(228)	(704)	60	(662)	1,154
Gains (losses) from exchange rate differences on cash and cash equivalents	17	3	21	(12)	37
Cash and cash equivalents at the beginning of the period	2,887	1,696	2,595	1,669	1,696
Cash and cash equivalents at the end of the period	2,676	995	2,676	995	2,887

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	U.S. dollars in thousands				
(a) <u>Adjustments to reconcile loss to net cash used in operating activities:</u>					
Income and expenses not involving cash flows:					
Depreciation and amortization	32	157	11	79	313
Loss from disposal of property, plant and equipment	-	-	-	-	2
Impairment of fixed and intangible assets in subsidiary	141	-	141	-	-
Share-based payment transactions to employees and others	202	835	65	389	(65)
Revaluation of short-term deposits	(7)	(24)	(12)	(6)	(29)
Exchange rate differences on operating activities	(17)	(3)	(21)	12	(37)
Change in employee benefit liabilities, net	16	-	17	-	(2)
Loss (gain) from change in holding rate in associate	-	(10)	-	(3)	(10)
Losses from investment in associate	-	449	-	259	845
Impairment of intangible assets	-	-	-	-	1,729
Gain from sale of investment in associate	-	-	-	-	(1,051)
	<u>367</u>	<u>1,404</u>	<u>202</u>	<u>730</u>	<u>1,695</u>
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	(18)	(21)	(29)	2	(50)
Decrease (increase) in other accounts receivable	(349)	(15)	42	(2)	30
Decrease (increase) in inventories	1	(36)	(93)	58	(73)
Increase (decrease) in trade payables	(90)	(8)	147	(141)	(86)
Increase (decrease) in other accounts payable	219	(199)	(103)	(71)	(302)
	<u>(237)</u>	<u>(279)</u>	<u>(36)</u>	<u>(154)</u>	<u>(481)</u>
	<u>130</u>	<u>1,125</u>	<u>166</u>	<u>576</u>	<u>1,214</u>
(b) <u>Additional information on cash flows from operating activities:</u>					
Interest received	<u>3</u>	<u>18</u>	<u>3</u>	<u>2</u>	<u>24</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	U.S. dollars in thousands				
(c) <u>Non-cash activities:</u>					
Purchase of property, plant and equipment and intangible assets on suppliers' credit	-	-	-	-	73
Allotment of shares to Aurum	-	-	-	-	913
Conversion of convertible loan into capital in subsidiary	-	377	-	377	377
Share-based payment for intangible assets	37	-	-	-	49
<u>Receivables from sale of investment in associate</u>	-	-	-	-	297

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 1:- GENERAL

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

XTL Biopharmaceuticals Ltd. (the “**Company**”) is engaged in the development of therapeutics for the treatment of unmet medical needs. The Company was incorporated under the Israeli Companies Law on March 9, 1993. The registered office of the Company is located at 85 Medinat Hayehudim Street, Herzliya 46766. The Company owns 54.72% 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**”). The Company also owns 100% of Xtepo Ltd. (“**Xtepo**”).

The Company's American Depositary Shares (“**ADSs**”) are traded on the Nasdaq Capital Market and its securities are traded on the TASE.

On January 7, 2014, the Company signed a licensing agreement with Yeda Research and Development Company Ltd. (“**Yeda**”) to develop hCDR1, a Phase II-ready asset for the treatment of Systemic Lupus Erythematosus (“**SLE**”). The terms of the licensing agreement include, among other things, expense reimbursement for patent expenses, certain milestone payments to Yeda, low single-digit royalties based on net sales, and additional customary royalties to the Office of the Chief Scientist. For additional information, see Note 4 below.

On July 25, 2012, the Company completed the acquisition of approximately 50.79% of the issued and outstanding share capital of InterCure Ltd., 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. In the context of the acquisition, the Company provided InterCure a loan that was convertible into shares of InterCure. On May 16, 2013, the Company informed InterCure of its decision to convert the entire convertible loan which had been extended by the Company in the context of the acquisition into 7,620,695 ordinary shares of InterCure as predetermined in the acquisition agreement. Following the conversion and as of June 30, 2014, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital. For additional information regarding the Company's investment in InterCure, see Note 6a 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 in consideration of approximately NIS 6.5 million (approximately \$ 1.7 million) paid in cash. On September 12, 2013, the Company sold its entire investment in Proteologics (representing 44.95% of Proteologics issued and outstanding capital at the time) in consideration of approximately \$3.4 million after having acquired an additional 14.13% of Proteologics' shares on September 11, 2013. As of June 30, 2014, the Company no longer holds any shares of Proteologics (for additional details, see also Note 12 to the 2013 annual financial statements).

As of the date of the report, the Company is in the planning stages for the implementation of a Phase II clinical trial of the recombinant EPO (“**rHuEPO**”) drug for treating Multiple Myeloma patients. As part of said preparations, the Company previously 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 and is preparing market analyses and regulatory activities. The data collected in the preliminary study will be combined in the plans and preparations for the implementation of the Phase II clinical trial, as needed. Based on the Company's current business plans and estimates, the approval for commencing the clinical trial is expected to be obtained before the end of 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 1:- GENERAL (Cont.)

On November 30, 2011, the Company completed the MinoGuard transaction in which it acquired the activity of MinoGuard Ltd. (“**MinoGuard**”), founded by Mor Research Applications Ltd. (“**Mor**”) by way of receiving an exclusive license to use MinoGuard's entire technology, including SAM-101, a combination drug for treating psychotic diseases, focusing on schizophrenia, in return for sales royalties and milestone payments to be made over the clinical development period. The drug is based on a combination of existing antipsychotic drugs and a recognized medicinal compound (Minocycline).

The following are the Company's subsidiaries as of June 30, 2014:

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

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

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 Development is inactive.

- b. The Company has incurred continuing losses and depends on outside financing resources to continue its activities. The Company's only source of income at this stage originates from InterCure, a subsidiary in which control was acquired on July 25, 2012. 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 until the fourth quarter of 2015 (independently of InterCure, which is 54.72% held). 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's ability to continue operating and finalizing the development of the above mentioned drugs will require obtaining additional financial resources.

The Company expects to incur additional losses in 2014 arising from research and development activities and testing additional technologies and operating activities, which will be reflected in negative cash flows from operating activities. Accordingly, in order to perform 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 or sell or grant a sublicense to third parties to use all or part of its technologies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 1:- GENERAL (Cont.)

InterCure has noted in its consolidated financial statements for the year ended December 31, 2013, that there is substantial doubt regarding its ability to continue as a going concern. As of December 31, 2013, the Company has impaired its assets accordingly (see Note 14f to the 2013 annual financial statements with regard to the impairment). These financial statements of the Company include no further adjustments of the value of assets and liabilities, if any, that will apply if InterCure is unable to continue operating as a going concern. InterCure's management believes that it has sufficient cash and other resources to meet its future plans through July 2015.

NOTE 2:- BASIS OF PREPARATION OF THE CONDENSED FINANCIAL STATEMENTS

- a. The condensed consolidated financial information of the Company and its subsidiaries (the “**Group**”) as of June 30, 2014 and 2013 and for the interim periods of six and three months then ended (“**Interim Financial Information**”) has been prepared in accordance with IAS 34, “Interim Financial Reporting” (“**IAS 34**”) and includes the additional disclosure requirements in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. This Interim Financial Information does not contain all the information and disclosures that are required in the framework of the annual financial statements. This Interim Financial Information should be read in conjunction with the annual financial statements for 2013 and the accompanying notes which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and included the additional disclosure requirements in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.
- b. Estimates – the preparation of the interim financial statements requires the Group's management to make judgments and to use accounting estimates and assumptions that have an effect on the application of the Group's accounting policies and on the reported amounts of assets, liabilities and expenses. Actual results could differ from those estimates.

In the preparation of these condensed consolidated interim financial statements, the significant judgment exercised by management in applying the Group's accounting policies and the uncertainties involved in the key sources of the estimates were identical to those in the annual consolidated financial statements for the year ended December 31, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The Group's significant accounting policies and methods of computation adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the annual financial statements for 2013, except for standards, amendments or interpretations to existing standards that became effective and that are mandatory for the accounting periods beginning January 1, 2014 as described below:

a. IAS 34 (Revised), "Interim Financial Reporting" ("**IAS 34R**");

IAS 34R, which forms part of the Annual Improvements document issued in May 2012, clarifies the disclosure requirements in interim financial reporting regarding segment assets and segment liabilities. According to IAS 34R, disclosure must be provided in the interim financial statements for the measure of total assets and total liabilities attributed to a certain reporting segment if these amounts are regularly provided to the Chief Operating Decision Maker ("**CODM**") and in the event of a material change in the measures already disclosed in respect of said reporting segment in the latest annual financial statements.

The Group has adopted IAS 34R for the first time for the annual period commencing on January 1, 2013. The initial adoption of IAS 34R did not have a material impact on the Group's consolidated financial statements.

b. IAS 36, "Impairment of Assets" ("**IAS 36**");

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended December 31, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 4: SIGNIFICANT EVENTS DURING THE PERIOD

- a. On January 5, 2014, Mr. David Kestenbaum entered his position as CFO of the Company in place of the former CFO and Deputy CEO of the Company, Mr. Ronen Twito, following Mr. Twito's notice that he wished to terminate his employment with the Company. Mr. Kestenbaum's appointment and employment terms as CFO of the Company were approved by the Company's Board on December 30, 2013.
- b. On January 7, 2014, the Company signed a licensing agreement with Yeda to develop hCDR1, a Phase II-ready asset for the treatment of Systemic Lupus Erythematosus. The terms of the licensing agreement include, among other things, expense reimbursement for patent expenses, certain milestone payments to Yeda, low single-digit royalties based on net sales, and additional customary royalties to the Office of the Chief Scientist.
- c. On January 20, 2014, InterCure announced it had entered into an agreement with Giboov Ltd. ("**Giboov**") to terminate a Strategic Service Agreement the parties entered into on September 14, 2012, effective as of January 31, 2014 (the "**Arrangement**"). According to the Arrangement, all 20,185,184 non-marketable stock options for the purchase of InterCure shares which were granted to Giboov under the Strategic Service Agreement expired on March 1, 2014. Following the expiration, Giboov holds no such non-marketable stock options.

Further, on January 23, 2014, InterCure announced that it had agreed to retain the services of Universal McCann Israel, Ltd. ("**McCann**") in which McCann will provide professional services relating to the promotion and marketing of InterCure's products via the internet for a period of three years effective February 1, 2014. According to the new agreement, InterCure shall pay McCann a monthly fee in exchange for online marketing services, ranging between \$8,000 and \$13,000, and contingent upon achievement of sales targets. In August 2014 InterCure terminated the agreement with McCann.

- d. On January 28, 2014, following the resolution of the Company's Board to file a petition with the Tel-Aviv-Jaffa District Court (the "**Court**") and to convene a meeting of shareholders and a meeting of warrant (series 2) holders in order to extend the term of warrants (series 2) of the Company, and in light of the approval by those general meetings of the Board resolution, the Court granted the request to extend the term of warrants (series 2) of the Company until October 28, 2014.
- e. On March 17, 2014, the Company's extraordinary general meeting of shareholders decided to approve the terms of an employment agreement between the Company and Mr. Joshua Levine, pursuant to which Mr. Levine will serve as the Company's CEO in a fulltime position, in accordance with the resolution of the Company's Compensation Committee and Board of Directors dated January 30, 2014, and in accordance with the Israeli Companies Law – 1999.

Mr. Levine's employment terms include an allocation of 1,500,000 stock options exercisable into 1,500,000 Ordinary shares of NIS 0.1 par value each of the Company, as follows: 600,000 stock options are exercisable into 600,000 ordinary shares of the Company for an exercise price of NIS 0.6 per stock option, and an additional 900,000 stock options are exercisable into 900,000 ordinary shares of the Company for an exercise price of NIS 0.9 per stock option. The fair value of all the stock options according to the Black-Scholes model pursuant to IFRS 2 as of the date of grant (the date of the Company's Board's decision – namely January 30, 2014) was approximately \$244,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 4: SIGNIFICANT EVENTS DURING THE PERIOD (Cont.)

The exercise period of the stock options is a maximum of ten years from the grant date. The stock options vest in twelve equal portions each quarter over a period of three years from the grant date. The value of each stock option is based on the following assumptions: expected dividend rate of 0%, expected standard deviation of 154.49%, risk-free interest rates of 2.60%-2.87% and expected life until exercise of 5-6.5 years.

- f. On April 2, 2014, the Company filed a Registration Statement on Form F-3 under the Securities Act of 1933, as amended, relating to the offer and sale, from time to time of ADSs or warrants to purchase ADSs to be sold directly by the Company in one or more offerings. The proposed maximum aggregate offering price of the securities is \$40,000,000. On April 4, 2014, the Company's received a notice of effectiveness on the registration statement from the Securities and Exchange Commission.
- g. In April 2014, 3,010,000 non-marketable stock options of the Company were exercised into 3,010,000 ordinary shares of the Company, and the aggregate exercise price paid to the Company was \$66,000.
- h. On May 14, 2014, the Company issued 222,605 shares to Yeda in accordance with the licensing agreement described in note 4b.
- i. On May 18, 2014, Mr. Marc Allouche, a director, resigned from the board of directors of the Company.
- j. On June 15, 2014, following the resignation of Mr. Marc Allouche, the Board approved naming Mr. David Bassa the new chairman of the board of directors of the Company replacing Mr. Amit Yonay. Mr. Yonay, who remains a director, joined the audit committee of the board of directors. These changes resulted in the Company returning to compliance with the listing standards of the Nasdaq Stock Market and with the Israeli Companies Law.
- k. On June 22, 2014, the Company signed an agreement with InterCure according to which the Company shall grant InterCure a loan in the amount of \$50,000 (the "**Loan**"). The Loan was to be repaid within 60 days of the Effective Grant Date, defined in the agreement as being the date of the transfer of funds to InterCure. Were a general meeting of InterCure's shareholders to approve a collateral to the Loan within 60 days of the Effective Grant Date, the loan was to become due within 12 months of the Effective Grant Date. For additional information, see Note 6c below.

NOTE 5: SEGMENT REPORTING

The Group's management has established operating segments in accordance with reports reviewed by the CODM and which are used to make strategic decisions. Until July 25, 2012, the Company had a single operating segment - drug development. Effective from said date, following the acquisition of InterCure, the CODM reviews the business activities both according to the nature of the activity and the geographical location of the activity. With respect to the nature of the activity, the CODM reviews the operating results of the drug development activity and of the medical device activity. From a geographical standpoint, the CODM reviews the performance of sales of medical devices in the U.S., the UK and the rest of the world.

Segment reporting data for the six and three month periods ended June 30, 2014 and 2013, and for the year ended December 31, 2013:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 5: SEGMENT REPORTING (Cont.)

	Six months ended June 30, 2014 (unaudited)					
	Medical devices			Drug		Total
	U.S.	UK	Israel	development	Adjustments	
	U.S. dollars in thousands					
Revenues:						
External customers	841	120	6	-	-	967
Inter-segment revenues	-	-	78	-	(78)	-
<u>Total revenues</u>	<u>841</u>	<u>120</u>	<u>84</u>	<u>-</u>	<u>(78)</u>	<u>967</u>
Segment results before current amortization of intangible assets identified in the acquisition	(109)	(13)	-	(253)	-	(375)
Current amortization of intangible assets identified in the acquisition	(17)	(2)	-	-	-	(19)
Segment results	<u>(126)</u>	<u>(15)</u>	<u>-</u>	<u>(253)</u>	<u>-</u>	<u>(394)</u>
Unallocated joint expenses						(1,082)
Other gains, net						-
Finance income (expense), net						<u>5</u>
Loss before taxes on income						<u>(1,471)</u>

	Six months ended June 30, 2013 (unaudited)					
	Medical devices			Drug		Total
	U.S.	UK	Other	development	Adjustments	
	U.S. dollars in thousands					
Revenues:						
External customers	1,010	164	11	-	-	1,185
Inter-segment revenues	-	-	483	-	(483)	-
<u>Total revenues</u>	<u>1,010</u>	<u>164</u>	<u>494</u>	<u>-</u>	<u>(483)</u>	<u>1,185</u>
Segment results before current amortization of intangible assets identified in acquisition	5	3	2	(151)	-	(141)
Current amortization of intangible assets identified in acquisition	(111)	(17)	-	-	-	(128)
Segment results	<u>(106)</u>	<u>(14)</u>	<u>2</u>	<u>(151)</u>	<u>-</u>	<u>(269)</u>
Unallocated joint expenses						(1,664)
Other income, net						10
Financial income, net						26
Losses from investment in						

associate

(449)

Loss for the period

(2,346)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 5: SEGMENT REPORTING (Cont.)

	Three months ended June 30, 2014 (unaudited)					
	Medical devices			Drug		Total
	U.S.	UK	Israel	development	Adjustments	
	U.S. dollars in thousands					
Revenues:						
External customers	333	45	2	-	-	380
Inter-segment revenues	-	-	78	-	(78)	-
<u>Total revenues</u>	<u>333</u>	<u>45</u>	<u>80</u>	<u>-</u>	<u>(78)</u>	<u>380</u>
Segment results before current amortization of intangible assets identified in the acquisition	(127)	5	-	(117)	-	(239)
Current amortization of intangible assets identified in the acquisition	(8)	(1)	-	-	-	(9)
<u>Segment results</u>	<u>(135)</u>	<u>4</u>	<u>-</u>	<u>(117)</u>	<u>-</u>	<u>(248)</u>
Unallocated joint expenses						(475)
Other gains, net						-
Finance income (expense), net						13
Loss before taxes on income						<u>(710)</u>

	Three months ended June 30, 2013 (unaudited)					
	Medical devices			Drug		Total
	U.S.	UK	Other	Development	Adjustments	
	U.S. dollars in thousands					
Revenues:						
External customers	436	73	3	-	-	512
Inter-segment revenues	-	-	(53)	-	53	-
<u>Total revenues</u>	<u>-</u>	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>53</u>	<u>512</u>
Segment results before current amortization of intangible assets identified in the acquisition	(11)	(6)	(3)	(83)	-	(103)
Current amortization of intangible assets identified in the acquisition	(55)	(8)	-	-	-	(63)
<u>Segment results</u>	<u>(66)</u>	<u>(14)</u>	<u>(3)</u>	<u>(83)</u>	<u>-</u>	<u>(166)</u>
Unallocated joint expenses						(837)
Other income, net						3
Financial income, net						15
Loss from investment in associate						<u>(259)</u>

Loss for the period

(1,244)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014 (UNAUDITED)

NOTE 5: SEGMENT REPORTING (Cont.)

	Year ended December 31, 2013					
	Medical devices			Drug		Total
	U.S.	UK	Israel	development	Adjustments	
	U.S. dollars in thousands					
Revenues:						
External customers	2,076	278	15	-		2,369
Inter-segment revenues	-	-	1,041	-	(1,041)	-
<u>Total revenues</u>	<u>2,076</u>	<u>278</u>	<u>1,056</u>	<u>-</u>	<u>(1,041)</u>	<u>2,369</u>
Segment results before current amortization of intangible assets identified in the acquisition	128	24	1	(385)	-	(232)
Current amortization of intangible assets identified in the acquisition	(231)	(29)	(1)	-	-	(261)
Impairment of intangible assets	(1,532)	(189)	(8)	-	-	(1,729)
<u>Segment results</u>	<u>(1,635)</u>	<u>(194)</u>	<u>(8)</u>	<u>(385)</u>	<u>-</u>	<u>(2,222)</u>
Unallocated joint expenses						(1,731)
Other gains, net						1,059
Finance income (expense), net						26
Earnings from investment in associate						<u>(845)</u>
Loss before taxes on income						<u>(3,713)</u>

NOTE 6: EVENTS AFTER THE REPORTING PERIOD

- a. On July 24, 2014, InterCure signed a memorandum of understanding (the “MOU”) with a third party, according to which the third party shall transfer its rights in a protected housing operation in consideration of an allotment of 85% of the issued and paid up capital of InterCure. According to the MOU, the transaction shall close no later than September 30, 2014.

On August 19, 2014, the Company informed InterCure by letter of its intention not to approve the transaction as proposed and presented in the MOU.

On August 25, 2014, InterCure announced its intention to sign an agreement with the third party, based on the MOU, and bring said agreement to the approval of a general meeting of InterCure shareholders.

- b. In August 2014, 150,000 non-marketable stock options of the Company were exercised into 150,000 ordinary shares of the Company, for an aggregate exercise price of approximately \$13,000.
- c. On August 25, 2014, the Company agreed to extend the repayment term of the Loan until October 19, 2014, pending the signing of an amendment to the Loan agreement. InterCure’s Board of Directors approved the signing of the amendment and the extension of the Loan repayment term on August 31, 2014.
