IMPORTANT NOTE

This document is an unofficial translation of the Hebrew original, December 31, 2011 financial report of Can-Fite BioPharma Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on March 29, 2012.
The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version.
This translation is for the convenience of English readers only.

Chapter 1 in this English version (Company Business and Activity) was updated with additional information from the Company's prospectus filed on July 27, 2012.

("The Company")

Periodic Statement as of December 31, 2011

Index:

Chapter 1 – Company Business and Activity

1. Company Business

1.1 Company business and background

1.1.1 List of Abbreviations:

RA	Rheumatoid arthritis
Helsinki Committee	An ethical committee operating under the Public Health Regulations, 1980 (to approve human clinical studies)– for additional details see paragraph 2.10.1 below.
IRB	Institutional Review Board – the ethical committee in the USA analogous to the Helsinki Committee in Israel.
FDA	Food and Drug Administration – the US authority which is responsible for controlling and regulating drug development and registration in the US.
NIH	The US National Institute of Health
CF101	The company lead drug product, a small molecule agonist at the A3adenosine receptor. The drug is in an advance clinical development stage for the treatment of autoimmune and ophthalmic diseases – for additional details see paragraphs 2.2.1 and 2.2.1.1 below. CF101 is also known as IB-MECA.
CF102	The company second drug candidate, also an A3 adenosine receptor agonist, currently developed for liver diseases including liver cancer and Hepatitis C.
CF502	Additional A3 adenosine receptor agonist which was considered as a drug candidate and demonstrated anti-inflammatory activity in pre-clinical pharmacology studies.
CF602	The company third drug candidate, an allosteric modulator at the A3 adenosine receptor , with robust anti-inflammatory effect proven in pre-clinical pharmacology studies. Considered as the company next generation drug that utilizes the natural body adenosine to reinforce its activity as an anti-inflammatory agent without damaging the healthy body systems.

Receptor	A structure found on the surface of cells in the human body that is responsible for receiving external messages and transferring them to the cell. CF101, CF102, and CF602 bind to and activate this receptor in the cells, initiating downstream signaling pathways resulting in apoptosis of inflammatory and tumor cells.
MTX	Methotrexate – a generic drug commonly used for treating rheumatoid arthritis patients – for details see footnote 3 below.
Autoimmune disease	A disease where the immune system attacks self-antigen and generates autoantibodies.
Crohn's disease	An autoimmune disease that causes an acute inflammation of the intestine and other effects such as obstruction of intestine parts and blockage in various areas of the intestine.
Sjorgen's syndrome	A disease caused as a result of an autoimmune process where the patients suffer from mouth and eye dryness. The disease may often be accompanied with other autoimmune diseases, such as RA.
Keratoconjunctivitis Sicca (Dry Eye Syndrome)	– known also as dry eye syndrome is a chronic inflammatory disease that is caused due to a lack of tear fluid in the eye, resulting in an irritation. In rare cases it can also cause a continuous damage to the eye. This disease may be associated with RA and Sjorgen's syndrome.
Uveitis	Inflammation of the uvea – an inflammation of one or more parts of the uvea (inner eye): iris, ciliary body, or the choroid. All inflammation types can damage eye-sight, up to blindness.
Psoriasis	An autoimmune disease which appears on the skin. It affects 2%-3% of the world's population.
Osteoarthritis	A degenerative joint disease characterized by progressive loss of cartilage and generation of new bone tissue around the infected joint.
Hepatitis B and C	Infective liver inflammation caused by specific virus.
Hepatocellular Carcinome	A primary liver tumor.

Glaucoma	A disease associated with an increase in intraocular pressure as a result of damage to the optic nerve. .
DMARDs	Disease modifying anti-rheumatic drugs – drugs aimed at the treatment of disease pathogenesis of rheumatoid arthritis and other autoimmune diseases such as Crohn's disease.
ACR Endpoint	An endpoint defined by the American College of Rheumatology to determine disease severity and score. For additional details, see footnote 54 below.
Serious Adverse Event (SAE) or Serious Adverse Drug Reaction	Any disturbing event, at any dosage, which results in death, causes a life threatening, requires hospitalization / prolonging hospitalization, or results in permanent handicap or disability.
TNF-α	A cell cytokine involved with inflammatory conditions.
Adenosine	A small molecule produced by body cells which serves as a building block for ATP. It also controls homeostasis via binding to specific cell surface receptors initiating downstream signaling and affecting cell function.
Orphan drug	A special designation by the American Food and Drug Administration (FDA) for drug approval and marketing. The designation is granted to companies which develop a given drug for unique populations and for incurable and relatively rare diseases.
Ethical drug	A drug protected by a patent that can only be manufactured by its developer.
Agonist	A molecule that is capable of binding to cell surface receptor and initiate downstream molecular events

1.1.2 General

The company consolidated on September 11, 1994, as a private company in Israel according to the Companies Ordinance [new edition], 1983, under the name Can-Fite Technologies Ltd, with the purpose of engaging in any business, investment, or other transactions. On January 7, 2001 the company changed its name to the current name. On October 6, 2005 the company's shares were listed for trade on

the Tel Aviv Stock Exchange Ltd. as a result of the company prospectus published on September 22, 2005, and the company became public.
The company was founded based on the research of Pnina Fishman, Ph.D., a renowned scientist and the company co-founder, currently serving as a director and the company CEO.
In her study, Pnina Fishman, Ph.D. succeeded in finding one of the reasons as to why striated muscle tissue is resistant to tumor metastasis. It was found that muscle cells release small molecules which are agonists at the Gi protein associated A3 adenosine receptor (A3AR). It was further found that the A3AR is over-expressed in tumor and inflammatory cells whereas normal cells have low or no expression of this receptor. A3AR agonists bind with high affinity and selectivity to the A3AR initiating downstream signaling pathways resulting in apoptosis of tumor and inflammatory cells. Synthetic A3AR agonists has been licensed from the NIH, among them are CF101 and CF102, the company first 2 drug products under advanced clinical development stage. Later on the company has licensed additional drug candidate (CF602), an allosteric modulator at the A3AR, from Leiden University at the Netherland. All drug candidates are small molecule orally bioavailable drugs.
CF101 is currently developed for the treatment of autoimmune inflammatory diseases including Psoriasis and Rheumatoid Arthritis. CF101 is also developed for ophthalmic indications including Dry Eye Syndrome, Glaucoma and Uveitis.

CF102 is developed for the treatment of liver diseases including Hepatocellular Carcinoma and Hepatitis C. CF602 is in a pre-clinical pharmacology stage of development and is earmarked for the treatment of inflammatory diseases.
On November 22, 2011, the company spun off its activity in the ophthalmic field to OphthaliX Inc. (previously Denali Concrete Management Inc.), an American public company whose shares are quoted on OTCBB (Over the Counter Bulletin Board) in USA, ticker symbol (OTC BB: **OPLI) (hereafter: "**OphthaliX**")** in return to OphthaliX shares that granted Can-Fite control of OphthaliX.
According to the spinoff transaction, Can-Fite granted an exclusive license for the use of its CF101 drug in the ophthalmic field to a private Israeli company, Eye Fite, which is a Can Fite's subsidiary. The Eye Fite shares were then transferred to OphthaliX Inc. (**so that Eye Fite became a subsidiary under full ownership of** OphthaliX). In return, Can-Fite was allocated with OphthaliX shares, granting it a control of OphthaliX. Following the spinoff transaction, OphthaliX continues to develop the CF101 drug for ophthalmic indications. For a detailed description of the spinoff transaction , see paragraph 2.12.10 below.

1.1.3 The company drugs

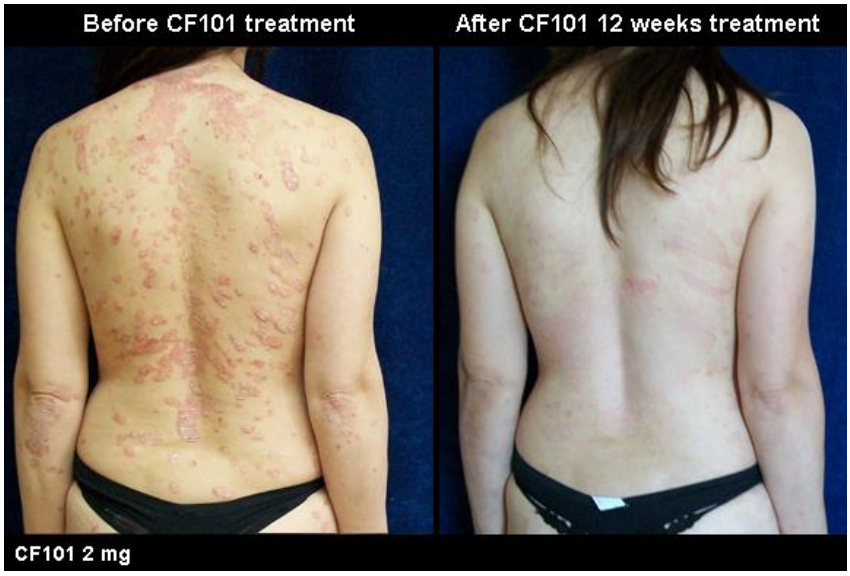
1) **CF101**
a) **CF101 for Psoriasis treatment**

The rationale to utilize CF101 for the treatment of psoriasis stems from pre-clinical pharmacology studies showing that CF101 acts as an anti-inflammatory agent via the inhibition of inflammatory cytokines including TNF-α. Furthermore, the A3 adenosine receptor is over-expressed in psoriasis patients. CF101 has been successfully tested in pre-clinical and Phase I studies showing excellent

pharmacology and safety profile. At this stage the company decided to initiate a Phase 2 exploratory study in psoriasis. On May 16, 2007, the company received an approval from the Ministry of Health (MOH) and the ethical committees at several Israeli Medical Centers to perform a Phase 2 clinical trial with CF101 in psoriasis patients.

The company conducted a Phase 2 trial in 10 European and Israeli Medical Centers in 76 patients. The study was a randomized, double-blind, placebo controlled and included 4 arms of 1, 2, and 4mg CF101 and placebo for a 12 week period. The study objectives were efficacy and safety. On September 7, 2009, the company announced that the study was successfully concluded. CF101 was safe and well tolerated. Analysis of mean change from baseline in PASI score at week 12 revealed a statistically significant difference between the 2 mg CF101- treated group and the placebo group ($P < 0.001$ vs. baseline and $P = 0.031$ vs. placebo). Analysis of PGA score revealed that 23.5% of the patients treated with the 2 mg CF101 dose achieved a score of 0 or 1, in comparison with 0% in the placebo group ($P < 0.05$). A linear improvement of the patients in both PASI and PGA has been shown along the study period.

The following picture depicts a patient prior and after CF101 treatment.



On September 29, 2009, the company announced that it began preparations for a Phase 2/3 clinical study which will examine the safety and efficacy of CF101 in patients with psoriasis. At that time the company planned to open an IND at the FDA Dermatology division and get an approval for the Phase 2/3 clinical study protocol[1]. On June 6, 2010, the company announced that it received an FDA approval for the conductance of a Phase 2/3 clinical trial in psoriasis patients with

[1]For additional details, see the company's immediate statement as of September 29, 2009 (reference: 2009-01-241674).

CF101. The trial will include over 300 patients and will be conducted in the US, Europe and Israel[2].

On December 8, 2010, the company announced the completion of the preparatory work for the psoriasis Phase 2/3 study and signed a contract with the CTG clinical CRO, having an extensive experience with the conductance of global clinical studies. The study will be a phase 2/3 randomized, double-blind, placebo-controlled, dose-finding study of the efficacy and safety of daily CF101 administered orally in patients with moderate-to-severe plaque psoriasis. It will include 300 patients that will be treated for a period of 6 months. An interim analysis will be prepared after end of treatment of the first 100 patients. The Primary endpoint of the study is the proportion of patients achieving Physician's Global Assessment (PGA) outcome of 0 or 1[3]. This endpoint was found statistically significant at the Phase 2 trial conducted by the company[4].

On August 1, 2011, the company announced the enrolment of the first patient for the Phase 2/3 study[4].

The current global market for psoriasis drugs is estimated around 3.5 billion dollars[5].

The above estimations regarding the potential of CF101 utilization for the treatment of psoriasis and the potential relevant market size, contain forward looking statements which are based on the following as of the prospectus date: company current knowledge related to psoriasis, regulatory requirements related to the clinical development of CF101 for the treatment of psoriasis and the market size based on published marketing researches. The actual results may differ significantly from the estimations since there is no certainty regarding Can-Fite's success in implementing its development plan.

b) **CF101 for RA Treatment**

The robust anti-inflammatory effect of CF101 mediated via the inhibition of TNF-α, chemokines and MMPs together with the anti-rheumatic effect seen in experimental animal models of collagen and adjuvant induced arthritis, prompted the company to believe that CF101 can act as a DMARD and be efficacious in patients with RA.

Marketing researches [6] show that there are about 300 million patients around the world with various autoimmune diseases (including indications that are not developed by the company), and the global market volume of drugs for

[2]For additional details, see the company's immediate statement as of June 6, 2010 (reference: 2010-01-510618).

[3]For additional details, see the company's immediate statement as of December 8, 2010 (reference: 2010-01-711312).

[4]For additional details, see the company's immediate statement as of August1, 2011 (reference: 2011-01-227232).

[5]NATURE REVIEWS, Drug Discovery VOLUME 8, May 2009;Nature Biotechnology, Psoriasis: from bed to bench and back, 2011.

[6]This estimation by the company is based, among other, on a research by JPMorgan as of March 17, 2004 purchased by the company and recent publications such as:
Markets and Markets, 2009),Autoimmune Treatment Market (2009 - 2014
Drugs and Treatments for Autoimmune Diseases: Global Markets, Bcc Research, 2011

autoimmune diseases is currently estimated at tens of billions of dollars and is expected to increase in the following years, mainly in indications of rheumatic arthritis and psoriasis. The RA market in the seven major markets has been estimated at about 12 billion dollars in 2010 and is expected to grow up to 18 billion dollars in 2020[7](for additional details regarding distribution of the autoimmune diseases' drug market, see paragraph 1.1.3 above). The biological drugs for autoimmune diseases include among others Enbrel (Amgen), Remicade (J&J), and Humira (Abbot).

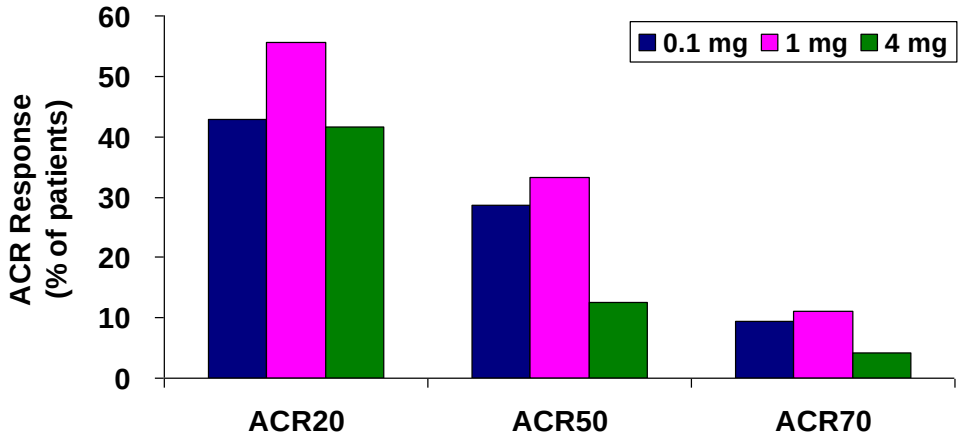
The abovementioned market size and its growth are a result of the fact that rheumatoid arthritis, as other inflammatory diseases, is a chronic disease with a longer life expectancy compared to cancerous diseases.

CF101 has been successfully tested in pre-clinical and Phase 1 studies showing excellent pharmacology and safety profile[8]. (for details of the required stages for drug development – see paragraph 1.1.4 below). .

The company initiated a multicenter phase 2a study, blinded to dose which was designed to assess the clinical activity and safety of CF101given as a standalone drug in active RA patients. 74 patients were randomized to receive 0.1, 1.0, or 4.0 mg CF101 twice daily for 12 weeks. The primary efficacy endpoint was ACR20 response at Week 12. A3AR expression levels were analyzed in peripheral blood mononuclear cells (PBMCs) from 18 patients out of the 74.

The study data [10] revealed maximal response at the 1.0 mg group, showing 55.6% ACR20, 33.3% ACR50 and 11.5% ACR70. CF101 was safe and well tolerated. Statistically significant correlation between A3AR over expression at baseline and ACR50 and ACR70 responses were observed., suggesting the utilization of A3AR as a biological predictive marker.

ACR response rate on week 12 is presented in the following graph:



[7]Rheumatoid Arthritis Market Forecast, DataMonitor, 2011

[8]It should be emphasized that although no severe side effects were found for the drug, a fact that encourages continuing development, it is not possible to negate such side effects at a later stage of the clinical development.

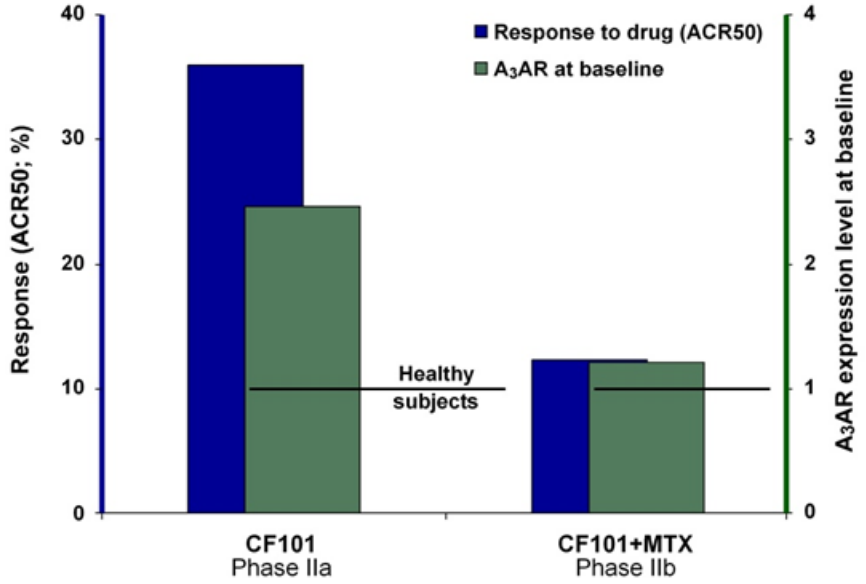
Subsequently, the company conducted two Phase 2b studies with CF101 in combination with methotrexate (MTX). The study protocols were Phase 2, multicenter, randomized, double-blind, placebo-controlled, parallel-group, dose-finding study of the safety and efficacy of daily CF101 administered orally, when added to weekly Methotrexate, in patients with active RA. The objectives of both studies were improvement in ACR20/50/70 and DAS28 (EULAR) as well as safety profile. The trials' primary end point was ACR20. The following chain of events took place upon conductance of the two Phase 2b RA clinical studies utilizing a combined treatment of CF101+MTX vs. MTX alone:

1. The first Phase 2b trial was initiated on July 2006, patient enrolment has been finalized on January 2007 and data has been released on July 2007. Results showed that the combined treatment had an excellent safety profile. No significant ACR20 response has been observed between the RA patient group treated with MTX+CF101 and MTX alone. Interestingly, ACR50 and ACR70 and the EULAR Good values in the combined treatment group were higher than those of the placebo group. The study data indicated that CF101 1mg was the favorable dose.
2. Following a decision of the company clinical advisory board headed by Dr. M. Weinblatt, on October, 2007, additional Phase IIb study was initiated. On April, 1, 2008, the company reported that it enrolled the first patient and on December 29, 2008, the company announced that it has finished recruiting patients for this study. The study was conducted in medical centers in Europe and Israel and included 230 patients which received the drug orally twice daily (0.1 and 1 .0 mg CF101 tablets[9] + MTX vs. placebo which was MTX) for 12 weeks. reaction. On April 30, 2009, the company published preliminary results of the Phase 2b study which showed that the study objectives were not achieved [10].

Both studies failed to reach the primary endpoint. Cross study analysis revealed that at baseline, A3AR was highly expressed in the PBMCs derived from the Phase 2a patient population whereas low receptor expression was found in the Phase 2b patient population. These data suggest a direct and statistically significant correlation between A3AR expression at baseline and the patients' response to CF101 as is presented in the following graph:

[9]Until September 2007 the company conducted trials while using the drug in a capsule form (which contains the solvent described in paragraph 1.1.3). In trials conducted as of September 2007 and on, the company is using the drug in a tablet form (which does not contain the solvent described in paragraph 1.1.3). The tablets were developed in collaboration with the Japanese company Seikagaku Corporation. For additional details see the company's immediate report as of February 24, 2008 (reference: 2008-01-051549).

[10]For additional details, see the company's reports as of January 14, 2007 (reference: 2007-01-010228), July 15, 2007 (reference: 2007-01-325930), October 23, 2007 (reference: 2007-01-422488), April 1, 2008 (reference: 2008-01-094593) and December 29, 2008 (reference: 2008-01-371616).



Based on these data the company decided to conduct additional Phase 2b clinical study with CF101 as a stanndalone. Patients will be enrolled to this study based on the analysis of the A3AR ,suggested earlier as a predictive biological marker. The company scientists developed a simple blood assay to test the expression level of this biomarker and applied for a patent which covers the IP related to this assay. Only patients with A3AR over-expression at baseline will be enrolled to this study. On June 27, 2010, the company announced that it received an approval from the Ministry of Health to conduct a Phase 2, multicenter, randomized, double-blind, placebo-controlled, parallel-group, of the safety and efficacy of daily CF101, administered orally as a standalone vs. placebo, in patients with active RA and elevated baseline expression levels of peripheral blood mononuclear cell A3 adenosine receptor. The trial will include 80 patients, 40 will be treated with CF101 1 mg as a standalone and 40 with a real placebo[11]. The primary objectives of this study are to determine the efficacy of oral CF101 when administered daily as a standalone for 12 weeks to patients with active RA and elevated baseline expression levels of PBMCs A3AR, in comparison to placebo treatment; and to assess the safety of daily oral CF101 under the circumstances of the trial. As of the prospectus date, patients are enrolled in Israel and Bulgaria.

The above estimations regarding the potential of CF101 utilization for the treatment of RA and the potential relevant market size, contain forward looking statements which are based on the following as of the prospectus date: company current knowledge related to RA, regulatory requirements related to the clinical development of CF101 for the treatment of RA and the market size based on published marketing researches. The actual results may

[11]For additional details, see the company's report as of June 27, 2010 (reference: 2010-01-532365).

differ significantly from the estimations since there is no certainty regarding Can-Fite's success in implementing its development plan.

c) **CF101 for the treatment of Keratoconjunctivitis Sicca (Dry Eye Syndrome or "DES") Currently developed by OphthaliX**

DES is a chronic inflammatory disease characterized by eye irritation symptoms, blurred and fluctuating vision, tear film instability, increased tear osmolarity and ocular surface epithelial disease. People with DES experience constant ocular discomfort and a decrease in visual function; in severe cases, DES may result in deterioration of vision. RA may often be associated with DES.

The rationale to develop CF101 for DES is based on serendipity findings from the Phase 2a clinical study in RA, demonstrating that some of the study patients which suffer from both RA and DES showed an improvement in the DES signs and symptoms. These data prompted the application of 2 patents to protect the use of CF101 for the treatment of DES and Sjögren's Syndrome.

On January 28, 2007, the company initiated a Phase 2, randomized, double-masked, placebo-controlled, parallel-group study of the safety and efficacy of daily CF101 (1 mg) administered orally to patients with DES[12] and on January 28, 2009, the company announced completion of the patients' enrolment for this study[13].The primary endpoints of this study were based on an improvement of more than 25% over baseline at week 12 in one of the following parameters: (1) tear break-up time, or BUT; (2) superficial punctate keratitis assessed by fluorescein staining results; and (3) Schirmer tear test 1 results. Clinical laboratory safety tests included ophthalmic examinations, intraocular pressure (IOP,) measurements, electrocardiographic evaluations, vital sign measurements and monitoring of adverse events. The trial was a multicenter, randomized, double-masked, placebo-controlled, parallel-group study. 76 patients completed the study. Patients were treated orally with either 1 mg CF101 pills or matching vehicle-filled placebo pills, given twice daily for 12 weeks, followed by a two-week post-treatment observation.

The study was conducted in several medical centers in Israel During the trial, about 30 patients were treated with CF101 in a capsule formulation and about 50 patients were treated with tablets. On May 17, 2009[14]., the company announced that the Phase 2 study met the primary endpoints, showing a significant increase in the proportion of patients who achieved more than 25% improvement in the corneal staining as well as the complete clearance of corneal staining. In addition, CF101 treatment resulted in a significant improvement in the mean change from baseline at week 12 of the corneal staining, BUT, and tear meniscus height.

CF101 was well tolerated and exhibited an excellent safety profile with no serious adverse events. Interestingly, a significant decrease from baseline in the IOP of

[12]Since the company conducted a Phase I clinical trial of CF101 on healthy volunteers that proved the drug's safety, the company could directly proceed to Phase 2 with other indications.

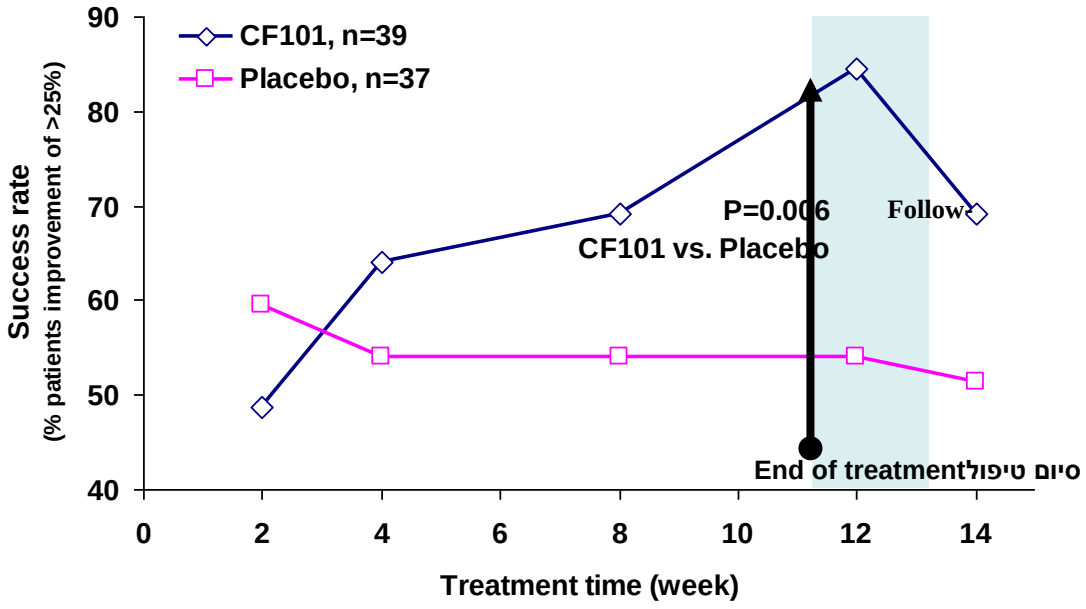
[13]For additional details, see the company's immediate report as of January 28, 2009 (reference: 2009-01-024426).

[14]For additional details, see the company's immediate report as of May 17, 2009 (reference: 2009-01-110832).

the CF101-treated group was found. This observation indicated that CF101 may also have potential as a treatment for glaucoma, another ophthalmic disease which is associated with increased pressure of fluid in the eye.

For more details related to a glaucoma phase 2 study initiated by the company, see paragraph 1.1.3 (1)(d) below.

The following graph depicts the % of patients who achieved more than 25% improvement in the corneal staining score:



To the company's best knowledge, there are currently about 49 million people suffering from DES in the seven major markets[15]. It is expected that the number of DES patients will increase as the population ages. In addition, environmental changes such as excessive use of air conditions, personal computers and contact lenses contribute to disease etiology. Restasis (Cyclosporine), by Allergan, is among the only FDA approved prescription therapy indicated to treat DES and, as such, it dominates the U.S. market with respect to the treatment of DES. Restasis is not registered in Europe. There are several artificial tear products available to treat DES and are commonly used for treating DES, however, capable of only relieving disease symptoms but do not treat the disease causes.

The company estimates that the DES market is about $2B[16] (based upon the global combined sales of Restasis and leading artificial tear products)and is expected to grow to about $2.8Bin 2017,. On September 5, 2010, the company announced that it received the FDA's approval for conducting a phase 3 clinical study of the safety and efficacy of CF101, daily administered orally, in patients with moderate-

[15]DataMonitor, Stakeholder Opinions: Ophthalmology, 2010
[16]DataMonitor, Stakeholder Opinions: Ophthalmology, 2010 ;GlobalData - Dry Eye Syndrome Therapeutics - Pipeline Assessment and Market Forecasts to 2017, 2011

to-severe Dry Eye Syndrome. This multi-center clinical trial is currently conducted in the United States, Europe and Israel. The randomized, double-masked clinical trial will include 231 patients who will be randomized to receive 2 doses of CF101 (0.1 and 1 mg) and placebo, for a period of 24 weeks. The primary efficacy endpoint will be complete clearing of corneal staining. To the company's best knowledge, drug registration will require two Phase 3 studies and a total of 500 patients. The company used the services of international leading experts in the DES field for protocol and registration plan development[17]. On December 8, 2010, the company announced the completion of the preparatory work for a Phase 3 study under an open IND which was approved by the FDA. Subject to the trial's approval by the ethical committees at the different medical centers participating in the study and the health authorities in the relevant countries, the company will begin recruiting patients for the trial[18].

On December 21, 2011, the company announced that its subsidiary OphthaliX initiated patients enrolment for the Phase 3 study[19].

As mentioned above, the ophthalmic indications, including DES, were licensed to OphthaliX. For a detailed description of the spinoff transaction for the ophthalmic field, see paragraph 2.12.10 below.

The above estimations regarding the potential of CF101 utilization for the treatment of DES and the potential relevant market size contain forward looking statements which are based on the company knowledge, as of the prospectus date:

It includes regulatory requirements related to the clinical development of CF101 for the treatment of DES and the market size based on published marketing researches. There is no certainty regarding Can-Fite's success in implementing its development plan.

d) **CF101 for the treatment of Glaucoma (currently developed by OphthaliX)**

Glaucoma is a disease in which the optic nerve is damaged, leading to progressive, irreversible loss of vision. Glaucoma is often associated with increased pressure of the fluid in the eye. Usually, the disease is diagnosed in advanced stages and is the second leading cause of blindness worldwide. The main goal in glaucoma treatment is to reduce the intraocular pressure (IOP) in [20]order to avoid damage to the optic nerve and to preserve visual field.

[17]For additional details, see the company's immediate report as of September 5, 2010 (reference: 2010-01-612120).

[18]For additional details, see the company's immediate report as of December 8, 2010 (reference: 2010-01-711312).

[19]For additional details, see the company's immediate report as of December 21, 2011 (reference: 2011-01-369030).

[20]Glaucoma research foundations

The market for glaucoma drugs is very significant and is estimated at 3 billion $. While several anti-glaucoma drugs exist, there is a huge potential in this therapeutic market for an effective and safe oral medication.[21]

The intriguing finding in the course of the recent Phase 2 dry eye syndrome trial that intraocular pressure was significantly reduced in the CF101-treated group, indicates that CF101 may also have potential as a glaucoma therapy. This serendipitous signal together with the neuro-protective and anti-inflammatory effects of CF101 warrant rapid progression into a Phase 2 trial in this indication. On December 13, 2009, the company announced that it began the regulatory process for conducting a Phase 2 study to prospectively evaluate the ocular hypotensive effects of CF101 in patients with glaucoma or related syndromes of ocular hypertension in Israel and Europe. The study will include overall 132 patients randomized into four arms namely, 3 dosages of CF101 (0.1, 1 and 2m mg) vs. placebo. The first study segment will include 44 patients that will be treated with CF101 1mg or placebo over a period of 4 months and an interim analysis will be conducted upon study conclusion. In case the data will be positive, the trial will be expanded to 2 additional dose groups[22]. Prof. Kaufman from the Wisconsin University , USA, advised the company with the study design[23]. On May 23, 2010, the company announced that the Israeli Ministry of Health approved the study protocol and that patient enrolment will be initiated.

As mentioned above, the ophthalmic indications, including Glaucoma, were licensed to OphthaliX. For a detailed description of the spin-off transaction see paragraph 2.12.10 below.

The above estimations regarding the potential of CF101 utilization for the treatment of glaucoma and the potential relevant market size contain forward looking statements which are based on the company knowledge, as of the prospectus date. It includes regulatory requirements related to the clinical development of CF101 for the treatment of glaucoma and the market size based on published marketing researches. There is no certainty regarding Can-Fite's success in implementing its development plan.

e) **Additional potential applications of CF101**

i) **CF101 for the treatment of Uveitis**

Uveitis is an inflammation of the middle layer of the eye caused by an immune reaction and is the third leading cause of blindness in developed countries. Uveitis is an inflammation (swelling and irritation) of the uvea, the layer of the eye between the sclera and the retina. This layer includes the iris, ciliary body, and the choroid. The uvea is very important because its many veins and arteries transport blood to the parts of the eye that are critical for vision. The disease can be associated with other auto-immune diseases such as rheumatoid arthritis and Behchet disease. The current treatments for uveitis include

[21]Glaucoma Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011

[22]For additional details, see the company's immediate report as of May 23, 2010 (reference: 2010-01-488055).

[23]For additional details, see the company's immediate report as of December 13, 2009 (reference: 2009-01-316122).

corticosteroids, anti-metabolites (methotrexate), T cell inhibitor (cyclosporine A), alkylating agents (cyclophosphamide) and biological drugs (interferon-α and the anti-TNF-α Infliximab). The serious adverse effects of these drugs combined with lack of efficacy, create a need for development of less toxic and more specific therapies for this condition. Marketing researches show that there about a million uveitis patients around the world. The global uveitis therapeutics market is expected to grow at 26.4% annually for the next seven years, from $0.32 billion in 2010 to reach $1.6 billion by 2017.[24]

Pre-clinical pharmacology studies were conducted by the Can-Fite scientists in collaboration with a US National Institute of Health (NIH[25]) at an NEI lab, a worldwide leading group in uveitis research. On January 2008, the company announced that CF101 is effective in inhibiting the development of posterior uveitis[26]. On January 2008, a customary M-CRADA collaboration agreement in the research and development field of uveitis was signed between the company and NIH.

On March 11, 2010, the company announced it applied, together with the NIH, for a patent for the use CF101 for the treatment of uveitis. [27]

On June 29, 2011, the company announced that it submitted a request to the FDA for an orphan drug designation for the treatment of uveitis with CF101.[28]

OphthaliX is currently conducting preparatory work needed for initiation of explanatory phase 2 study in uveitis.

As mentioned above, the ophthalmic indications, including uveitis, were licensed to OphthaliX. For a detailed description of the spin-off transaction, see paragraph 2.12.10 below.

ii) **CF101 for the treatment of Crohn's disease**

Crohn's disease is an inflammatory disease with an autoimmune nature, which manifests mainly in the small intestine. The disease is characterized with repeating inflammations, adhesion of intestine parts and creation of intestine obstruction. The disease appears first during puberty or in the early twenties and is considered chronic and incurable. The accepted treatment today includes steroids and biological drugs, such as Remicade (anti-TNF) that relieve disease symptoms, but cause undesirable side effects.

[24]Uveitis Therapeutics - Pipeline Assessment And Market Forecasts To 2017, GlobalData, 2011

[25]The company contacted the NIH in order to test the effect of CF101 on pre-clinical models of uveitis. Based on the trial results, an additional agreement (Material Cooperative Research and Development Agreement, M-**CRADA**) was signed between the company and NIH. For additional details, see the company's report as of December 10, 2006 (reference: 2006-01-157216). For additional details regarding the previous M-CRADA agreement with NIH, see paragraph 2.12.5 below.

[26]For additional details, see the company's immediate report as of January 16, 2008 (reference: 2008-01-017298).

[27]For additional details, see the company's immediate report as of March 21, 2010 (reference: 2010-01-421311).

[28]For additional details, see the company's immediate report as of June 5, 2011 (reference: 2011-01-196107).

Similar to biological drugs that were initially registered for rheumatoid arthritis treatment, and were lately proven effective for Crohn's disease, the CF101 that operates in a similar mechanism was found appropriate for Crohn's disease after a laboratory trial conducted by the company. Unlike the biological drugs that are administered by infusion or injection, the CF101 is administered orally in capsules and a maximal safety profile was found for the drug in previous trials.

The company estimates that the number of Crohn's disease patients in the leading world markets is about 3.5 billion dollars on 2010, and is expected to grow to about 4.5 billion dollars on 2020[29].

iii) **CF101 for the treatment of Osteoarthritis**

Osteoarthritis (OA) is the most common chronic joint disease. Articular cartilage is a major component of the joint, and its mechanical properties depend on the integrity of the extracellular matrix, which is composed mainly of proteoglycans and collagens. Degeneration of joint cartilage is the central feature in OA, but the disease is associated with concomitant changes in synovium and subchondral bone metabolism, causing inflammation of the synovial membrane in the involved joints. The cause of OA is multifactorial and includes both systemic and local biomechanical factors. Systemic factors that have been associated with OA include age, sex, race- and gene-based susceptibility, bone density, estrogen levels, and nutritional factors. OA results from the failure of chondrocytes that lie within the joint to synthesize a good-quality matrix and to maintain a balance between synthesis and degradation of the extracellular matrix. Synovial inflammation and local concentration of proinflammatory mediators seem to be directly involved in the generation of pain in OA joints. The medications most commonly used to treat OA are symptom-modifying drugs, such as nonsteroidal antiinflammatory drugs (NSAIDs) and cyclooxygenase 2 inhibitors. These treatments have been shown to be effective for improving levels of pain and disability, but they are not disease-modifying drugs.

The potential market of this disease is very large and currently there is a shortage in effective drugs for treating patients. CF101 has a robust anti-inflammatory effect in experimental animal models of osteoarthritis and Can-Fite owns a patent that protects the use of the company's drugs for this disease.

2) **CF102 for the treatment of liver diseases**

CF102 is Can-Fite's second drug is in development for the treatment of liver diseases including hepatocellular carcinoma (HCC) and Hepatitis C virus (HCV) infection. The drug was licensed from the NIH as detailed in paragraph 2.12.1. CF102 was found to be safe and well tolerated in a Phase 1 study in healthy subjects. Phase1/2 studies in patients with HCC and HCV, designed to explore the safety and efficacy of CF102, have been recently completed.

[29]Decision Resources, 2012 ;Crohn's Disease (CD) Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011

a) **Hepatitis C**

hepatitis type C is an infectious disease affecting primarily the liver, caused by the hepatitis C virus (HCV). The virus is transferred through primarily by blood-to-blood contact associated with intravenous drug use, poorly sterilized medical equipment ,transfusions. body fluids orandor less commonly through sexual intercourse. Currently there is no vaccine for the disease.

CF102 (known generically as Cl-IB-MECA) is a small orally bioavailable molecule, A3AR agonist with a human safety record and anti-cancer activity, anti-viral and liver protection. The anti-cancer effect of CF102 is mediated by de-regulation of the NF-κB and the Wnt signaling pathways, resulting in apoptosis of the tumor cells. On the contrary, in inflammatory conditions of the liver, such as acute liver inflammation, CF102 is able to protect from liver damage by preventing apoptosis.

The anti-viral effect CF102 was explored via a collaboration with Dr. Kamel Khalili from the University of Temple, Philadelphia and with Dr. Tur-Kaspa from Rabin Medical Center.[30]. It was demonstrated that CF102 inhibits HCV replication mediated by down-regulation of non-structural 5A protein (NS5A).

CF102 has been shown to act as a stimulator of liver regeneration after partial hepatectomy and the company applied for a patent related to this biological activity.

On June 25, 2006, the company announced the initiation of pre-clinical studies in the US and on August 19, 2007, the company announced that this trials were successfully completed and that CF102 was found to have a good safety profile.[31].

On February 11, 2008, the company initiated a phase 1, double-blind, randomized, placebo-controlled, ascending single dose trial to evaluate the safety, tolerability, and pharmacokinetics of orally administered CF102 in healthy male volunteers. The study was conducted in the USA under an IND. CF102 was orally administered to healthy subjects.

On May 4, 2008, the company announced the successful completion of the above trial, where CF102 was found to be safe and well tolerated.

On July 14th 2009, the company initiated a Phase 1/2, randomized, double-blind, placebo-controlled, dose-escalation study evaluating the safety, tolerability, biological activity, and pharmacokinetics of orally administered CF102 in subjects with chronic hepatitis C genotype 1[32] . Eligible subjects will be assigned in a 3:1 ratio (8 subjects in each cohort) to receive qd or bid treatment (1, 5 and 25 mg of

[30]For details, see the company's immediate report as of February 18, 2007 (reference: 2007-01312698) and the company's immediate report as of December 30, 2007 (reference: 2007-01-498952).

[31]For details, see the company's report as of June 25, 2006 (reference: 2006-01-042586) and as of August 19, 2007 (reference: 2007-01-361360).

[32]For details, see the company's immediate report as of December 2, 2007 (reference: 2007-01-463690), the company's immediate report as of January 7, 2008 (reference: 2008-01-006363) and the company's immediate report as of May 4, 2008 (reference: 2008-01-122955).

CF102) for 15 days with oral CF102 or with placebo. Dose escalation will occur in 4 sequential cohorts.

The study primary objectives were to determine the safety and tolerability of orally administered CF102 in patients with chronic hepatitis C genotype 1, to assess the effects on hepatitis C virus load during 15 days of treatment with CF102, and to assess the repeat-dose pharmacokinetic (PK) behavior of CF102 under the conditions of this trial. The secondary objective of this trial was to perform an exploratory evaluation of the relationship between A3AR in PBMCs at baseline and clinical effects of CF102 in the study patients.

On May 30, 2010, the company announced that during a Phase 1/2clinical trial in patients with primary liver cancer treated with CF102, a sustained decrease in the hepatitis C serum viral load has been observed in one patient for 5 months [33].

On July 25, 2010, the company announced that a sustained decrease in Hepatitis C viral load has been detected in additional 3 patients treated with CF102 for their primary liver cancer. Based on these encouraging data and the good safety profile of CF102, the company received an IRB approval to extend the treatment period of the Phase 1/2 in patients with Hepatitis C to 4 months with the 1 mg dose vs. placebo[34]. On March 21, 2011, the company announced the completion of patients' enrolment to this study. Overall, 32 patients were enrolled. On January 3, 2012, the company announced the study final results demonstrating safety and linear pharmacokinetic drug profile, however, no significant decrease in the viral load has been observed, including the 1 mg group of the patients that has been treated for 4 months. It should be noted that in the parallel Phase 1/2 trial with liver cancer patients, a decrease in the viral load was observed in 7 out of the 9 patients, all treated with higher CF102 dosages[35] [36].

b) **Liver cancer**

Primary liver cancer (hepatocellular carcinoma, HCC) is one of the 5 most common cancer types in the world and has a high incidence in Asia. This type of cancer attacks about 630,000 new patients a year around the world. Among the disease etiology causes are patients who are hepatitis B or C viral infected or alcohol consumers. This type of tumor is refractory to chemotherapy and to other anti-cancer agents. The only drug available on the market today is Nexavar. , prolonging the patients' survival time in few months. The market potential of the drug may reach billions of dollars and a recent research by GlobalData estimates that on 2017 the market size will be 1.2 billion dollars 2017[37]. According to a another research by Global Industry Analysts, the market size for liver cancer

[33]For additional details, see the company's immediate report as of May 30, 2010 (reference: 2010-01-499626).

[34]For additional details, see the company's immediate report as of July 25, 2010 (reference: 2010-01-563370).

[35]For additional details, see the company's immediate report as of January 3, 2012 (reference: 2012-01-003924).

[36]For additional details, see the company's immediate report as of March 21, 2011 (reference: 2011-01-085722).

[37]Liver Cancer Therapeutics - Pipeline Assessment and Market Forecasts to 2017, GlobalData, 2010

drugs is expected to grow to about $2 B in 2015[38]. The current market for Nexavar is $1B[39].

The rationale to use CF102 for the treatment of HCC came out of pre-clinical pharmacology studies showing that the A3AR id highly expressed in primary liver cancer cells and that CF102 inhibits the growth of HCC via the induction of apoptosis. Since on the first half of 2008, the company completed Phase I clinical trials for CF102 and the drug was found to be safe and well tolerated, it enabled the progress to a Phase 1/2 in order to look at the safety and efficacy of the drug in a patients with HCC.

On April 16, 2009, the company announced that after receiving an approval of the Israeli Ministry of Health and the Rabin Medical Center IRB, it will initiate a Phase 1/2, open-label, dose-escalation study evaluating the safety, tolerability, pharmacokinetics, and pharmacodynamics of orally administered CF102 in patients with advanced HCC. The study secondary objectives were to document evidence of clinical efficacy of CF102 and to look at the correlation between A3 adenosine receptor expression levels at baseline and patients' response to CF102. Subjects were enrolled in cohorts of three and treated with oral, BID doses of CF102 in consecutive 28-day cycles. The initial dose of CF102 was 1 mg BID, with planned dose escalations in subsequent cohorts to 5 and 25 mg BID. At the first stage nine patients were enrolled for the dose escalation phase and then additional nine were enrolled for the dose confirmation phase. Furthermore, nine patients have undergone intra-subject dose escalation per protocol. . On July 14, 2009, the company announced the initiation of patient enrolment for the HCC trial, on December 2009, the company announced the completion of the first study cohort and the safety committee recommended the continuation to the second cohort of the 5 mg dose which was completed successfully on March 31, 2010, enabling the company to advance to the 3rd cohort of the 25 mg dose[40].

On March 21, 2011, the company announced that it completed patient recruitment for this study and of On May 11, 2011 the company announced the Phase 1/2 interim analysis data[41] and on January 3, 2012 it announced the successful final results of the study. The study included 18 patients with HCC, most of whom had failed prior treatment with Sorafenib (Nexavar), the only approved drug for this indication.. The final data demonstrated that the study successfully achieved its objectives, showing a very favorable safety profile for CF102 in both Child-Pugh cirrhosis classes A and B. In addition, the median overall survival time was 7.8 months, which is very encouraging data given that most patients were treated in the second-line setting and some were Child-Pugh class B. In addition, 9 out of the participating patients were also carriers of the hepatitis C virus. For 7 of them

[38]PR WEB, Global Liver Cancer Drugs Market to Exceed $2 Billion by 2015, According to New Report by Global Industry Analysts, Inc.

[39]Form 8-K for ONYX PHARMACEUTICALS INC 24,4,2011

[40]For additional details, see the company's reports as of April 16, 2009 (reference: 2009-01-087558), July 14, 2009 (reference: 2009-01-169431) and March 31, 2010 (reference: 2010-01-436713).

[41]For additional details, see the company's reports as of March 21, 2011 (reference: 2011-01-085722) and May 11, 2011 (reference: 2011-01-144183).

which were treated with the higher CF102 dosages, a decrease of the viral load was observed, a fact that indicates an anti-viral activity of the drug[42].

On January 18, 2012, the company announced that an additional significant finding was observed during the study showing a direct relationship between the A3AR expression at baseline and patients response to the CF102 drug, suggesting A3AR as a predictive biological marker[43].

c) **Additional potential applications of CF102**

On April 27, 2011, the company announced that CF102 inhibited the reproduction of the JC virus, which belongs to the polyoma viruses family and is dormant in about 70%-90% of the world population. However, in patients treated with biological drugs such as anti-TNFs or anti-CD20, JC virus replication may occur, resulting in development of progressive multifocal leukoencephalopathy (PML), manifested by brain damage and death. Since CF102 is already in advanced development stage for other indications, its efficacy for this new application can be tested in human clinical trials[44].

3) **CF502**

The chemical structure of CF502 is different from the company's CF101 and CF102 drugs. It is not an adenosine derivative and it has a high affinity to A3AR. On June 13, 2007, the company announced a progress in the development of CF502 and the completion of development of the synthesis process of CF502. For additional details, see paragraph 2.11 below[45]. This drug is a result of a joint research and development agreement with NIH whose objective was to find A3AR agonists that may be effective in the treatment of autoimmune inflammatory diseases and cancer. For additional details regarding the agreement with the NIH, see paragraph 2.12.1 below. At a later stage the company decided to stop the development of this drug and to continue with CF602, an allosteric modulator considered as the company next generation drug.

CF602

CF602 has been licensed from Leiden University in Netherlands . This molecule has been jointly developed by Dr. Ijzerman and Dr. Jacobson, leading medicinal chemists from the NIH and the Leiden University, respectively. The Leiden University was the one to be responsible for commercialization on behalf of the 2 institutions. CF602 is an allosteric modulator at the A3 adenosine receptor, with a robust anti-inflammatory effect. The company considers CF602 as its next

[42]For additional details, see the company's immediate report as of January 3, 2012 (reference: 2012-01-003924).

[43]For additional details, see the company's immediate report as of January 18, 2012 (reference: 2012-01-018426).

[44]For additional details, see the company's immediate report as of April 27, 2011 (reference: 2011-01-129096).

[45]For additional details, see the company's immediate report as of June 13, 2007 (reference: 2007-01-426236).

generation drug, known to utilize the natural body adenosine as an anti-inflammatory agent, affecting specifically the pathological cells. The normal body systems are refractory to the effect of CF602.

The drug has shown proof of concept in in vitro and in vivo studies performed by the company

Subject to its financial resources, the company intends to conduct the required pre-clinical studies for this rug in order to prepare it for the initiation of a clinical studies.

The potential global market for the company drugs

The company management estimates based on the good safety profile and efficacy data of its pipeline drugs that the potential market size can reach tens of billions of dollars in the field of autoimmune-inflammatory, cancer and ophthalmic diseases .

According to the company estimations, and based on various researches, as of 2011, the above mentioned drug market is estimated (in US billions of dollars):

CF101		CF102	
Rheumatoid arthritis[46]	12.0	Liver cancer[47]	1
Psoriasis[48]	3.5	Hepatitis C[49]	6.0
Dry Eye Syndrome[50]	2.0		
Glaucoma[51]	3		
Crohn's disease[52]	3.5		
Uveitis	0.3		

The above estimations regarding the potential of the company's drugs and the potential relevant markets' size, contain forward looking statements which are based on the company knowledge, as of the prospectus date. It includes market size based on published marketing researches. There is no certainty regarding

[46] Estimation for 2010 -2011, Rheumatoid Arthritis Market Forecast, DataMonitor
[47] Form 8-K for ONYX PHARMACEUTICALS INC 24,4,2011
[48] NATURE REVIEWS, Drug Discovery VOLUME 8, May 2009; Nature Biotechnology, Psoriasis: from bed to bench and back, 2011.
[49] Renub Research,2012 ,Hepatitis C (HCV) Market Forecast & Drugs Pipeline Analysis to 2016
[50] Stakeholder Opinions: Ophthalmology, 2010 ;GlobalData - Dry Eye Syndrome Therapeutics - Pipeline Assessment and Market Forecasts to 2017, 2011
[51] Glaucoma Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011
[52] Decision Resources, 2012
Crohn's Disease (CD) Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011

Can-Fite's success in implementing its development plan and/or its ability to have an approved drug and/or enter this markets. .

Development status of company pipeline drugs

Drug	Indication	Development Stage
CF101	Rheumatoid Arthritis	Successfully completed a Phase 2a clinical study in RA patients utilizing CF101 as a standalone drug. Completed 2 Phase 2b clinical studies, utilizing CF101 in combination with Methotrexate. The studies haven't met the primary end point (April 2009). Currently the company has an ongoing Phase 2b study in Israel and Europe where RA patients are treated with CF101 as a standalone drug. The study will include 80 patients, 40 will be treated with CF101 a standalone and 40 will be treated with a real placebo.
	Dry Eye Syndrome (developed by OphthaliX)	Successfully completed a Phase 2 study in patients with dry eye syndrome (May 2009). Enrolment for a phase 3 study was initiated by OphthaliX on December 2011. The study will include The primary efficacy endpoint will be complete clearing of corneal staining. The trial is conducted in the US, Europe and Israel under an open IND,.
	Psoriasis	Successfully completed a Phase 2 clinical study

Drug	Indication	Development Stage
		with CF101 as a standalone therapy for the treatment of psoriasis (September 2009).After receiving On August 2011 the company initiated a Phase 2/3 clinical study under an opened IND, currently conducted in the US, Europe and Israel (August 2011). . The study will include 300 patients that will be treated for a period of 6 months. An interim analysis will be conducted after 100 patients will complete the treatment . The Primary endpoint of the study is the proportion of patients achieving Physician's Global Assessment (PGA).
	Glaucoma (developed by OphthaliX)	OphthaliX is currently enrolling patients for a Phase 2 clinical study that will be conducted at several leading medical centers in Israel and Europe. The study will include 132 patients that will be treated with placebo and 3 dosages of CF101. The first segment of the trial will include 44 patients that will be treated with CF101 (1 mg) and placebo over a period of 4 months.
	Uveitis (developed by OphthaliX)	As a result of a research and development agreement with the National Eye Institute (NEI) at the NIH, CF101 has been found to be efficacious in inhibiting the development of Uveitis in pre-clinical pharmacology studies. A patent to protect this indication has been applied in collaboration with the NIH and a request for an orphan drug status has been applied to the FDA.
	Crohn’s disease	Pre-clinical pharmacology studies conducted by the company demonstrated the efficacy of CF101 in this clinical indication.
CF102	Liver cancer	The company successfully completed a a Phase

Drug	Indication	Development Stage
		1/2 study in Primary Liver Cancer (January 2012) demonstrating safety and efficacy of the drug. Further data analysis revealed a direct correlation between A3AR expression levels at baseline and patients' response to CF102. The FDA granted CF102 an orphan drug designation for the treatment of primary liver cancer.
	Hepatitis C (a viral liver infection type Hepatitis C)	The company completed a Phase 1/2study that tested the safety and efficacy of the drug in patients infected with hepatitis C virus. The drug was found to be safe and well tolerated, but no significant decrease in viral load was observed. It should be noted that this group of patients were treated for 4 months with the 1 mg dose of CF102. In a parallel liver cancer trial, 9 patients were infected with hepatitis C virus. A decrease of the viral load was observed in 7 out of 9 who were treated with higher CF102 dosages of 5 and 25 mg, demonstrating that at a certain dose CF102 induces anti-viral effect.
CF602		The drug has shown proof of concept in pre-clinical pharmacology studies..

1.1.4 Drug development - general information

Drug development is a complex process that usually consists of the following main stages[53], where each should comply with the health authorities' regulations prior to advancing to the next one:

a) Pre-clinical stage: this includes pharmacology and toxicity studies in experimental animal models aimed at showing the drug efficacy and safety, respectively. Drug manufacturing in compliance with GMP standards (Good

[53]The stages are described in general, and may vary for different drugs. For example, in some cases, it is possible to combine Phase I and II, or Phase 2 and 3.

Manufacturing Practice - regulatory FDA requirements that the drug must comply with to allow administration to patients).

b) Phase 1: the first human clinical study conducted in healthy subjects or patients to evaluate the drug's safety and the maximal drug tolerated dose. This stage may also include additional tests such as the drug pharmacokinetic and whole body distribution. Couple of Phase 1 studies has been conducted with CF101, part in healthy subjects and part in patients.

c) Phase 2: this stage includes a preliminary test of the drug efficacy in patients. This stage also includes determination of the drug optimal treatment dose and safety. In many cases there are several Phase 2 trials, where the purpose of the first Phase 2 trial, is to serve as a proof of concept, while the second one (Phase 2b) includes a larger population and may be a global one.

d) Phase 3: this stage is aimed at looking at the safety and efficacy of mixed patient population and is thus conducted globally. Upon successful completion of this stage, it is possible to submit a request for the drug registration approval to the relevant health authorities.

It should be emphasized that conducting clinical trials during one of the phases (Phase 1, Phase 2, or Phase 3) requires the approval of the regulatory authorities of the countries where the trials are conducted. Only successful results in early stages will ensure proceeding from one step to the other.

After successfully passing all abovementioned stages (including completion of Phase 3), the company can submit a request for an approval of the drug's registration to the relevant regulatory authority, e.g. the US FDA.

The above development process lasts for several years and requires substantial funding , approval process, and extracting trial information and results, after which the company is allowed to submit a request for approval of the drug's registration by the FDA or a parallel regulatory authority in the relevant country. In many cases, clinical development, including clinical trials, is performed by expert subcontractors trusted to work by strict professional standards dictated by regulatory requirements.

1.1.5 Additional development

On September 24, 2007, the company announced of the development of a blood test to determine the A3AR expression level, suggested earlier as a biological marker to predict patient's response to the drugs under development. The company estimates that this blood test will increase the probability of success along the clinical development period. A patent application to protect this blood test has been applied. In addition, the company is considering granting a marketing license of the blood test, subject to successful trials of the company's drugs[54].

There is no confidence that the drugs developed by the company will successfully complete their current or next stages of development and there is

[54]For additional details, see the company's immediate report as of September 24, 2007 (reference: 2007-01-400831).

no certainty that the company's efforts will result in a drug that will be approved for registration.

1.2 Field of Activity

The company conducts research and development in the field of autoimmune-inflammatory, liver diseases including hepatitis C and hepatocellular carcinoma as well as ophthalmic diseases (via OphthaliX).

Pre-clinical pharmacology studies and human clinical trials to demonstrate the safety and efficacy of the company drugs, CF101 and CF102, have been conducted during the last couple of years resulting in a proof of concept for the drugs' safety and efficacy in the above mentioned fields. The company continues to conduct clinical studies in order to advance the drugs towards registration.

The company scientific and clinical advisory board

The company has two professional committees that consist of external consultants who are not employees of the company. The role of the committees is to assist the company through the drug development processes while providing consultation, scientific and clinical guiding (the committees are only consultants and they do not have the authority to make decisions in the company). The company calls for the committee meetings upon specific needs.

a) Scientific advisory board:

The scientific consulting committee which includes, among others, worldwide experts, including Dr. Nabil Hanna and Dr. Kamel Khalili.

b) Clinical Advisory Board:

The clinical consulting committee is headed by Prof. Michael Weinblatt. Its members are a group of rheumatologists from the US that are considered to be the leading global experts in the field of autoimmune inflammatory diseases in general and rheumatic arthritis in particular. The role of the committee is to consult regarding clinical drug development.

c) Committee members compensation:

The members of the scientific and clinical advisory board are from time to time and based on the company needs, entitled to a monthly or hourly payment. Some of the scientific and clinical advisory board members were also compensated by company options.

During 2010 and 2011, the company paid the members of the scientific advisory board the sum of 32,078 NIS and 23,393 NIS, respectively. During 2010 and 2011, the company paid the members of the clinical advisory board

the sum of 75,965 NIS and 3,673 NIS, respectively.

As of the date of financial statements, the total balance of share options held by the scientific and clinical advisory board committees' members is 951,273 warrants[55].

1.3 Investments and significant changes in the company's capital and company shares transaction during the two years prior to the prospectus

1.3.1 821,815 warrants (series 4) were exercised to 821,815 ordinary company shares on January 29, 2010. The remainder of 11,678,185 warrants (series 4) that was not exercised expired on December 31, 2010.

1.3.2 9,220,880 warrants (series 3) and 3,579,200 options (unlisted) that were not exercised expired on March 31, 2010.

1.3.3 On May 27, 2010, the company's board of directors approved private issue to an external consultant of the company in form of 145,464 unlisted options that can be exercised to 145,464 ordinary company shares at nominal value of 0.01 NIS each. The exercise price of each warrant is 0.512 NIS. The options would be vested monthly in equal portions over a period of 12 months after the allocation date. The options will be expired 4 years after the grant date. According to the binomial model, the financial fair value of the options issued to the consultant as of date of the board of director's decision is 0.33 NIS per each warrant. On July 12, 2010 the Stock Exchange approved listing for trade the shares that will be derived from the exercising these options.

1.3.4 On October 21, 2010, the company contacted Mr. Alex Rabinovitch by an investment agreement according to which Mr. Rabinovitch provided the company with a call warrant for a period of 18 months after date of agreement in return for his obligation to invest a sum of 3,610,000 NIS in the company in exchange for issue company shares at a price of 0.585 NIS each. At the same time, the company granted Mr. Rabinovitch an warrant note for purchasing company shares which constitute about 5% of the company's share capital in full dilution, at an exercise price of 0.6 NIS, for a period of 42 months after date of agreement. The agreement stated that Mr. Rabinovitch will assist the company with its activities in the capital markets which include: creating a long term strategic financial plan for the company and recruiting capital for the company. In addition, the agreement stated that in case Mr. Rabinovitch will invest money while recruiting capital for the company, the amount of the sale warrant will be reduced. The agreement will be valid from date of signing until completion of the abovementioned activities, when each of the parties is entitled to discontinue the agreement by 30 days advance written notice. In this case,

[55] Actualization of the above mentioned options by any of the committee members holding them does not turn any of them to interested parties.

the sale option granted to the company and the options granted to the investor will remain valid at the aforementioned amount. On the same date, the board of directors of the company approved a significant private offering to Mr. Rabinovitch which consisted of 12,550,644 unlisted options that can be exercise to 12,550,644 ordinary company shares at a price of 0.01 NIS each. The exercise price of each warrant is 0.60 NIS. The options can be exercise over a period of 42 months following the issue date. On January 25, 2011, the Stock Exchange approved listing for trade the shares that will be derived from warrant exercise, and the company issue the options to Mr. Rabinovitch. On October 28, 2010, during company share issuing based on a shelf offering report, Mr. Rabinovitch invested a sum of about 4 million NIS at an issuing price of 0.61 NIS. On January 25, 2011, after receiving an approval from the Stock Exchange to list for trade the shares that will be derived from exercise of the abovementioned options, the company allocated 12,550,644 unlisted options to Mr. Rabinovitch.

1.3.5 On October 28, 2010 the company offered securities to the public based on a shelf offering report published according to a shelf prospectus published by the company on May 27, 2010. The securities were offered to the public in a form of 1,800 units by bid on unit price, when the minimal price is 6,000 NIS per unit. Each unit consists of 10,000 ordinary company shares at nominal value of 0.01 NIS each. 2,873 units were ordered during issuing. Total net issuing return was about 10,980 thousand NIS (gross). Issuing return was received on November 1, 2010. Until use, issuing return funds will be held in the company accounts and will be invested by the company according to its investment policy. The shares were approved to be listed for trade on November 1, 2010.

1.3.6 On November 10, 2010 a former employee exercised 70,000 options (unlisted) to 70,000 company shares in return for 48,510 NIS.

1.3.7 185,556 company options (unlisted) expired without exercise on December 19, 2010.

1.3.8 After approval by the company's board of directors on December 7, 2010 and an approval by the control committee on November 23, 2010, on January 13, 2011 the general shareholders meeting approved issue of 2,680,000 unlisted options for purchasing regular company shares at nominal value of 0.01 NIS each to the company's CEO, director and shareholder (hereafter: "**offered party**") without return. The exercise price of the options is 0.644 NIS per warrant, a price that reflects the share's average price during the 60 days prior to the board of directors' decision. The offered party is entitled to receive the options and to exercise them over a maximal period of 120 months after the granting date, as following: (1) 1,240,000 warrant can be exercised immediately after granting. (2) 1,440,000 could be exercised in 24 equal portions, i.e. 60,000 options each month. The options were granted on January 25, 2011, after receiving an approval by the Stock Exchange to list for trade the shares that will be derived from exercising the aforesaid options.

1.3.9 On February 24, 2011, a consultant of the company exercise 450,000 unlisted options to 450,000 company shares in return for a total of 224,550 NIS.

1.3.10 On February 23, 2011, the company's board of directors approved private issue of 230,000 unlisted options that can be exercised to 230,000 ordinary company shares at nominal value of 0.01 NIS each to an officer of the company. The exercise price of each warrant is 0.754 NIS. The options can be exercised in equal portions quarterly over a period of 48 months after granting date. The options will be expired warrant 10 years after the grant date. According to the binomial model, the financial value of the options granted to the consultant as of date of the board of director's decision is 0.535 NIS per each warrant. On March 20, 2011, after an approval by the Stock Exchange to list for trade the shares that will be derived from the exercise of the options, the company issued the shares.

1.3.11 203,000 options (unlisted) were exercised to 203,000 ordinary shares at nominal value of 0.01 NIS each on August 29, 2011, in return for a sum of 71,000 NIS. On the same date, 65,000 (unlisted) options that were issued by the company and not actualized have expired.

1.3.12 On November 16, 2011 the company issued securities to the public based on a shelf offering report (reference: 2011-01-328635) published according to a shelf prospectus published by the company on May 27, 2010. The securities were offered to the public in form of 3,920 units (hereafter: "**units**") by bid on unit price, when the minimal price is 1.25 thousand NIS per unit. Each unit consists of 2,500 ordinary company shares at a price of 0.5 NIS each, 1,250 warrants warrant(series 6), and 2,500 warrants (series 7), both warrant series without return. All units were ordered during issuing. Total net issuing return is about 5,976 thousand NIS (after deduction of issuing costs at a sum of about 406 thousand NIS). Issuing return was received on November 22, 2011. Until use, issuing return funds will be held in the company accounts and will be invested by the company according to its investment policy from time to time, as long as it is invested in conservative channels, inclusive of and without detracting from the generality of the aforesaid, an interest bearing deposit in NIS or foreign currency.

1.3.13 On November 21, 2011 the company issued 17,873,054 company shares to OphthaliX as part of the spin-off transaction, as detailed in paragraph 2.12.10 below.

1.3.14 After the balance sheet date, an employee of the company exercised 130,812 unlisted options to 130,812 company shares in return for a sum of 40,000 NIS.

1.3.15 After the balance sheet date, an employee of the company exercised 32,701 unlisted options to 32,701 company shares for an unsubstantial return.

1.3.16 After balance sheet date, 23,333 warrants (series 5) were exercised to 23,333 ordinary company shares in return for a sum of about 75,000 thousand NIS.

1.3.17 **Private issuance of the company's shares (2 years prior to the this prospectus):**

Offeree	Issue date	No of oferees	Consideration	
			Cash	Other
Employees	January 2011	1		Issuance of 2,680,000 options
	March 2011	1		Issuance of 230,000 options
Consultants	May 2010	1		Issuance of 145,464 options
Investors	October 2010	1		Warrant purchasing ordinary shares of the company, representing 5% of the issued and outstanding share capital of the company on a fully diluted basis
	January 2011	1		Issuance of 12,550,644 options
OphthaliX	November 2011	1	NIS 0.501 for each share	

1.4 Dividend distribution

The company did not declare or distribute dividends after date of its consolidation. The company does not have a dividend distribution policy. As of prospectus date, the company does not hold profits that can be distributed.

1.5 Information regarding the company's field of activity

Following are financial information and data of the company for 2010 and 2011 (in thousands of NIS):

	2009	2010	2011	31/03/2011	31/3/2012
Revenue	3,299	2,644	1,785	446	-

R&D Expenses	13,841	9,993	12,969	4,104	4,015
Management & General Expenses	5,994	6,005	7,081	1,631	1,850
Total Loss per Period	15,988	13,048	28,335	4,996	5,695
Ongoing Liabilities	4,719	3,943	5,150	5,631	5,526
Total Assets	20,101	18,546	18,660	14,184	13,774

The annual losses are mainly due to the company's activity in the field of research and development that so far produced small revenue to the company. The company's losses over the years are mainly due to funding of clinical and pre-clinical studies, including drug manufacturing, conducting long term toxicity trials, payments to sub-contractors and to medical centers where the clinical trials were conducted. Loss increase during 2011 compared to 2010 is mainly due to an increase in research and development expenses and other expenses, net (offering expenses).

Since the company is engaged in research and development, it relies greatly on liquidity and funding due to the fact that so far no satisfying revenues were credited on its behalf and no revenues are expected in the near future, excluding revenues according to the licensing agreement with the Japanese company, as detailed in paragraph 2.12.4 of this prospectus , and revenues according to the licensing agreement with KDP as detailed in paragraph 2.12.6 of this prospectus . Any delay in capital recruitment or lack of liquidity will delay with the continence development of the company's drugs.

1.6 General environment and influences of external factors on the company's activity

The company drugs under development target huge market with an increasing need for new products. Despite the impressive medical developments in the past decades, there are still many diseases for which the available drugs are not satisfactory, whether due to limited activity, unsatisfactory efficacy, or poor safety profile. The aging population around the world contributes as well to the growing need for new drug products.

Each of the markets that are targeted by the company drugs are is substantial (for additional details, see paragraphs 2.2 and 2.6 below). The ability of any drug to penetrate a segment of this market depends on the drug's efficacy and its safety profile and is relative to other competing drugs.

CF101 can be well positioned in the current market due to its unique profile and low cost of good. CF101 is a small molecule orally bioavailable drug having an excellent safety profile and having proof of concept in Phase 2 clinical trials (RA, Psoriasis, DES). The company management assume that if these characteristics will continue to be demonstrated in advanced clinical trials, the drug will be able to penetrate to a significant market segment in the field of autoimmune inflammatory diseases. In addition, the company management predicts an additional potential market segment of combining its product with existing drugs on the market. If the company predictions are correct, the predicted market for the drug is estimated at billions of dollars per year.

Nevertheless, it should be emphasized that there are many uncertainty elements in medical research and development and there is a possibility that the company will not succeed to demonstrate the safety and efficacy of its drugs, or that the drugs will be found to be less effective than expected or toxic. In addition, there is a possibility of competitors developing other drugs that will compete with the company drugs and acquire substantial market segment.

The above company estimations regarding the potential of the company drugs and their ability to penetrate a large market segment, as mentioned above contain forward looking statements. This information is not certain and is based on the existing information in the company as of the prospectus date. The actual results may differ significantly from the estimations since there is no certainty regarding Can-Fite's success in implementing its development plan.

2. Company business and field of activity

2.1 Introduction

The scientific foundation of the company is based on the research[56] of Pnina Fishman, Ph.D, a renowned scientist and the company co-founder, currently serving as a director and the company CEO Pnina Fishman Ph.D. investigated a clinical observation raised by Prof. Meir Djaldetti, a clinician with many years of experience in treating patients, pointing towards the rarity of tumor metastasis in striated muscle tissue. Tumor metastases can be found in most body tissues however very rarely found in the muscles which constitute about 60% of human body weight[57].

In her study, she succeeded in finding one of the reasons as to why striated muscle tissue is resistant to metastasis. It was found that muscle cells release small molecules which are agonists at the Gi protein associated A3 adenosine receptor (A3AR). It was further found that the A3AR is over-expressed in tumor and inflammatory cells whereas normal cells have low or no expression of this receptor. A3AR agonists bind with high affinity and selectivity to the A3AR, initiating downstream signaling pathways resulting in apoptosis of tumor and inflammatory cells. Synthetic A3AR agonists were licensed from the NIH, among them are CF101 and CF102, the company first 2 drug products under advanced clinical development stage (for details regarding the licensing agreement with NIH, see paragraph 2.12.1 below). Later on the company has licensed additional drug candidate (CF602), an allosteric modulator at the A3AR, from Leiden University at the Netherland. All drug candidates are small molecule orally bioavailable drugs.

[56] Parts of which were published in leading scientific journals, for example, refer to a report in: Fishman et al., Cancer Research 1998 ,Fishman et al., Oncogene 2002 ,Fishman et al., Eur. J. Cancer, 2000 , Fishman et al. Anti-cancer Drugs, 2002.

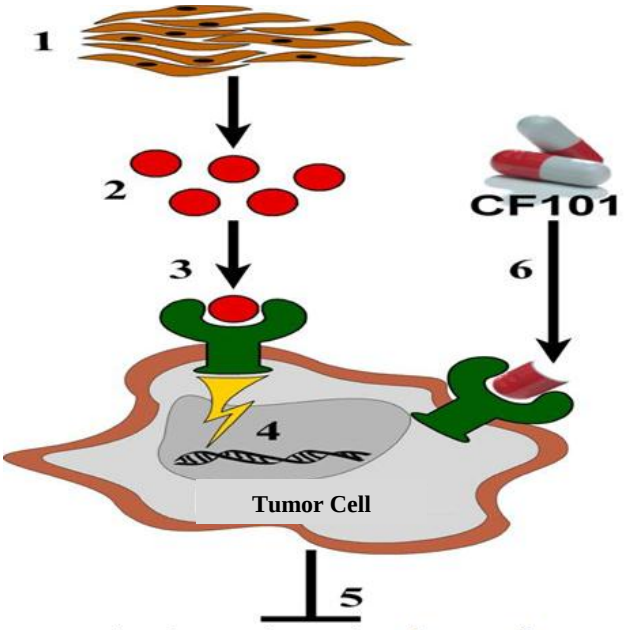
[57] There are only numeral documented cases in such metastasis in medical literature: see Djaldetti, M., Sredni, B, Zigelman, R., Verber, M., Fishman, P. Muscle cells produce a low molecular weight factor with anti-cancer activity. Clin Exp Metastasis 14:189-196, 1996.

Additional important finding of the company was that the over-expression of A3AR in the inflammatory and cancerous cells[58] is reflected in the patients' peripheral blood mononuclear cells (PBMCs). It was further found that A3AR expression prior to treatment with the company drug CF101, was directly correlated to patients' response to the drug. These data set the stage to develop A3AR as a biological predictive marker.

CF101 robust anti-inflammatory mechanism has been extensively studied and was found to be mediated via the inhibition of inflammatory cytokine production such as TNF-α, MMPs, IL-1, and IL-6. CF102 mechanism of action is mediated via de-regulation of the NF-κB and the Wnt signal transduction pathways, resulting in apoptosis of tumor cells.

The company's research further suggests that A3AR mediates a differential effect on pathological and normal cells. While specific A3AR agonists, such as CF101, or CF102, induce apoptosis of inflammatory and cancer cells, normal cells are refractory to the effects of the drug. This differential effect attributes to the safety profile of the A3AR agonists.

The following scheme depicts the scientific rationale:



As depicted in the above scheme, muscle cells (1) release small molecules (2) that bind specifically to theA3 adenosine receptor (A3AR) (3) on the tumor cell (4). it initiate downstream molecular events resulting in tumor growth inhibition (5). as the muscle released small molecules are synthetically manufactured and are currently the company pipeline drugs (6).

[58]Company findings that were validated by scientific work of a research group that is not related to Dr. Fishman or the company (e.g.: Gessi at al).

It was subsequently found that the company drugs possess anti-inflammatory effect and at this stage it was decided to earmark CF101 for the treatment of inflammatory diseases and CF102 for the treatment of cancerous diseases.

It should be noted that in distinction from the biological drugs, currently used for the treatment of autoimmune inflammatory and some cancer diseases and are all injectable, Can Fite drugs are orally bioavailable.

2.2 Field of activity and product description

2.2.1 CF101 for the treatment of Inflammatory and ophthalmic diseases

Autoimmune inflammatory diseases, which are found in about 2% of adult global population over the age of 30. In many cases these are chronic diseases that last for many years and accompany patients throughout their lives. The global market for autoimmune inflammatory diseases is estimated at tens of billions of US dollars per year. The rheumatoid arthritis market alone is estimated at more than 12 billion US dollars.

The anti-inflammatory effect of CF101 has been tested in pre-clinical pharmacology studies and entailed couple of experimental animal models of osteoarthritis, Crohn's disease (see paragraph 2.2.1.5), multiple sclerosis, uveitis (see paragraph 2.2.1.6) and rheumatoid arthritis. In the latter, CF101 was also efficacious in inhibiting osteoporosis. CF101 The company conducted a phase 2a and two Phase 2b clinical trials in patients with rheumatoid arthritis (see paragraph 1.1.3 (1)(a) above).. A phase 2 study in dry eye syndrome and in psoriasis were successfully concluded , as detailed in paragraph 1.1.3 (1)(b) above andin paragraph 1.1.3 (1)(b) above, respectively.

2.2.1.1 Rheumatoid Arthritis (RA) is a severe disease that attacks over 1% of the western population, mainly woman and particularly postmenopausal women. RA is a chronic autoimmune disease[59] that causes severe joint pain, and in acute cases even handicap. There are many drugs used for the treatment of this disease, including disease modifying anti-rheumatic drugs (DMARDs). Among those are methotrexate, plaquenil, sulfasalazine and leflunomide, all are small molecule drug with mild effect on disease clinical signs and symptoms. The second class of DMARDS include the biological drugs such as Enbrel, Remicade, Humira and more having robust anti-inflammatory effect and may exert some severe adverse events. . Steroidal drugs used mainly to reduce the general activity of the immune system and pain relief are also in use. The RA market size is estimated around 12 billion dollars a year[60].

Pre-clinical pharmacology studies in different experimental animal models of arthritis revealed that CF101 acts as a DMARD. MTX is the most common DMARD drug given to patients with RA . This drug is actually a chemotherapeutic agent, administered orally[61]. The drug has mild efficacy,

[59] As mentioned above, an autoimmune disease is a disease where the immune system attacks the body. In case of rheumatoid arthritis, the immune system attacks and causes damage to joints.

[60] Rheumatoid Arthritis Market Forecast, DataMonitor, 2011

[61] In the past it was assumed that rheumatic arthritis is a carcinogenic disease due to inflammation symptoms that are similar to cancer such as uncontrolled inflammation cell reproduction. The inability of these cells to die and their migration through the body into the inflamed joint is a

although it has many side effects, some of which are severe, due to its relatively toxic nature. MTX is a generic drug that is marketed by several manufacturers.

Additional drugs that were added to the DMARDs category in the last years are the biological drugs[62] that include Enbrel by Amgen Inc. (that contains the active substance Etanercept), Remicade by Centocor division of Johnson & Johnson (that contains the active substance Infliximab) and Humira by Abbott Laboratories (that contains the active substance Adalimumab)[63]. These drugs are usually administered in combination with MTX. The drugs are considered efficacious but are characterized by severe adverse effects, including lymphoma and which may evolve in 2% of the treated patients. The disadvantage of the biological drugs are the route of administration (injectables, a fact that causes great inconvenience to patients), the high cost of good and the safety profile. CF101acts as a DMARD and at the same time is given orally, has an excellent safety profile and low cost of goods[64].

The RA market is one of the largest therapeutic markets and couple of companies are currently developing small molecule drugs. For additional details see paragraph 2.6 below. For additional details regarding CF101 research and development by the company for rheumatoid arthritis, see paragraph 1.1.3 (1)(a) above.

2.2.1.2 Psoriasis: The rationale to utilize CF101 for the treatment of psoriasis stems from pre-clinical pharmacology studies showing that CF101 acts as an anti-inflammatory agent via the inhibition of inflammatory cytokines including TNF-α, playing a major role in the pathogenesis of psoriasis. In addition, it was found that the A3 adenosine receptor is over-expressed in tissue and PBMCs of patients with psoriasis. Psoriasis is an autoimmune hereditary skin disease that attacks 2%-3% of the population. There are about 125 million psoriasis patients around the world and the current market for psoriasis treatments is estimated at about 3.5 billion dollars a year[65]. For additional details regarding CF101 research and development by the company for psoriasis, see paragraph 1.1.3 (1)(c) above.

2.2.1.3 Crohn's disease: pre-clinical studies conducted by the company demonstrated that CF101 has a potential to be utilized as treatment for Crohn's disease, an autoimmune inflammatory disease characterized by recurrent inflammation, intestinal adhesion and bowel obstruction. The disease appears first during adolescence or in the early twenties and is considered chronic and incurable. The common treatment today includes steroids and biological drugs such as Remicade (anti-TNF) that relieves disease symptoms, but cause

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process that is similar to the process of carcinogenic metastasis creation. Therefore, doctors decided to borrow a drug from cancer field to the field of inflammatory diseases.

[62] Referred by the general term: BRM (biological response modifiers).

[63] These active substances bind toTNF-α in blood and sore joints. TNF-α is one of the disease causes that has a decisive influence on the patient's condition and pain.

[64] The company's management estimates that since the production cost of CF101 is expected to be several tens of US cents for each drug portion, then the actual cost for the patient will not be high, compared with a much higher cost of existing biological drugs – estimated at 10,000-15,000 US dollars per year for each patient. This is based on the fact that the cost of synthetic drugs on the market is substantially lower than the cost of biological drugs.

[65] Biotechnology, Psoriasis: from bed to bench and back, 2011.NATURE REVIEWS, Drug Discovery VOLUME 8,May 2009

undesirable side effects. The company estimates that the number of patients in the global leading markets is 3.5 billion dollars, which is expected to grow to about 4.5 billion dollars in 2018[66]. For additional details regarding CF101 research and development by the company for Crohn's disease, see paragraph 1.1.3 (1)(e) (ii) above.

2.2.1.4 Dry eye syndrome (DES): developed by OphthaliX. DES is a chronic inflammatory disease characterized by eye irritation symptoms, blurred and fluctuating vision, tear film instability, increased tear osmolarity and ocular surface epithelial disease. People with DES experience constant ocular discomfort and a decrease in visual function; in severe cases, DES may result in deterioration of vision. To the company's best knowledge, there are currently about 49 million people suffering from DES in the seven major markets. It affects, among others, contact lens users and postmenopausal women, as an accompanying symptom of rheumatoid arthritis, and in a disease called Sjorgen syndrome. It is expected that the number of DES patients will increase as the population ages. In addition, environmental changes such as excessive use of air conditions, personal computers and contact lenses contribute to disease etiology. According to available data, the current market for DES treatment is about 2 billion dollars[67], comprised mainly by over the counter artificial tear products which are the current standard of care for the treatment of DES These artificial tear products are administered many times a day and do not cure the cause or alter the course of the disease, but are only used for lubrication and alleviation of symptoms. Restasis (Cyclosporine), by Allergan, is among the only FDA approved prescription therapy indicated to treat DES and, as such, it dominates the U.S. market with respect to the treatment of DES. Restasis is not registered in Europe.
. For additional details regarding CF101 research and development by the company for dry eye syndrome, see paragraph 1.1.3 (1)(a) above.

2.2.1.5 Glaucoma developed by OphthaliX. Glaucoma is a disease in which the optic nerve is damaged, leading to progressive, irreversible loss of vision. Glaucoma is often associated with increased pressure of the fluid in the eye. Usually, the disease is diagnosed in advanced stages and is the second leading cause of blindness worldwide. The main goal in glaucoma treatment is to reduce the intraocular pressure (IOP) in order to avoid damage to the optic nerve and to preserve visual field.

The market for glaucoma drugs is estimated at $3 billion following a significant decrease in sales due to the end of the patent period of several leading drugs[68]. While several anti-glaucoma drugs exist, there is a huge potential in this therapeutic market for an effective and safe oral medication .. The serendipity finding in the course of the recent Phase 2 dry eye syndrome trial that intraocular pressure was significantly reduced in the CF101-treated group, indicates that CF101 may also have potential as a glaucoma therapy. This serendipitous signal

[66]Decision Resources, 2012. Crohn's Disease (CD) Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011

[67]Stakeholder Opinions: Ophthalmology, 2010;GlobalData - Dry eye syndrome Therapeutics - Pipeline Assessment and Market Forecasts to 2017, 2011

[68]Glaucoma Therapeutics - Pipeline Assessment and Market Forecasts to 2018, GlobalData 2011

together with the neuro-protective and anti-inflammatory effects of CF101 warrant rapid progression into a Phase 2 trial in this indication. For details see paragraph 1.1.3 (1)(d) above. Market volume is about 3 billion dollars;

2.2.1.6 Uveitis: developed by OphthaliX. Uveitis is an inflammation of the middle layer of the eye caused by an immune reaction and is the third leading cause of blindness in developed countries. Uveitis is an inflammation (swelling and irritation) of the uvea, the layer of the eye between the sclera and the retina. This layer includes the iris, ciliary body, and the choroid. The uvea is very important because its many veins and arteries transport blood to the parts of the eye that are critical for vision. The disease can be associated with other auto-immune diseases such as rheumatoid arthritis and Behcet disease. The current treatments for uveitis include corticosteroids, anti-metabolites (methotrexate), T cell inhibitor (cyclosporine A), alkylating agents (cyclophosphamide) and biological drugs (interferon-α and the anti-TNF-α Infliximab). The serious adverse effects of these drugs combined with lack of efficacy, create a need for development of less toxic and more specific therapies for this condition.

On April 2005 the FDA approved a treatment that contains steroids that is implanted in the eye socket and releases the drug in a controlled manner. This treatment even received a status of an '**Orphan drug**'. Marketing researches show that there about a million uveitis patients around the world.. The uveitis market on 2010 was estimated at about 0.32 billion dollars and is expected to grow to about 1.6 billion dollars on 2017[69].

Pre-clinical pharmacology studies which were conducted by the company in collaboration with an NEI lab at the NIH, demonstrated that CF101 is effective in inhibiting the development of posterior uveitis. For additional details regarding CF101 research and development by the company for uveitis, see paragraph 1.1.3 (1)(e) (i) above.

2.2.2 CF102 for the treatment of liver diseases

2.2.2.1Primary Liver Cancer- also known as hepatocellular carcinoma (HCC) is one of the 5 most common cancer types in the world and has a high incidence in Asia. This type of cancer attacks about 630,000 new patients every year around the world. Among the disease etiology causes are patients who are hepatitis B or C virus infected or alcohol consumers. This type of tumor is refractory to chemotherapy and to other anti-cancer agents. So far, there is no efficacious treatment for this disease[70]and the only drug available on the market today is Nexavar, by Onyx Pharmaceuticals, prolonging the patients' survival time in few months. The market potential of this type of drug may be up to billions of dollars and a recent research by GlobalData estimates that on 2017 the will be 1.2 billion dollars[71]. According to another research by Global Industry Analysts, the market size for liver cancer drugs is expected to grow to about 2 billion dollars in 2015[72].

[69]Uveitis Therapeutics - Pipeline Assessment And Market Forecasts To 2017, GlobalData

[70] See MedicineNet.com, What is the scope of the liver cancer problem?, http://www.medicinenet.com/liver_cancer/article.htm

[71]Liver Cancer Therapeutics - Pipeline Assessment and Market Forecasts to 2017, GlobalData, 2010

[72] PR WEB, Global Liver Cancer Drugs Market to Exceed $2 Billion by 2015, According to New Report by Global Industry Analysts, Inc.

The sales volume of the single drug that is currently approved for liver cancer treatment is about 1 billion dollars[73].

In pre-clinical pharmacology studies CF102 inhibited the growth of hepatocellular carcinoma via the induction of tumor cell apoptosis. This served as a basis for further development of this drug for liver cancer.

2.2.2.2 Hepatitis C: hepatitis type C is an infectious disease affecting primarily the liver, caused by the hepatitis C virus (HCV). The virus is transferred primarily by blood-to-blood contact associated with intravenous drug use, poorly sterilized medical equipment ,transfusions. and less commonly through sexual intercourse. Currently there is no vaccine for the disease. About 50%-80% of virus carriers will develop a chronic disease, and about 25%-76% will suffer from an active chronic disease and liver cirrhosis which are the main reasons for liver transplants in Europe and the US and increase the chance for liver cancer development. The treatment offered to patients today is mainly Ribavirin pills combined with Interferon injections. It should be noted that these drugs cause severe side effects. In addition, most patients develop resistance to the treatment within a short time. The market size was significantly increased to about 6 billion dollars following the recent approval for marketing of two new drugs: Telaprevir (Incivek) by Vertex and Boceprevir (Victrelis) by Merck. The market size is expected to double until 2012[74].

Via a scientific collaboration agreement with Dr. Kamel Kahalili laboratory at the Temple University, USA, it was found that CF102 inhibits the enzyme NS5, which controls viral replication.

2.3 Critical Success Factors

Successful development of a drug product requires, among others, scientific knowledge and innovative technology that result in efficacious products in the field of activity. In addition, substantial long term investments as well as qualified personnel with specific knowledge in the field . Furthermore, it is critical to establish strong intellectual property (IP) protection.

Can Fite pipeline drugs which are small molecule orally bioavailable are innovative products being developed by an experienced management team.

The company facility includes molecular biology labs enabling the study of molecular mechanistic pathways of the current pipeline drugs and structure activity relationship (SAR) analysis of new drug candidates.

Dr. Ilan Cohen, the company co-founder and a member of the board of directors that also served as the company's CEO in the past, is a senior partner at the largest Israeli IP firm and extensively contributes in establishing the company IP strategy On February 6, 2006, Dr. Cohen was appointed as Vice-Chairman of the company.

[73]Form 8-K for ONYX PHARMACEUTICALS INC 24,4,2011
[74]Hepatitis C (HCV) Market Forecast & Drugs Pipeline Analysis to 2016, Renub Research, 2012

2.4. Barriers to entry

The main barrier to entry to the market of drug development is the fact that it is a long term, entailing several stages where one unsuccessful phase does not allow proceeding further. Obviously this long term process also requires substantial financial resources in order to fund the continuous development costs.

Intellectual property protection and ownership is one of the most important conditions to allow product commercialization and to ensure that the development is not violating another patent. Without patent protection, one cannot prevent from another party to enjoy the research and development outcomes . Similarly, if the development is blocked by another patent, it will be possible to restrict any commercial activity by the developer. In some cases, IP licensing is needed, in order to ensure freedom to operate and the rights to develop the drug.

In addition, there is a requirement for skilled, professional personnel with expertise in the field. Without having employees with knowledge, experience and abilities suitable for drug development, the company will not be able to promote its business as a research and development company in a satisfactory manner.

2.5 Competition in the field of activity

Other drugs on the market, new drugs under development and additional drugs that were originally intended for other purposes but were found efficacious for indications targeted by the company may all be competitive to the current drugs in the company pipeline.

To the best of the company knowledge, there is no approved drug currently on the market having similar chemical profile, acting via A3AR in the field of the company activity.

2.6 Competition

2.6.1 General

The company competitors consist of both biotechnology and pharmaceutical companies. Multinational distribution of a drug requires accessibility to marketing channels around the world, a fact that requires small companies to collaborate with larger ones. On one hand, this is a limitation for small companies. On the other hand, large companies are constantly seeking for new drugs to enrich their pipeline and ready to in license in under favorable terms. This maybe a valid opportunity small biotech companies including Can Fite.

As was detailed in paragraph 1.1.4 above, clinical studies to look at drug safety and efficacy are requested by the regulatory authorities. The company estimates that completion of trials for its various indications will require about 800-1,200 patients per indication for completing clinical development up to Phase 3 (inclusive)[75]. The

[75] This estimate is based on numbers of patients that were required in clinical trials for other drugs intended for rheumatoid arthritis. Comprehensive statistical planning is yet to be performed, and the company has not discussed the clinical plan with regulatory authorities – FDA and others. Therefore, the number of patients that will be eventually required may differ from this estimate. In

variety of developed drugs and treatment options available today may create difficulties in enrolling patients for clinical trials. In many cases these issues can be addressed by adopting a development strategy that includes, among other: correct definition of the type of patients that will participate in a given trial optimal selection of medical centers (e.g. conducting some of the trials in countries where certain treatment alternatives are yet to be introduced to patients or selecting medical centers that are known for their ability to enroll patients within a relatively short period of time, etc.); selecting clinical research organizations (CROs) companies specializing in clinical trial set up and management[76]; investigator interest to participate in a given clinical trial based on the drug novelty[77]; providing decent financial compensation to the investigator research fund. The company intends to implement these strategies in order to ensure efficient patient enrolment that will comply with the with the company plans.

2.6.2 Competition in the rheumatoid arthritis market

For rheumatoid arthritis competing drugs, see paragraph 2.2.1.1 above. Some existing drugs suffer from: limited efficacy[78], substantial number of patients that do not react to the drugs, partial response and patients who do not respond to the drug at a certain stage. The drugs available on the market today are mostly biological and although being efficacious, their high cost and the quite frequent adverse effects create a market need. Small molecule orally bioavailable drugs such as CF101, having efficacy , safety with a low cost of good will be an attractive alternative treatment for RA patients.

Rheumatoid Arthritis drugs in Phase 3 development stage:

Product (Company)	**Clinical status**	**Drug class**
Biologicals		

addition, this estimate is only for RA indication. A different number of patients may be required for other indications.

[76] These companies are known as CRO - Contract Research Organization.

[77] In many cases investigators prefer to participate in clinical trials with drugs having a novel mechanistic pathway..

[78] One of the most accepted endpoints for evaluating the efficacy of drugs for treating rheumatoid arthritis is the ACR endpoint by the American College of Rheumatology. The ACR endpoint weighs several parameters to endpoints that are called ACR20, ACR50, and ACR70 where ACR20 is a weighed improvement of 20% in inflammation endpoints, ACR50 is an improvement of 50%, and ACR70 is an improvement of 70%. For example: results of MTX treatment show that about 40% of the patients react with ACR20. Therefore, 60% of the patients do not react to the drug. Only about 50% of patients react with ACR20 even for the best drugs, i.e. more than 40% of the patients do not react at all. In addition, an improvement of 20% is a very small and insufficient. The accumulated result is that there are many patients without good treatment for their disease.

Arzerra/Ofatumumab (GSK)	Phase 3	Anti-CD20
LY2127399 (Eli Lilly)	Phase 3	IgG4 monoclonal antibody
Actemra/Tocilizumab (Roche)	Phase 3	Anti-IL-6 receptor
Small Molecules		
Tofacitinib/CP-690550 (Pfizer)	Phase 3	JAK3 inhibitor
R788 (Rigel pharmaceutical); Fostamatinib (AstraZeneca)	Phase 3	Syk inhibitor
GW406381 (GSK)	Phase 3 completed	Cox-2 inhibitor

2.6.3 Competition in the psoriasis market

The current common treatments for psoriasis include topical and systemic drugs , mainly steroids, immunosuppressive drugs such as Cyclosporine A (Novartis), Methotrexate (a generic drug), biological drugs such as Enbrel (J&J) and Amevive (Astellas). As mentioned above, biological drugs have substantial side effects and their high cost is a burden on the health system.

The unique characteristics of CF101 including its high safety profile, clinical activity, oral route of administration and low cost of goods, position it well vs. the injectable biological and other drugs currently available on the market and under development.

Psoriasis drugs in Phase 3 development stage[79]:

Product (Company)	**Clinical status**	**Drug class**
Briakinumab/ABT-874 (Abbott)	Phase 3	Injectable IL 12/23 blocker
Voclosporin/ISA-247 (Isotechnika)	Phase 3	Oral anti-inflammatory calcineurim blocker
Apremilast/CC-10004 (Celgene)	Phase 3	Phosphodiesterase type 4
Tasocitinib/CP-690,550 (Pfizer)	Phase 3	JAK3 inhibitor

2.6.4 Competition in the dry eye syndrome market

[79]Psoriasis Treatments: A Review of the Current Research Pipeline, Spring 2011

The dry eye syndrome market suffers from lack of appropriate drugs Several artificial tear products are on the market and are used either alone (in mild to moderate cases) or in combination with other treatments (in moderate to severe cases). These lubricate the ocular surface, offering relief of the reduced or abnormal tear secretion associated with the disease. These drugs are produced and marketed by several manufacturers such as Refresh® by Allergan and Systane® by Alcon and are nonprescription drugs.

Restasis® by Allergan that was approved by the FDA on 2003 is the only drug that induces some tear production and contains lubricating substances. However, it does not provide full solution to the problem, causes eye burn and is not registered for treatment in Europe.

The advantage of company drug currently developed for the treatment of dry eye syndrome compared with most of other drugs on the market or in development, stems from it's anti-inflammatory effect, thus affecting disease pathogenesis.

Drugs in development for dry eye syndrome:

Agent Classification	Product (Company)	Status	
Anti-inflammatory			
Glococortocoids	AL-2178 (Alcon)	Phase II	Completed
Lymphocyte function-associated - 1 antagonist	SAR-1118 (SARcode)	Phase II	successfully completed
doxycycline	ALTY-0501 (Alacrity Biosciences)	Phase II	successfully completed
Peroxisome porliferator-activated recptor γ agonist	Rivoglitazone (Santen)	Phase II	
Jak3 tyrosine kinase inhibitor	Tasocitinib (Pfizer)	Phase II	
Immunosuppressant/angiogenesis inhibitor	Sirolimus/Rapamycin (MacuSight)	Phase II	
Ecabet sodium	Ecabet sodium (ISTA Pharmaceuticals)	Phase IIb	Failed
Estrogen receptor agonist	NP50301 (Nascent Pharmaceuticals)	Phase IIb	
Dexamethasone Phosphate, administered by Ocular Iontophoresis	EGP-437 (Eyegate Pharma)	Phase III	completed
Cyclosporine A (new formulation)	CYCLOKAT (Novagali Pharma)	Phase III	successfully completed
	AL38583 (Alcon)	Phase III	
A compound of eicosapentaenoic acid and docosahexaenoic acid produced by the COX-2 pathway	RX-10045 (Resolvyx Pharmaceuticals)	Phase III	
MSAID	Remura (ISTA Pharmaceuticals)	Phase III	Failed
Secretagoguse			
Peptide inhibitor	MOLI-1901 (Lantibo)	Phase II	
amino acid derivative of 2(1H)-quinolinone	Rebamipide (Ostuka, Acucela)	Phase III	
Lubricants			
Sodium hyaluronate	AL--43548 (Alcon)	Phase II	
a Tβ4-based sterile eye drop	RGN-259 (RegeneRx)	Phase II	
Biologicals	ESBA105 (Alcon)	Phase II	
Additional drugs			
Small cyclic peptidomimetic of NGF	MIM-D3 (Mimetogen)	Phase II	successfully completed
Selective glucocorticoid receptor agonis	DE110 (SANTEN)	Phase II	

2.6.5 Competition in the glaucoma market

The common current treatments for glaucoma, excluding one drug with severe side effects (Diamox) are administered in eye drops form . The reason that all drugs are administered as eye drops is the inability to develop safe drugs that are administered systemically (orally). The disadvantage of the topical glaucoma treatment is the patients' compliance manifested by inaccuracy during drops instillation. Therefore, the safe and orally administered company drug have a potential advantage over other drugs.

Glaucoma drugs in development:

Drug class	Clinical status	Product (Company)
Prostaglandin analogs	Phase 1/2	ANG-210669 (Allergan)
	Phase 2	AL-39256 (Alcon); ANG-210961(Allergan); AR-102 (Aerie); Latanoprost CD (OphthalmoPharma); NCX-116 (NicOX/Bousch&Lomb); PF-04217329 (Pfizer)
	Phase 3	Catioprost (Novagali); Saflutan (Merck); Punctal delivery system - Latanoprost (QLT)
Beta blocker	Phase 1/2	OT-730 (Othera Pharmaceuticals)
Alpha adrenergic agonist	Phase 2	SNJ-2022 (Senju)
RHO kinase inhibitor	Phase 2	AR-12286 (Aerie); K-115 (Kowa); SNJ-1656 (Mitsubishi)
A1 Adenosine receptor agonist	Phase 2	INO-8875 (Inotek Pharmaceuticals)
Calcium channel blocker	Phase 2	Lomerizine (Santen)
Antihypertensive (Unspecified drug target)	Phase 2	AGN-210669 (Allergan); DE-104(Santen); DNB-001 (Danube)\
Neuroprotective	Phase 2	Neurosolve (VitreoRetinal)

2.6.6 Competition in the liver cancer market

So far the only approved drug for the treatment of primary liver cancer is Nexavar by Onyx Pharmaceuticals. This drug prolongs the patients' survival time by just a few months. Primary liver cancer is refractory to chemotherapeutic agents.

2.6.7 Competition on the hepatitis C market

The number of patients infected with hepatitis C is growing linearly due to the lack of a vaccine. In addition, the available treatment today that is supposed to treat carriers and reduce the viral load is a combination of Interferon and Ribavarin, efficacious only in 30%-50% of treated patients[80]. It should be noted that after a certain period patients develop resistance and do not respond to the treatment.

It should be noted that additional companies are developing drugs for this large market and during 2011, two innovative new drugs were approved: Telaprevir (Incivek) by Vertex and Boceprevir (Victrelis) by Merck. It should be noted that the advantage of CF101 is its unique mechanism of action that in addition to preventing virus reproduction also prevents developing resistance to the drug in later stages.

2.6.8 Other drugs that bind and activate the A3 adenosine receptor

To the best of the Company's knowledge, CF101 is the most advanced drug under development that bind and activate the A3 adenosine receptor.

Several companies reported on research projects related to A3 receptor including: CV Therapeutics Inc., acquired by Gilead; King Pharmaceuticals R&D Inv., acquired by Merck; Hoechst Marion Roussel Inc.; Novo Nordisk A/S; Inotek Pharmaceuticals. The company management is not aware if these projects are still ongoing.

[80] The data is taken from the World Health Organization website: http://www.who.int/en/.

Company Drugs Vs. Competing Products:

	Drug Product	Competed drug A	Competed drug B
	CF101 for the treatment of RA and Psoriasis	Biological drugs such as Enbrel, Remicade and Humira.	Immuno-supressive and anti-metabolic drugs such as Methotrexate
Drug Profile	A small orally bioavailable drug administered twice daily at a low mg dose of a few mgs. Till today, more than 800 patients were treated with the drug, demonstrating excellent safety profile. The drug has a low cost of goods and good chances of getting reimbursement. CF101 acts via a definitive mechanism of action leading to apoptosis of inflammatory cells and at the same time protection towards normal cells. Phase 2 clinical studies showed beneficial clinical effects.	Biological drugs, highly efficacious and may induce severe adverse events; high cost of good.	Administered orally or intravenous; limited efficacy and their use is followed with mild to severe adverse effects.
Pros and cons of the drug in comparison to other drugs (to the best of the company knowledge)	CF101 showed clinical activity and safety in Phase 2 clinical studies given in a tablet formulation twice daily. The cost of goods is significantly lower than other drugs on the market and the oral treatment is a huge advantage compared to injectable.	Highly efficacious drugs with severe adverse effects and high cost of goods.	Drugs with limited efficacy and high cost of goods.
	CF101 for the treatment of dry eye	Restasis	Eye drops to relief symptoms and do not affect disease pathogenesis.
Drug Profile	See above	Eye Drops	Eye Drops
Pros and cons of the drug in comparison to other drugs (to the best of the company knowledge)	Drug which affects disease pathogenesis and significantly improve disease signs. Given in a tablet formulation which supports compliance and more convenient to the patient. This is a novel approach, different from the conservative topical one and needs market education.	This treatment induce partial relief in disease signs however accompanied with eye burn. Patient compliance is questionable due to the multiple daily eye drop treatments.	Induce relief for a short time and need to be administered frequently. Do not affect disease cause.
	CF101 for the treatment of glaucoma	Prostaglandine analouges such as xalatan and travatan.	Beta blockers such as Cosopt.
Drug Profile	See above	Drops for lowering the Intra ocular pressure	Drops for lowering the Intra ocular pressure
Pros and cons of the drug in comparison to other drugs (to the best of the company	CF101 decreased IOP and at the same time induce a neuroprotective effect via	The treatments mediates IOP however doesn't	The treatments mediates IOP however

knowledge)	its antiapoptotic activity on retinal ganglion cells. The drug has an excellent safety profile and its oral route of administration contribute to a good patient compliance.	affect or protect the optical nerve. Topical treatments induce local adverse events and patients' compliance is problematic.	doesn't affect or protect the optical nerve. Topical treatments induce local adverse events and patients' compliance is problematic.
	CF101 for the treatment of uveitis	Corticosteroids and biological drugs.	Immunosuppressive and anti-metabolic drugs such as Methotrexate
Drug Profile	See above	Steroidal drugs given either topical or systemically as is detailed above.	See above.
Pros and cons of the drug in comparison to other drugs (to the best of the company knowledge)	The drug has an anti-cancer effect aimed specifically at tumor cells. The drug excellent safety profile and oral route of administration are advantageous to the patients.	Limited efficacy and significant adverse effects.	Limited efficacy and significant adverse effects.
	CF102 for the treatment of primary liver cancer	Nexavar	None
Drug Profile	CF102 showed clinical activity and safety in aPhase1/ 2 clinical study given in a tablet formulation twice daily. It has an anti-cancer activity and extended patients' survival time. There is a good probability for reimbursement. The cost of goods is low.	The drug is administered orally and induces limited prolongation of survival time and provoke severe adverse effects. The drug cost is high.	
Pros and cons of the drug in comparison to other drugs (to the best of the company knowledge)	Has a high potential of survival prolongation without the induction of severe adverse effects. Significant low cost of goods in comparison to drug on market.	Expensive drug with severe side effects which prolong the patients' survival time in few months. Its efficacy for patients with advanced disease is doubtful.	
	CF102 for the treatment of hepatitis C	Ribavirin pills combined with Interferon injections	Telaprevir (Incivek) and Boceprevir (Victrelis)
Drug Profile	See above that the mechanism of action entails inhibition of viral replication.	Inhibition of viral replication.	Inhibits specific proteins which control viral replication.
Drug pros and cons in comparison to other drugs (to the best of the company knowledge)	The drug has an excellent safety profile although no significant decrease in viral load has been observed after chronic treatment at a low dose of CF102.	The combined therapy induce severe adverse events and a decrease in viral load for a limited time period.	Drugs which induce sustained suppression of a viral load for a long period of time. High cost of goods and mild to severe adverse effects.
	CF602 for inflammatory diseases	NA at this stage	NA at this stage

Drug Profile	As an allosteric modulator at the A3AR, CF602 is considered as the company next generation drug. It induces marked anti-inflammatory effect mediated by inhibition of NF-kB. Not yet earmarked for a specific indication.		
Pros and cons of the drug in comparison to other drugs (to the best of the company knowledge)	The robust anti-inflammatory effect with the projected excellent safety profile position CF602 as a promising drug candidate to treat chronic inflammatory diseases		

2.6.9 Competitive strategy

In order to successfully handle the expected competition, the company has to position the company drug while emphasizing its advantages over the other drugs under development. CF101 and CF102 are well positioned due to their safety profile, administration via an oral route, the straight forward manufacturing process resulting in low cost of good and the clinical activity. In addition, the company is constantly build and strengthen its IP position.

Several years will pass until one of the company's products will reach the market. The company strategy is to create partnerships with leading pharmaceutical companies to support its efforts toward drug registration and marketing. As of prospectus date, the company has two licensing agreements for development and marketing of CF101 with a Japanese company, as detailed in paragraph 2.12.4 below and an agreement with a Korean company as detailed in paragraph 2.12.6 below.

The above company estimations regarding its products' compliance and penetration to the drug market contain forward looking statements. This information is not certain and is based on the existing available information in the as of prospectus date. The actual results may differ significantly from the estimations derived from this information, since there is no certainty regarding the company success in implementing its development plan or the results of the different trials conducted by the company on its drugs.

2.7 Research and Development

2.7.1 Rheumatoid Arthritis

As mentioned above the company described that CF101 induce a robust anti-inflammatory effect, including anti-rheumatic effects demonstrated in experimental animal models such as adjuvant and collagen induced arthritis. These findings were to basis for the decision to move toward the development of this drug for the treatment of RA. Currently the company has an ongoing Phase 2b in RA, and enroll patients in Israel and Europe. For additional details, see paragraph 1.1.3 (1)(1) above.

2.7.2 Psoriasis

The rationale to utilize CF101 for the treatment of psoriasis stems from pre-clinical pharmacology studies showing that CF101 acts as an anti-inflammatory agent via the inhibition of inflammatory cytokines including TNF-α. Furthermore, the A3 adenosine receptor is over-expressed in psoriasis patients.. This finding increases the probability that these patients will react to the drug. The company recently completed a successful Phase 2 clinical trial of CF101 for treatment of psoriasis patients. As of prospectus date, a phase 2/3 is ongoing in the US, Europe and Israel. For additional details, see paragraph 1.1.3 (1)(c) above.

2.7.3 Dry eye syndrome – developed by OphthaliX

As mentioned above, during the Phase 2 rheumatoid arthritis clinical study, the company discovered that several rheumatoid arthritis patients participating in the trial who also suffer from dry eye syndrome (dry eye syndrome may frequently be associated with rheumatoid arthritis) reported significant relief of the syndrome symptoms. Following this serendipity finding the company initiated and completed successfully a Phase 2 clinical trial with CF101 for the treatment of dry eye syndrome. Later on the company initiated a Phase 3 trial under an open IND to look at the efficacy and safety of CF101 in dry eye syndrome. This study is currently ongoing in the US, Europe and Israel. For additional details, see paragraph 1.1.3 (1)(b) above.

2.7.4 Cancer diseases

A comprehensive research by the company demonstrated that the A3 adenosine receptor (A3AR) agonists induce a marked anti-cancer effect upon binding to the A3AR which is over-expressed in tumor cells.

Pre-clinical pharmacology studies utilizing different cancerous experimental animal models of solid tumors have shown the efficacy of CF101 and CF102 in inhibiting tumor growth.

The company decided to earmark CF102 for te treatment of liver cancer to to its capability to induce apoptosis of hepatocellular carcinoma in tumor bearing animals. For additional details, see paragraph 1.1.3 (2)(b) above.

2.7.5 Viral diseases

Hepatitis B and C: on February 18, 2007 the company announced that on February 16, 2007 as a result of collaboration with a leading laboratory in Temple University, Philadelphia, CF102 was found to induce anti-viral effect against hepatitis B and C viruses,

The new findings were achieved within the framework of collaboration with the laboratory of Prof. Khalili at Temple University, Philadelphia. Prof. Khalili is a leading scientist in this field and serves as the head of the Cancer Neuro-Virologic and Biological Research Institute and is the editor of several leading journals in this field.

The CF102 belongs to a group of substances called nucleosides, similar to anti-viral drugs on the market. Therefore, the company decided to test the activity of CF102 on the hepatitis virus in human clinical studies.

Proof of concept of the drug's efficacy was found in a Phase 1/2 clinical trial conducted by the company on liver cancer patients. A decrease in virus level was observed in this trial in 7 patients who also suffered from hepatitis C.

In parallel, the company completed a Phase 1/2 clinical trial in subjects with hepatitis C that demonstrated the drug's safety and its linear pharmacokinetic profile, however, no significant decrease in the viral load has been observed.. For additional details, see paragraph 1.1.3 (2)(a) above.

2.7.6 Additional pre-clinical studies relating to more clinical indications

The company conducted pre-clinical studies demonstrating the efficacy of the company drugs for the treatment of Crohn's disease, uveitis (currently developed by OphthaliX) and for additional tumor and inflammatory diseases including osteoarthritis, and multiple sclerosis. The molecular mechanism mediated by the drugs has been investigated as well.

Further development of any of the above detailed indications will be appending to company decision and sufficient funding.

Drug Products Under Development:

Study No.	Clinical Phase	Regulatory Authority	Study Objectives	No. of medical sites	Geographical location of medical sites	Planned patients to be enrolled	Patients completed clinical study	Methods	Time-table	Estimated study cost	Actual cost (till prospectus submission date)	Interim and final data
CF101 -001	Phase 1	IND	To assess safety, tolerability, pharmacokinetics and hemodynamic effects of oral CF101, in healthy men	1	UK	20	20	Phase 1, parallel, randomized, first time in humans, oral ascending-dose study (single dose of CF101 1, 5, 10 mg as solution, 5 mg as suspension; or placebo) in healthy males. **Completed.**	Initiation Jan 2003 - Completed May 2003	250,000 £	NA	Maximum tolerated dose was 5 mg CF101; 10 mg CF101 poorly tolerated (increased heart rate, nausea, and vomiting). PK of CF101 linear.
CF101 -002	Phase 1	IND	To assess ,safety tolerability, pharmacokinetics and hemodynamic effects of ,oral CF101 given as a repeated dose, in healthy , men	1	UK	20	20	Phase 1, double-blind, randomized, placebo-controlled, parallel-group, escalating repeated-dose study; 28 healthy males dosed every 12 hours for 7 days with oral CF101 in doses of 2, 3, 4, or 5 mg, or placebo (for a total of 13 doses per individual). At each dose level, 5 subjects received CF101and 2 received matching placebo. **Completed**	Initiation Sep 2003 - Completed Dec 2003	400,000 £	NA	CF101 was safe and well tolerated, with adverse event profile as of the placebo one in dosages below 5mg Plasma concentrations of CF101 dose proportional, PK did not change after repeated dosing.
CF101 - 103RA	Phase 1	IND	Drug interaction study in patients with RA treated with MTX to evaluate the interaction with CF101 (4mg) given once	1	USA	21	21	Phase 1, randomized, double-blind, placebo-controlled crossover study of interaction of orally administered CF101 with weekly methotrexate in	Initiation Jan 2006 - Completed March 2006	656,000 $	NA	No significant changes to plasma PK parameters of methotrexate or its metabolite 7-OH methotrexate resulted from co-administration of CF101 versus placebo.

			daily					patients with RA. **Completed**				
CF101 - 104RA	Phase 1	IND	Food drug interaction study to evaluate plasma levels of CF101	1	USA	12	12	Phase 1, randomized, crossover study of the effect of food on the relative bioavailability and PK of orally administered CF101 4 mg capsules in single doses. **Completed.**	Initiation Feb 2006 - Completed Feb 2006	175,000 $	NA	CF101 capsules administered to fasted and fed subjects were well-tolerated by healthy male volunteers. Oral absorption of CF101 is subject to a food effect. Mean AUC0-t and AUC0-inf for fed treatment were 39% and 37% lower than the estimates for the fasted treatment.
CF101 - 105PK	Phase 1	IND	Study of [14C]-CF101 (containing 100 µCi radioactivity) to evaluate absorption, metabolism, excretion, and mass balance in healthy male subjects	1	USA	6	6	Open-label, non-randomized, absorption, metabolism, excretion, and mass balance study of 4 mg [14C]-CF101 (containing 100 µCi radioactivity) administered orally to 6 healthy male subjects following at least a 10-hour fast from food. **Completed**	Initiation Aug 2007 - Completed Oct 2007	387,000 $	NA	CF101 readily absorbed and eliminated after reaching Cmax in circulation. t1/2 of total radioactivity and unchanged CF101 in plasma are similar (~9 hours). Unchanged CF101 accounted for 91% of total drug derived AUC in plasma feces, respectively.
CF101 - 106BE	Phase 1	IND	Bioequivalence study to evaluate CF101 pharmacokinetic between tablets and capsules	1	USA	12-18	14	Open-label, randomized, 2-way crossover, safety, tolerance, and PK study of CF101 (new tablet formulation) and CF101 (gel capsule) administered at 1 mg in fasted normal healthy males and females. **Completed**	Initiation Dec 2007 - Completed Jan 2008	457,000 $	NA	The PK profile of CF101 as a 1 mg tablet was similar to that of CF101 as a 1 mg gel .capsule The 2 formulations of CF101 (tablet and gel capsule) were bioequivalent
CF101 - 201RA	Phase 2a	Israel Ministry of Health Authority (MOH)	To look at the efficacy and safety of CF101 in patients with RA. CF101 administered as a standalone for 12 weeks and improvement in disease parameters known as ACR20, 50 and 70 were evaluated.	8	Israel	81	74	Multiple-site, randomized, double-blind, parallel-group dose-ranging study in which patients were randomized to 1 of 3 CF101 capsule dose groups: 0.1 mg, 1.0 mg, or 4.0 mg, administered BID for 12 weeks. Efficacy parameters included ACR20, ACR50, ACR70, joint count, physician global assessment, PGA, patient pain score, HAQ, ESR, CRP, and proportion of subjects meeting the ACR criteria over time. PBMNC A3AR levels at baseline were analyzed. **Completed.**	Initiation 2004 - Completed 2006	1,281,000 $	NA	CF101 was safe and well tolerated .In all treatment groups, percent responders generally increased over time, with 12-week ACR20 rates in the intent-to-treat (ITT) population as follows: 42.9% (0.1 mg CF101), 55.6% (1.0 mg CF101), and 41.7% (4.0 mg CF101). ACR50 rates were: 28.6% (0.1 mg CF101), 33.3% (1.0 mg CF101), and 12.5% (4.0 mg CF101). There was a significant correlation between Baseline PBMNC A3AR levels .and ACR response.
CF101 - 202RA	Phase 2b	IND , European countries and	To look at the efficacy and safety of CF101in combinatio	32	USA, Europe and Israel	254	254	Multi-center, randomized, double-blind, parallel-group, placebo-	Initiation July 2006 - Compl	$4,760,000	NA	No statistically significant differences between CF101 groups and the placebo group were noted for Week 12

		Israel.	n with methotrexate in patients with RA Vs placebo (patients treated with methotrexate only). CF101 administered in combination with methotrexate for 12 weeks and improvement in disease parameters known as ACR20, 50 and 70 were evaluated. Completed.					controlled, dose-finding study in which patients with active RA despite receiving methotrexate for at least 6 months (at unchanged doses for>=2 months) were randomized to the addition of either CF101 0.1 mg, CF101 1 mg, CF101 4 mg capsules, or placebo capsules given orally every 12 hours for 12 weeks. PBMNC A3AR levels at baseline were analyzed. **Completed.**	eted July 2007			ACR20 response. EULAR response rate of "Good" at Week 12 for the CF101 1 mg group (11 patients, 17.5%) was significantly higher (P<0.05) than the placebo.
CF101 - 203RA	Phase 2b	IND , European countries and Israel.	To look at the efficacy and safety of CF101in combination with methotrexate in patients with RA Vs placebo (patients treated with methotrexate only). CF101 administered in combination with methotrexate for 12 weeks and improvement in disease parameters known as ACR20, 50 and 70 were .evaluated	21	USA, Europe and Israel	230	230	Multi-center, randomized, double-blind, parallel-group, placebo-controlled, dose-finding study in which patients with active RA despite receiving methotrexate for at least 6 months (at unchanged doses for>=2 months) were randomized to the addition of either CF101 0.1 mg, CF101 1 mg, CF101 4 mg capsules, or placebo capsules given orally every 12 hours for 12 weeks. PBMNC A3AR levels at baseline were analyzed. **Completed**	Initiation Apr 2008 - Completed Apr 2009	$3,387,000	NA	The primary efficacy analysis showed no statistically significant differences between either CF101 dose and placebo, perhaps because of pharmacologic interaction between CF101 and MTX at the level of the A3AR CF101 was safe and well tolerated.
CF101 - 204RA	Phase 2b	European countries and Israel.	To look at the efficacy and safety of CF101 in patients with RA Vs placebo. CF101 administered as a standalone for 12 weeks and improvement in disease parameters known as ACR20, 50 and 70 are evaluated. Patients are enrolled based on their A3AR level at baseline.	7	Europe and Israel	80	NA	A Phase 2, multicenter, randomized, double-blind, placebo-controlled, parallel-group study of the efficacy and safety of daily CF101 administered orally as standalone for 12 weeks to patients with active rheumatoid arthritis and elevated baseline expression levels of peripheral blood mononuclear cell A3 adenosine receptors. **Ongoing**	Initiation June 2010 - Ongoing	500,000 $	250,000 $	NA

CF101 - 201PS	Phase 2	Israeli MOH and a European country.	To look at the efficacy and safety of CF101 in patients with Psoriasis Vs placebo. CF101 administered as a standalone for 12 weeks and improvement in disease parameters known as PASI and PGA was evaluated.	10	Europe and Israel	76	76	Phase 2 randomized, double-blind study in adult males and females, ages 18 to 70 years, inclusive, with a diagnosis of moderate-to-severe plaque psoriasis. Eligible patients received, in a cohort-sequential dose-escalation design, CF101 1 mg, 2 mg, or 4 mg orally every 12 hours for 12 weeks. **Completed.**	Initiation July 2007 - Completed Sep 2009	849,000 $	NA	In the 2 mg CF101-treated group, a progressive improvement in the mean change from baseline in the PASI score vs. placebo throughout the study period was observed, with a statistically significant difference on weeks 8 and 12 (P = 0.047; P = 0.031, respectively). In this group, 35.3% of the patients achieved PASI ‡50 response, and 23.5% of the patients achieved a PGA score of 0 or 1. CF101 was safe and well tolerated.
CF101 - 202PS	Phase 2/3	IND, European countries and Israel.	To look at the efficacy and safety of CF101 in patients with Psoriasis Vs placebo. CF101 is administered as a standalone for 24 weeks and improvement in disease parameters known as PGA (Primary) and(PASI (Secondary) will be evaluated.	17	USA, Europe and Israel	294	NA	A Phase 2/3 randomized, double-blind, placebo-controlled, dose-finding study of the efficacy and safety of daily CF101 administered orally in patients with moderate-to-severe plaque psoriasis. Eligible patients will be randomly assigned to parallel dosing groups of CF101 1 mg, CF101 2 mg, or matching placebo tablets twice daily (BID) in a 1:1:1 ratio for the 12-week controlled treatment period. Medication will be taken orally BID for 12 weeks in a double-blinded fashion. At the end of 12 weeks, all patients assigned to CF101 will continue CF101 at their original dose in blinded fashion, while patients originally assigned to placebo will be reassigned in a 1:1 ratio to either CF101 1 mg or CF101 2 mg BID in blinded fashion. **Ongoing.**	Initiation on Aug 2011 - Ongoing	2,000,000 $	730,000 $	NA
CF101 - 201KCS	Phase 2	Israeli MOH	To look at safety and efficacy of daily CF101 (1 mg) administered orally for 12 weeks vs. placebo in patients with dry eye	6	Israel	76	76	Phase 2, randomized, double-masked, placebo-controlled, parallel-group study in adult males and females, aged 18 years and over, with a diagnosis of moderate-to-severe KCS.	Initiation Jan 2007 - Completed May 2009	633,000$	NA	A statistically significant increase in the proportion of patients who achieved more than 25% improvement in the corneal staining and in the clearance of corneal staining was noted -between the CF101 treated group and the placebo group. Treatment with CF101

			syndrome . The primary endpoints of this study were based on an improvement of more than 25% over baseline at week 12 in one of the following parameters: (1) tear break-up time, or BUT; (2) superficial punctate keratitis assessed by fluorescein staining results; and (3) Schirmer tear test 1 results.					Patients were randomized to receive either CF101 1 mg or matching placebo, given orally every 12 hours for 12 weeks. **Completed**.				resulted in a statistically significant improvement in the mean change from baseline at week 12 of the corneal staining, BUT, and tear meniscus (TM) height in the CF101-treated group. CF101 was well tolerated and exhibited an excellent safety profile with no serious adverse events. A statistically significant decrease from baseline was observed in the IOP of the CF101-treated group in comparison with the placebo group. .
CF101 - KCS 202	Phase 3	IND, European countries and Israel.	To look at safety and efficacy of daily CF101 (0.1 and 1 mg) administered orally for 24 weeks vs. placebo in patients with dry eye syndrome . The primary efficacy endpoint will be complete clearing of corneal staining. Secondary endpoint will include Schirmer test, Ocular Surface Disease Index, and tear break-up time.	17	USA, Europe and Israel	231	NA	Phase 3, randomized, double-masked, placebo-controlled, dose-finding, parallel-group study of the safety and efficacy of daily CF101 administered orally in patients with moderate-to-severe dry eye disease. **Ongoing.**	Initiation Dec 2011 - Ongoing	$1,800,000	785,000 $	NA
CF101 -231GL	Phase 2	European country and Israel.	To look at safety and efficacy of daily CF101 (0.1 , 1 and 2 mg) administered orally for 16 weeks vs. placebo in patients with high intra ocular pressure (IOP) . The primary efficacy endpoint will be IOP decrease vs. placebo.	6	Europe and Israel	132	NA	A Phase 2, randomized, double-masked, placebo-controlled, parallel-group study of the safety and efficacy of daily CF101 administered orally in subjects with elevated intraocular pressure. This trial will be performed in 2 segments. In Segment 1, subjects will be randomized to receive either CF101 1.0 mg, or	Initiation May 2010 - Ongoing	$750,000	151,000 $	NA

								matching placebo for 16 weeks. At the conclusion of Segment 1an interim analysis will be conducted. Ongoing.				
CF102 -101	Phase 1	IND	Effect of CF102 on the safety and, pharmacokinetic were evaluated at different drug dosages in healthy male volunteers.	1	USA	25	25	A double-blind, randomized, ascending single dose in healthy male. **Completed**.	Initiation Feb 2008 - Completed May 2008	391,000$	NA	In this normal volunteer trial, single doses of CF102 as high as 40 mg were not associated with intolerability, clinically important AEs, or changes in electrocardiograms or laboratory assessments.
CF102 - 102 HCC	Phase 1/2	Israeli MOH	Effect of CF102 on the safety and, pharmacokinetic were evaluated at different drug dosages in patients with hepatocellular carcinoma. Primary endpoint was safety and secondary was drug efficacy and the correlation between the A3AR biomarker at baseline and patients' response to CF102.	1	Israel	18	18	An open label phase 1/2 trial, to look at the safety and clinical effects of CF102 were assessed in patients with advanced unresectable HCC. The primary objectives of this trial were to examine the safety and pharmacokinetic (PK) behavior of CF102 given orally (1, 5 and 25 mg BID) in 28 day cycles. The secondary objectives were (a) evaluation of the anti-tumor effect of CF102 and (b) examination of the correlation between A3AR expression levels in the patients' PBMCs at baseline and response to CF102. **Completed**.	Initiation July 2009 - Completed Jan 2012	335,000$	NA	patients received 18 CF102, six at each dose level. No serious drug-related adverse events or dose-limiting toxicity were observed. CF102 demonstrated good oral bioavailability and linear PK behavior. Median overall survival in the study population, 67% of whom were sorafenib failures, was 7.8 months. A direct correlation between A3AR expression levels at baseline and patients' response to CF102 was found. .In 7 out of 9 patients who were HCV infected, viral load decreased along the treatment period.
CF102 - 103 HCV	Phase 1/2	Israeli MOH	An open label phase 1/2 trial, to look at the safety tolerability and pharmacokinetics and clinical effects of CF102 in patients with Hepatitis C genotype 1 virus.	1	Israel	32	32	An open label phase 1/2 trial, to look at the safety tolerability and pharmacokinetics and clinical effects of CF102 in patients with Hepatitis C genotype 1 virus. CF102 in a capsule formulation was administered at ascending dosages for 15 days and then an extension study protocol amendments enabled a treatment period of 4 months only for the 1 mg dose. **Completed**.	Initiation July 2009 - Completed Jan 2012	391,000$	NA	CF 102 demonstrated safety and linear pharmacokinetic drug profile, however, no significant decrease in the viral load has been observed at the tested dosages. .

2.7.7 Research and development expenses

The total gross research and development expenses of the company on 2011 was 12,969 thousand NIS compared to a total of 9,993 thousand NIS on 2010 and 13, 841 thousand NIS on 2009. For the period ending March 31st, 2012, R&D expenses were 4,015 thousand NIS in comparison to 4,104 thousand NIS last year. The company contacted subcontractors for the drug manufacturing, packaging and labeling as well as for other pre-clinical studies. The total of research and development expenses paid to subcontractors on 2011 was 1,786 thousand NIS compared to a total of 2,761 thousand NIS on 2010 and 3,110 thousand NIS on 2009. For the period ending March 31st, 2012, R&D expenses to subcontractors were 923 thousand NIS in comparison to 827 thousand NIS last year.

2.8 Intellectual Property

2.8.1 General

The company has a substantial IP portfolio including 14 patent families[81] that include about 74 patents and patent applications in countries around the world, part are owned by the company and some were exclusively licensed from a 3rd party. The various patent families protect the company platform technology which utilize drugs that bind and activate a certain type of receptors found on human body cells for treating inflammatory and autoimmune diseases, several ophthalmic diseases, viral diseases, psoriasis and cancer. As mentioned above, the company drugs are small chemical molecules that bind to the receptors with high affinity and selectivity. Upon binding of the drug to the receptor, initiating downstream molecular events leading to the apoptosis of inflammatory and tumor cells.

The patent families are divided to those that the company believes to have great importance in ensuring exclusivity and to patents which although considered as important by the company, have a lower value. For details regarding the first type of patent families, see paragraph 2.8.2 titled "***Grade A Patent Families***". The second type is detailed in paragraph 2.8.3 titled "***Grade B Patent Families***".

The company also has a number of patent families which are not related to present or future development by the company but nevertheless, the company considers them important due to their interest for others and due to possible technological transactions with other companies. These patent families are detailed in paragraph 2.8.4 titled "***Additional Patent Families***".

Even though the company is active in registering patents in its name, it also recognizes and makes use of the possibility to expand its patent portfolio by licensing IP from academic institutions. Therefore, although most of the company's patents are a result of its inventions and are registered in its name, the company also has several patent families whose ownership is a result of exclusive licenses from academic institutions abroad. So far the company signed several licensing agreements in order to ensure exclusivity and to allow freedom to operate for development and commercialization purposes. Two of these agreements, signed with Leiden University in the Netherlands, were terminated by the company since

[81] A patent family consists of patents and patent requests with parallel content which are usually derived from the same request. The term "patents" will be used hereafter for a group of patents and patent requests.

higher efficacy was found in other molecules in the development pipeline. By virtue of these licensing agreements, the company also has some obligations for payments and royalties. For additional details see paragraph 2.12 below. **The data in the first section of this paragraph (1.1.1) also relates to patents and patent applications whose license is held by the company.**

The company's management believes that its owned patent and patent applications together with patents and applications whose license it holds, grant it a dominant position in its field of drug development. Therefore, the company's management believes that these patent and patent applications are significant obstructions for its competitors.

2.8.2 Grade A Patent Families

Patents and patent applications for substances with clinical activity that are used as the company drugs and those relating to the receptor as a therapeutic target for the treatment of inflammatory and cancer diseases. These include the following patent families:

a) A family of US and European patents under an exclusive license from the NIH. These patents include CF101 and CF102 and many other small molecules.

b) A family of patents in many countries which pertain to the use of substances that bind to the A3AR receptor, including CF101 and CF102. The medical uses pertaining to these applications include diseases that are characterized with uncontrolled cell division, including cancer, psoriasis and autoimmune diseases.

c) A family of patents that include patents and patent applications in many countries which pertain to use of substances that bind to a receptor, including CF101 and CF102, for treatment of viral diseases, including aids and hepatitis.

d) A family of patents that includes a patent in the US which pertains to the use of CF101 and CF102 for treatment of inflammatory joint diseases and grants the company protection of these uses until 2023.

e) A family of patents that includes patent applications in various countries which pertain to a method of identifying an inflammation in the human body, determining inflammation severity, and determining and monitoring the efficacy of the anti-inflammatory treatment. The methods are based on the finding that in an inflammatory condition the receptor is over-expressed on certain cells in the blood. This method has great importance since it can be integrated in the treatment array in order to determine which patients will receive the treatment and to monitor treatment efficacy.

f) A family of patents that includes patent applications in various countries which pertains to use of A3 adenosine receptor agonists for treatment of dry eye syndrome.

g) A family of patents that includes a patent application in Israel and international patent applications which pertain to the use of the A3 adenosine receptor agonists for the treatment of reducing intraocular pressure. The requests are based on findings of clinical trials conducted by the company. Additional applications in other countries will be submitted in due time.

2.8.3 Grade B Patent Families

Patents whose purpose is to grant the company a level of exclusivity for specific medical uses and specific dose levels of the chemical molecules included in Grade A patent families. The category includes patent families relevant to the company's field of cancer diseases and patent families relevant to the field of inflammatory diseases. These include the following patent families:

a) A family of patents that includes a patent applications in Japan which pertains to protection of specific low dose levels of the CF101 molecule which are a result of findings in human subjects during clinical trials conducted by the company.

b) A family of patents which pertains to a method for producing CF101.

c) A family of patents which pertains to treatment of osteoarthritis.

d) A family of patents which pertains to treatment of liver regeneration. This family includes patent applications in US, Europe, Israel, China and Japan.

e) A family of patents which pertains to the use of A3 adenosine receptor agonists for the treatment of Sjorgen syndrome.

f) A family of patents which so far include a patent applications in Israel and an international patent applications (additional patent applications will be submitted in due time). The patent family pertains to the use of A3 adenosine receptor agonists for the treatment of psoriasis.

g) A family of patents under joint ownership by the company and NIH which pertains to the use of the A3 adenosine receptor agonists for the treatment of uveitis.

2.8.4 Additional patent families

a) A family of patents which pertains to use of A3 adenosine receptor agonists for increasing liver cells (hepatocytes) division, for example as treatment intended to induce liver regeneration following injury or surgery.
b) A family of patents under an exclusive license from Leiden University and NIH which pertains to molecules that cause allosteric modulation of the A3 adenosine receptor.

2.8.5 **Registered Patents**

Patent No.	**Patent Description**	**Patent Rights**	**Expected Patent Expiry**	**Countries of Grant**
7,064,112 1,261,322 782,826	A family of patents relating to use of drugs that bind to A3 adenosine receptors, including CF101 and CF102. The pharmaceutical use	Can-Fite	2020 2020 2020	U.S.A. Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg,

2,384,111 133680 ZL00814800.7 4980530 584797 10-0674529 249793 199852 2239455 HK1052653 226913	to which this family of patents relates is treating proliferative disease including cancer, psoriasis and autoimmune diseases.		2020 2020 2020 2020 2020 2020 2020 2020 2020 2020 2020	Portugal, Spain, Sweden, Switzerland, Holland and England) Australia Canada Israel China Japan South Korea South Korea Mexico Poland Russia Hong-Kong Hungary

Patent No.	Patent Description	Patent Rights	Expected Patent Expiry	Countries of Grant
5,773,423 0708781	Family of patents that protects the molecules of A3 adenosine receptor agonists, including the molecules at the basis of CF101 and of CF102 and many other chemical molecules and the pharmaceutical use of these molecules.	Exclusive License from the NIH	2014 Possibility of patent term extension (PTE) 2014 Extension possible based on SPC	U.S.A. Europe (England, France, Germany, Switzerland, Italy, Belgium, Holland and Luxembourg)
1365776 2002219497 ZL 02803771.5 156704 4012070 97714 7,589,075 2,434,906 HK1064948	This patent family relates to the use of A3AR agonists for inhibiting viral replication	Can-Fite	2022 2022 2022 2022 2022 2022 2022 2022 2022 2022	Europe (France, Germany, Italy, Switzerland and England) Australia China Israel Japan Singapore U.S.A. Canada Hong-Kong

Patent No.	Patent Description	Patent Rights	Expected Patent Expiry	Countries of Grant
7,141,553	This patent relates to the use of A3 adenosine receptor agonists, e.g. CF101 or CF102, for the treatment of inflammatory arthritis	Can-Fite	2023	U.S.A.
4,642,847 7,825,102	This patent family relates to use of A3 adenosine receptor agonists, e.g. CF101, for the treatment of Sjorgen's Syndrome and related diseases	Can-Fite	2026 2026	Japan U.S.A.
2005310873 182986 4842964 266147 1817589	This patent family relates to determining level of expression of A3AR in white blood cells as biological marker for inflammation, so that a high level of expression of the receptor is indicative of and determines severity of inflammation	Can-Fite	2025	Australia Israel Japan Mexico Europe (France, Germany, Italy, Spain, Switzerland and England)

Patent No.	Patent Description	Patent Rights	Expected Patent Expiry	Countries of Grant
1959939 2006321165 2,622,879 10-1101252 293503	This patent family relates to use of A3 adenosine receptor agonists, such as CF101, for the treatment of osteoarthritis	Can-Fite	2026 2026 2026 2026 2026	Europe (Austria, Belgium, Denmark, France, Germany, Italy, Spain, Sweden, Switzerland, Holland and England) Australia Canada South Korea Mexico
CN202410114A 1983990	This patent family relates to allosteric modulators of the A3 adenosine receptor	Exclusive License from the NIH and Leiden University	2027 2027	China Europe (Austria, Belgium, Denmark, France, Germany, Italy, Spain, Sweden, Switzerland, Holland and England)
7,825,102 2006336834 2,622,975 ZL200680047569.7 10-1037095 287822	This patent family relates to use of A3 adenosine receptor agonists for treatment of dry eye syndrome	Can-Fite	2026 2026 2026 2026 2026 2026	U.S.A. Australia Canada China South Korea Mexico

2.8.6 **Applications for registration of patents**

Patent Application No.	Patent Application Description	Patent Rights (if registered)	Priority Date	Filing Date	Countries where filed
P10206492-8	This application relates to use of A3AR agonists for inhibiting viral replication	Can-Fite	16/01/2001	13/01/2002	Brazil
05762145.0	This application relates to use of A3AR agonists, such as CF101, for treatment of osteoarthritis	Can-Fite	28/07/2004	18/07/2005	Europe
Pl 0518795-8 2,586,773 200580039176.7 12/819,945	This family of patent applications relates to determining the level of expression of A3AR in white blood cells as a biological marker for inflammation, so that the high level of expression of the receptor is indicative of inflammatory state and severity of inflammation.	Can-Fite	02/12/2004	30/11/2005	Brazil Canada China U.S.A.

Patent Application No.	Patent Application Description	Patent Rights (if registered)	Priority Date	Filing Date	Countries where filed
11/632,897 Pl 0619395-1 200680044808.3 191269 3941/CHENP/2008 2008-542938	This family of patent applications relate to use of A3 adenosine receptor agonists, such as CF101, for the treatment of osteoarthritis	Can-Fite	30/11/2005	29/11/2006	U.S.A. Brazil China Israel India Japan
2008-552392 4481/CHENP/2008 10-2008-7020924 12/219,772	This family of patent applications relates to use of A3 adenosine receptor allosteric modulators	Exclusive License from Leiden University and the NIH	26/01/2006	25/01/2007	Japan India South Korea U.S.A.
06701840.8 Pl 0621052-0 191271 2008-551950 12/774,927	This family of patent applications elates to use of A3 adenosine receptor agonists for treatment of dry eye syndrome	Can-Fite	27/01/2006	01/02/2006	Europe Brazil Israel Japan U.S.A.
08719985.7 1734/MUMNP/2009 200711 2009-553282 12/450,094	This family of patent applications relate to the process for producing	Can-Fite	14/03/2007	13/03/2008	Europe India Israel Japan U.S.A. China

200880007952.9	A3 adenosine receptor agonists, such as CF101 and CF102				

Patent Application No.	Patent Application Description	Patent Rights (if registered)	Priority Date	Filing Date	Countries where filed
08840556.8 204063 2010-529501 12/682,994 200880111608.4	This family of patent applications relates to use of A3 adenosine receptor agonists for regenerating liver cells	Can-Fite	15/10/2007	22/10/2008	Europe Israel Japan U.S.A. China
10726312.1 216114 2012-510440 13/320,715 201080021220.2 2,761,499 2010250759 MX/a/2011/012229 10-2011-7026858	This family of patent applications relates to A3 adenosine receptor agonists for reduction of intraocular pressure	Can-Fite	17/05/2009	16/05/2010	Europe Israel Japan U.S.A. China Canada Australia Mexico South Korea
10763456.0 not yet accorded 201080039242.1 2729/DELNP/2012 10-2012-7004156	This family of patent applications relates to use of A3 adenosine receptor agonists for treatment of psoriasis	Can-Fite	06/09/2009	06/09/2010	Europe Japan China India South Korea

PCT/IL2011/000193	This family of patent applications relate to use of A3 adenosine receptor agonists for the treatment of uveitis	NIH	03/03/2010	27/02/2011	International (PCT)
Patent Application No.	**Patent Application Description**	**Patent Rights (if registered)**	**Priority Date**	**Filing Date**	**Countries where filed**
61/589,430	This family of patent applications relate to use of A3 adenosine receptor agonists for maintenance of liver function in patients having chronic liver disease	Can-Fite	23/01/2012	23/01/2012	U.S.A.

2.8.7 Patent licensing agreements

The company signed several IP licensing agreements. These agreements are exclusive and ensure the company the exclusivity for the drug technology at the basis of the patents to which the licensing agreements pertain. For additional details regarding these licensing agreements, see paragraph 2.12 below.

2.9 Fixed Assets, Real Estate and Facilities

The company rented two floors at 10 Bareket St, at the industrial zone on Petah-Tikva for its offices, a research laboratory and animal facilities.

The company rented a total area of about 628 m^2 and 17 parking spaces through several rent agreements. The monthly rental fees until June 30, 2010 totaled at about 47.5 thousand NIS (including VAT), and at about 47.7 thousand NIS (including VAT) as of July 1, 2010.

2.10 Legislation and Regulation Limitations and Special Constraints Applicable to the Company

2.10.1 Helsinki Committee (IRB)

Human clinical trials must comply with the principles of the Declaration of Helsinki and obtain the approval of the ethics committee of each medical center where trials are conducted. The investigator submits the study protocol to the ethical committee of the medical center. After a discussion during which the committee examines whether the trial protocol complies with ethical rules, the protocol is approved and the trial can begin as planned. Every protocol amendment requires updating and re-submitting for the ethical company approval.

Helsinki Committee approval – as mentioned above, this approval is the condition for approving the use of drugs by Western health authorities, including the Israeli Ministry of Health. Conducting clinical trials in Israel which include human subjects requires a permit according to the study protocol (hereafter: "**the permit**") from the committee (Helsinki Committee as abovementioned) that operates by virtue of Public Health Regulations (Clinical Trials in Human Subjects) 1980 (hereafter: "**Public Health regulations**"). The permit is given to the investigator participating in the trial. The investigator participating in a clinical trial in human subjects will have the appropriate skills and expertise for conducting the trial. In addition, the trial should comply with the following conditions:

a) The predicted advantages for the company and the participating patient justify the risk and inconvenience involved in the trial for the patient;

b) The existing scientific and clinical information justifies conducting the requested clinical trial;

c) The clinical trial is planned in a scientific manner that allows responding to the examined question, and is described clearly, accurately and in detail in the trial protocol;

d) The risk for the participating patient is as small as possible, due to use of appropriate research methods and use of procedures that were already tried on human subjects or animals as much as possible. In addition, monitoring and tracing of the trial participants is optimal.

e) The trial participants will be selected respectively to inclusion and non-inclusion criteria according to the trial protocol;

f) The scientific consent form includes all required information as detailed in the procedure;

g) The trial plan includes instructions regarding protection of the participants' privacy and the confidentiality of collected information;

h) An organized trial monitoring mechanism is included in the trial plan;

i) Insurance coverage to trial participants is guaranteed by the trial initiator;

j) The initiator and principal investigator can allocate the resources required to properly perform the trial, including skilled human resources and required equipment;

k) The commercial relationship with the researcher and the institution at which the trial is conducted does not impair proper conduction of the trial;

l) In case some or all of trial participants may be exposed to unfair pressure or influence to participate in the trial – proper efforts will be conducted to minimize pressure or influence.

So far the company received all Helsinki Committee approvals required for its clinical trials.

2.10.2 Regulatory approvals for drug registration

The company's existing products and products that are planned to be marketed are drug products. Therefore, the production, sale and marketing of the company drug products and providing clinical laboratory testing services by the company are subject to receiving an approval for each service and product in each country where the company will request to market its products or provide its services. In order to obtain these approvals, the company has to comply with approval requirements, including safety conditions and quality assurance standards as required by each country.

The requirements for receiving an approval for selling the various company products and services, the period of examination by the various authorities for purposes of receiving an approval and the entailed costs vary between countries. Lack of approval for the company's products or services in a certain country will prevent selling the products and services in that country and may affect company revenues. The main markets in which the company plans to operate are USA, The European Union and China.

In the future, after completing the relevant development stages, the company intends to take actions for obtaining approval by the FDA which is required for marketing and selling the currently existing company products and other products whose development will be completed by the company in the future. As mentioned above, an approval will also be required for any change of the products that will be approved or for expanding product applications. As a preliminary stage, the company needs to be registered as a certified manufacturer.

After receiving an approval from the FDA, the company is obligated to market the product only for the purposes included in the approval. The FDA may conduct tests and inquiries in order to ensure that the company complies with legislation and licensing requirements. In addition, the company may monitor and trace its compliance with FDA requirements by a quality control system and thus significantly reduce failure probability and even caution regarding these faults in advance, in case detected. Not complying with requirements may result in sanctions against the company, including publishing a public warning regarding the product, imposing civil fines and compensations on the company, refusing to approve new products by the company or removing licenses for existing products.

2.10.3 Business license

The company has a business license since December 19, 2004 received from the municipality of Petah-Tikva for a drug development research laboratory located in the Company's offices, at 10 Bareket st, Petah-Tikva. The business license is valid until December 31, 2014.

2.10.4 Approval from Petah-Tikva Association of Towns (Fire Department)

An approval from the fire brigade services which is valid until May 2012. The approval was granted for the purpose of issuing a business license for the Company's offices and research laboratory.

2.10.5 Approval from the National Council on Animal Experiments

An approval from the National Council on Animal Experiments located at the Principal Scientists' offices from May 21, 2002 which determines that the Company is approved as an institution authorized to conduct experiments on animals.

2.10.6 Toxins Permit

A toxins permit was granted by the Ministry of Environmental Protection on January 9, 2008. The permit is valid until January 9, 2014. A toxins permit allows the Company to operate with substances defined in the permit addendum within its activities.

2.10.7 Radioactive Materials or Products Containing Radioactive Material License

Licenses that were granted on July 25, 2008 and are valid until July 25, 2012

2.11 Drugs under development

Summary

Drug Product	Clinical Indication	Product Development Stage (as of the prospectus day)	Milestones for the next 12 months	Next milestone to be reached	Estimated cost to reach next milestone	Estimated disease prevalence/ market size	Estimated date for drug on market	Estimated Market share for the product under development
CF101	Psoriasis	Phase 2/3	Interim analysis after 100 patients will complete enrolment	Announce data from the interim analysis on Q3/2012	$250,000	~2% of the world population; $3.5B	2016	20%
	Rheumatoid Arthritis	Phase 2b study	Finalizing Phase 2b study	Concluding Phase 2b on Q4/201 or Q1/20123	$250,000	~1% of the world population; $1B	2017	10%

Drug Product	Clinical Indication	Product Development Stage (as of the prospectus day)	Milestones for the next 12 months	Next milestone to be reached	Estimated cost to reach next milestone	Estimated disease prevalence/ market size	Estimated date for drug on market	Estimated Market share for the product under development
	Dry Eye Syndrome	Phase 3 clinical study		Study conclusion of H2/2013	$1M	~50M patients worldwide; $2B	2016	20-25%
	Glaucoma	Phase 2 clinical study	Interim analysis upon treatment completion of 44 patients.	Interim analysis on Q1 or Q2 2013	$150,000	~70M patients worldwide; $3B	2016	25%
	Uveitis	Preparatory work for a phase 2 study	Initiation of a Phase 2 study	Initiation of a Phase 2 study on Q1/2013	$100,000	~500,000-1M patients worldwide; $0.3B	2018	20%
	Osteoarthritis	Preparatory work for a phase 2 study	Initiation of a Phase 2 study	Initiation of a Phase 2 study on Q1/2013	$100,000	~15% of the world population (above 60 years old); $4.4B	2018	5-10%
CF102	Hepatitis C	Completed a Phase 1/2 study	Under consideration	NA	NA	~3% of the world population; $6B	NA	NA
	Primary Liver Cancer	Completed a Phase 1/2 study	Preparatory work for a phase 2 study	NA	NA	~630,000 diagnosed annually; $1B	NA	20-25%
CF602	Inflammatory Diseases	In pre-clinical stage	NA	NA	NA	NA	NA	NA

2.12 Material Agreements

2.12.1 Licensing agreement with NIH

A licensing agreement from January 29, 2003 between the Company and the governmental body in the USA which is authorized to sign technology and patent licensing agreements for NIH in USA. According to the licensing agreement, the Company received a unique and exclusive license for use of patent and products derived from these patents for use, sale, production and import of products based on these patents around the world. Subject to the agreement conditions, the Company is entitled to transfer the license to a sub-contractor under the condition that the sub-contractor accepts the agreement's principles.

The importance of this agreement is that the Company entered into an agreement with the NIH institute for using its laboratory that is known for its expertise in producing molecules that bind to the A3 receptor. Only few laboratories in the

world hold this sort of expertise and NIH is one of the leading laboratories in this field. In practice, the agreement granted the Company the ability to develop its leading drug, the CF101.

In return for the license granting, the Company pays royalties to NIH in the following manner:

a) The Company will pay an annual sum of 50,000 US dollars.

b) Royalties in the amount of 4%-5.5% from total net sales (as defined in the agreement).

c) Royalties in a total amount of up to 700 thousand US dollars subject to milestones of drug development, when most of the sum will be paid only after an approval by FDA or an equivalent authority.

d) Additional payments at a total of 20% from all payments received from any sublicense.

The agreement is valid until expiration of the last patent unless otherwise terminated according to the provisions of the agreement.

According to the agreement, the Company is obligated to comply with certain development milestones. On August 4, 2005 an amendment to the agreement signed with NIH extended the milestones dates. The amendment does not influence the conditions of the original license granted. In addition, CF101 and CF102 are within the scope of this agreement.

In addition to the agreement detailed above, the Company signed a CRADA agreement with NIH supported the finding of additional molecules. The agreement has expired. For additional details, see paragraph 2.12.3 below.

2.12.2 Agreement with Aderis

An agreement from May 6, 2002 (and amendment from May 28, 2003) with Aderis Pharmaceuticals Inc. (hereafter: "**Aderis**"[82]) grants the Company the rights for the exclusive use of a certain part of a patent owned by Aderis. The right to use Aderis patent complements the patent use rights granted to the company under the NIH agreement from January 29, 2003, described in paragraph 2.12.1 above.

This agreement is valid until expiration of the last patent owned by Aderis (as of agreement signing date, last expiration date is May 10, 2011) unless terminated in one of the manners described in the agreement.

The licensing agreement grants the Company exclusive usage rights of the patent owned by Aderis in return for 1.75%-2.75% from net sales. In addition, the Company will pay 2% of all payments received from sublicensing by the Company.

In addition, pursuant to the agreement, on August 8, 2002, 26,984 ordinary shares of the Company were issued to Aderis.

[82] To the best of the Company's knowledge and according to various publications in the media, Aderis discontinued its drug development activity and remained as an inactive corporation for the purpose of collecting royalties it is entitled to from license granting (including the license granted to the company).

According to the agreement with Aderis, the Company undertook to make maximal efforts for achieving several milestones of its development plan, including initiating Phase II trials in the USA. As of the prospectus date, the Company achieved this milestone.

2.12.3 Cooperative Research and Development Agreement with NIH

On January 23, 2006 the Company entered into a cooperative research and development agreement with NIH (hereafter: "**CRADA**"). The CRADA grants the Company exclusive access to a new group of small molecules which are A_3AR agonists, a result of Prof. Jacobson's work. This will enrich the drug pipeline researched and developed by the Company. Agonists are substances that bind to the receptor and activate it, thus creating the desirable activity. The CRADA relates to new small molecules which are A3 type adenosine receptor agonists (A_3AR) invented by Prof. Kenneth A. Jacobson from NIH. The A_3AR is currently the main target of the Company's drugs in stage of development. The CRADA principles are joint research where the company financed a researcher in Prof. Jacobson's laboratory with the purpose of finding molecules that bind to the A_3 adenosine receptor which may be efficacious in the treatment of autoimmune inflammatory diseases and cancer. According to CRADA rules, the Company has an exclusive option to receive a license from NIH for the molecules that will be developed, subject to the conditions that will be agreed between the parties on the date of exercising the option as mentioned, if such is exercised. This agreement supported the finding of various molecules, and has expired.

2.12.4 Agreement with Seikagaku Corporation

On September 22, 2006, the Company signed an exclusive licensing agreement for inflammatory indications including rheumatoid arthritis and excluding ophthalmic disease indications [83] for usage, development and marketing the CF101 company drug in Japan only[84] (hereafter: **"the agreement**") with Seikagaku Corporation, a Japanese pharmaceutical public company engaged in development and marketing of medical drugs and devices[85] (hereafter: "**the Japanese Company**").

According to the agreement and subject to the conditions of the aforementioned granted exclusive license, control of usage, development and marketing of the CF101 drug in Japan was transferred to the Japanese Company. The Company cannot prevent the Japanese Company from making financial, operative and strategic decisions associated with usage, development and marketing of the CF101 drug in Japan[86].

Within the framework of the agreement, the Company and the Japanese Company established a joint committee consisting of representatives from both parties in the agreement (hereafter: "**joint committee**"). The joint committee has no operative authority or authority to prevent financial, operative or strategic decisions which

[83] i.e. the company is not restricted and can develop CF101 by itself or through another partner for ophthalmic diseases or other indications such as cancer.

[84] The Japanese Company can request the Company to enter a negotiation for expanding the agreement's geographic range to all of Asia (excluding China and India).

[85] For additional details regarding the Japanese Company, see URL: www.seikagaku.co.jp/english

[86] Similarly, the Japanese Company cannot prevent the Company from making the abovementioned decisions regarding usage, development and marketing of CF101 outside of Japan.

relate to the separate activity of each party. The purpose of the joint committee is to serve as a joint source of experience and knowledge in the field of CF101 development. The committee is engaged with an exchange of opinions, proposals and ideas and mutual updates regarding the various CF101 development processes conducted separately by each party.

Upon signing the agreement, the Company received a sum of 3 million US dollars and an additional sum of 1.5 million US dollars (the additional sum is out of 2 million US dollars – participation in expenses), based on progress of certain milestones related with a Phase 2b trial conducted by the Company for rheumatoid arthritis indication[87]. The Company also received a sum of 500,000 US dollars due to royalties for 2007 and will continue to receive an identical sum on January 1st of each year until the earliest of: (i) submitting a proposal for a new drug to the regulatory authority in Japan or (ii) beginning of the fifth year of the signing of the agreement. The remainder of the sum to which the Company is entitled according to the agreement, 12 million US dollars, will be received according to the progress by the Japanese Company based on CF101 development milestones for treatment of rheumatoid arthritis in Japan.

Except for the sums detailed above, the Company will also be entitled for substantial royalties which are lower than 15% from sale of CF101 as marketed by the Japanese Company and additional revenues that will result from selling necessary raw materials for CF101 production and marketing to the Japanese Company. In addition, in case the Japanese Company decides to develop CF101 for additional indications besides rheumatoid arthritis, the Company will be entitled for an additional sum of up to 4 million US dollars, based on CF101 development milestones achieved for those indications.

The Company is obligated to pay a rate of 5% from part of the abovementioned sums as a commission fee to a Japanese Company which is an independent third party that served as a finder during the agreement consolidation.

The agreement is valid as of its signing date and until completion of all payments by the Japanese Company, excluding termination in case of substantial violation or bankruptcy.

As of prospectus date, due to the agreement detailed above, the Company has received a total sum of 7.5 million US dollars (about 30,810 thousand NIS) and about 2 million NIS due to annual royalties for 2011. The company haven't received any additional sums during the first quarter of 2012.

2.12.5 Cooperative Development Agreement with NIH

On January 16, 2008 the Company announced that it signed an additional M-CRADA cooperative agreement with NIH. The agreement was intended to support the development of CF101 drug for treatment of the uveitis ophthalmic disease and led to detecting the drug's efficacy in pre-clinical trials and to joint patent submittal with NIH. The agreement has expired. For additional details see paragraph 1.1.3 (1)(e)(i) above regarding development of CF101 for treatment of uveitis.

[87] This trial was conducted in the period between June 2006 and the end of April 2007. Final trial results were received during the third quarter of 2007. For additional details, see paragraph 6.1.3.1 above.

2.12.6 Agreement with Kwan Dong Pharmaceutical Co

On December 22, 2008 the Company announced that it has signed a license transaction (which includes an agreement to grant a license for CF101 drug and an agreement to invest in the Company's shares) with Kwan Dong Pharmaceutical Co[88], one of the leading pharmaceutical companies in Korea which has extensive experience in introducing new drugs on the Korean market (hereafter respectively: "**License Transaction**", "**License Agreement**", and "**KDP**").

According to the License Agreement, the Company will grant KDP a license for use of the CF101 company drug for treatment of rheumatoid arthritis only within Korea. In return the Company will be entitled for a payment of up to 1.5 million US dollars by KDP subject to achieving several milestones, including signing License Agreement, completion of a Phase II clinical trial for CF101 and receiving various regulatory approvals. In addition, the Company will be entitled for annual royalty based on CF101 sales in Korea.

In addition, the Company signed an investment agreement with KDP according to which KDP will purchase from the Company 2,382,602 shares which constitute about 1% of the Company's share capital (full dilution). KDP will purchase the Company shares at a price of 0.455 NIS per share, a price that represents a premium of 50% on the average closing price of the Company's share during ten days before the board of directors meeting on December 11, 2008 when the signing of the aforementioned agreements was approved.

On January 14, 2009 the Company reported that it completed the closing stage of the License Transaction. As of today KDP transferred a sum of about 3 million NIS to the Company, being part of this sum an advance to the Company on account of amounts which the Company is entitled due to the license agreement. A part of this sum is used for purchasing the Company\s shares within the framework of the investment agreement mentioned above, and the remainder at a total of about 800,000 NIS for achieving a milestone. The actual share issuance was executed on January 27, 2009. For additional details see Company reports from August 31, 2008 (reference: 2008-01-252105), September 9, 2008 (reference: 2008-01-260352), December 22, 2008 (reference: 2008-01-362733), December 31, 2008 (reference: 2008-01-376983) and January 14, 2009 (reference: 2009-01-013071).

2.12.7 On July 28, 2009, the Company announced the conclusion of a patent license transaction, according to which the Company licensed a patent from Leiden University in the Netherlands which is also associated with the American National Institute of Health (NIH). The patent license includes several compounds that belong to a new generation of allosteric compound drugs, and in practice provides the Company with knowledge and tools for developing the "next generation" of drugs in its pipeline. According to the agreement, the Company will pay a one-time license fee of about 137,000 thousand NIS (25,000 euro) and annual royalties in the amount of about 55,000 thousand NIS (10,000 euro) until clinical trials are initiated. In addition, the Company will pay up to 850,000 euro based on on-going milestones for the licensing of products based on the patent subject of the agreement, royalties at the amount of 2%-3% of net sales and additional payments as determined in this

[88] Additional details regarding Kwang Dong Pharmaceuticals Co Ltd. Can be found on the company site, URL: www.ekdp.com

agreement in return for assigning the agreement to another company within the framework of sublicensing. The allosteric compounds licensed under the patent, bind to and change the structure of A3 adenosine receptor which is the Company's technological platform. This process increases the affinity of the natural body substance – adenosine to the receptor, causes its over-expression and creates a strong anti-inflammatory activity. These compounds belong to the next generation of drugs that use natural body substances and intensify their activity for healing the inflammatory process without harming healthy body systems.

During pre-clinical trials conducted in the Company's laboratory, one of the compounds was detected as a drug with strong anti-inflammatory activity in small dose levels without side effects. The Company intends to expand the development plan in the field of inflammatory diseases to additional implementations such as Crohn's disease which is an acute chronic intestine inflammation.

2.12.8 Agreement with Plexus Ventures

On November 24, 2009 the Company entered into an agreement with Plexus Ventures, a company with international reputation, with the purpose of assisting the company with CF101 commercialization process. This agreement was signed after the Company announced the successful conclusion of two CF101clinical trials for treatment of psoriasis and dry eye syndrome. Within the agreement, Plexus Ventures will assist the Company in selecting the appropriate and suitable strategic partner for the drug's global registration and marketing stage. In return for these services, Plexus Ventures is entitled to US$115,000 dollars based on milestones as determined in the agreement and royalty of 1%-3% from price of transaction with the strategic partner in case such is found. Plexus Ventures, was established in 1990, provides strategic solutions pertaining to business development and assists in creating partnerships in the pharmaceutical and biotechnology field. Plexus has a team with wide proven experience in creating transaction in this field of business and widespread presence in USA, Europe, South America and Asia. The agreement ended in 2011 but Plexus is still entitled to royalties upon fulfillment of conditions as defined in the agreement.

2.12.9 Agreement with Morningside Fund

On January 19, 2010 the Company signed a memorandum of understanding with Morningside Asia Venture (HK) Limited from Hong-Kong regarding commercialization of CF102 drug in certain territory (hereafter respectively: "**memorandum of understanding**" and "**MAV**").

According to the memorandum of understanding, the Company and MAV will establish a limited company in Hong-Kong (hereafter: "**joint venture**") that will receive the commercial rights of CF102 in China, Hong-Kong, Macau, and Taiwan (hereafter: "**the territory**") and will be fully and exclusively responsible for the development process of this drug for the territory market. MAV will transfer all required funding for pre-clinical and clinical CF0102 development plan until completing Phase II at a total sum of 7.5 million US dollars, and the Company will act as an active partner in planning and supervising the required tasks. The Company will provide the joint venture with all relevant information in its possession regarding CF102 for receiving an approval for the drug in the territory. It

should be noted that the Company will have access to all clinical and pre-clinical results and data that will be developed by the joint venture and will be entitled to use all abovementioned data for any purpose outside the territory. The memorandum of understanding is not binding and it is subject to the signing of a final agreement. As of date of this prospectus , the parties are negotiating bona fide in order to sign a final agreement.

2.12.10 Agreement for Spinoff of Ophthalmic disease Field

On June 5, 2011 the Company announced signing an binding agreement for spinning off the Company's activity in the field of ophthalmic disease to a public company in USA in return for the issuance of shares of the company granting control of the spinoff company. The spinoff will be executed by granting an exclusive license for CF101 in the ophthalmology field to an Israeli private company, which is the Company's subsidiary. Upon conclusion of the transaction, the aforementioned subsidiary shares were transferred by the company to OphthaliX[89] that will raise a sum of 5 million dollars concurrently with the conclusion of the transaction (hereafter: "**OphthaliX**") so that the subsidiary will become a subsidiary under full ownership by OphthaliX in return for the issuance of OphthaliX shares to the Company so that after the conclusion of the transaction the Company will control the share capital of OphthaliX and will appoint all of its board of directors (hereafter: "**spinoff transaction**"). OphthaliX will continue the development process, clinical trials and registration of CF101 for ophthalmic diseases. The conclusion of the spinoff transaction was subject to a number of conditions, including: (a) OphthaliX Fundraising of an amount of at least 5 million US dollars; (b) receiving pre-ruling from the Israeli tax authority for transfer of the subsidiary shares to OphthaliX; (c) completing the license agreement between the Company and the subsidiary; (d) completing legal, financial and business, due diligence of OphthaliX by the Company, etc. The parties agreed that they intend to try and conclude the spinoff transaction until June 30, 2011[90]. On November 22, 2011 the Company announced the conclusion of the transaction[91].

The following is the spinoff transaction outline:

(1) A license agreement between the Company and Eyefite, a subsidiary under full ownership by the company (hereafter: "**License Agreement**") according to which the Company grants Eyefite an exclusive, non-transferrable license, for the use of the Company's knowledge as detailed in the License Agreement in the field of ophthalmic disease only, for research, development, commercialization and marketing around the world. Eyefite will be able to grant a sub-license subject to the License Agreement and its provisions. In return for granting the license according to the agreement, the Company received 1,000 shares of Eyefite 0.01 NIS nominal value each which granted the Company 100% of issued and outstanding capital of Eyefite. Eyefite

[89]Previously named: Denali Concrete Management Inc.

[90]For additional details see the company's report from June 5, 2011 (reference: 2011-01-175638). Following this report the company announced an extension of the period for conclusion since not all conditions for transaction conclusion were fulfilled (reference: 2011-01-199566), (reference: 2011-01-232185), (reference: 2011-01-257337) and (reference: 2011-01-317031).

[91] For additional details, see the company's immediate report as of November 22, 2011 (reference: 2011-01-334200).

undertook to make all efforts to begin Phase III trial of the product pertaining to the license within a year, and will be able to receive extensions according to the License Agreement, provided that the delay is not caused by circumstances in Eyefite's control. In case the trial will not begin after these extensions, not due to circumstances which are not in Eyefite's control, this will be considered as a material breach of the License Agreement. According to the License Agreement, Eyefite will be obligated to pay the National Institutes of Health, the Centers for Disease Control and Prevention in USA (hereafter: "**NIH**") royalties and payments to NIH based on the Company's obligations, as detailed in paragraph 2.12.1 of the company's periodic report for 2011, from March 31, 2011 (reference: 2011-01-101847). All inventions derived from the product subject of the license will belong to the Company, whether invented solely by the Company, solely by Eyefite, or jointly by the two parties, whilst the Company grants Eyefite an exclusive free license to use these inventions in the field of ophthalmic disease around the world. The license is valid until expiration of the last patent subject of the License Agreement, unless terminated beforehand under mutual agreement in writing or according to the License Agreement sections by one of the parties.

(2) On November 20, 2011, the Company announced the issuance of 17,873,054 Company shares to OphthaliX by virtue of the significant private placement by the Company on November 20, 2011. The value of the Company shares, based on the price of the company shares on the issuance day and on the dollar exchange rate on November 18, 2011 is about 2.4 million dollars, in return for the issuance of 2,097,626 OphthaliX shares to the Company in connection with the spinoff transaction, at a price of 1.144 US dollar each, which represents a value of about 50 million US dollars before the aforementioned company's shares issuance and before the OphthaliX Fundraising whose principles are detailed in paragraph (7) below[92]. In parallel, in return for the issuance of 437,005 OphthaliX shares the Company, the Company invested a total of 0.5 million US dollars within the framework of a private issuance, at a price of 1.144 UD dollars per each OphthaliX share, which represents a value of about 50 million dollars for OphthaliX before the Company's shares issuance as mentioned above and before OphthaliX Fundraising whose principles are detailed in paragraph (7) below.

(3) The Company transferred 100% of Eyefite issued and outstanding capital to OphthaliX, so that Eyefite became a subsidiary under full ownership of OphthaliX, in return for the issuance of 36,000,000 OphthaliX common shares which constitute 86.7% of OphthaliX issued and outstanding capital. It should be noted that the issuance of the abovementioned 36,000,000 shares was in addition to the issuance of 2,097,626 OphthaliX shares to the Company in return for the issuance of 17,873,054 Company shares to OphthaliX by virtue of the significant private issuance detailed in paragraph (2) above and in addition to the issuance of 437,005 OphthaliX shares to the Company in return for the investment of 0.5 million US dollars in OphthaliX as detailed in paragraph (2) above.

[92] For details, see the company's immediate report as of November 20, 2011 (reference: 2011-01-332676).

(4) Upon conclusion of the spinoff transaction, the Company appointed all of OphthaliX board of directors which are Prof. Pnina Fishman, Mr. Guy Regev and Mr. Ilan Cohen. OphthaliX will continue development process, clinical trials and CF101 registration for ophthalmic diseases. This, among others, by receiving services from the Company within the framework of the service agreement detailed below. On February 7, 2012 Prof. Roger D. Kornberg was appointed as a director at OphthaliX Inc.

(5) A service agreement (hereafter: "**Service Agreement**") was signed between OphthaliX and Eyefite (hereafter collectively: the **"Group**"). The agreement includes providing service management by the Company for the group of all pre-clinical and clinical research activities, production and supply of drugs related to the service agreement, and payment to the consultants detailed in the agreement due to their involvement in clinical trials and all activities related to launching a drug for ophthalmic diseases. In return for the aforesaid services, the Company will be paid for such services costs and expenses with an addition of 15% and a return of actual expenses paid by the Company due to maintenance of patents for which a license was granted to Eyefite. In addition, the Company will be entitled for an additional payment at a rate of 2.5% from any receipt by the Group in connection with the transferred knowledge license (hereafter: the "**Additional Payment**"). During a period of 5 years after the date of signing the Service Agreement, the Company is entitled to convert the Additional Payment into 2,160,102 OphthaliX shares (which constitute about 5% of OphthaliX shares based on full dilution as of the spinoff transaction conclusion date), in return for an exercising price determined in the Service Agreement. The Service Agreement is unlimited in time, but after a year from signing the agreement, each party will be entitled to terminate the agreement with a 6 months' notice, or a shorter notice in special cases, as detailed in the Service Agreement.

(6) The Company received a pre-ruling from the Israeli tax authority, pursuant to which it was approved that: (1) granting a license to Eyefite is not taxable according to paragraph 104a to the Revenue Tax Order (new version) 1961 (hereafter: the "**Order**"); (2) OphthaliX will be considered as a receiving company according to paragraph 109c (7)(b) of the Order; (3) the sale of Eyefite shares to OphthaliX in return for OphthaliX shares is not taxable according to the instructions of paragraph 103 (k) of the Order (hereafter: "**Structure Change**"); and (4) date of Structure Change has been determined. According to the tax arrangement, it was determined that the date of Structure Change will be the date of shares exchange and notifying the assessing officer, and that Eyfite and the Company are obligated to submit the required forms according to the order and derived regulations to the assessing officer and to the mergers/spinoffs department. In case the forms are not submitted at the abovementioned date, the taxation decision will be considered as cancelled retroactively. In addition, the tax arrangement determined that granting a license to Eyefite in return for Eyefite's share issuance to the Company will not be taxable according to the provisions of paragraph 104a of the Order.

(7) Upon conclusion of the aforementioned spinoff transaction, OphthaliX raised a sum of about 3,330,000 US dollars from an investment group by way of a private issuance (hereafter: "**Group of Investors**") in return for 2,910,455

ordinary OphthaliX shares which constitute about 6.2% from OphthaliX issued and outstanding capital after the above issuance (hereafter: "**OphthaliX Fundraising**"). It should be noted that within the framework of the OphthaliX Fundraising, the Group of Investors required that the board of directors will express involvement and support of the OphthaliX Fundraising. Therefore, Prof. Pnina Fishman, the CEO of the Company and one of its directors, responded to the request and invested a sum of 50,000 US dollars, after receiving an approval by the audit committee and the board of directors on November 21, 2011. In addition, Mr. Guy Regev, a director of the Company, purchased OphthaliX shares from previous OphthaliX shareholders for the sum of 75,000 US dollars after receiving an approval by the audit committee and the board of directors on November 21, 2011. The Capital Raising for OphthaliX was executed at a price of 1.144 dollar which represents a pre-money valuation of about 50 million dollars for OphthaliX, prior to the OphthaliX Fundraising. After the OphthaliX Fundraising, the Company holds about 82.3% of OphthaliX issued and outstanding share capital and OphthaliX value is about 56.5 million US dollars.

(8) Within the framework of OphthaliX Fundraising, the Company committed to the Group of Investors that concurrently with conclusion of OphthaliX Fundraising, it will take actions for completing the following:

(a) The rights for CF101 drug for treatment of ophthalmic diseases only (the "**Drug**") according to the license agreement will be transferred only in return for the issuance of OphthaliX shares to the Company and without any obligations for payment due to the transfer for any reason, except for those detailed in the license and service agreements. OphthaliX will not be required to pay retroactive payments to the Company for any reason related to the drug, except for the drug for trials in dry eye syndrome (Phase 3) and glaucoma (Phase 2) that will be transferred to the Company at cost price.

(b) The Company committed not to withdraw any funds from Eyefite and/or OphthaliX, except for payment due to the service agreement that was signed between the Company and OphthaliX, pursuant to which the Company will receive payment at a rate of cost and a 15% addition (see service agreement description above).

(c) In addition, the Company undertook the responsibility upon conclusion of OphthaliX Fundraising, to take actions for performing the following (as the new controlling shareholder of OphthaliX):

(i) Appointing a CEO and Finance Manager to OphthaliX within a reasonable time after completing OphthaliX Fundraising, subject to OphthaliX financial sources;

(ii) Renaming OphthaliX as will be determined by OphthaliX board of directors;

(iii) Appointing Dr. Ben-Zion Weiner as the head of the consulting committee and the head of the R&D committee of OphthaliX, subject to his consent;

(iv) Appointing Prof. Roger D. Kornberg as director in OphthaliX, subject to his consent;

(v) Appointing an additional director in OphthaliX, subject to his consent;

(vi) Approval of any transaction between OphthaliX and/or Eyefite and the Company which is not within the framework of the service agreement will be subject to obtaining approval of OphthaliX board of directors, provided that at least one of the directors that was not appointed to OphthaliX board of directors on behalf of the Company voted in favor of the transaction approval;

(vii) OphthaliX will perform all activities and carry the required expenses for releasing investors' shares from restriction according to Rule 144, mainly receiving appropriate opinion, changing legend and so on;

(viii) The Company will not sell OphthaliX shares held by it during a period of two years after conclusion of OphthaliX Fundraising;

(d) In case of a private or public issuance based on a share price that represents a lower value than the present issuance price for OphthaliX (which is about 50 million US dollars) during 12 months after conclusion of OphthaliX Fundraising, the Company will take actions so that OphthaliX will make issuance of OphthaliX shares to the group of investors without additional compensation as if the investors made their investors according to the lower price.

2.12.11 **The Company has the following royalties' liabilities:**

The organization entitled for royalties	The License	Royalties	Royalties and payments	Comments
NIH	Exclusive license for use of patents relating to CF101 and CF102	Royalties on drug sales (if and when the drugs will be approved for marketing by the relevant regulatory authority) Milestone payments Percentage from all payments received from sublicense	Royalties in the amount of 4%-5.5% from total net sales Annual sum of $50,000 Initiation of phase 1: $25,000 Initiation of phase 2: $75,000 Initiation of phase 3: $100,000 Marketing approval: $500,000 20%	Aderis is entitled for 1.75%-2.75% from net sales + 2% of sublicensing of CF101
Leiden University	Exclusive license for use of patent relating to CF602	Royalties on drug sales (if and when the drugs will be approved for marketing by the relevant regulatory authority)	Royalties in the amount of 2%-3% from total net sales	

		Milestone payments Percentage from all payments received from sublicense	Annual sum of €10,000 Initiation of phase 1: €50,000 Initiation of phase 2: €100,000 Initiation of phase 3: €200,000 Marketing approval: €500,000 2% of sales by sublicense owner + 10% from payments of sublicense granting	

2.12.12 Professional Liability Insurance

The Company holds a worldwide product/clinical trial liability insurance which covers the CF101 and CF102 drugs for clinical trials at a sum of 3,000 thousand US dollars for a period not later than January 6, 2013 with an annual premium of about 25,000 US dollars.

In addition, the Company insured (by an insurance policy) a Phase 2b trial of rheumatoid arthritis which provides the trial participants with an insurance coverage at a sum of at least 3,000 thousand US dollars in addition to the minimal insurance coverage, at a total premium of 10.3 thousand US dollars per year, for a period not later than June 2012.

In addition, the Company insured by an insurance policy the Phase 1/2 trial of liver cancer which covers up to 25 trial participants with an insurance coverage limit of 3,000 thousand US dollars and a minimal premium of about 1.5 thousand US dollars per year, for a period not later than June 2012. The insurance coverage is based on the Declaration of Helsinki and on the fact that the trials will be conducted only in Israel, according to the protocols of the Ministry of Health.

In addition, under product insurance, the Company insured by an insurance policy the Phase 2/3trial of psoriasis which covers up to 100 trial participants in various countries with an insurance coverage limit of 3,000 thousand US dollars and a minimal premium of about 12.7 thousand US dollars per year, for a period not later than December 2012.

In addition, under product insurance, the Company insured by an insurance policy a Phase III trial of dry eye syndrome which covers up to 231 trial participants in various countries with an insurance coverage limit of 3,000 thousand US dollars and a minimal premium of about 31.3 thousand US dollars per year, for a period not later than December 2012.

2.13 Funding

2.13.1 The Company signed an agreement with a Japanese Company according to which the Japanese Company will fund a part of the company's activity. For additional details see paragraph 2.12.4 above.

2.13.2 On May 27, 2010 the Company published a shelf prospectus. According to the prospectus**,** the Company will be able to perform additional capital

raising from the public as needed within 2 years after date of publishing the shelf prospectus by publishing a shelf offering report for issuance of securities detailed in the shelf prospectus. On October 2010, the Company published a shelf offering report within which it raised a total of 10,980 thousand NIS (gross). On November 2011, the Company published a shelf offering report within which it raised a total of 6,380 thousand NIS (gross).

2.13.3 The Company signed a license agreement with KDP according to which the Company will be entitled for various payments for achieving drug development milestones and royalties. For additional details see paragraph 2.12.6 above.

2.13.4 The Company intends to consider additional capital raising for funding of further Company products development.

2.14 Human Resources

As of prospectus date, there are 8 employees in the Company:

Role	**As of prospectus date**	**31.3.2012**	**31.12.2011**	**31.12.2010**	**31.12.2009**
Management and Administration	3	3	4	3	3
Research & Development	5	6	7	10	10
Total employees	8	9	11	13	13

There was no significant change in the number of the Company's employees during the last years. As of date of prospectus , three of the Company's employees hold a PhD degree, 3 hold a Master degree in science and computers and one is a lawyer.

The Company has no dependence on any of its employees exclusive of Prof. Pnina Fishman – for details see paragraph 2.18 below.

2.15 Taxation

2.15.1 Tax Rates Applying to the Company and its Subsidiaries

Company tax rate in Israel was 26% in 2009, 25% in 2010, and 24% in 2011. A corporation owes tax on real capital profit at a company tax rate relevant to the year of sale. According to a temporary order for 2006-2009, a sale of an asset which is not a security traded on the stock exchange (excluding unpaid goodwill) that was purchased before January 1st, 2003 and sold until December 31, 2009 will carry a tax on the real capital profit part that is linearly associated with the period until December 31, 2002 at the fixed rate determined in the order for year of the sale, and a tax on the real capital profit part that is linearly associated with the period from January 1st, 2003 at a rate of 25%.

On December 5, 2011 the Knesset passed the Tax Burden Law amendments) 2011 (hereafter: "Law"). The Law, among other, cancelled the reduction outline of company tax rates, and raised the company tax to a rate of 25% as of 2012. Due to the raise of the company tax to 25% as aforementioned, the rates of tax on real capital profit and of real gain were also raised respectively. The aforementioned change has no impact on the financial statements.

The main tax rate which applies on the subsidiary which is incorporated in the US is a weighed tax rate of about 35% (federal tax, state tax and city tax in which the company operates).

2.15.2 Final Assessments

According to paragraph 145 of the income Tax order, the assessments for tax year until 2007 (including) are considered as final assessments.

2.15.3 Losses transferred for tax purposes

As of December 31, 2011, the Company has transferred losses for income tax purposes at the amount of about 232,530 thousand NIS.

2.16 Environmental Risks and their Management Methods

The Company's main activity is concentrated in its offices and laboratories located in Petah-Tikva. The Company is taking actions for regular disposal of biological and toxic waste by certified suppliers as required by law. In addition, the Company complies with legislation requirements regarding environmental protection and a toxins permit. As of prospectus date, the annual current costs invested by the Company in order to comply with the relevant environmental protection instructions are not significant.

Within the framework of environmental risks management, the laboratory personnel have an ongoing communication with the Ministry of Environmental Protection in order to verify compliance with relevant instructions and regulations. All laboratory personnel are instructed on the subject of proper work with hazardous substances.

An additional environmental risk derived from the Company's activity is related to working with chemical substances. In this context, all laboratory personnel participate in an instruction on the subject before beginning employment, including periodic refreshments. The information regarding any chemical substance in use by the company is filed and stored as an MSDS (Material Safety Data Sheet). Work with volatile chemical substances is carried out in designated fume closets and waste disposal is carried out according to regulations by a subcontractor.

As of date of this prospectus , the Company is not aware of any event related to its activity that causes or may cause damage to the environment. The Company, and to the best of its knowledge, all officers of the Company, are not involved in any significant legal or administrative procedure related to protection of the environment.

2.17 Business Strategy and Objectives

The Company's first and foremost business strategy is promoting its drugs to advanced clinical stages while building value for the Company and its products. In

addition, the Company will strive to find strategic partners for further development and marketing of drugs in its pipeline.

As part of this strategy implementation, the Company intends to continue developing CF101 for treatment of inflammatory diseases including psoriasis, rheumatoid arthritis and ophthalmic diseases (via OphthaliX) which include dry eye syndrome, glaucoma and uveitis.

In parallel, the Company is developing its CF102 drug for treatment of liver diseases which include liver cancer and hepatitis C[93].

The Company also intends to continue directing resources for further activity in research and development of additional drugs in its pipeline such as CF602 for indications in the field of additional inflammatory diseases.

As detailed above, and in relation to financial estimations detailed above, there is a possibility of deviation from these estimates due to requirements and recommendations by regulatory requirements such as the FDA.

The Company's management predicts that within the next year it will continue patients' enrolling for clinical trials conducted on CF101 for rheumatoid arthritis and psoriasis. In addition, OphthaliX will continue CF101 trials for dry eye syndrome and glaucoma and will make preparations for a Phase II trial for uveitis. Furthermore, the Company predicts that it will make preparations for a phase II trial of CF102 for liver cancer.

As part of this strategy implementation, the Company will conduct a series of pre-clinical and clinical trials of drugs in development that will be required in the future.

Business strategy and forecast

Drug Product	Current Status	2012	2013	2014
CF101	An ongoing Phase 2/3 in Psoriasis, Phase 2b in RA and via OphthaliX: Phase 3 in Dry Eye Syndrome and Phase 2 in Glaucoma	Data release from the psoriasis Phase 2/3 interim analysis.	Continue to conduct Psoriasis Phase 2/3 based on the interim analysis data. Completion of the RA Phase 2b on Q4/2012 or Q1/2013 followed by design of the Phase 3. Initiation of Phase 2 in Osteoarthritis. Announcing the interim analysis data of the Glaucoma Phase 2 study. Data release of the Phase 3 Dry Eye study	Data release of the full Phase 2/3 study .in Psoriasis. Initiation of RA Phase 3 clinical study (pending of the Phase 2b study). Initiation of the second Phase 3 study in Dry Eye Syndrome.
CF102	Phase 2 study design for patients with primary liver cancer.	Preparatory work for a Phase 2 study in patients with primary liver .cancer.	Phase 2 study initiation	Phase 2 study - ongoing
CF602	Pre-clinical studies	Continue drug development program pending	Continue drug development program pending on	Continue drug development program pending on

[93]For additional details see the company's report from October 8, 2006 and from February 18, 2007.

		on additional fund raising	additional fund raising	additional fund raising

The Company estimations regarding its objectives and business strategy contain forward looking information. This information is not certain and is based on the existing information in the Company as of prospectus date. The actual results may differ significantly from the estimations derived from this information, since clinical development of a drug is highly uncertain, and therefore, among other, there is no certainty that schedule for development and receiving preliminary clinical results for CF101, CF102, or one of the Company's other drugs will indeed materialize in the manner expected by the Company's management.

2.18 Forecast for Developments in the Next Year

The Company's management predicts the following developments in the next year:

a) Continuing enrolling patients for a Phase 2/3 trial of CF101 for psoriasis and publishing interim results after 100 patients.

b) Continuing enrolling patients for a Phase 2b trial of CF101 for rheumatoid arthritis.

c) Preparatory work for the conductance of a Phase 2 trial of CF102 for liver cancer.

d) Further pre-clinical development of the CF602 drug.

e) Continuing enrolling patients for a Phase 3 trial of CF101 for dry syndrome (via OphthaliX).

f) Continuing enrolling patients for a Phase 2 trial of CF101 for glaucoma (via OphthaliX).

g) Preparations for a Phase 2 trial for uveitis (via OphthaliX).

The Company estimations regarding developments in the next year contain forward looking information. This information is not certain and is based on the existing information in the Company as of prospectus date. The actual results may differ significantly from the estimations derived from this information, since there is no certainty regarding further development of the trials planned and/or conducted by the Company.

2.19 Risk Factors Discussion

2.19.1 Affiliated Risks

2.19.1.1 The Company, as any company involved in the medical field, is subject to approvals, licenses and supervision from governmental and global entities related to environmental protection, toxins, medicine and so on. In case of changes of law orders related to company activity, it may

result in substantial expenses by the Company or discontinuation of development of several Company drugs.

2.19.1.2 The Company, as a biotechnology company, depends on external funding so in practice it does not carry substantial revenues while its development expenses are high and continuous as long as proceeding with various products development. It is possible that at a certain stage the company will run out of funding resources and will not be able to continue funding its activities.

2.19.1.3 Dependence on skilled and professional human resources – the Company, as a company that develops products and drugs in the medical field, is required to have skilled human resources that will be able to perform the required tasks with the utmost skill and professionalism in order to achieve optimal results under maximal supervision.

2.19.1.4 The Company, as a company that develops drugs and conducts trials, requires healthy volunteers and patients for conducting its trials. In many cases there is a difficulty in enrolling participants, especially patients, due to the fact that sometimes there is actual competition for these patients (especially in cases of patients with terminal diseases), and the fact that the patients use additional drugs which may negate the possibility of conducting trials on these patients.

2.19.1.5 As a result of the Company's activity in the field of drug development, the Company is exposed to legal procedures due to possible side effects of the drugs developed by the Company. Drug side effects are known occurrences, especially during drug development. There is no certainty that no side effects will be discovered for one or more of the Company's drugs, thereby exposing the Company to various legal claims.

2.19.1.6 A possibility of similar drugs development by competing companies – for additional details regarding competition – see paragraph 2.6 above.

2.19.2 Unique Company Risks

2.19.2.1 The Company, as a start-up company in the field of biotechnology is actually based on the potential of its developments and future products and currently the Company does not have any substantial revenues excluding various capital raises. In case any of the Company's main products do not actualize into a product with marketing probability, further existence of the company will be greatly questionable. Since the field in subject is drug development, there is no certainty that the Company trials on its products will be successful, and as mentioned above, in case these trials will fail, the Company's existence will be greatly questionable. It should be emphasized that there are many uncertainty elements in medical research and one should not rule out the possibility that the Company will not be successful in continuing to demonstrate the drug's efficacy and safety or that the drug will be found less efficacious than expected or toxic. In addition, it is not possible to rule out the possibility of development of other drugs by competitors that

will compete with the Company drugs and capture a substantial market segment.

2.19.2.2 The Company is dependent on Prof. Pnina Fishman, the Company's founder, director and CEO. In case Prof. Fishman will not hold one of her positions in the Company for any reason, the Company may suffer great damage, both in the technological aspect since the Company's developments are based on Prof. Fishman's researches, and in the business aspect since Prof. Fishman is known as the driving force behind the Company. In case Prof. Fishman discontinues her activity in the Company, it may take a while until a prominent scientist will be able to continue managing the company's scientific research, and until a replacement is found for the CEO position. Nevertheless, it should be emphasized that in all matters related to clinical aspect – regarding continuing existing trials and initiating future trials based on CF101 and CF102, Prof. Fishman's departure will not significantly delay the Company's clinical activity as detailed above.

2.19.2.3 The Company may not have sufficient insurance coverage despite of its various insurances due to the possibility of claims above the policy's coverage limit or in case of claims that are included in the Company's insurance policy exceptions.

2.19.2.4 The Company, as a company that develops medical drugs and products, is greatly based on protecting its intellectual property. An impairment of its intellectual property by a violation of any of the patents listed in the Company's name or those granted to the Company via an exclusive license may severely damage the Company business since without protection of the Company's intellectual property, it is not possible to prevent from another third party to execute and develop the Company efforts of many years without carrying heavy development expenses that the Company has carried during the years. An additional related aspect is the possibility that the Company will violate a patent of another party, which may result both in legal claims and loss of development work due to the fact that the Company will not be able to commercialize any development that is not related to its intellectual property.

2.19.2.5 The Company, as a small biotechnology company without any manufacturing, marketing and sales abilities, will be required to collaborate with another party or try to create production, marketing and sales arrays in order to actualize the potential of its products, in case the Company products will reach a stage where the Company can commercialize its inventions.

2.19.3 Summary of Risk Factors

The following is a summary table of the risk factors detailed above:

Risk Factor	Short Description	Level of Influence on Company Business		
		High	Medium	Low
Affiliate Risks	Adherence to certain medical and environmental laws, licenses, and permits.	√		
	A biotechnology company dependent on external funding since in practice it does not carry revenues while carrying high development expenses.	√		
	Dependence on skilled and professional human resources.		√	
	Conducting trials requires patient volunteers that are sometimes difficult to enroll.	√		
	Possible side effects from usage of drugs, especially drugs in development – may lead to legal claims.		√	
	Development of competing drugs.			√
Unique Company risks	Many uncertainty elements – unsatisfactory results, delay or failure of one of the Company drugs – there is no guarantee for a successful trial or lack of side effects.	√		
	The Company is dependent on Prof. Fishman, the Company's founder, director and CEO.	√		
	The Company's insurance coverage may not be sufficient in case of legal claims.		√	
	Due to high dependency on patents and protection of intellectual property, there is a possibility of existing patents violations.	√		
	In the future, when the Company drugs will reach production stage, the Company			√

Risk Factor	Short Description	Level of Influence on Company Business		
		High	Medium	Low
	will be dependent on production agents since it is not equipped for mass drug production.			
	In the future, when the Company's drugs will reach production and marketing stage, the Company it is not equipped to market its drugs.			√

2.20 Additional Details regarding Subsidiaries of the Company

Company Name	Share type	Holding rate in % capital	Holding rate in % voting	Adjusted cost in thousand NIS as of 31.3.2012	Adjusted balance value in thousand NIS as of 31.3.2012	Loan balance as of 31.3.2012
Ultratrend Limited[94]	ordinary	100%	100%	--	--	--
Eyefite Limited[95]	ordinary	100%	100%		2,787	
OphthaliX Inc. (Previous name: Denali Concrete Management Inc.)	ordinary	82.3%	82.3%		(4,071)	

The following is a detailed profit (loss) (in thousand NIS), before and after tax of the Company's subsidiary, held directly by the Company, the dividend received or entitled to the Company for the years ending on December 31, 2012 and December 31, 2011, 2010, 2009:

Company Name	Profit (loss) before tax				Profit (loss) after tax				Dividend				Management Fees			
	1-Jan March 2012	2011	2010	2009	1-Jan March 2012	2011	2010	2009	1-Jan March 2012	2011	2010	2009	1-Jan March 2012	2011	2010	2009
Ultratrend Limited[94]																
Eyefite Limited[95]	1,862	889			1,862	889										
OphthaliX Inc. (Previous name: Denali Concrete Management Inc.)	8,809	4,312			8,809	4,312										

[94] The subsidiary is yet to begin its activity – the main objective of this subsidiary is to centralize the logistics of organizing a multinational Phase IIb trial. As of prospectus date, this subsidiary has no significant activity.

[95] On November 22, 2012 the Company transferred 100% of Eyefite Limited issued capital to the subsidiary OphthaliX Inc.

Board of Directors Explanations of the Company's Business Status as of December 31, 2011

1. General information from the Company's Business Description

The Company was established in September 11, 1994 as a private company in Israel according to the Companies Ordinance [new edition], 1983, under the name Can-Fite Technologies Ltd, with the purpose of engaging in any business, investment, or other transactions. On January 7, 2001 the Company changed its name to the current name.

The Company was founded based on the research of Pnina Fishman, Ph.D., a renowned scientist who is the Company's founder and currently serves as a director and the Company's CEO. In her study, Dr. Fishman demonstrated that one of the reasons accounting for muscle resistance to tumor metastasis is the release of small molecules by the muscle tissue that possess robust anti-cancer activity. It was further found that the small molecules are agonists at the A3 adenosine receptor. Synthetic agonists are currently the company drugs under development for the treatment of autoimmune inflammatory, cancer and ophthalmic diseases.

On November 22, 2011, the Company announced the completion of a spinoff of the Company's activity in the field of ophthalmic diseases to a public company in USA against a private placement of shares to the Company in a manner that provides to the Company a controlling stake of the spinoff company. The spinoff was executed by granting an exclusive license for the CF101 drug in the ophthalmic diseases field only to a private Israeli company, which is the Company's wholly owned subsidiary, and its shares were transferred by the Company to OphthaliX Inc. (previously Denali Concrete Management Inc.), an American public company whose shares are quoted on OTCBB (Over the Counter Bulletin Board) in USA, ticker symbol (OTC BB: OPLI) (hereafter: **"OphthaliX"**)[1] , so that the subsidiary will become a subsidiary under full ownership of OphthaliX in return for a placement of OphthaliX shares to the Company in a manner that will grant to the Company control of OphthaliX's share capital

[1] On January 31, 2012 Denali Concrete Management Inc. completed its name change to OphthaliX Inc. and as of February 1, 2012 its OTC ticker symbol is OPLI.

(82%), while OphthaliX continues development, clinical trials and registration processes of the CF101 drug for ophthalmic diseases (hereafter: the "**Spinoff Transaction**"). For a detailed description of the Spinoff Transaction for ophthalmic diseases field, see item 2 under exceptional events during the balance sheet period below.

The Company is a research and development company with several ethical drugs in development. The Company's leading drug, CF101, is at an advanced stage of clinical development. The drug is being tested for several diseases, as follows:

1. **Dry Eye Syndrome:** On May 2009, the Company announced that the trial conducted on CF101, given as a standalone, met its objectives. The trials' results indicate a substantial improvement in patients' condition (over 80% of the patients that were treated with CF101) with a significant improvement in corneal staining, which was the study primary endpoint. Maximal safety was observed during the entire trial period, where it became evident that the drug has an additional activity that is manifested in decreasing intraocular pressure in the patients' eyes. On September 2010, the Company announced that following successful conclusion of this study, the FDA approved a Phase 3 clinical study protocol for the treatment of dry eye syndrome with CF101. The study will include 231 patients that will be treated with 2 dosages of CF101 vs. placebo for a period of 6 months. Patient enrolment was initiated on December 2011. The primary endpoint will be % of patients reaching complete corneal staining vs. placebo. The trial is currently conducted in several medical centers in Israel, Europe and USA. As mentioned above, the spinoff transaction, completed on November 2011, included transferring the performance of the trial and the intellectual property rights pertaining to CF101 development for ophthalmic diseases (including dry eye syndrome) to Ophthalix - see item 2 under exceptional events during the balance sheet period below.

2. **Psoriasis:** On September 2009, the Company announced that the trial conducted with CF101 as a standalone drug vs. placebo was successfully completed. Analysis of mean change from baseline in PASI score at week 12 revealed a statistically significant difference between the 2 mg CF101- treated group and the placebo group ($P < 0.001$ vs. baseline and $P = 0.03$ vs. placebo). Analysis of PGA score revealed that 23.5% of the patients treated with the 2 mg CF101 dose achieved a score of 0 or 1, in comparison with 0% in the placebo group. 35.3% of patients in this group achieved PASI≥50 response. CF101 was safe and well tolerated throughout the study. For additional details regarding the trial and its results, see the Company's report from September 7, 2009 (reference: 2009-01-224592). On June 2010, the Company announced that it obtained an FDA approval for conducting a Phase II/III clinical trial with CF101for the treatment of psoriasis. Patients' enrollment for the trial that will include about 300 patients and will be conducted in several medical centers in Israel, Europe and USA was initiated on August 2011... On April 23, 2012 the Company announced the conclusion of enrolling the first 100 patients for a Phase II/III trial of CF101 for treatment of psoriasis. After a treatment of the first 100 patients during 3 months, an interim report will be carried out by an external experts committee. The report will include a recommendation by the committee whether to proceed with the trial and complete enrolling all 300 patients for the trial.

3. **Glaucoma:** the Company initiated patients' enrollment for a Phase II trial of CF101 for the treatment of glaucoma after it was proven that the drug reduces intraocular pressure of patients in the Phase 2 dry eye syndrome trial. For details regarding the spinoff transaction which included transferring the performance of the trial and the intellectual property pertaining to CF101 development for ophthalmic diseases (including glaucoma) to Ophthalix – see paragraph 2.2 below.
4. **Rheumatoid Arthritis:** the drug was found efficacious as a standalone in a Phase IIa trial. The Company initiated patients' enrollment for a Phase IIb trial of CF101 as a standalone for the treatment of rheumatoid arthritis.

The second drug in the Company's development pipeline, CF102, is intended for the treatment of liver diseases such as liver cancer and hepatitis C. A successful Phase 1 trial for this drug was completed during the second quarter of 2008. The drug is being tested for the following diseases:

1. **Liver cancer** – the company initiated a Phase I/II clinical trial for treatment of patients with liver cancer during the second quarter of 2009. On March 21, 2010 the Company announced the conclusion of patients' enrollment for this trial, and on May 11, 2011 the company announced successful interim results for this trial. On January 3, 2012 the company announced successful final results of a Phase I/II trial of CF102 for the treatment of liver cancer. On January 18, 2012, the Company reported that additional significant finding was observed during the Phase I/II trial of CF102 for liver cancer. An analysis performed by the Company examined the relationship between the expression of the target (the A3 receptor) attacked by CF102 and patients' reaction to the drug. A positive patients' reaction after treatment with CF102 was observed in 85% of target over-expression cases.
2. **Hepatitis C:** The Company initiated a Phase I/II clinical trial for the treatment of hepatitis C during the third quarter of 2010. On March 21, 2010, the Company announced the completion of patients' enrollment for this trial. On January 3, 2012 the Company announced that CF 102 demonstrated safety and linear pharmacokinetic drug profile, however, no significant decrease in the viral load has been observed at the tested dosages. It should also be noted that in a parallel Phase I/II trial on liver cancer patients, 9 of participating patients were also hepatitis C virus carriers. A reduction of the viral load was observed in 7 of these patients, which were treated with two high dose levels of CF102, a fact that indicates an anti-viral activity of the drug.

2. Exceptional events during the balance sheet period

1. Recent developments in the Company's activities

On January 2, 2011, the Company announced that it had received the annual royalties for 2011 totaling approximately NIS 2 million from its Japanese partner, Seikagaku Corporation ("**SKK**") based on the agreement signed between the companies which grants SKK an exclusive license to develop and market the CF101 drug in Japan for treating inflammatory autoimmune diseases currently consisting of arthritis and psoriasis. According to the agreement, the Company will receive an aggregate amount of NIS 70 million

until the drug is launched in the Japanese market.

On January 13, 2011, the Company published the decision of the extraordinary general meeting of its shareholders to allocate, at no consideration, 2,680,000 options to purchase Ordinary shares of the Company of NIS 0.01 par value each to the Company's CEO, who is a director and shareholder in the Company. On January 24, 2011, approval was received from the Stock Exchange for listing the shares underlying said options for trade and on January 25, 2011, the share options were allocated.

On January 25, 2011, the Company allocated 15,230,644 unlisted options.

On February 23, 2011, the Company announced the appointment of a senior officer, Mr. Barak Singer, as VP of Business Development and the Board's approval of the private allocation of 230,000 unlisted options exercisable into 230,000 Ordinary shares of the Company of NIS 0.01 par value each to the senior officer. The exercise price of each share option is NIS 0.754. The options will be exercisable in equal portions once a month over a period of 12 months starting from the allocation date. The life of the options is four years from the allocation date. According to the binomial model, the economic value of the options as of the date of the Board's decision is NIS 0.33 per option. The following inputs were used to compute the economic value of the options: closing price of the Company's share on the day preceding the Board's approval of NIS 0.754, exercise price of NIS 0.754, ranges of risk-free interest of 3.05%-6.80%, life of options of 10 years and annual standard deviation range of 46.01%-76.81% based on the weighted standard deviation of the share price during the period of trading. On March 10, 2011, approval was received from the Stock Exchange for listing the shares underlying said options for trade and on March 20, 2011, the Company allocated 230,000 unlisted options to the officer.

On February 24, 2011, 450,000 unlisted options were exercised into 450,000 000 Ordinary shares of the Company of NIS 0.01 par value each.

On March 21, 2011, the Company announced the completion of recruiting subjects for two controlled clinical phase I/II trials of the CF102 drug for treating liver related diseases. The first trial is for treating patients with liver cancer. 18 subjects were recruited for this trial, divided into three dosage groups. The trial will continue as long as the subjects receive the experimental drug. The second trial consisted of 32 patients who are hepatitis C carriers under a single dosage of the CF102 or a placebo. This trial, which is a double-blind controlled trial, administers the drug to the patients for a period of six months and based on the Company's estimate, the results of this trial will be published in the last quarter of this year.

On April 5, 2011, the Company informed Plexus Ventures LLC that the agreement between them was terminated, in accordance with the provisions of the consulting agreement signed between the parties in November 2009.

On April 27, 2011, the Company announced that a lab experiment of the CF102 drug found the drug to be effective for suppressing the replication cycle of the JC virus which is a member of the polyomavirus family and is dormant in 70%-90% of the population. According to the Company's estimate, in order to prevent the virus' evolution, the CF102 will be administered in combination with existing biological drugs that cause progressive multifocal leukoencephalopathy (PML) which leads to brain damage and death. The CF102 has already passed the initial development stages and its efficacy for this indication can be tested in advanced clinical trials. For more details, see the Company's report of April 27, 2011 (reference: 2011-01-129096).

On May 11, 2011, the Company declared the successful interim results of the CF102 clinical phase I/II trial for treating liver cancer. The CF102 trial was conducted on 18 subjects most of whom had previously been treated with NEXAVAR which failed to yield any results. The preliminary objective of the clinical trial was to test the drug's safety profile using various doses and to test the drug's blood level. The secondary objective of the trial was to test for efficacy indication. The interim results indicate that the trial's objectives were met in full - the CF102's safety profile was highly notable among the subjects with a primary tumor of the liver who had Child Pugh A and B liver cirrhosis. Furthermore, the interim results point to a median survival time of 8.1 months which is a significant finding given the fact that the CF102 was administered as a second line of treatment to the majority of patients in the trial as well as to patients with advanced stage liver cirrhosis. The Company continues to monitor the patients who are still treated with the CF102 drug and will publish the trial's final results at a later stage. It should be noted that there is currently only one drug available in the market, NEXAVAR by Onyx and Bayer, which extends patient survival time by about three months with a market share of approximately US$ 1 billion. See more details in the Company's report of May 11, 2011 (reference: 2011-01-144183).

On June 29, 2011, the Company announced that it had filed a motion with the U.S. Food and Drug Administration (FDA) for receiving an Orphan Drug status for its CF101 drug used to treat uveitis. Orphan Drug status is awarded to drugs that treat diseases that affect a relatively small number of people in the population. In the U.S., an Orphan Drug is defined as a drug designed to treat a disease that affects less than 200,000 people a year. In order to encourage the development of drugs for rare and incurable diseases, the companies that develop those drugs (subject to completing the clinical trials and receiving FDA approval for the indication) are granted benefits and incentives which include, among others, tax reliefs, FDA commission exemption and the right to market the drug exclusively for a period of seven years from the date of approval. See more details in the Company's report of June 5, 2011 (reference: 2011-01-196107). As for the consummation of the spinoff transaction, the transfer of the IP underlying the CF101 development to OphthaliX (for treating ophthalmic diseases, including uveitis), see item 2 below.

In an extraordinary meeting held on July 3, 2011, the following decisions were made: (1) to reappoint Kost Forer Gabbay & Kasierer, CPAs as the Company's auditors for 2011 and to authorize the Company's Board to determine their fee; (2) to reappoint the acting directors, Mr. Avigdor Kaplan, Mrs. Pnina Fishman, Mr. Ilan Cohn, Mr. Avraham Sartani, Mrs. Liora Lev and Mr. Guy Regev, as directors in the Company until the Company's next annual general meeting; (3) to reappoint Mr. Gil Oren for another term as external director in the Company for a period of three years, effective from July 10, 2011 through July 9, 2014; and (4) to increase the Company's authorized share capital by NIS 200,000,000 par value of Ordinary shares of NIS 0.01 par value each, thereby increasing the Company's authorized share capital to NIS 5,000,000 divided into 500,000,000 Ordinary shares of NIS 0.01 par value each.

On August 1, 2011, the Company announced another progress reached in the development of the CF101 drug for the treatment of psoriasis with the recruitment of the first patients who had been administered with CF101 drug in the context of the drug's phase II/III trial. The phase II/III trial will include about 300 patients to be treated with the drug for a period of six months and will be held in several medical centers across Israel, Europe and the U.S. Once the treatment of the first 100 patients is concluded, an interim report will be prepared. The end-point will be improvement in PGA (Physician's Global Assessment) values, which is the FDA's approved index for registering drugs for treatment of psoriasis which had been found as statistically significant in the phase II trial conducted by the Company. See more details in the Company's report of August 1, 2011 (reference: 2011-01-227232).

On November 16, 2011, the Company offered securities to the public based on a shelf offering report (reference: 2011-01-328635) issued according to the Company's shelf prospectus of May 27, 2010. The securities were offered to the public in 3,920 units ("**the units**") by way of tender on the unit price with the minimum price being NIS 1.25 thousand per unit. Each unit is comprised of 2,500 Ordinary shares for a price of NIS 0.5 per share, 1,250 share options (series 6) and 2,500 share options (series7), both option series without consideration. In the context of the offering, all the units offered to the public were purchased. Total net proceeds from the offering amounted to approximately NIS 5,976 thousand (net of issue expenses of approximately NIS 406 thousand). The proceeds were received on November 22, 2011. Until the proceeds are used, they are being held in the Company's accounts and will be invested by it based on the Company's investment policy as it will be from time to time, provided that each such investment is in solid channels, including, and without derogating from the general nature of the aforesaid, an interest-bearing NIS deposit or an interest-bearing deposit in foreign currency.

In an extraordinary meeting held on December 19, 2011, it was decided to reappoint Mr. Yechezkel Barenholz for another term as external director in the Company for a period of three years from December 26, 2011 through December 25, 2014.

On December 21, 2011, the Company announced that OphthaliX commenced enrollment of patients to be treated with CF101 for the treatment of dry eye syndrome during the phase III clinical trial. The trial will be held in several medical centers across Israel, Europe and the U.S., will include 231 subjects and will test two doses of the CF101 drug compared to a placebo for a period of 24 weeks. The primary end-point will be complete improvement in fluorescein staining. See more details in the Company's report (reference: 2011-01-369030).

2. **Spinoff transaction**

On June 5, 2011, the Company announced signing a binding agreement for spinning off the Company's activity in the field of ophthalmic disease to a public company in USA in return for the issuance of shares of the company granting control of the spinoff company. The spinoff will be executed by granting an exclusive license for CF101 in the ophthalmology field to an Israeli private company, which is the Company's subsidiary. Upon conclusion of the transaction, the aforementioned subsidiary shares were transferred by the company to OphthaliX that will raise a sum of 5 million dollars concurrently with the conclusion of the transaction, so that the subsidiary will become a subsidiary under full ownership by OphthaliX in return for the issuance of OphthaliX shares to the Company so that after the conclusion of the transaction the Company will control the share capital of OphthaliX and will appoint all of its board of directors. OphthaliX will continue the development process, clinical trials and registration of CF101 for ophthalmic diseases.

The conclusion of the spinoff transaction was subject to a number of conditions, including: (a) OphthaliX fundraising of an amount of at least 5 million US dollars; (b) receiving pre-ruling from the Israeli tax authority for transfer of the subsidiary shares to OphthaliX; (c) completing the license agreement between the Company and the subsidiary; (d) completing legal, financial and business, due diligence of OphthaliX by the Company, etc. The parties agreed that they intend to try and conclude the spinoff transaction until June 30, 2011. See more details in the Company's report of June 5, 2011 (reference: 2011-01-175638).
On July 3, 2011, the Company announced that in keeping with the above report, all the prerequisites for completing the spinoff transaction have not been met and therefore the parties agreed to extend the period of completion until July 31, 2011 (reference: 2011-01-199566). On August 7, 2011, the Company announced that in keeping with the above report, all the prerequisites for completing the spinoff transaction have not been met and therefore the parties agreed to extend the period of completion until August 28, 2011 (reference: 2011-01-232185). On August 30, 2011, the Company announced that negotiations are still being held for completing said transaction and that the Company is expected to issue an immediate report on the subject in the coming days (reference: 2011-01-257337). After the balance sheet date, on November 6, 2011, the Company announced that it is continuing its efforts to close the transaction but that all the prerequisites have not been met (reference: 2011-01-317031). On November 22, 2011, the Company announced the completion of the transaction (reference: 2011-01-334200).

The outline of the spinoff transaction completed on November 21, 2011 is as follows:

(1) A license agreement between the Company and Eye-Fite Ltd. ("**Eye-Fite**"), a subsidiary under full ownership of the Company ("**License Agreement**"), according to which the Company grants Eye-Fite an exclusive, non-transferrable license, for the use of the Company's knowledge as detailed in the License Agreement in the field of ophthalmic disease only, for research, development, commercialization and marketing around the world. Eye-Fite will be able to grant a sub-license subject to the License Agreement and its provisions. In return for granting the license according to the agreement, the Company received 1,000 shares of Eye-Fite NIS 0.01 nominal value each which granted the Company 100% of issued and outstanding capital of Eye-Fite. Eye-Fite undertook to make all efforts to begin Phase III trial of the product pertaining to the license within a year, and will be able to receive extensions according to the License Agreement, provided that the delay is not caused by circumstances in Eye-Fite's control. In case the trial will not begin after these extensions, not due to circumstances which are not in Eye-Fite's control, this will be considered as a material breach of the License Agreement. According to the License Agreement, Eye-Fite will be obligated to pay the National Institutes of Health, the Centers for Disease Control and Prevention in USA ("**NIH**") royalties and payments to NIH based on the Company's obligations, as detailed in paragraph 2.12.1 of the Company's periodic report for 2011, from March 31, 2011 (reference: 2011-01-101847). All inventions derived from the product subject of the license will belong to the Company, whether invented solely by the Company, solely by Eye-Fite, or jointly by the two parties, whilst the Company grants Eye-Fite an exclusive free license to use these inventions in the field of ophthalmic disease around the world. The license is valid until expiration of the last patent subject of the License Agreement, unless terminated beforehand under mutual agreement in writing or according to the License Agreement sections by one of the parties.

(2) On November 20, 2011, the Company announced (reference: 2011-01-332676) the issuance of 17,873,054 Company shares to OphthaliX by virtue of the significant private placement by the Company on November 20, 2011. The value of the Company shares, based on the price of the Company shares on the issuance day and on the dollar exchange rate on November 18, 2011 is about US$ 2.4 million, in return for the issuance of 2,097,626 OphthaliX shares to the Company in connection with the spinoff transaction, at a price of US$ 1.144 for each OphthaliX share, which represents for OphthaliX a value of about US$ 50 million before the aforementioned company's shares issuance and before the OphthaliX fundraising whose principles are detailed in paragraph (7) below . In parallel, in return for the issuance of 437,005 OphthaliX shares the Company, the Company invested a total of US$ 0.5 million within the framework of a private issuance, at a price of US$ 1.144 per each OphthaliX share, which represents a value of about US$ 50 million for OphthaliX before the Company's shares issuance as mentioned above and before OphthaliX Fundraising whose principles are detailed in paragraph (7) below.

(3) The Company transferred 100% of Eye-Fite issued and outstanding capital to OphthaliX, so that Eye-Fite became a subsidiary under full ownership of OphthaliX, in return for the issuance of 36,000,000 OphthaliX common shares which constitute 86.7% of OphthaliX issued and outstanding capital. It should be noted that the issuance of the abovementioned 36,000,000 shares was in addition to the issuance of 2,097,626 OphthaliX shares to the Company in return for the issuance of 17,873,054 Company shares to OphthaliX by virtue of the significant private issuance detailed in paragraph (2) above and in addition to the issuance of 437,005 OphthaliX shares to the Company in return for the investment of US$ 0.5 million in OphthaliX as detailed in paragraph (2) above.

(4) Upon conclusion of the spinoff transaction, the Company appointed all of OphthaliX board of directors which are Pnina Fishman, Guy Regev and Ilan Cohn. OphthaliX will continue development process, clinical trials and CF101 registration for ophthalmic diseases. This, among others, by receiving services from the Company within the framework of the service agreement detailed below.

(5) A service agreement ("**Service Agreement**") was signed between OphthaliX and Eye-Fite (collectively: "**the Group**"). The agreement includes providing service management by the Company for the group of all pre-clinical and clinical research activities, production and supply of drugs related to the service agreement, and payment to the consultants detailed in the agreement due to their involvement in clinical trials and all activities related to launching a drug for ophthalmic diseases. In return for the aforesaid services, the Company will be paid for such services costs and expenses with an addition of 15% and a return of actual expenses paid by the Company due to maintenance of patents for which a license was granted to Eye-Fite. In addition, the Company will be entitled for an additional payment at a rate of 2.5% from any receipt by the Group in connection with the transferred knowledge license ("**the Additional Payment**"). During a period of 5 years after the date of signing the Service Agreement, the Company is entitled to convert the Additional Payment into 2,160,102 OphthaliX shares (which constitute about 5% of OphthaliX shares based on full dilution as of the spinoff transaction conclusion date), in return for an exercising price determined in the Service Agreement. The Service Agreement is unlimited in time, but after a year from signing the agreement, each party will be entitled to terminate the agreement with a 6 months' notice, or a shorter notice in special cases, as detailed in the Service Agreement.

(6) The Company received a pre-ruling from the Israeli tax authority, pursuant to which it was approved that: (1) granting a license to Eye-Fite is not taxable according to paragraph 104a to the Income Tax Ordinance (new version), 1961 ("the Ordinance"); (2) OphthaliX will be considered as a receiving company according to paragraph 109c(7)(b) of the Ordinance; (3) the sale of Eye-Fite shares to OphthaliX in return for OphthaliX shares is not taxable according to the instructions of paragraph 103(k) of the Ordinance ("**Structure Change**"); and (4) date of Structure Change has been determined. According to the tax arrangement, it was determined that the date of Structure Change will be the date of shares exchange and notifying the assessing officer, and that Eye-Fite and the Company are obligated to submit the required forms according to the Ordinance and derived regulations to the assessing officer and to the mergers/spinoffs department with 30 days from the pre-ruling. In case the forms are not submitted at the abovementioned date, the taxation decision will be considered as cancelled retroactively. In addition, the tax arrangement determined that granting a license to Eye-Fite in return for Eye-Fite's share issuance to the Company will not be taxable according to the provisions of paragraph 104a of the Ordinance.

(7) Upon conclusion of the aforementioned spinoff transaction, OphthaliX raised a sum of about US$ 3,330,000 from an investment group by way of a private issuance ("**Group of Investors**") in return for 2,910,455 Ordinary OphthaliX shares which constitute about 6.2% from OphthaliX issued and outstanding capital after the above issuance ("**OphthaliX Fundraising**"). It should be noted that within the framework of the OphthaliX Fundraising, the Group of Investors required that the board of directors will express involvement and support of the OphthaliX Fundraising. Therefore, Pnina Fishman, the CEO of the Company and one of its directors, responded to the request and invested a sum of US$ 50,000, after receiving an approval by the audit committee and the board of directors on November 21, 2011. In addition, Mr. Guy Regev, a director of the Company, purchased OphthaliX shares from previous OphthaliX shareholders for the sum of US$ 75,000 after receiving an approval by the audit committee and the board of directors on November 21, 2011. The OphthaliX Fundraising was executed at a price of US$ 1.144 which represents a pre-money valuation of about US$ 50 million for OphthaliX, prior to the OphthaliX Fundraising. After the OphthaliX Fundraising, the Company holds about 82.3% of OphthaliX issued and outstanding share capital and OphthaliX value is about US$ 56.5 million.

(8) Within the framework of OphthaliX Fundraising, the Company committed to the Group of Investors that concurrently with conclusion of OphthaliX Fundraising, it will take actions for completing the following:

(a) The rights for CF101 drug for treatment of ophthalmic diseases only ("**the drug**") according to the License Agreement will be transferred only in return for the issuance of OphthaliX shares to the Company and without any obligations for payment due to the transfer for any reason, except for those detailed in the License and Service Agreements. OphthaliX will not be required to pay retroactive payments to the Company for any reason related to the drug, except for the drug for trials in dry eye syndrome (Phase 3) and glaucoma (Phase 2) that will be transferred to the Company at cost price.

(b) The Company committed not to withdraw any funds from Eye-Fite and/or OphthaliX, except for payment due to the Service Agreement that was signed between the Company and OphthaliX, pursuant to which the Company will receive payment at a rate of cost and a 15% addition (see Service Agreement description above).

(c) In addition, the Company undertook the responsibility upon conclusion of OphthaliX Fundraising, to take actions for performing the following (as the new controlling shareholder of OphthaliX):

(i) Appointing a CEO and Finance Manager to OphthaliX within a reasonable time after completing OphthaliX Fundraising, subject to OphthaliX financial sources;

(ii) Renaming OphthaliX as will be determined by OphthaliX board of directors;

(iii) Appointing Dr. Ben-Zion Weiner as the head of the consulting committee and the head of the R&D committee of OphthaliX, subject to his consent;

(iv) Appointing Prof. Roger D. Kornberg as director in OphthaliX, subject to his consent;

(v) Appointing an additional director in OphthaliX, subject to his consent;

(vi) Approval of any transaction between OphthaliX and/or Eye-Fite and the Company which is not within the framework of the service agreement will be subject to obtaining approval of OphthaliX board of directors, provided that at least one of the directors that was not appointed to OphthaliX board of directors on behalf of the Company voted in favor of the transaction approval;

(vii) OphthaliX will perform all activities and bear the required expenses for releasing investors' shares from restriction according to Rule 144, mainly receiving appropriate opinion, changing legend and so on;

(viii) The Company will not sell OphthaliX shares held by it during a period of two years after conclusion of OphthaliX Fundraising.

(d) In case of a private or public issuance based on a share price that represents a lower value than the present issuance price for OphthaliX (which is about US$ 50 million) during 12 months after conclusion of OphthaliX Fundraising, the Company will take actions so that OphthaliX will make issuance of OphthaliX shares to the Group of Investors without additional compensation as if the investors made their investments according to the lower price.

3. Financial position, liquidity and financing resources

The data presented herein for 2011 is on a consolidated basis (the Company and its subsidiaries).

The balances of cash and cash equivalents in the balance sheet as of December 31, 2011 totaled NIS 14,622 thousand compared to NIS 17,506 thousand as of December 31, 2010. The decrease in cash in the period is due to payments made by the Company in order to finance its operating activities which exceeded the total capital raised by the Company.

The balance of accounts receivable in the balance sheet as of December 31, 2011 totaled NIS 3,760 thousand compared to NIS 550 thousand as of December 31, 2010. The increase in accounts receivable is mainly a result of prepayments made by the Company on account of the dry eye syndrome phase III clinical trial and the psoriasis phase II/III clinical trials.

The balance of property, plant and equipment, net in the balance sheet as of December 31, 2011 totaled NIS 278 thousand compared to NIS 490 thousand as of December 31, 2010. The decrease in property, plant and equipment is mainly a result of current depreciation expenses and the sale of property, plant and equipment in excess of new purchases.

The consolidated balance sheet as of December 31, 2011 totaled NIS 18,660 thousand compared to NIS 18,546 thousand as of December 31, 2010, with no material change from last year.

The balance of trade payables in the balance sheet as of December 31, 2011 totaled NIS 1,930 thousand compared to NIS 516 thousand as of December 31, 2010. The increase is mostly due to increased scopes of clinical trial activity, the psoriasis phase II/III trials and the dry eye syndrome phase III trial.

The balance of other accounts payable in the balance sheet as of December 31, 2011 totaled NIS 2,686 thousand compared to NIS 3,427 thousand as of December 31, 2010. The decrease is mainly a result of the fact that last year, the balance included accrued receipts from the Japanese as opposed to the current year.

The balance of share options exercisable into shares (series 5 and 6) presented at their quoted market price on the reporting date with date of expiry of less than one year from the reporting date totaled NIS 138 thousand and NIS 396 thousand, respectively. As of December 31, 2010, there were no options with an expiry date of less than one year.

The balance of long-term liabilities in the balance sheet as of December 31, 2011 totaled NIS 983 thousand compared to NIS 1,531 thousand as of December 31, 2010. The balance in the current year arises mainly from share options exercisable into shares (series 7) totaling NIS 793 thousand compared to mainly share options exercisable into shares (series 5) totaling NIS 1,400 thousand last year. The share options are linked to the Israeli CPI and therefore presented as a liability and measured at their quoted market price on the reporting date.

Total equity in the consolidated balance sheet amounted to NIS 12,527 thousand as of December 31, 2011 compared to NIS 13,072 thousand as of December 31, 2010. The decrease in equity in 2011 mainly stems from the Company's current loss which exceeded the capital raised in that year.

4. Operating results

The data presented herein for 2011 is on a consolidated basis (the Company and its subsidiaries).

The loss for the year ended December 31, 2011 totaled NIS 28,335 thousand compared to NIS 13,048 thousand in the year ended December 31, 2010. The increased loss compared to last year is mainly a result of expenses incurred in the current year in respect of the purchase of a shelf corporation in the amount of NIS 11,496 thousand as opposed to none last year and the increase in R&D expenses.

The Company's net R&D expenses for the year ended December 31, 2011 totaled NIS 12,969 thousand compared to NIS 9,993 thousand in 2010. The increase in R&D expenses in 2011 compared to 2010 is mainly since in 2011, the Company began the psoriasis phase II/III trial and the dry eye syndrome phase III trial preparations.

General and administrative expenses in the year ended December 31, 2011 totaled NIS 7,081 thousand compared to NIS 6,005 thousand in 2010. The increase in expenses in 2011 compared to 2010 arises from several items, mainly the increase in the scope of professional services, salary updates and an increase in travel expenses.

Other income in the year ended December 31, 2011 totaled NIS 88 thousand compared to NIS 0 thousand in 2010. This amount represents a gain from the sale of property, plant and equipment.

Finance expenses in the year ended December 31, 2011 totaled NIS 232 thousand compared to NIS 356 thousand in 2010. The decrease is due to exchange rate differences.

Finance income in the year ended December 31, 2011 totaled NIS 1,669 thousand compared to NIS 897 thousand in 2010. Finance income in 2011 arose mainly from the decrease in the value of share options. The reasons for the decrease in 2010 are similar but to a smaller extent.

Taxes on income in 2011 totaled NIS 191 thousand compared to NIS 235 thousand last year. These taxes mainly represent withholding tax of 10% on the income from SKK (and last year also from KDP). Since this deduction is not expected to be utilized in the foreseeable future due to the substantial tax losses, the withholding tax was recorded in tax expenses.

Net cash used in operating activities in the year ended December 31, 2011 totaled NIS 20,917 thousand compared to NIS 12,967 thousand last year. The increase arises mainly from issuance expenses through profit and loss.

Net cash provided by investing activities in the year ended December 31, 2011 totaled NIS 82 thousand compared to net cash used in investing activities in 2010 totaling NIS 107 thousand. The change is mainly due to the fact that this year, the Company derived cash from the sale of property, plant and equipment in a total of NIS 163 thousand whereas last year, there were only purchases of property, plant and equipment.

Net cash provided by financing activities in the year ended December 31, 2011 totaled NIS 17,677 thousand compared to NIS 12,006 thousand last year. The amounts of capital raised this year exceeded the amounts raised last year.

5. Exposure and management of market risks

General

The Company does not expect to generate any material revenues in the foreseeable future and therefore the market risks to which it is exposed with respect to expected customers/revenues are negligible. Nevertheless, a major portion of the Company's expenses is denominated in U.S. dollars and therefore the Company is exposed to changes in the exchange rate of the NIS in relation to the U.S. dollar and is acting to minimize its currency risk by maintaining some of its liquid means in or linked to U.S. dollars.

In order to protect itself against economic exposure, which does not contradict the accounting exposure, the Company keeps most of its current assets in or linked to foreign currencies.

Given that the Company's market risks are negligible, the Company does not have a defined market risk management policy, except maintaining liquid reserves, as mentioned above. Accordingly, to date, the Company's Board has not determined a policy for constantly monitoring market risk management and each relevant issue was discussed in the Board meetings individually.

The officer in charge of market risk management in the Company is Mr. Motti Farbstein, the Company's COO.

6. The Company's internal auditor

The internal auditor in the Corporation

The Company's internal auditor is CPA Daniel Shapira (who was appointed on March 6, 2006 and commenced his work in the third quarter of 2006).

Is the internal auditor a Company employee or an individual who provides internal audit services on behalf of an external entity?

The internal auditor provides internal audit services as an external service provider through the Daniel Shapira accounting firm.

The internal auditor's compliance with legal requirements

The internal auditor complies with the requirements of Section 146(b) to the Israeli Companies Law, 1999 and with the requirements of Section 8 to the Israeli Internal Audit Act, 1992.

Other functions occupied by the internal auditor in and outside the Company

The internal auditor has no other functions in the Company. He acts as an independent CPA with his own accounting firm.

Manner of appointing the internal auditor

The internal auditor was appointed by the decisions of the Company's audit committee and Board.

The internal auditor's supervisor

The executive officer who supervises the internal auditor's work is the Chairman of the Company's Board.

The internal auditor's work plan

The annual and multiannual audit plans are filed by the internal auditor to the Company's audit committee. The audit committee reviews the relevant issues while consulting with the Company's management and then approves the plan (under any necessary changes) based on the following considerations: the audit needs, the importance of the various issues, the frequency under which the relevant issues were studied in previous years and the internal auditor's recommendations.

The internal auditor's reports

The meeting of the Company's audit committee held on March 28, 2011 approved the internal auditor's report filed to the audit committee members on March 24, 2011 on the subject of purchases.

The meeting of the Company's audit committee held on August 25, 2011 approved the internal auditor's report filed to the audit committee members on August 22, 2011 on the subject of risk survey.

The meeting of the Company's audit committee held on March 27, 2012 approved the internal auditor's report filed to the audit committee members on March 25, 2012 on the subject of management of clinical trial purchases.

The Company's Board's evaluation of the internal auditor's performance

The Company's Board is of the opinion that the scope and nature of the internal auditor's work plan are reasonable under the circumstances and are sufficient for implementing the internal audit objectives.

Access to data

Since the relevant issues are material to the Company and are reviewed from different aspects, the internal auditor has constant and direct access to all of the Company's IT systems, including access to the Company's financial data pursuant to Section 9 to the Israeli Internal Audit Act, 1992.

Scope of the internal auditor's work

The internal auditor's scope of work totals an average 120 hours a year. This scope was determined based on the audit plan needs. In the reporting year, the scope of the internal auditor's work totaled 130 hours.

The internal auditor's remuneration

The internal auditor receives a salary based on the work hours actually invested in performing his tasks according to the budget approved by the Company's audit committee. The Company estimates that this form of remuneration does not affect the internal auditor's professional judgment.

Professional standards

Based on the internal auditor's announcement, he has prepared the internal audit in conformity with generally accepted auditing standards as per Section 4(b) to the Israeli Internal Audit Act, 1992.

7. Donations

The Company does not have a donation policy. In the reporting period, the Company did not donate any amounts.

8. Disclosure of signatories

The Company has no exclusive signatories as defined in the guidelines of the Israel Securities Authority of January 3, 2008.

9. Financial Statements Approval Process

The board of directors is responsible for the overall control of the auditing process of the Company. The Company's board of directors appointed the committee for auditing the financial statements whose responsibilities and composition are as follows ("the Committee"):

The Committee and its members

a. The Committee is an audit committee.
b. The Committee consists of three directors as follows:

1) **Gil Oren** – Chairman of the Committee (an external director with accounting and financial expertise – see section 11).
2) **Yechezkel Bernholtz** - (external director) - Education: PhD in biochemistry, The Hebrew University.
3) **Liora Lev** (director) – holds accounting and financial expertise – see section 11.

The Committee members were appointed after a qualification inquiry and submitting declarations according to the instructions of section 3 of the Company Ordinance (Instructions and conditions for financial statements approval process), 2010.

Financial Statements Approval Process

a. The Company's financial statements were discussed during the Committee's meeting held on March 27, 2012.

b. Committee members were summoned to the meeting for receiving a presentation of data and providing explanations by the Company's CEO, Operations and Financing VP, the Company's accountants, external auditors, the Company's internal auditor and the Company's attorney.

c. In preparation for the meeting, the following materials were sent to the Committee: (1) a draft of the Company's full 2011 financial (2) a presentation regarding accounting procedures in the Company. The aforementioned material was sent to the Committee members about three days before the meeting, and revised drafts after remarks and evaluation were sent about five days before the meeting.

d. During the Committee meeting, the following issues were presented to participants: (1) The accounting policy and treatment implemented by the Company regarding material matters; (2) Estimates and assessments regarding financial statements; (3) Risk management; (4) discussion regarding value evaluation, assumptions and assessments; (5) Internal controls related to financial reporting; (6) Completeness and appropriateness of the disclosure in financial statements; (7) The Company's financial statements data for the 2011 year.

e. The Committee members held a detailed discussion regarding the financial statements and their changes during the year. In addition, the Committee members were presented with the auditors' opinion regarding the aforementioned accounting policy and estimates, and various alternatives available to the Company. The Company's auditing accountant reviewed regulation aspects and their implementation in regard to the Company's activity.

f. The participants were presented with the Company's information regarding the financial statements, including financial and operative condition, and information regarding the corporation regime, auditing and risk management in the Company. All information was detailed in the presentations. In addition, a discussion was held regarding the effectiveness of future internal control processes that are expected to be executed by the Company.

g. The Company's management presented the decisions making process in the Company regarding accounting matters vis-a-vis the Company's judgment regarding various matters.

h. The Committee members examined the process of decision making in the Company and held a detailed discussion regarding accounting estimates and assessments in the financial statements, while examining the accounting policy determined and the Company's judgment on various issues.

i. After a detailed discussion on the subject, the Committee members agreed that the Company implemented a proper accounting policy and used proper estimates and assessments.

j. In addition, with the assistance of the auditors, the Company examined the material issues in the financial statements, estimates, and judgment during the preparation of the financial statements, internal reports and so on. All were found reasonable and proper. In addition, the Committee confirmed the independence of the internal auditor.

k. After a detailed and independent discussion by the Committee, a detailed summary document was submitted to the Company's board of directors. The document included the Committee recommendations regarding approval of the Company's financial statements for 2011, while implementing the policy and estimates presented to and approved by the Committee members. The summary document was forwarded to the board of directors within a reasonable time before the board of directors' meeting.

l. In addition, Committee members were under the opinion that the statements disclosure is complete and proper, including correct analysis of the Company's risks and main exposures.

m. During the process of the board of directors' approval of the Company's financial statements, a draft of the financial statements, a draft of the board of directors' report, a draft of the Barnea report, a draft of the additional details report and a draft effectiveness of internal auditing report for 2011 were submitted for review by the board of directors several days before the meeting for the approval of such reports. During this period questions and remarks were forwarded from board members to the person responsible for financial matters in the Company.

n. During the board of directors meeting held on March 29, 2012, the business results, financial condition and the Company's cash flow were reviewed and activity data compared to the corresponding period in the previous year were presented. The Company's auditors and attorney also participated in the meeting. After discussion and based on the Committee's recommendation, the board of directors approved the financial statements.

10. Directors with Financial Accounting Expertise

According to the Company's board of directors' decision from September 21, 2005, the minimal number of directors with financial accounting expertise is one. The board of directors based its decision on the Company's activity volume, nature of activity as a research and development Company, and lack of special complexity of the Company's activity.

The following are Company directors that hold financial and accounting expertise:

1) **Avigdor Kaplan** – Chairman of the Company's board of directors. Education: a bachelor's degree in Economics and Statistics, a master's degree in Industrial Engineering and Management. A chairman of Clal Insurance Enterprises Holdings Ltd., and a director in several companies.

2) **Liora Lev** – Company director. Education: CPA, holds a bachelor's degree in Accounting and Economics, a master's degree in Industrial Engineering and Management (specialization in information systems), a graduate of the Senior Management program of Harvard Business School. A partner in a venture capital fund.

3) **Gil Oren** – an external director of the Company. Education: CPA, holds a bachelor's degree in Accounting and Economics and a master's degree in Industrial Engineering and Management (specialization in financing). An owner of a business consulting Company.

4) **Guy Regev** - Company director. Education: a bachelor's degree in law and a master's degree in Accounting and Auditing. The CEO of Shaked Global Group.

11. Disclosure Regarding Critical Accounting Estimates

According to the evaluation of the Company's management, no critical accounting estimates were used in its financial statements.

12. Indexation Report

Balance sheet as of December 31, 2011 according to linkage basis

	In or linked to U.S. dollar	In or linked to Euro	Linked to the Israeli CPI	Unlinked	Non-monetary items	Total
	NIS in thousands					
Assets						
Cash and cash equivalents	14,089	65	-	468	-	14,622
Accounts receivable	-	-	-	374	3,386	3,760
Property, plant and equipment, net	-	-	-	-	278	278
	14,089	65	-	842	3,664	18,660
Liabilities						
Trade payables	1,029	570	-	331	-	1,930
Other accounts payable	1,725	-	-	961	-	2,686
Options exercisable into shares (series 5)	-	-	138	-	-	138
Options exercisable into shares (series 6)	-	-	396	-	-	396
Options exercisable into shares (series 7)	-	-	793	-	-	793
Accrued severance pay, net	-	-	-	190	-	-
	2,754	570	1,327	1,482	-	6,133
Assets less liabilities	11,335	(505)	(1,327)	(640)	3,664	12,527

Balance sheet as of December 31, 2010 according to linkage basis

	In or linked to U.S. dollar	In or linked to Euro	Linked to the Israeli CPI	Unlinked	Non-monetary items	Total
	NIS in thousands					
Assets						
Cash and cash equivalents	5,660	1,544	-	10,302	-	17,506
Accounts receivable	-	-	-	135	415	550
Property, plant and equipment, net	-	-	-	-	490	490
	5,660	1,544	-	10,437	905	18,546
Liabilities						
Trade payables	267	-	-	249	-	516
Other accounts payable	800	-	-	842	1,785	3,427
Options exercisable into shares (series 5)	-	-	1,400	-	-	1,400
Accrued severance pay, net	-	-	-	131	-	131
	1,067	-	1,400	1,222	1,785	5,474
Assets less liabilities	4,593	1,544	(1,400)	9,215	(880)	13,072

13. Sensitivity Tests Tables

Dollar Exchange Rate Sensitivity

Type of Asset/ (liability)	Fair value as of (31.12.11)	Profit (loss) from changes		Profit (loss) from changes	
		An increase of 10% in dollar rate	An increase of 5% in dollar rate	A decrease of 10% in dollar rate	A decrease of 5% in dollar rate
		Thousand NIS			
Cash and cash equivalents	14,089	1,409	704	(1,409)	(704)
Liabilities to suppliers and service providers	1,029	(103)	(51)	103	51
Accounts payable	1,725	(173)	(86)	173	86
Total	11,335	1,334	567	(1,334)	(567)

Sensitivity to changes of interest in NIS and dollars is not significant.

Since a major part of the Company's expenses are in US dollars, the Company takes action for minimizing currency risks by preserving some of its liquidity in US dollars or linked to US dollars. As protection of financial exposure which does not contradict the accounting exposure, the Company holds most of its current assets in foreign currency balances and balances linked to foreign currency.

14. Disclosure of auditors' professional fees

On January 29, 2006, the Israeli Securities Authority issued a guideline pursuant to Section 36a to the Israeli Securities Law, 1968 regarding disclosure of auditors' professional fees for audit and other services. Below are details of fees paid to the Company's auditors:

	Audit and tax services		**Other services**	
	Amount	**No. of hours**	**Amount**	**No. of hours**
	NIS in thousands			
2010	250	1,050	107	350
2011	254	1,430	205	410

15. Disclosure of independent directors

As of the date of this report, the Company has not adopted a provision regarding the percentage of independent directors in its articles of association.

16. Disclosure of senior officers' remuneration

On March 29, 2012, the Company's Board discussed and examined salary agreements signed with senior officers in the Company with respect to each officer's contribution during the reporting period.

Following is the data presented with respect to each senior officer in the Company:

a. The employment agreements and terms of the following:

1) Mr. Motti Farbstein (COO and CFO)
2) Dr. Ilan Cohn (Deputy Chairman of the Board and Director)
3) Mr. Avi Sartani (Director)
4) Prof. Pnina Fishman (CEO and Director)
5) Mr. Barak Singer (VP of Business Development)
6) Mr. Avigdor Kaplan (Chairman of the Board)

The Board members reviewed the employment agreements signed with each of the above officers in detail as specified in Chapter 4 to this periodic report.

b. Details of the activities of the above officers in the reporting year and in general (a discussion was held with respect to each officer individually):

- The scope of the officers' daily activities
- Extraordinary transactions and/or actions conducted with the officers' involvement and promoted by them
- Executive activities performed by each officer

c. Condensed conclusions and reasons given by the Board:

Following detailed and individual discussions of each senior officer in the Company, all of the Board members unanimously attested to the fairness and adequacy of the officers' remuneration, in general and specifically in the reporting year. Below are the Board's specific references to each officer:

1) Mr. Motti Farnstein - COO and CFO

Among others, the Board members mentioned and reviewed Mr. Farbstein's efforts in the Company's ongoing operations, managing the Company's engagements with external entities, managing the financial teams, payroll management, budget monitoring, supervising engagements with subcontractors, participating in presentations to existing and potential investors, participating in designing the annual budget, stock exchange reports, overall preparation of financial statements and tax returns of foreign subsidiaries, risk management, SOX process preparation, working with the auditors, working with the internal auditor, monitoring bank transactions and accounts and supervising all of the Company's operational functions. The Company's Board especially pointed out Mr. Farbstein's unique achievements during the reporting period which include leading the Company's professional ISOX implementation team, locating and managing global suppliers for advanced clinical trials, assisting in raising capital in the Company without discounts or options, preparing the Company's prospectus, the spinoff transaction and assisting in managing and operating the subsidiary OphthaliX.

The Company's Board believes that given the variety of considerations detailed above, and given the COO and CFO's roles and responsibilities, skills, experience and contribution to the Company, his remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Mr. Farbstein's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

2) Dr. Ilan Cohn - Deputy Chairman of the Board

Among others, the Board members mentioned and reviewed Dr. Cohn's efforts in managing the IP strategy and in assisting to the Company's IP business development. The Company's Board particularly mentioned Dr. Cohn's unique achievements in the reporting period which included obtaining registration approval for several patents that are critical to the Company's continued operations, to future commercialization and to creating business ties with potential partners.

The Company's Board believes that given the variety of considerations detailed above, and given the Deputy Chairman of the Board's roles and responsibilities, skills, experience and contribution to the Company, his remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Dr. Cohn's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

3) Mr. Avi Sartani - Director

Among others, the Board members mentioned and reviewed Mr. Sartani's actions in assisting the Company's management as pharma industry expert.

The Company's Board believes that given the variety of considerations detailed above, and in view of Mr. Sartani's roles and responsibilities, skills, experience and contribution to the Company, his remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Mr. Sartani's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

4) Prof. Pnina Fishman - CEO, Chief Company Scientist and Director

Among others, the Board members mentioned and reviewed Prof. Fishman's activities in managing the drug clinical development team, managing the Company's scientific staff (in Israel and in the U.S.), cooperating with the Company's Board, managing local and foreign investors' relations, determining the Company's financial and scientific strategies, managing the Company's capital raising efforts and determining and monitoring the Company's budget. The Company's Board particularly mentioned Prof. Fishman's unique achievements in the reporting period which included assisting in raising capital in the Company without discounts or options, obtaining FDA approvals for conducting registration clinical trials for the CF101, leading six global clinical development plans (arthritis, psoriasis, dry eye syndrome, glaucoma, hepatic cancer and viral hepatitis), pre-clinical promotion of new allosteric drugs, developing the Bio-Marker kit as a distinct product and obtaining Orphan Drug status from the FDA. The Board expressly noted the fact that Prof. Fishman simultaneously fills two positions in the Company and acts as both CEO and Chief Scientist. She has also led the spinoff transaction and has since been acting as both Chairperson and CEO of OphthaliX at no consideration.

The Company's Board believes that given the variety of considerations detailed above, and given Prof. Fishman's roles and responsibilities, skills, experience and contribution to the Company as both CEO and Chief Scientist, her remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Prof. Fishman's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

5) Mr. Barak Singer - VP of Business Development

Among others, the Board members mentioned and reviewed Mr. Singer's business development efforts in locating potential companies in various regions of the world, comprehensively analyzing these companies and markets from a technological and a financial aspect, designing the Company's presentations to external biotechnological and pharmaceutical entities and assisting in engagements with third parties and in the spinoff transaction.

The Company's Board believes that given the variety of considerations detailed above, and given the VP of Business Development's roles and responsibilities, skills, experience and contribution to the Company, his remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Mr. Singer's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

6) Mr. Avigdor Kaplan - Chairman of the Board

Among others, the Board members mentioned and reviewed Mr. Kaplan's activities is managing board meetings and assisting the Company's management in leading the Company. The Company's Board particularly mentioned Mr. Kaplan's unique achievements in the reporting period which included managing numerous board meetings regarding capital raising efforts and engagements with third parties and assisting management in making strategic and financial decisions.

The Company's Board believes that given the variety of considerations detailed above, and given the Chairman of the Board's roles and responsibilities, skills, experience and contribution to the Company, his remuneration in the reporting period coincides with the good of the Company and is fair and reasonable commensurate with Mr. Kaplan's contribution to the Company in said capacity during the relevant period, also in view of the Company's financial position, targets and challenges.

17. Exceptional Events after the Balance Sheet Period

On February 22, 2012, the Company announced that the American Food and Drug Administration (FDA) granted an orphan drug status for CF102 for treatment of hepatocellular carcinoma. As mentioned above, orphan drug status is granted for treatments of diseases that affect a small number of people (In the USA, a drug for treating a disease that affects less than 200,000 people a year is considered as an orphan drug). In order to encourage development of drugs for rare and incurable diseases, subject to completion of clinical trials and obtaining an FDA approval for the indication, the developing companies are provided with incentives and preferences which include, among others, a seven years marketing exclusivity from the date of approval, tax breaks, and an exemption on FDA fees payments.

On February 22, 2012, the Company announced that its subsidiary OphthaliX Inc. (OTCBB: OPLI) of which the Company holds 82.3% announced on February 21, 2012 that the National Copyright Administration of China has granted a patent certificate due to a patent request submittal in China titled "Adenosine A3 receptor agonists for the treatment of dry eye disorders". This patent protects the CF101 drug held by OphthaliX for treatment of dry eye syndrome in China until February 2023. For additional details, see the Company's report (reference: 2012-01-048534).

On February 7, 2012, the Company announced that its subsidiary (about 82%) OphthaliX Inc. (OTCBB: OPLI) which centralizes drug development in the field of ophthalmic diseases in Can-Fite group has appointed the Nobel prize winner, Prof. Roger D. Kornberg as a director at OphthaliX Inc. For additional details regarding Prof. Kornberg, see the Company's report (reference: 2012-01-035292).

On February 1, 2012, the Company announced that following its announcement from December 21, 2011, its subsidiary Denali Concrete Management Inc. of which the Company holds 82.3% announced on January 31, 2012 the completion of the process of changing its name to OphthaliX Inc., and that as of February 1, 2012 its OTC trade flicker symbol is OPLI.

On January 3, 2012, the Company announced final successful results of the Phase I/II clinical trial of CF102 on liver cancer patients and the results of a separate Phase I/II trial conducted for CF102 treatment of hepatitis C virus carriers. The trial achieved its main objectives – drug safety and its concentration level in blood. For additional details, see the Company's report (reference: 2012-01-003924). On January 18, 2012 the Company reported that additional significant finding was observed during the Phase I/II trial of CF102 for liver cancer where an analysis performed by the Company examined the relationship between the expression of the target (A3 receptor) attacked by CF102 and the patients' reaction to the drug. A positive patients' reaction after treatment with CF102 was observed in 85% of target over-expression cases. This important finding indicates that the target attacked by CF102 can be considered as a biomarker that will predict the patient's response to treatment with the drug. In addition, the Company announced that a separate Phase I/II trial conducted with CF102 on hepatitis C carriers under the management of Prof. Ran Tur-Kaspa, the head of the Internal Medicine D department and liver institute of Rabin Medical Center, Petah-Tikva, achieved its main objectives – drug safety and its concentration level in blood, but no significant reduction of the viral load was found for the tested dose level. It should be noted that this group of patients was treated only for a short period of several months with a low dose level of CF102.

On February 16, 2012, 130,813 unlisted share options were exercised into 130,812 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 40 thousand.

On March 25, 2012, 32,701 unlisted share options were exercised into 32,701 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options aggregated to an insignificant amount.

On March 26, 2012, 23,333 share options (series 5) were exercised into 23,333 Ordinary shares of the Company of NIS 0.01 par value each in consideration of an exercise increment of approximately NIS 75 thousand.

Avigdor Kaplan
Chairman of the Board of Directors

Pnina Fishman
CEO and Director

March 29, 2012

IMPORTANT NOTE

This document is an unofficial translation of the Hebrew original, December 31, 2011 financial report of Can-Fite BioPharma Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on March 29, 2012.
The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version.
This translation is for the convenience of English readers only.

CAN-FITE BIOPHARMA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

INDEX

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ERNST & YOUNG

Kost Forer Gabbay & Kasierer
2 Pal-Yam Ave.
Haifa 33095, Israel

Tel: 972 (4)8654000
Fax: 972 (3)5633443
www.ey.com

AUDITOR'S REPORT

To the Shareholders of

CAN-FITE BIOPHARMA LTD.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Can-Fite Biopharma Ltd. and subsidiaries (collectively, "the Company") as of December 31, 2011. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls; (2) controls over the following sub-processes pertaining to the procurement procedure: accepting decisions and entering into commitments regarding clinical trials, monitoring the development of the trial, reimbursement of expenses and recording costs and payment of invoices (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and, therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and, accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

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

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 and our report dated March 29, 2012 expressed an unqualified opinion thereon and included an emphasis of matter paragraph regarding uncertainty which had been removed after the reporting date - as stated in Note 1d.

Haifa, Israel
March 29, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Kost Forer Gabbay & Kasierer
2 Pal-Yam Ave.
Haifa 33095, Israel

Tel: 972 (4)8654000
Fax: 972 (3)5633443
www.ey.com

AUDITOR'S REPORT

To the Shareholders of

CAN-FITE BIOPHARMA LTD.

We have audited the accompanying consolidated statements of financial position of Can-Fite Biopharma Ltd. ("the Company") as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations, changes in their equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2011 and our report dated March 29, 2012 expressed an unqualified opinion on the effective existence of those components.

Haifa, Israel
March 29, 2012

KOST FORER GABBAY & KASIERER
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2011	December 31, 2010
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	14,622	17,506
Accounts receivable	4	3,760	550
		18,382	18,056
NON-CURRENT ASSETS:			
Property, plant and equipment, net	6	278	490
		18,660	18,546

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2011	December 31, 2010
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	7	1,930	516
Other accounts payable	8	2,686	3,427
Options exercisable into shares (series 5)	13e	138	-
Options exercisable into shares (series 6)		396	-
		5,150	3,943
NON-CURRENT LIABILITIES:			
Options exercisable into shares (series 5)	9, 13e	-	1,400
Options exercisable into shares (series 7)	9, 13e	793	-
Employee benefit liabilities, net	11	190	131
		983	1,531
		6,133	5,474
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	14		
Share capital		2,606	2,321
Share premium		229,299	209,704
Capital reserve from share-based payment transactions		14,670	14,351
Treasury shares		(4,760)	-
Adjustments arising from translating financial statements of foreign operations		75	-
Accumulated deficit		(231,584)	(213,304)
		10,306	13,072
Non-controlling interests		2,221	-
Total equity		12,527	13,072
		18,660	18,546

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

March 29, 2012			
Date of approval of the financial statements	Mr. Avigdor Kaplan Chairman of the Board	Prof. Pnina Fishman Member of the Board and Chief Executive Officer	Mr. Motti Farbstein Chief Operating and Financial Officer

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2011	2010	2009
		NIS in thousands (except per share data)		
Revenues		1,785	2,644	3,299
Research an development expenses	16	12,969	9,993	13,841
General and administrative expenses	17	7,081	6,005	5,994
Other income	18	(88)	-	-
Operating loss		18,177	13,354	16,536
Expenses relating to the merger transaction		11,496	-	-
Finance expenses	19	232	356	36
Finance income	19	(1,669)	(897)	(847)
Loss before taxes on income		28,236	12,813	15,725
Taxes on income	12	191	235	263
Loss		28,427	13,048	15,988
Other comprehensive income - adjustments arising from translating financial statements of foreign operations		92	-	-
Total comprehensive loss		28,335	13,048	15,988
Loss attributable to:				
Equity holders of the Company		25,499	-	-
Non-controlling interests		2,928	-	-
		28,427	-	-
Total comprehensive loss attributable to:				
Equity holders of the Company		25,424	-	-
Non-controlling interests		2,911	-	-
		28,335	-	-
Loss per share attributable to equity holders of the Company (in NIS):	20			
Basic and diluted loss per share		0.12	0.06	0.08

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share options	Capital reserve from share-based payment transactions	Treasury shares	Adjustments arising from translating financial statements of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2009	** 1,920	** 181,830	2,962	12,350	-	-	(184,268)	14,794	-	14,794
Total comprehensive loss	-	-	-	-	-	-	(15,988)	(15,988)	-	(15,988)
Issue of share capital (net of issue expenses)	212	13,095	-	-	-	-	-	13,307	-	13,307
Exercise of share options	* -	* -	-	* -	-	-	-	* -	-	* -
Cost of share-based payment	-	-	-	1,373	-	-	-	1,373	-	1,373
Balance as of December 31, 2009	2,132	194,925	2,962	13,723	-	-	(200,256)	13,486	-	13,486
Total comprehensive loss	-	-	-	-	-	-	(13,048)	(13,048)	-	(13,048)
Exercise of share options (series 4)	8	1,046	-	-	-	-	-	1,054	-	1,054
Expiration of share options (series 3)	-	2,962	(2,962)	-	-	-	-	-	-	-
Cost of share-based payment	-	-	-	628	-	-	-	628	-	628
Issue of share capital (net of issue expenses)	180	10,751	-	-	-	-	-	10,931	-	10,931
Exercise of share options	1	20	-	-	-	-	-	21	-	21
Balance as of December 31, 2010	2,321	209,704	-	14,351	-	-	(213,304)	13,072	-	13,072

* Represents less than NIS 1 thousand.

** Reclassified.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share options	Capital reserve from share-based payment transactions	Treasury shares	Adjustments arising from translating financial statements of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2011	2,321	209,704	-	14,351	-	-	(213,304)	13,072	-	13,072
Loss	-	-	-	-	-	-	(25,499)	(25,499)	(2,928)	(28,427)
Other comprehensive income	-	-	-	-	-	75	-	75	17	92
Total comprehensive loss	-	-	-	-	-	75	(25,499)	(25,424)	(2,911)	(28,335)
Allocation of share capital to subsidiary	179	5,626	-	-	(4,760)	-	(1,045)	-	-	-
Cost of share-based payment	-	-	-	319	-	-	-	319	-	319
Issue of share capital (net of issue expenses)	99	4,611	-	-	-	-	-	4,710	-	4,710
Exercise of share options	7	289	-	-	-	-	-	296	-	296
Expenses relating to the merger transaction	-	9,069	-	-	-	-	-	9,069	1,991	11,060
Recapitalization as a result of the merger transaction	-	-	-	-	-	-	8,264	8,264	3,141	11,405
Balance as of December 31, 2011	2,606	229,299	-	14,670	(4,760)	75	(231,584)	10,306	2,221	12,527

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Cash flows from operating activities:			
Loss	(28,427)	(13,048)	(15,988)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation of property, plant and equipment	218	279	402
Cost of share-based payment	319	628	1,373
Gain from sale of property, plant and equipment	(88)	-	-
Interest income on deposits	(89)	(110)	(79)
Increase in employee benefit assets, net	59	35	54
Taxes on income	11	224	256
Decrease in fair value of options exercisable into shares (series 2)	-	-	(120)
Decrease in fair value of options exercisable into shares (series 4)	-	(387)	(707)
Increase (decrease) in fair value of options exercisable into shares (series 5)	(1,262)	(400)	186
Increase in fair value of options exercisable into shares (series 6)	94	-	-
Decrease in fair value of options exercisable into shares (series 7)	(172)	-	-
Exchange differences on balances of cash and cash equivalents	(181)	417	30
Expenses relating to the merger transaction	11,060	-	-
	9,969	686	1,395
Changes in asset and liability items:			
Decrease (increase) in accounts receivable	(3,210)	(102)	422
Increase (decrease) in trade payable	1,414	(131)	(1,963)
Decrease in other accounts payable	(741)	(258)	(611)
	(2,537)	(491)	(2,152)
Cash paid and received during the year for:			
Interest received	89	110	79
Taxes paid	(11)	(224)	(256)
Taxes received	-	-	-
	78	(114)	(177)
Net cash used in operating activities	(20,917)	(12,967)	(16,922)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Cash flows from investing activities:			
Purchase of property, plant and equipment	(81)	(107)	(35)
Proceeds from sale of property, plant and equipment	163	-	-
Net cash provided by (used in) investing activities	82	(107)	(35)
Cash flows from financing activities:			
Issue of share capital (net of issue expenses)	4,710	-	13,307
Issue of share capital (net of issue expenses)	-	10,931	-
Exercise of share options (series 4) (net of issue expenses)	-	1,054	-
Proceeds on account of share options (net of issue expenses)	1,266	-	2,708
Exercise of share options	296	21	* -
Sale of shares to non-controlling shareholders	11,405	-	-
Net cash provided by financing activities	17,677	12,006	16,015
Exchange differences on balances of cash and cash equivalents	274	(417)	(30)
Decrease in cash and cash equivalents	(2,884)	(1,485)	(972)
Cash and cash equivalents at the beginning of the year	17,506	18,991	19,963
Cash and cash equivalents at the end of the year	14,622	17,506	18,991

* Represents less than NIS 1 thousand.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Company description:

Can-Fite Biopharma Ltd. was incorporated and started to operate in September 1994 as a private company limited by shares. The Company is engaged in the development of drugs and medical diagnosis tools and is in the development stage of its products and has no sales yet (except exclusive license agreements, see Notes 13c(2) and (3)). On October 6, 2005, the Company effected an initial offering of securities to the public in Israel pursuant to a prospectus which it had published. In May 2006, the Company published a prospectus for public listing of debentures and share options. In May 2007, the Company published another prospectus for listing share options and removing the restrictions prescribed in section 15c to the Securities Law, 1968.

On May 25, 2008, the Company published a shelf prospectus (as revised on July 1, 2009) for the issuance of shares, share options and convertible debentures. In July 2009, the Company issued securities to the public in accordance with the shelf prospectus as above.

On May 27, 2010, the Company published a shelf prospectus for the issuance of shares, convertible debentures, options exercisable into shares and into debentures. In October 2010, the Company issued securities to the public in accordance with the shelf prospectus as above.

On November 16, 2011, the Company issued securities to the public in accordance with the shelf prospectus as above (see Note 14e(9)).

b. During 2006, the Company founded a subsidiary in the UK under the name of Ulratrend Limited whose main purpose is to focus on coordinating the logistics for the multi-national PHASE IIb clinical studies. As of the reporting date, Ulratrend Limited has not commenced its operation.

c. On November 21, 2011, the Company and Denali (US stock market shell, "Denali") entered into a transaction whose purpose is to spin-off the CF-101 clinical development by the Company in the ophthalmology field to Denali. Details of the transaction are disclosed in Note 5 below.

d. The Company incurred losses of approximately NIS 28,335 thousand and negative cash flows from operating activities of approximately NIS 20,917 thousand for the year ended December 31, 2011. Further, the Company has ongoing losses from previous years. In the past, the Company financed its operation by capital raisings and cooperation with multi-national companies in the industry. Currently, the Company has not earned revenues from operation and it finances its operation by capital raisings from external sources through the issuance of equity instruments.

NOTE 1:- GENERAL (Cont.)

After the reporting period, the Company raised, through a public issuance, approximately NIS 5,350 thousand (see Note 22h below) and received approximately NIS 1,600 thousand from the subsidiary as participation in expenses and also obtained the Chief Scientist's approval for participation in funding the development at the Company in 2012 with approximately NIS 1,700 thousand (see Note 22m below). Considering these conditions, among other conditions, the Company's management and Board are of the opinion that as of the date of the approval of the financial statements no difficulties are expected for the Company in financing its operating activities in the coming year.

e. Definitions:

In these consolidated financial statements:

The Company	- Can-Fite Biopharma Ltd.
The Group	- the Company and its subsidiaries (as defined below).
Subsidiaries	- companies that are controlled by the Company (as defined in IAS 27 (2008)) and whose accounts are consolidated with those of the Company.
The subsidiary	- OphtaliX Inc. ("OphtaliX") (formerly: Denali Concrete Management, "Denali")
Related company	- Eye-Fite Ltd.
Related parties	- as defined in IAS 24.
Interested parties and controlling shareholder	- as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Dollar	- the US dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Group's consolidated financial statements have been prepared on a cost basis, except:

Financial instruments at fair value through profit or loss;
Employee benefit assets and employee benefit liabilities;
Investments accounted for at equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group has elected to present the statement of comprehensive income using the function of expense method.

2. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

Furthermore, the consolidated financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

3. Consistent accounting policies:

The following accounting policies have been applied consistently in the financial statements for all periods presented, except as described in 4 below.

4. Changes in accounting policies in view of the adoption of new standards:

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1 ("the Amendment"), the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present this disclosure in the statement of changes in equity. The Amendment has been applied retrospectively from January 1, 2011.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 ("the Amendment") clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities. The Amendment has been applied retrospectively from January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Group's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues:

The amendment to IAS 32 ("the Amendment") provides that rights, options or warrants to acquire a fixed number of the Group's equity instruments for a fixed amount of any currency are classified as equity instruments if the Group offers the rights, options or warrants pro rata to all of its existing owners of the same class of its non-derivative equity instruments. The Amendment has been applied retrospectively from January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Group's financial statements.

IFRS 3 (Revised) - Business Combinations:

The amendments to IFRS 3 (Revised) address the following issues:

a) Measurement of non-controlling interests:

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that are present ownership interests and entitle their holders to a pro rata share of the acquiree's net assets in the event of liquidation (usually shares). In contrast, for other types of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2. The amendment has been applied retrospectively from the date of original adoption of IFRS 3 (Revised).

The retrospective application of the amendment did not have a material effect on the Group's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Share-based payment awards in a business combination:

The amendment prescribes the accounting treatment in a business combination of an exchange of the acquiree's share-based payment awards (whether the acquirer is obligated or chooses to exchange them) with the acquirer's share-based payment awards. According to the amendment, the acquirer allocates a portion of the value of the award to the consideration for the business combination and a portion as an expense in the period following the acquisition. However, if the award expires as a result of the business combination and is exchanged for a new award, the value of the new award in accordance with IFRS 2 is recognized as an expense in the period following the acquisition and is not included as part of the consideration for the acquisition. Furthermore, if share-based payment awards are not exchanged, then, if the instruments have vested, they form part of the non-controlling interests and are measured pursuant to the provisions of IFRS 2. If the instruments have not vested, they are measured at the value that would have been used had they been granted on the acquisition date and this amount is allocated between the non-controlling interests and a post-acquisition expense. The amendment has been applied retrospectively from the date of original adoption of IFRS 3 (Revised).

The retrospective application of the amendment did not have a material effect on the Group's financial statements.

c) Transition provisions for accounting for contingent consideration in a business combination that occurred prior to the adoption of IFRS 3 (Revised):

According to the amendment, the amendments to IFRS 7, IAS 32 and IAS 39 which prescribe that contingent consideration in a business combination is within the scope of these Standards, do not apply to contingent consideration in respect of a business combination whose acquisition date preceded the date of adoption of IFRS 3 (Revised). Such contingent consideration will continue to be accounted for under the provisions of IFRS 3 prior to its amendment. The amendment has been applied retrospectively from January 1, 2011.

The retrospective application of the amendment did not have a material effect on the Group's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 ("the Amendment") clarifies the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The Amendment has been applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Group's financial statements.

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

1. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- Acquisition of subsidiaries that are not business combinations:

According to IFRS 3, at the time of acquisition of subsidiaries and activities, the Group considers whether the acquisition represents a business combination pursuant to IFRS 3. The following criteria which indicate acquisition of a business are considered: the number of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

- Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The assumptions used in the model can include the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

2. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Pensions and other post-employment benefits:

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, salary increases and employees turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in l.

- Determining the fair value of an unquoted financial asset:

  The fair value of unquoted financial assets in Level 3 of the fair value disclosure hierarchy of IFRS 7 is determined using valuation techniques including projected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The projected future cash flows and discount rates are subject to uncertainty and include consideration of risk factors such as liquidity risk, credit risk and volatility. Further details are given in f.

c. Consolidated financial statements:

Effective from November 21, 2011, the Group applies the accounting policy required by IFRS 3 (Revised) and IAS 27 (2008) for business combinations and transactions with non-controlling interests.

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiary). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

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

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiary and fair value of the net assets upon the acquisition of the subsidiary. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Commencing from January 1, 2010, the acquisition of non-controlling interests by the Group is recorded as a decrease/ an increase in equity (capital reserve from transactions with non-controlling interests / retained earnings) and calculated as the difference between the consideration paid by the Group and the proportionate amount of non-controlling interests acquired and derecognized at the date of acquisition (when non-controlling interests also include a share of other comprehensive income, the Company reattributes the cumulative amounts recognized in other comprehensive income between the equity holders of the Company and the non-controlling interests).

Upon the disposal of a subsidiary that does not result in a loss of control, an increase / a decrease in equity (capital reserve from transactions with non-controlling interests / retained earnings) is recognized for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which has been added to the Company's equity, taking into account also the disposal of a portion of any goodwill in the subsidiary and any translation differences from foreign operations which have been recognized in other comprehensive income, based on the relative decrease in the interests in the subsidiary.

Transaction costs in respect of transactions with non-controlling interests are also recorded in equity.

Cash flows from transactions with non-controlling interests (without change in status) are classified in the statement of cash flows as cash flows from financing activities.

The financial statements of the Company and of the subsidiary are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiary have been applied consistently and uniformly with those applied in the financial statements of the Company.

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the NIS.

The financial statements are presented in NIS since the Company believes that financial statements in NIS provides more relevant information to the investors and users of the financial statements located in Israel.

The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity and is used to measure its financial position and operating results. The functional currency of the Group is the NIS.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

When a subsidiary's functional currency differs from the Company's functional currency, that subsidiary represents a foreign operation whose financial statements are translated so that they can be included in the consolidated financial statements as follows:

a) Assets and liabilities at the end of each reporting period (including comparative data) are translated at the closing rate at the end of the reporting period.

b) Income and expenses for each period included in profit or loss (including comparative data) are translated at average exchange rates for the relevant periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.

d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in b) and c) above.

e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "Adjustments arising from translating financial statements".

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in the statement of comprehensive income. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Assets and liabilities measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked according to their terms to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, are recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

f. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- financial assets at fair value through profit or loss
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

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

The Group has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument may be designated as a financial asset at fair value through profit or loss only upon initial recognition.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

b) Held-to-maturity investments:

The Group has held-to-maturity investments that are financial assets (non-derivative) with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method taking into account transaction costs. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the systematic amortization process. As for recognition of interest income, see n.

c) Loans and receivables:

The Group has receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the receivables are derecognized.

d) Available-for-sale financial assets:

The Group has available-for-sale financial assets that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange differences that relate to monetary debt instruments that are recognized as finance income or expense in profit or loss, are recognized directly in equity as other comprehensive income (loss) in the reserve for available-for-sale financial assets. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in profit or loss. As for recognition of interest income on investments in debt instruments and dividend earned on investments in equity instruments, see n.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Financial liabilities:

   a) Financial liabilities measured at amortized cost:

      Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value.

   b) Financial liabilities at fair value through profit or loss:

      Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

      Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

      Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument may be designated as a financial liability at fair value through profit or loss only upon initial recognition.

      The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

3. Fair value:

   The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to market prices at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

4. Offsetting financial instruments:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the components of the securities issued in the unit based on the following order: fair value is first determined for derivatives (such as warrants with an exercise price in a currency other than the Group's functional currency) and other financial instruments measured at fair value in each period; then fair value is determined for financial liabilities and compound instruments (such as convertible debentures) that are not measured at fair value in each period but rather at amortized cost. The proceeds allocated to equity instruments are the residual amount calculated as the difference between the total proceeds and the proceeds allocated as above. Issue costs are allocated to each component pro rata to the amounts determined for each component, net of any tax effect, in respect of equity instruments. After said allocation, each component is accounted for based on the essence of the contract (financial liability or equity instrument). The proceeds are allocated among financial instruments within the same category based on their relative fair values.

6. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the Group transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in the financial statements in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

g. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and excluding day-to-day servicing expenses.

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

	%	**Mainly %**
Laboratory equipment	10	
Computers, office furniture and equipment	6 - 33	33
Leasehold improvements	see below	

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method. Depreciation is calculated on a straight-line basis at annual rates that are deemed adequate for the depreciation of the assets over their expected useful life.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see i below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

h. Research and development expenditures:

Research expenditures are recognized in the statement of comprehensive income when incurred.

i. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of property, plant and equipment exceeds their recoverable amount, the property, plant and equipment are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

j. Taxes on income:

Taxes on income in profit or loss comprise current taxes and deferred taxes. The tax results in respect of current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item in other comprehensive income or in equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the item taxes on income.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since it is the group's policy not to initiate distribution of dividends that triggers an additional tax liability.

As it is not probable that future taxable income will be available, deferred tax asset is not recognized in the Group's financial statements.

k. Share-based payment transactions:

The Group's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard pricing model, additional details are given in Note 14. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the service conditions are to be satisfied, ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in the statement of comprehensive income represents the change in the cumulative expense recognized at the end of the reporting period.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

l. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies which through 2008 were classified as defined contribution plans or as defined benefit plans. Since 2009, the plans are classified only as defined benefit plans.

Through 2008, the Group had defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group paid fixed contributions and would have no legal or constructive obligation to pay further contributions if the fund did not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay were recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision was required in the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Since 2009, the Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets.

Actuarial gains and losses are recognized in profit or loss in the period in which they occur.

m. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

The specific criteria for revenue recognition that is required to be satisfied before revenue can be recognized:

1. Revenues from granting the license to use the Group's intellectual property for fixed commission is recognized upon delivery to the customer provided that the grant is non-cancellable and allows the licensee to use these rights freely and the licensor has no further performance obligation.

2. Revenues from commissions that are dependent on meeting milestones are recognized in profit or loss when earned after the milestones have been achieved.

3. Revenues from royalties are recognized as they accrue in accordance with the substance and terms of the agreement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Finance income and expenses:

Finance income comprises interest income on amounts invested, changes in fair value of financial assets at fair value through profit or loss and exchange rate gains.

Finance expenses comprise changes in the fair value of financial assets at fair value through profit or loss.

Gains and losses on exchange rate differences are reported on a net basis.

o. Loss per share:

Loss per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted number of Ordinary shares outstanding during the period. Basic loss per share only includes shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted loss per share when their conversion decreases loss per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted loss per share only until the conversion date and from that date in basic loss per share.

p. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Provisions pursuant to IAS 37 have not been recorded.

q. Treasury shares:

Company shares held by the subsidiary are recognized at cost and deducted from the Company's equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

r. Presentation of statement of comprehensive income:

The Group has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Disclosure of new IFRSs in the period prior to their adoption:

IAS 1 - Presentation of Financial Statements:

In June 2011, the IASB issued an amendment to IAS 1 ("the Amendment") which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Group believes that the Amendment is not expected to have a material effect on the financial statements.

IAS 19 (Revised) - Employee Benefits:

In June 2011, the IASB issued IAS 19 (Revised) ("the Standard"). The principal amendments included in the Standard are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not recorded in profit or loss.

- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.

- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.

- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.

- Past service cost arising from changes in the plan will be recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Group believes that the Standard is not expected to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosure:

In December 2011, the IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

Simultaneously in December 2011, the IASB issued amendments to IFRS 7 ("the amendments to IFRS 7") regarding the offsetting of financial assets and liabilities. According to the amendments to IFRS 7, the Company is required, among others, to provide disclosure of rights of set-off and related arrangements (such as collateral agreements), the composition of amounts that are set off, and amounts subject to enforceable master netting arrangements that do not meet the offsetting criteria of IAS 32.

The amendments to IAS 32 are to be applied retrospectively in financial statements for periods commencing on January 1, 2014, or thereafter. Earlier application is permitted, but disclosure of early adoption is required as well as the disclosures required by the amendments to IFRS 7 as described above. The amendments to IFRS 7 are to be applied retrospectively in financial statements for periods commencing on January 1, 2013, or thereafter.

The Group believes that the amendments to IAS 32 are not expected to have a material effect on the financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Group's financial statements.

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 ("the Amendment") provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the exposure to risks from transfers of financial assets and the effect of these risks on the Group's financial position. The Amendment will enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The Amendment is to be applied prospectively in financial statements for periods commencing on January 1, 2012. Earlier application is permitted.

The appropriate disclosures will be included in the Group's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 9 - Financial Instruments:

1. In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

   - the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

   Subsequent measurement of all other debt instruments and financial assets should be at fair value.

   The Standard is effective commencing from January 1, 2013. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by restating comparative figures, except as specified in the Standard.

2. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from January 1, 2013. Earlier application is permitted provided that the Group also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by restating comparative figures, except as specified in the amendments.

The Group is evaluating the possible impact of the Standard but is presently unable to assess its effect, if any, on the financial statements.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Fair Value Measurement:

In May 2011, the IASB issued four new Standards: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*" ("the new Standards") and IFRS 13, "*Fair Value Measurement*", and amended two existing Standards, IAS 27R (Revised 2011), "*Separate Financial Statements*", and IAS 28R (Revised 2011), "*Investments in Associates and Joint Ventures*".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The new IFRS 11 regarding joint arrangements is not relevant to the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The main provisions of the Standards and their expected effects on the Group are as follows:

IFRS 10 - Consolidated Financial Statements:

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "*Consolidation - Special Purpose Entities*".

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - the de facto control model and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Group is evaluating the possible impact of the adoption of IFRS 10 but is presently unable to assess the effects, if any, on the financial statements.

IFRS 12 - Disclosure of Interests in Other Entities:

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 13 - Fair Value Measurement:

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Group's financial statements upon initial adoption of IFRS 13.

The Group is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on the financial statements.

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2011	2010
	NIS in thousands	
Cash for immediate withdrawal	466	897
Cash equivalents - short-term deposits	14,156	16,609
	14,622	17,506

NOTE 4:- ACCOUNTS RECEIVABLE

	December 31,	
	2011	2010
	NIS in thousands	
Government authorities	227	135
Prepaid expenses	3,386	415
Other receivables	147	-
	3,760	550

NOTE 5:- INVESTMENT IN INVESTEE

a. Purchase agreement:

On November 21, 2011, ("the effective date"), the Company consummated the acquisition of 82% of the issued and outstanding share capital of OphtaliX Inc. ("the subsidiary" or "OphtaliX") (formerly: Denali Concrete Management Inc.) a US public company whose shares are traded on the OTCBB (Over the Counter Bulletin Board) (symbol OTC BB: DCMG.OB) ("the acquisition transaction").

The acquisition transaction was consummated pursuant to an agreement dated June 5, 2011 to spin-off the Company's activity in the ophthalmology field to OphtaliX ("the spin-off agreement") and based on its conditions other agreements were signed and a pre-ruling from the Income Tax was received whose key elements are described below:

NOTE 5:- INVESTMENT IN INVESTEE (Cont.)

1. The spin-off agreement:

According to the spin-off agreement, the Company transferred to OphtaliX 100% of the issued and outstanding capital of Eye-Fite ("Eye-Fite"), the Company's wholly-owned subsidiary, such that Eye-Fite became the wholly-owned subsidiary of OphtaliX in consideration of the allocation of 36,000,000 OphtaliX Ordinary shares to the Company, representing 86.7% of OphtaliX issued and outstanding share capital. It is indicated that the allocation of 36,000,000 of OphtaliX shares is in addition to the allocation of 2,097,626 OphtaliX shares that have been allocated to the Company in consideration of the allocation of 17,873,054 Company shares to OphtaliX under the material private placement that the Company effected on November 21, 2011 at the price of $ 1.144 per any OphtaliX share which reflect value for OphtaliX of approximately $ 50 million before the allocation of Company shares, as above, and before the raising for OphtaliX whose key elements are described below and in addition to the allocation of 437,005 OphtaliX shares which were allocated to the Company as consideration of the investment of $ 0.5 million in OphtaliX at the price of $ 1.144 per any OphtaliX share which reflect value for OphtaliX of approximately $ 50 million before the allocation of Company shares, as above, and before the raising for OphtaliX whose key elements are described below.

With the closing of the spin-off agreement, the Company appointed all of the members of OphtaliX Board (three members who act as members of the Company Board simultaneously). According to the spin-off agreement, OphtaliX will continue the development processes, clinical trials and registration of the ophthalmic indications of CF101 drug and this, among others, by receiving services from the Company under the services agreement detailed below.

Under the spin-off agreement, approximately NIS 11,496 thousand expenses for public shell were recorded.

2. License agreement:

A license agreement was entered into between the Company and Eye-Fite ("the license agreement") according to which the Company granted Eye-Fite an exclusive license non-transferrable but in the way set forth in the license agreement for the use of the Company's know-how as specified in the license agreement solely in the field of ophthalmic diseases for research, development, commercialization and marketing throughout the world. Eye-Fite is allowed to sublicense subject to the license agreement and its directives. As consideration for the grant of the license according to the license agreement, the Company received 1,000 shares of Eye-Fite of NIS 0.01 each which conferred it 100% in the issued and outstanding share capital of Eye-Fite. Eye-Fite has undertaken to make all efforts to commence phase 3 trial in the indication that is licensed thereunder within one-year and it may get extensions as determined in the license agreement provided that the delay is not the outcome of circumstances that are not under Eye-Fite control.

NOTE 5:- INVESTMENT IN INVESTEE (Cont.)

However, even if after such extensions the trial does not begin, due to circumstances that are not under Eye-Fite control, it shall be considered as a material breach of the license agreement. According to the license agreement, as per the Company's liabilities to the USA National Institute of Health, the Centers for Disease Control and Prevention ("NIH"), Eye-Fite is obligated to make to the NIH royalty payments.

All inventions resulting from the indication that is licensed thereunder shall belong to the Company whether it was invented solely by it, solely by Eye-Fite or by both in cooperation. However, the Company grants Eye-Fite an exclusive license to use these inventions in the field of ophthalmic diseases around the world at no consideration. The license will remain in effect until the expiration of the last patent licensed thereunder unless it is terminated sooner by a mutual agreement in writing or by one of the parties according to the clauses of the license agreement.

3. Services agreement:

In furtherance to the license agreement, the Company, OphtaliX and Eye-Fite (OphtaliX and Eye-Fite are collectively referred to as "the Group") entered into a services agreement ("the services agreement") which comprises rendering of management services to the Group by the Company of all pre-clinical and clinical research studies, production and supply of the compounds related to the license agreement and payment for consultants that are listed in the agreement for their involvement in the clinical trials and in all the activities to launch the ophthalmic indications. As consideration for the rendering of services, as above, the Company will be paid only for its costs and expenses incurred in rendering the services plus 15% as well as reimbursed for the expenses actually charged for the maintenance of patents underlying the license to Eye-Fite. Further, the Company will be entitled to an additional payment of 2.5% of any revenues received by the Group for the rights to use the transferred know-how ("the additional payment").

The Company is entitled during a 5-year period from the date of the approval of the services agreement, to convert its right to the additional payment into 2,160,102 shares of OphtaliX (representing about 5% of OphtaliX shares on a fully diluted basis as of the date of closing the spin-off agreement) in consideration for the exercise price set in the services agreement. The services agreement shall remain in force for unlimited period of time however, following the first anniversary, each party is entitled to terminate the agreement by a six months' prior notice or, by special events, in an earlier notice as outlined in the services agreement.

NOTE 5:- INVESTMENT IN INVESTEE (Cont.)

4. Pre-ruling from the Income Tax:

The Company received a pre-ruling decision from the Israeli Income Tax which confirms that (1) the grant of the license to Eye-Fite is not liable for tax pursuant to the provisions of section 104a to the Income Tax Ordinance (New Version), 1961 ("the Ordinance"); (2) OphtaliX is considered the receiving company pursuant to section 103c(7)(b) to the Ordinance; (3) the sale of Eye-Fite shares to OphtaliX as consideration of OphtaliX shares is not liable for tax pursuant to the provisions of section 103t to the Ordinance ("change in structure") and (4) the date for the change in structure was determined. According to the tax arrangement, the date of change in structure shall be the date of exchange of shares and notification to the tax assessor and the Company and Eye-Fite undertake within 30 days from the date of the grant of the tax decision to present to the tax assessor and the merger and spin-off department the forms required by the Ordinance and the regulations thereunder. If the forms are not filed on that date, the tax decision shall be considered as cancelled retrospectively. It is further determined in the tax arrangement that the grant of license to Eye-Fite as consideration of the issuance of Eye-Fite shares to the Company is not liable for tax pursuant to the provisions of section 104a to the Ordinance.

b. Capital raising in OphtaliX:

With the completion of the spin-off transaction, as above, OphtaliX raised from a group of investors under a private placement ("the group of investors") approximately $ 3,330 thousand in consideration of 2,910,455 OphtaliX Ordinary shares, representing about 6.20% of OphtaliX issued and outstanding share capital after the above allocation ("OphtaliX raising"). It is indicated that as part of the OphtaliX raising, the group of investors requested that the Company's Board would identify with OphtaliX raising and support it. Accordingly, the Company's CEO and director agreed to the request and invested in OphtaliX $ 50 thousand after the audit committee and Board gave their approval on November 21, 2011. In addition, another director in the Company purchased OphtaliX shares from OphtaliX former shareholders for $ 75 thousand after the audit committee and Board gave their approval on November 21, 2011.

OphtaliX raising was made at share price of $ 1.144 reflecting value of approximately $ 50 million to OphtaliX before closing. After OphtaliX raising, the Company holds about 82.3% of OphtaliX issued and outstanding share capital on a fully diluted basis and OphtaliX value is placed at approximately $ 56.5 million. Under the OphtaliX raising, the Company undertook toward the group of investors that simultaneously with the completion of the OphtaliX raising it will act to carry out the following actions:

NOTE 5:- INVESTMENT IN INVESTEE (Cont.)

1. The rights under the license agreement for the CF101 drug solely in the field of ophthalmic diseases ("the drug") will be transferred only against the allocation of OphtaliX shares to the Company and without any commitment to pay for the past for any reason whatsoever, except as detailed in the license agreement and the services agreement. OphtaliX will not be required to make to the Company any retroactive payments for the drug in no circumstances, except for the trials in dry eye (phase III) and glaucoma (phase II) which will be transferred to the Company at cost.

2. The Company has undertaken not to withdraw any money from Eye-Fite and/or OphtaliX, except the payment for the services agreement entered between the Company and OphtaliX under which the Company is reimbursed for its cost plus 15% (see above description of the services agreement).

3. In addition, the Company has undertaken that after the completion of OphtaliX raising it will act as the new controlling shareholder of OphtaliX to carry out the following actions:

   a) Appoint a CEO and CFO to OphtaliX in a reasonable period of time from the completion of the OphtaliX raising dependent on the financial sources of OphtaliX.

   b) Change OphtaliX name to a new name to be determined by OphtaliX Board.

   c) Appoint a head to the advisory committee and a head to the research and development committee of OphtaliX pending his consent and appoint additional directors.

   d) Any transaction between OphtaliX and/or Eye-Fite and the Company that is not in the capacity of the services agreement will be subject to receiving the approval of OphtaliX Board on condition that when the transaction is approved at least one director, other than the directors appointed on behalf of the Company for OphtaliX Board, vote.

   e) OphtaliX will carry out all actions and bear the expenses required to release the investors' shares from restrictions pursuant to Rule 144 including receipt of appropriate opinions, change in the legend and etc.

   f) The Company will not sell OphtaliX shares which it holds for a period of two years from the date of closing the OphtaliX raising.

NOTE 5:- INVESTMENT IN INVESTEE (Cont.)

If during twelve-month period following the closing of the OphtaliX raising, OphtaliX effects a private or public offering at share price reflecting value for OphtaliX which is lower than the current issue price (which is placed at approximately $ 50 million), the Company will act that OphtaliX allocates to the group of investors, at no additional consideration, OphtaliX shares as if they have made their investments at the lower price.

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET

Composition and movement:

2011:

	Laboratory equipment	Computers, office furniture and equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2011	2,333	1,049	1,210	4,592
Purchases during the year	1	80	-	81
Disposals during the year	(1,219)	-	-	(1,219)
Balance at December 31, 2011	1,115	1,129	1,210	3,454
Accumulated depreciation:				
Balance at January 1, 2011	2,053	857	1,192	4,102
Depreciation during the year	147	69	2	218
Disposals during the year	(1,144)	-	-	(1,144)
Balance at December 31, 2011	1,056	926	1,194	3,176
Depreciated cost at December 31, 2011	59	203	16	278

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET (Cont.)

2010:

	Laboratory equipment	Computers, office furniture and equipment	Leasehold improvements	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2010	2,311	984	1,190	4,485
Additions during the year:				
Purchases	22	65	20	107
Balance at December 31, 2010	2,333	1,049	1,210	4,592
Accumulated depreciation:				
Balance at January 1, 2010	1,854	779	1,190	3,823
Additions during the year:				
Depreciation	199	78	2	279
Balance at December 31, 2010	2,053	857	1,192	4,102
Depreciated cost at December 31, 2010	280	192	18	490

NOTE 7:- TRADE PAYABLES

	December 31,	
	2011	2010
	NIS in thousands	
Open accounts	1,864	481
Checks payable	66	35
	1,930	516

NOTE 8:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2011	2010
	NIS in thousands	
Employees and payroll accruals	599	488
Deferred revenues	-	1,785
Accrued expenses	2,087	1,154
	2,686	3,427

NOTE 9:- NON-CURRENT LIABILITIES

a. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Options exercisable into shares (series 5)	-	1,400
Options exercisable into shares (series 7)	793	-
	793	1,400

b. Share options:

The Company has 12,500,000 registered options (series 5) (apart from those granted as described in Note 15b(10)) that are exercisable into 12,500,000 Ordinary shares of NIS 0.01 par value each for the exercise increment of NIS 3, linked to the Israeli CPI published for May 2009. The options are exercisable through March 31, 2012.

The Company has 4,953,750 registered options (series 6) that are exercisable into 4,953,750 Ordinary shares of NIS 0.01 par value each for the exercise increment of NIS 0.63, linked to the Israeli CPI published for October 2011. The options are exercisable through May 16, 2012.

The Company has 9,907,500 registered options (series 7) that are exercisable into 9,907,500 Ordinary shares of NIS 0.01 par value each for the exercise increment of NIS 0.8, linked to the Israeli CPI published for October 2011. The options are exercisable through November 16, 2013.

Through the date of the approval of the financial statements, options (series 5, 6 and 7) have neither been exercised nor expired (see Note 14f).

NOTE 10:- FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	December 31,	
	2011	2010
	NIS in thousands	
Financial assets:		
Receivables	374	135
Financial liabilities:		
Financial liabilities measured at amortized cost	4,616	2,158
Financial liabilities at fair value through profit or loss	1,327	1,400

b. Financial risks factors:

The Group's activities expose it to foreign exchange risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

Foreign exchange risk:

The Group is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the U.S. dollar. Foreign exchange risk arises on recognized assets and liabilities that are denominated in a foreign currency other than the functional currency.

The Group acts to reduce the foreign exchange risk by managing an adequate part of the available liquid sources in or linked to the dollar.

c. Fair value:

The carrying amount of cash and cash equivalents, accounts receivable, trade payables, other accounts payable and options exercisable into shares (series 5, 6 and 7) approximate their fair value.

NOTE 10:- FINANCIAL INSTRUMENTS (Cont.)

Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Financial liabilities at fair value through profit or loss are classified in the statement of financial position in Level 1.

d. Linkage terms of financial instruments:

	December 31, 2011				
	In or linked to dollar	In or linked to Euro	Linked to Israeli CPI	Unlinked	Total
	NIS in thousands				
Assets:					
Cash and cash equivalents	14,089	65	-	468	14,622
Accounts receivable	-	-	-	374	374
	14,089	65	-	842	14,996
Liabilities:					
Trade payables	1,029	570	-	331	1,930
Other accounts payable	1,725	-	-	961	2,686
Options exercisable into shares (series 5)	-	-	138	-	138
Options exercisable into shares (series 6)	-	-	396	-	396
Options exercisable into shares (series 7)	-	-	793	-	793
	2,754	570	1,327	1,292	5,943

NOTE 10:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2010				
	In or linked to dollar	In or linked to Euro	Linked to Israeli CPI	Unlinked	Total
	NIS in thousands				
Assets:					
Cash and cash equivalents	5,660	1,544	-	10,302	17,506
Accounts receivable	-	-	-	135	135
	5,660	1,544	-	10,437	17,641
Liabilities:					
Trade payables	267	-	-	249	516
Other accounts payable	800	-	-	842	1,642
Options exercisable into shares (series 5)	-	-	1,400	-	1,400
	1,067	-	1,400	1,091	3,558

e. Sensitivity tests relating to changes in market factors:

	December 31,	
	2011	2010
	NIS in thousands	
Sensitivity test to changes in the U.S. dollar exchange rate:		
Gain (loss) from the change:		
Increase of 10% in exchange rate	1,134	459
Decrease of 10% in exchange rate	(1,134)	(459)
Sensitivity test to changes in the Euro exchange rate:		
Gain (loss) from the change:		
Increase of 10% in exchange rate	(51)	154
Decrease of 10% in exchange rate	51	(154)
Sensitivity test to changes in the market price of listed securities:		
Gain (loss) from the change:		
Increase of 10% in market price	(133)	(140)
Decrease of 10% in market price	133	140

NOTE 10:- FINANCIAL INSTRUMENTS (Cont.)

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Group has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

Based on the Group's policy, the Group generally mitigates the currency risk arising from recognized assets and recognized liabilities denominated in foreign currency other than the functional currency by maintaining part of the available liquid sources in deposits in foreign currency. Accordingly, the main currency exposures presented in the sensitivity tables are for those deposits.

NOTE 11:- EMPLOYEE BENEFIT LIABILITIES, NET

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below.

a. Defined contribution plans:

Through 2008, section 14 to the Severance Pay Law, 1963 applied to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies released the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represented defined contribution plans.

NOTE 11:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

In 2009, management accepted a decision according to which although section 14 applies, as above, the Group would pay all compensation upon dismissal of employees pursuant to the conditions of the Severance Pay Law.

In view of the above, since 2009, the Group does not contribute to defined contribution plans but only to defined benefit plans.

b. Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

1. Expenses recognized in the statement of comprehensive income:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Current service cost	161	132	86
Interest cost on benefit obligation	47	44	23
Expected return on plan assets	(32)	(31)	(14)
Net actuarial loss recognized in the year	59	29	94
Total employee benefit expenses	235	174	189
Actual return on plan assets	136	76	456

2. The plan assets (liabilities), net:

	December 31,	
	2011	2010
	NIS in thousands	
Defined benefit obligation	(1,067)	(1,004)
Fair value of plan assets	877	873
Total liabilities, net	(190)	(131)

NOTE 11:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

3. Changes in the present value of defined benefit obligation:

	2011	2010
	NIS in thousands	
Balance at January 1,	(1,004)	(804)
Interest cost	(47)	(44)
Current service cost	(161)	(132)
Benefits paid	144	50
Net actuarial gain (loss)	1	(74)
Balance at December 31,	(1,067)	(1,004)

4. Plan assets:

a) Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

b) The movement in the fair value of the plan assets:

	2011	2010
	NIS in thousands	
Balance at January 1,	873	708
Expected return	32	31
Contributions by employer less withdrawals	169	139
Withdrawals from the plan	(137)	(50)
Net actuarial gain (loss)	(60)	45
Balance at December 31,	877	873

5. The principal assumptions underlying the defined benefit plan:

	December 31,	
	2011	2010
	%	
Discount rate of the plan liability	3.75	4.65
Expected rate of return on plan assets	4.03	4.81
Future salary increases	3.50	3.50

NOTE 12:- TAXES ON INCOME

a. Tax laws applicable to the Company:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions.

b. Tax rates applicable to the income of the Group:

1. The Israeli corporate tax rate was 26% in 2009, 25% in 2010 and 24% in 2011.

   A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale. A temporary provision for 2006-2009 stipulates that the sale of an asset other than a quoted security (excluding goodwill that was not acquired) that had been purchased prior to January 1, 2003, and sold by December 31, 2009, is subject to corporate tax as follows: the part of the real capital gain that is linearly attributed to the period prior to December 31, 2002 is subject to the corporate tax rate in the year of sale as set forth in the Ordinance, and the part of the real capital gain that is linearly attributed to the period from January 1, 2003, through December 31, 2009, is subject to tax at a rate of 25%.

   On December 5, 2011, the "Knesset" passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

   The above change had no effect on the financial statements.

2. The principal tax rate applicable to the subsidiary whose place of incorporation is the U.S. is weighted tax at the rate of about 35% (Federal tax, State tax and City tax of the city where the subsidiary operates).

NOTE 12:- TAXES ON INCOME (Cont.)

c. Final tax assessments:

The Company received final tax assessments through 2007.

The subsidiary, Eye-Fite, has not received final tax assessments since its incorporation.

d. Carryforward losses for tax purposes and other temporary differences:

Carryforward operating tax losses of the Company total approximately NIS 232,530 thousand as of December 31, 2011.

Deferred tax asset relating to carryforward operating losses of approximately NIS 35,807 thousand was not recognized because its utilization in the foreseeable future is not probable.

e. Tax at the rate of 5% and 10% was withheld from the Company on proceeds received abroad relating to the exclusive license agreements with the Japanese company and the Korean company, respectively (see Note 13c(2) and (3)) in the amount of approximately NIS 191 thousand, NIS 227 thousand and NIS 255 thousand in the years 2011, 2010 and 2009, respectively.

Considering the large amount of tax losses, tax withheld at source was added to the tax expense for the year because its utilization in the foreseeable future is not probable.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments to lease buildings:

Future lease fees in respect of the Group's existing lease contracts for the period through June 2012 aggregate approximately NIS 247 thousand.

b. Liabilities to pay royalties:

1. According to the research and license agreement signed on May 11, 1995 with Bar-Ilan Research & Development Co. Ltd. ("Bar-Ilan") and Mor Research Applications Ltd. ("Mor") ("the Mor/Bar-Ilan agreement"), the Company is committed to pay royalties as follows:

   a) 3% of net sales (as defined in the Mor/Bar-Ilan agreement) received by the Company.

   b) The higher of (1) 20% of any amount (of any type of payment, either in cash or other) received from any subcontractor (as defined in the Mor/Bar-Ilan agreement) as full commission or (2) 1% of net sales received from a subcontractor.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

In the event of use for the purpose of disease diagnosis, the Company is committed to pay royalties as follows:

a) 3% of net sales received for said purpose; and

b) 20% of any amount (of any type of payment, either in cash or other) received from any subcontractor as full commission.

The patent license according to the Mor/Bar-Ilan agreement was assigned to the Company. If the Company ceases to operate for a period of at least two consecutive years or is liquidated during the period of the agreement, the patent rights will be recovered to Mor and Bar-Ilan but the Company's liability to pay royalties and usage fees to subcontractors will remain intact.

The Mor/Bar-Ilan agreement will be concluded once the last patent license expires, unless one of the parties chooses to terminate it following the counterparty's default or material breach of the agreement.

As of the reporting date, the Company is not engaged in any research and development activity and/or does not provide any services in connection with the Mor/Bar-Ilan agreement.

2. According to the license agreement signed on January 29, 2003 with the USA National Institute of Health ("NIH") (through the US Public Health Service, "PHS") ("the PHS agreement"), the Company is committed to pay royalties as follows:

a) A minimum annual payment of $ 50 thousand which is non-refundable.

b) 4%-5.5% of the Company's total net revenues from sales of licensed products or from conducting tests, as defined in the PHS agreement, on a consolidated basis.

c) Royalties in a total of up to $ 700 thousand subject to meeting certain drug development milestones as defined in the PHS agreement.

d) Additional payments totaling 20% of total payments received from any subcontractor,

The agreement will remain in effect until the expiration of the last patent, unless it is terminated sooner by one of the parties, according to the PHS agreement.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

On August 4, 2005, an amending agreement was signed with the NIH for extending the milestone dates. The amending agreement has no effect on the originally determined license terms. On January 24, 2006, the Company entered into a cooperative research and development agreement ("the CRADA") with the NIH whereby the Company received an exclusive option to obtain a license from the NIH for the molecules to be developed, under terms that will be determined between the parties on the date of exercise of said option, if exercised. As of the reporting date, the option has not been exercised.

3. According to the research and license agreement signed with Aderis Pharmaceuticals Inc. ("Aderis") on May 6, 2002 (and its amendment of May 28, 2003), the Company is committed to pay royalties as follows:

   a) 1.75%-2.75% of total net sales (as this term is defined in the agreement).

   b) 2% of all payments received from the Company's subcontractors in connection with the agreement.

   The Company will be entitled to a reduction in the rate of royalties payable according to the PHS agreement in paragraph 2 above in an amount equivalent to the royalties payable under this agreement.

   The agreement will remain in effect until the expiration of the last patent, unless it is terminated sooner by one of the parties, according to the agreement.

4. According to the patent license agreement signed on July 28, 2009 with the Leiden University in the Netherlands, which is affiliated with the NIH, the Company is committed to pay royalties as follows:

   a) A one-time concession commission of € 25 thousand;

   b) Annual royalties of € 10 thousand until the clinical trials commence;

   c) 2%-3% of net sales (as defined in the agreement) received by the Company;

   d) Royalties in a total of up to € 850 thousand based on certain progress milestones in the license stages of the products which are the subject of the patent under the agreement;

   e) If the agreement is sublicensed to another company, the Company will provide the Leiden University royalties at a rate of 10%.

   A merger, consolidation or any other change in ownership will not be viewed as an assignment of the agreement as discussed in this paragraph.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

c. Commitments:

1. As for engagements with the Company's directors and CEO, see Note 21c(1), (2), (3), (4) and (5).

2. On September 22, 2006, the Company signed an exclusive license agreement regarding inflammatory indicators, including rheumatoid arthritis indicators (excluding eye disease indicators) with a public Japanese company, Seikagaku Corporation ("the Japanese corporation") for the use, development and marketing of the Company's CF101 drug in Japan only.

   According to the agreement, the Company is entitled to receive the following amounts:

   a) A non-refundable amount of $ 3 million (gross) (NIS 12,909 thousand) paid immediately upon signing the agreement. This amount was included in the Company's revenues in its financial statements for 2006.

   b) An amount of $ 500 thousand (gross) on January 1 of each year starting from January 1, 2007, until the earlier of the date of filing an application for a new drug with the Japanese regulatory authorities and the beginning of the fifth year from the date of signing (until January 1, 2011).

   c) An amount of $ 12 million (gross) based on the Japanese corporation's progress milestones in the development of the CF101 for treating rheumatoid arthritis in Japan. In 2008, the Company received $ 1 million (NIS 3,494 thousand) following the commencement of a Phase I clinical trial in the CF101 drug by the Japanese corporation based on the milestones determined in the agreement, as discussed above. This amount was included in the Company's revenues in its financial statements for 2008.

   d) An aggregate amount of $ 2 million (gross) received in 2006 and 2007 ($ 1 million each year) based on milestones underlying the Company's Phase IIb clinical trial in rheumatoid arthritis indicators. These amounts were included in the Company's financial statements for said years under participation in research and development expenses, based on the milestones met by the Company according to the agreement.

   e) If the Japanese corporation decides to develop other indicators of the CF101 apart from rheumatoid arthritis indicators, the Company will be entitled to an additional $ 4 million (gross) based on milestones met in the development of the CF101 for the other indicators.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

In addition to the amounts detailed above, the Company will be entitled to a substantial percentage of royalties on sales of the CF101 marketed by the Japanese corporation according to the agreement and on additional revenues from sales of raw materials to the Japanese corporation for the purpose of the development, production and marketing of the CF101. If the Japanese corporation decides to produce the raw materials itself, the Company will be entitled to an additional $ 1 million (gross). Furthermore, according to the agreement, the Company will be entitled to receive additional amounts if the Japanese corporation requests information regarding the results of other clinical trials conducted by the Company in the future.

The Company is committed to pay 5% of the above amounts as brokerage commission to a Japanese company which brokered the agreement. The agreement is for an indefinite period.

3. On December 22, 2008, the Company signed an agreement regarding the provision of a license for its CF101 drug and for investment in the Company's shares with a Korean pharmaceutical company, Kwang Dong Pharmaceutical Co. Ltd. ("the license agreement", "the investment agreement" and "the Korean company", respectively). According to the license agreement, the Company will grant the South Korean company a license to use, develop and market its CF101 drug for treating only rheumatoid arthritis only in Korea.

   According to the license agreement, the Company is entitled to receive the following amounts:

   a) An amount of up to $ 1.5 million (gross) based on the Company's compliance with certain milestones, including the signing of the license agreement, the conclusion of the Phase II clinical trial which the Company is conducting in the CF101 drug and the receipt of various regulatory permits. The Company included revenues of $ 200 thousand and $ 300 thousand in respect of the license agreement in its financial statements for 2010 and 2009, respectively.

   b) The Company will be entitled to annual royalties based on sales of the CF101 in Korea as marketed by the Korean company according to the license agreement.

   According to the investment agreement, the Korean company purchased from the Company 2,382,602 quoted Ordinary shares of the Company of NIS 0.01 par value each, representing 1% of the Company's share capital (on a fully diluted basis). The shares were purchased for a premium of 50% on the share's average closing price in the ten days preceding the meeting of the Company's Board on December 11, 2008, which approved the signing of the above agreements (a price of NIS 0.455 per share).

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

The consummation of the transaction and the coming into force of the license and investment agreements are contingent on the allocation of the shares to the South Korean company as discussed above. After the approval of the Stock Exchange for the listing for trade of said shares had been obtained on January 5, 2009, the shares were allocated to the Korean company and the transaction was closed consummated on January 13, 2009. Upon the consummation of the transaction, the Korean company transferred to the Company an amount of approximately NIS 2.2 million (approximately $ 560 thousand), part of which represented income for the Company from the license agreement and the other part was used as consideration for the allocation of the shares as above.

The Company recorded issuance expenses of approximately NIS 15 thousand, net of premium.

4. On November 24, 2009, the Company entered into an agreement with Plexus Ventures, an internationally renowned corporation, for receiving its assistance in commercializing the CF101 drug. The agreement was signed after the Company had announced the successful conclusion of two clinical trials in the CF101 on patients with psoriasis and dry eye syndrome. According to the agreement, Plexus Ventures will assist the Company in choosing an appropriate strategic partner for the drug's global marketing and registration stage. In return for these services, Plexus Ventures is entitled to $ 115 thousand based on the milestones determined in the agreement as well as royalties of 1%-3% on the price of any transaction with a strategic partner. Plexus Ventures, founded in 1990, is a supplier of strategic business development solutions which provides support in creating joint ventures in the pharmaceutical and biotechnology sectors. Plexus has a competent team with proven experience in enabling transactions in these sectors and widespread presence in the US, Europe, South America and Asia.

   On April 5, 2011, the Company informed Plexus Ventures of the termination of their agreement in conformity with its provisions. However, Plexus is still entitled to royalties based on the terms of the agreement.

5. On January 19, 2010, the Company signed a memorandum of understanding with Morningside Asia Venture (HK) Limited from Hong Kong ("the memorandum of understanding" and "MAV", respectively).

   According to the memorandum of understanding, the Company and MAV will establish a joint venture in Hong Kong ("the joint venture"), which will receive commercialization rights to the CF102 treatment in China, Hong Kong, Macau, and Taiwan ("the territory") and will have exclusive responsibility to develop the CF102 for these markets. MAV will inject all the $ 7.5 million in financing necessary for the preclinical and clinical development of CF102 through the Phase II clinical trial. The Company will provide all pertinent information in its possession relevant for the CF102 in order to obtain regulatory permits for it in the territory.

NOTE 13:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

It is indicated that the Company will have access to all the clinical and pre-clinical results and data to be developed by the joint venture and will have the right to use all this information for purposes outside the territory.

The memorandum of understanding is not binding and the engagement is pending a final agreement. As of the date of the approval of the financial statements, a final agreement has not been signed.

NOTE 14:- EQUITY

a. Composition of share capital:

	December 31, 2011		December 31, 2010	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	NIS			
Ordinary shares of NIS 0.01 par value each	5,000,000	2,605,857	3,000,000	2,321,521

On July 3, 2011, the general meeting approved to increase the number of the Company's authorized shares by 200 million shares of NIS 0.01 par value each.

After the above capitalization, the Company's authorized capital totals 500 million shares of NIS 0.01 par value.

b. Movement in share capital:

Issued and outstanding capital:

	Number of shares	NIS par value
Balance at December 31, 2009	213,260,313	2,132,603
Movement during 2010:		
Issue of share capital	18,000,000	180,000
Exercise of share options (series 4)	821,815	8,218
Exercise of unlisted share options	70,000	700
Balance at December 31, 2010	232,152,128	2,321,521
Movement during 2011:		
Issue of share capital	27,780,554	277,806
Exercise of unlisted share options	653,000	6,530
Balance at December 31, 2011	260,585,682	2,605,857

NOTE 14:- EQUITY (Cont.)

c. Rights attached to shares:

All Ordinary shares have equal rights for all intent and purposes and each Ordinary share confers its holder:

1. The right to be invited and participate in all Company's general meetings, both annual and regular, and the right to one vote per Ordinary share owned in all votes and in all Company's general meeting participated.

2. The right to receive dividends if and when declared and the right to receive bonus shares if and when distributed.

3. The right to participate in the distribution of the Company's assets upon liquidation.

4. Quoted on the Tel-Aviv Stock Exchange.

d. Capital management in the Company:

The Company's capital management objectives are to preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

e. Issue of shares and share options and changes in equity:

1. On July 1, 2009, the Company informed on revising the shelf prospectus which it had published on May 25, 2008, pursuant to the Board's decision from June 18, 2009.

   On July 5, 2009, based on the revision in the prospectus, the Company published a final update of the public offering structure for the Company's securities as detailed below:

   1. 18,750,000 Ordinary shares of NIS 0.01 par value of the Company
   2. 12,500,000 options (series 4) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each in the period from their allocation through January 31, 2010 for the exercise price of NIS 1.25 per share, linked to the Israeli CPI published for May 2009.
   3. 12,500,000 options (series 5) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each in the period from their allocation through March 31, 2012 for the exercise price of NIS 3 per share, linked to the Israeli CPI published for May 2009.

NOTE 14:- EQUITY (Cont.)

2. On July 6, 2009, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company had published on May 25, 2008 and revised on July 1, 2009. The securities were offered to the public in 10,000 units ("the units") by a tender on the unit's price where the minimum price was NIS 1,500 per unit.

   Each unit comprises 1,875 Ordinary shares of the Company of NIS 0.01 par value each at NIS 0.8 per share, 1,250 share options (series 4) and 1,250 share options (series 5) at no consideration.

   Each share option (series 4) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 1.25, linked to the Israeli CPI, the base index being the index for May 2009. The exercise period of the options is through January 31, 2010 (see also 4 below).

   Further, each share option (series 5) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 3, linked to the Israeli CPI, the base index being the index for May 2009. The exercise period of the options is through March 31, 2012.

   5,744 units were ordered. Total net issuance proceeds amounted to approximately NIS 8,231 thousand (net of issue expenses of approximately NIS 385 thousand). The issue expenses of the Company include grant of share options to consultants as a commission for handling the capital raisings in July 2009 (see also Note 15b(10)). The issuance consideration was received on July 9, 2009. Until the issuance consideration is used, the issuance proceeds will be held in the Company's accounts and invested by it in consistent with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

   The shares and the share options (series 4 and 5) were admitted to trading on July 8, 2009.

3. On July 16, 2009, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company had published on May 25, 2008 and revised on July 1, 2009. The securities were offered to the public in 4,256 units ("the units") by a tender on the unit's price where the minimum price was NIS 1,500 per unit.

   Each unit comprises 1,875 Ordinary shares at NIS 0.8 per share, 1,250 share options (series 4) and 1,250 share options (series 5) at no consideration.

   Each share option (series 4) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 1.25, linked to the Israeli CPI, the base index being the index for May 2009. The exercise period of the options is through January 31, 2010 (see also 4 below).

NOTE 14:- EQUITY (Cont.)

Further, each share option (series 5) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 3, linked to the Israeli CPI, the base index being the index for May 2009. The exercise period of the options is through March 31, 2012.

All units offered to the public were ordered. Total net issuance proceeds amounted to approximately NIS 6,791 thousand (net of issue expenses of approximately NIS 316 thousand). The issue expenses of the Company include grant of share options to consultants as a commission for handling the capital raisings in July 2009 (see also Note 15b(10)). The issuance consideration was received on July 20, 2009. Until the issuance consideration is used, the issuance proceeds will be held in the Company's accounts and invested by it in consistent with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

The shares and the share options (series 4 and 5) were admitted to trading on July 15, 2009.

4. On January 29, 2010, 821,815 share options (series 4) were exercised into 821,815 Ordinary shares of the Company of NIS 0.01 par value each in consideration of the exercise increment of NIS 1,054 thousand. The remaining 11,678,185 share options (series 4) which were not exercised expired on January 31, 2010.

5. On October 28, 2010, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company had published on May 27, 2010 (see also Note 1a). The securities were offered to the public in 1,800 units ("the units") by a tender on the unit's price where the minimum price was NIS 6 thousand per unit. Each unit comprises 10,000 Ordinary shares at NIS 0.6 per share.

   All units offered to the public were ordered. Total net issuance proceeds amounted to approximately NIS 10,931 thousand (net of issue expenses of approximately NIS 49 thousand). The issuance consideration was received on November 1, 2010. Until the issuance consideration is used, the issuance proceeds will be held in the Company's accounts and invested by it in consistent with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

   The shares were admitted to trading on October 28, 2010.

NOTE 14:- EQUITY (Cont.)

6. On November 10, 2010, 70,000 unlisted share options were exercised into 70,000 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 21 thousand.

7. On February 24, 2011, 450,000 unlisted share options were exercised into 450,000 Ordinary shares of the Company (see Note 15b(8)). The proceeds from the exercise of the share options totaled approximately NIS 225 thousand.

8. On August 29, 2011, 203,000 unlisted share options were exercised into 203,000 Ordinary shares of the Company of NIS 0.01 par value each. These share options derive from two allocations to the Company's employees; where 60,000 were allocated on January 10, 2006 at the exercise price of NIS 0.45 per share option and 143,000 were allocated on November 26, 2008 at the exercise price of NIS 0.307 per share option. The proceeds from the exercise of the share options totaled approximately NIS 71 thousand.

9. On November 16, 2011, the Company offered the public securities according to a shelf proposal report which was published on the basis of a shelf prospectus which the Company had published on May 27, 2010. The securities were offered to the public in 3,963 units ("the units") by a tender on the unit's price where the minimum price was NIS 1.25 thousand per unit.

   Each unit comprises 2,500 Ordinary shares of NIS 0.01 par value each at NIS 0.5 per share, 1,250 share options (series 6) and 2,500 share options (series 7) (both series at no consideration).

   Each share option (series 6) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.63, linked to the Israeli CPI, the base index being the index for October 2011. The exercise period of the options is through May 16, 2012.

   Further, each share option (series 7) is exercisable into one Ordinary share of NIS 0.01 par value in consideration of NIS 0.80, linked to the Israeli CPI, the base index being the index for October 2011. The exercise period of the options is through November 16, 2013.

   All units offered to the public under the issuance were ordered and the unit's price determined in the tender was NIS 1.61 thousand per unit. Total net issuance proceeds amounted to approximately NIS 5,976 thousand (net of issue expenses of approximately NIS 406 thousand). The issuance consideration was received on November 22, 2011. Until the issuance consideration is used, the issuance proceeds will be held in the Company's accounts and invested by it in consistent with the Company's investment policy as it will be from time to time provided that any investment, as above, shall be in solid channels including and without derogating from the generality of the above an interest bearing NIS deposit or interest bearing deposit in foreign currency.

NOTE 14:- EQUITY (Cont.)

The shares were admitted to trading on November 16, 2011.

10. As stated in Note 5, on November 21, 2011, the Company published an immediate report on a material private placement in accordance with the Securities Regulations regarding the allocation of 17,873,054 Ordinary shares of NIS 0.01 par value each to the subsidiary with value of $ 2.4 million (based on the price for the Company's share on the Tel-Aviv Stock Exchange Ltd. on November 20, 2011 which was NIS 0.501 and the representative exchange rate of the U.S. dollar as of November 18, 2011 was NIS 3.73/$ 1) and, as a procedure ahead of the spin-off described in Note 5, these securities were admitted to trading by the general manager of the stock exchange.

f. Share options:

The Company had 12,500,000 share options (series 4) that were exercisable into Ordinary shares of the Company of NIS 0.01 par value each in the period from their allocation through January 31, 2010 for the exercise price of NIS 1.25 per share, linked to the Israeli CPI published for May 2009. These share options were classified as a liability in the financial statements. On January 29, 2010, 821,815 share options (series 4) were exercised into 821,815 Ordinary shares of the Company of NIS 0.01 par value each in consideration of the exercise increment of NIS 1,054 thousand. The remaining 11,678,185 share options (series 4) which were not exercised expired on January 31, 2010.

The Company has 13,250,000 share options (series 5) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each in the period from their allocation through March 31, 2012 for the exercise price of NIS 3 per share, linked to the Israeli CPI published for May 2009. On March 26, 2012, 23,333 share options were exercised into 23,333 Ordinary shares of the Company of NIS 0.01 par value each in consideration of the exercise increment of approximately NIS 75 thousand (see Note 22c). These share options are classified as a liability in the financial statements.

The Company has 4,953,750 registered share options (series 6) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each in every trading day except from the 12 to the 16 of each calendar month from their admission to trading through May 16, 2012 for the exercise price of NIS 0.63 per share, linked to the Israeli CPI published for October 2011. These share options are classified as a liability in the financial statements.

The Company has 9,907,500 registered share options (series 7) that are exercisable into Ordinary shares of the Company of NIS 0.01 par value each in every trading day except from the 12 to the 16 of each calendar month from their admission to trading through November 16, 2013 for the exercise price of NIS 0.80 per share, linked to the Israeli CPI for October 2011. These share options are classified as a liability in the financial statements.

NOTE 14:- EQUITY (Cont.)

g. Unlisted share options:

On October 21, 2010 ("the effective date"), the Company entered into a strategic investment with an investor ("the investor"), according to which it granted the Company a put option for a 18-month period from the date of the agreement to compel to invest an amount of NIS 3,610,000 in the Company for the allocation of Company's shares at the price of NIS 0.585 per share, reflecting a premium of about 7% on the average share price on the stock exchange in the sixty trading days which preceded the date of the agreement. If the investor invests money in the Company through a capital raising, the amount invested, as above, will be deducted from the amount of the put option. At the same time, the Company granted the investor an option for a 42-month period from the date of the agreement to purchase shares of the Company representing 5% of the Company's share capital on a fully diluted basis for the exercise price of NIS 0.6, reflecting a premium of about 10% on the average share price on the stock exchange in the preceding sixty trading days.

Further, the investor will help the Company in its activities in the capital markets including the creation of a long-term financial strategic plan as well as structural changes in the Company, assisting in positioning the Company with respect to the capital markets as well as capital raisings for the Company.

The agreement will remain in effect from the date of its approval until the completion of the above activities. Each party is entitled to terminate the agreement by a 30 days' prior written notice and, in such case, the put option granted to the Company and the options granted to the investor will continue to be valid.

On October 28, 2010, according to the shelf proposal report which was published on the basis of a shelf prospectus which the Company published on May 27, 2010 (see e(5) above), the investor invested approximately NIS 4 million at the issue price of NIS 0.61 and, subsequently, the put option, as above, expired.

As consideration for the put option, as above, the Company's Board approved a private placement to the investor of 12,550,644 unlisted share options that are exercisable into 12,550,644 Ordinary shares of the Company of NIS 0.01 par value each, representing about 5% of the Company's issued and outstanding share capital on a fully diluted basis (regardless the results of the issuance effected on October 28, 2010, see e(5) above). The exercise price of each share option is NIS 0.6, reflecting a premium of about 10% on the average share price on the stock exchange in the sixty trading days which preceded the date of the agreement. The share options may be exercised immediately over a 42-month period from the effective date. These share options are classified as an equity component in the financial statements.

NOTE 14:- EQUITY (Cont.)

According to the "binomial" model, the average economic value of the share options to the investor at the effective date was NIS 0.399 per share option. The following inputs were used in determining the economic value of the share options: share price of NIS 0.65, exercise price of NIS 0.6, annual discount rate of 3.33%, life of options of 3.5 years, annual standard deviation of 84.97% based on the weighted standard deviation of the share price in the period when it was traded.

The shares deriving from the exercise of the unlisted share options were admitted to trading on January 26, 2011

h. Treasury shares:

Company's shares held by the Company and/or subsidiaries are recognized at cost and deducted from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS

a. Expenses recognized in the accounts:

The expense recognized in the Company's financial statements for share-based payment transactions is shown in the following table:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Equity-settled share-based payment plans	319	628	1,373

There have been no modifications or cancellations to the benefit plans granted during 2011, 2010 or 2009.

b. Share-based payment transactions granted by the Company:

1. On January 11, 2006, the Company allocated for no consideration 1,971,709 share options to Company's employees and consultants that are exercisable into up to 1,971,709 Ordinary shares of the Company of NIS 0.01 par value each at the exercise price of NIS 0.45 per share option. The share options are exercisable over a total period of up to 10 years.

   According to the Black and Scholes formula, the economic value of the share options was NIS 1.04 per share option.

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 1.22, exercise price of NIS 0.45, annual discount rate of 4.5%, life of options of 10 years, annual standard deviation of 0.577 based on the standard deviation of the share price in the period when it was traded whose probability is examined by reference to similar companies in the industry (Compugen, Hazera, Biocell and Brainstorm).

On April 8, 2008, 50,139 share options (unlisted) expired.

On February 25, 2009, 50,139 share options (unlisted) expired.

On December 20, 2010, 185,556 share options (unlisted) expired.

2. On July 4, 2006, the Company's Board accepted a decision which was later approved by the annual general meeting of the Company's shareholders which was convened on August 24, 2006:

The Company allocated to a director in the Company ("the optionee") for no consideration 193,305 share options to purchase 193,305 Ordinary shares of the Company of NIS 0.01 par value each. Assuming exercise of the entire amount of share options, the Company's shares that will be allocated to the optionee will represent 0.15% of the issued and outstanding share capital of the Company and about 0.08% on a fully diluted basis. In total, after the allocation, the optionee will hold about 0.09% of the Company's capital on a fully diluted basis. The exercise price of the share options granted to the optionee is NIS 0.45 per each share option (subject to adjustments in cases of share dividend (bonus shares), share split and etc.), representing 40% of the share price when the Company was issued on the Tel-Aviv Stock Exchange.

The optionee is entitled to exercise 50% of the share options granted to him immediately after the allocation and 50% are exercisable over the period from the date of their allocation until the lapse of 120 months from date of their allocation such that 3.125% of total share options may be exercised each quarter.

According to the "binomial" model, the economic value of the share options as of the date of the approval of the general meeting of shareholders was NIS 0.717 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 1.038, exercise price of NIS 0.45, annual discount rate of 6.06%-6.70%, life of options of 10 years, annual standard deviation of 46.97%-54.58% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Compugen, Hazera and Biocell), early exercise coefficient of 3.5 which is based on other companies with similar pattern of award and employee turnover of 10%.

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

3. On November 29, 2006, the Company's Board decided to allocate to two consultants in the Company for no consideration 160,000 share options that are exercisable into up to 160,000 Ordinary shares of the Company of NIS 0.01 par value each at the exercise price of NIS 1.247 per share option (the closing price of the Company's share when the approval of the Company's Board was received). The share options are exercisable over a total period of up to 10 years. The consultants may exercise the share options based on a vesting period of 1/48 per month starting October 2005. The share options will be practically granted after receiving the approval of the securities stock exchange for admitting the shares deriving from the exercise of the share options to trading on the stock exchange.

   According to the binomial model, the economic value of the share options for both consultants, as above, as of the date when the Company's Board accepted the decision was NIS 0.571 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 1.247, exercise price of NIS 1.247, annual discount rate of 5.08%-6.41%, life of options of 10 years, annual standard deviation of 51.23% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Compugen, Hazera and Biocell), early exercise coefficient of 2.61 which is based on other companies with similar pattern of award and employee turnover of 8.33%.

4. On November 27, 2007, the Company's Board approved, subject to the admission to trading received from the securities stock exchange on December 30, 2007, a private placement to a consultant in the Company ("the optionee") for no consideration of 100,000 share options of the Company that are exercisable into 100,000 Ordinary shares of the Company of NIS 0.01 par value each. The optionee may exercise the share options in equal amounts each quarter over 16 quarters from the date of allocation. The last date that the share options may be exercised is ten years from the date of their allocation.

   The exercise price of the share options granted to the optionee is NIS 0.83 per each share option (the exercise price is equivalent to the closing price of the Company's share on November 27, 2007 and subject to adjustments in cases of share dividend (bonus shares), share split and etc.).

   According to the binomial model, the economic value of the share options as of the reporting date was NIS 0.234 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.448, exercise price of NIS 0.83, annual discount rate of 2.66%-5.85%, life of options of 10 years, annual standard deviation of 55.24%-76.27% (the standard deviation was computed based on data on Company's share and data of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.).

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

5. On March 11, 2008, the Company's Board decided on a private placement to two employees and two outside consultants in the Company.

   Both employees are approved a private placement for no consideration of 100,278 unlisted options of the Company (50,139 share options to each employee) that are exercisable into 100,278 Ordinary shares of the Company of NIS 0.01 par value each (50,139 underlying shares to each employee). Assuming exercise of the entire amount of share options to the employees, the underlying shares will represent 0.3% of the issued and outstanding share capital and about 0.2% on a fully diluted basis.

   Both outside consultants are approved a private placement for no consideration of 160,000 unlisted options of the Company (80,000 share options to each consultant) that are exercisable into 160,000 Ordinary shares of the Company of NIS 0.01 par value each (80,000 underlying shares to each consultant). Assuming exercise of the entire amount of share options to the consultants, the underlying shares will represent 0.4% of the issued and outstanding share capital and about 0.3% on a fully diluted basis.

   The exercise price of the share options to employees and consultants is NIS 0.759 per each share option (the exercise price is equivalent to the closing price of the Company's share on March 10, 2008).

   The employees and consultants may exercise the share options in equal amounts each quarter over 16 quarters (4 years) from the date of allocation. The life of share options is 10 years from the date of allocation.

   According to the binomial model, the average economic value of the share options to employees as of the date of the Board's decision was NIS 0.391 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.742, exercise price of NIS 0.759, annual discount rate of 2.65%-6.14%, life of options of 10 years, annual standard deviation of 45.53%-78.82% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.), early exercise coefficient of 2.52 and employee turnover after the vesting period of 13.15%.

   According to the binomial model, the economic value of the share options to consultants as of the date of the reporting date was NIS 0.24 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.448, exercise price of NIS 0.759, annual discount rate of 2.66%-5.85%, life of options of 10 years, annual standard deviation of 55.24%-78.84% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.).

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The shares deriving from the exercise of the unlisted share options were admitted to trading on March 19, 2008.

On June 1, 2011, 65,000 share options (unlisted) expired.

On December 1, 2011, 30,187 share options (unlisted) expired.

6. On August 31, 2008, the Company's Board approved an immaterial private placement to an outside consultant in the Company of 30,000 unlisted share options that are exercisable into 30,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price is NIS 0.699 per each share option. The share options are exercisable in equal amounts each quarter over 16 quarters (four years) from the date of allocation. The life of share options is 10 years from the date of allocation.

   According to the binomial model, the economic value of the share options to the consultant as of the reporting date was NIS 0.262 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.448, exercise price of NIS 0.699, annual discount rate of 2.66%-5.85%, life of options of 10 years, annual standard deviation of 55.24%-75.05% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.).

   The shares deriving from the exercise of the unlisted share options were admitted to trading on September 8, 2008.

7. On November 26, 2008, the Company's Board approved an immaterial private placement to Company's employees of 2,382,602 unlisted share options that are exercisable into 2,382,602 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price is NIS 0.307 per each share option. The share options are exercisable in equal amounts each quarter over four years from the date of allocation. The life of share options is 10 years from the date of allocation.

   According to the "binomial" model, the average economic value of the share options to the Company's employees as of the date of the Board's decision was between NIS 0.164 and NIS 0.182 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.307, exercise price of NIS 0.307, annual discount rate of 3.01%-8.08%, life of options of 10 years, annual standard deviation of 54.48%-62.15% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.) early exercise coefficient of 2.55-3.5 and employee turnover after the vesting period of 8.33%-12.57%. The shares deriving from the exercise of the unlisted share options were admitted to trading on December 7, 2008.

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

On November 10, 2010, 70,000 unlisted share options were exercised into 70,000 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 21 thousand.

8. On February 25, 2009, the Company's Board approved a private placement to an outside consultant in the Company of 450,000 unlisted share options that are exercisable into 450,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price is NIS 0.499 per each share option. The share options are exercisable immediately after their allocation. The life of share options is two years from the date of allocation.

   According to the "binomial" model, the economic value of the share options to the consultant as of the date of the Board's decision was NIS 0.1702 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.499, exercise price of NIS 0.499, annual discount rate of 1.05%-2.90%, life of options of two years, annual standard deviation of 53.16%-74.54% based on the volatility of the Company's share price.

   The shares deriving from the exercise of the unlisted share options were admitted to trading on March 2, 2009.

   On February 24, 2011, all the 450,000 unlisted share options were exercised into 450,000 Ordinary shares of the Company of NIS 0.01 par value each in consideration of an exercise increment of NIS 225 thousand.

9. On May 27, 2009, the Company's Board approved a private placement to an outside consultant in the Company of 100,000 unlisted share options that are exercisable into 100,000 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price is NIS 0.842 per each share option. Half of the share options are exercisable immediately and half in equal amounts each quarter over 8 quarters (two years) from the date of allocation. The life of share options is 10 years from the date of allocation.

   According to the "binomial" model, the economic value of the share options to the consultant as of the date of the Board's decision was NIS 0.783 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.842, exercise price of NIS 0.842, annual discount rate of 1.27%-7.60%, life of options of 10 years, annual standard deviation of 60.59%-136.17% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.).

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

According to the "binomial" model, the economic value of the share options to the consultant as of the reporting date was NIS 0.513 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.742, exercise price of NIS 0.842, annual discount rate of 2.65%-6.14%, life of options of 10 years, annual standard deviation of 45.53%-76.80% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, Neurogen Corporation and Antigenics Inc.).

The shares deriving from the exercise of the unlisted share options were admitted to trading on June 2, 2009.

10. On July 15, 2009, the Company's Board approved a private placement to a service provider in the Company of 750,000 share options (series 5) that are exercisable into 750,000 Ordinary shares of the Company of NIS 0.01 par value each. The allocation was used for part of the issue expenses that the Company incurred in its raisings in July 2009 (see also Note 14e(2) and (3) above). The share options (series 5) are exercisable immediately after their allocation through March 31, 2012. The share options (series 5) were issued under a shelf prospectus which the Company had published on the Tel-Aviv Stock Exchange on May 25, 2008 and revised on July 1, 2009.

    The economic value of the share options to the service provider as of the date of the Board's decision was NIS 0.172 per share option. The economic value was determined on the basis of the value of the share option on the Tel-Aviv Stock Exchange as of the date of the Board's decision.

    The shares deriving from the exercise of the unlisted share options were admitted to trading on August 19, 2009.

11. On May 27, 2010, the Company's Board approved a private placement to an outside consultant in the Company of 145,464 unlisted share options that are exercisable into 145,464 Ordinary shares of the Company of NIS 0.01 par value each. The exercise price is NIS 0.512 per each share option. These share options are exercisable in equal amounts each month over 12 months from the date of allocation. The life of share options is 4 years from the date of allocation.

    According to the "binomial" model, the economic value of the share options to the consultant as of the date of the Board's decision was NIS 0.33 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.530, exercise price of NIS 0.512, ranges of risk-free interest of 2.13%-4.69%, life of options of 4 years, annual standard deviation of 89.45%-54.83% based on the weighted standard deviation of the share price in the period when it was traded.

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The shares deriving from the exercise of the unlisted share options were admitted to trading on July 12, 2010.

12. On February 15, 2011, the Company's Board approved the employment contract of a senior officer as well as an immaterial private placement to the officer ("the optionee"), subject to the approval of the employment contract by the parties. On February 22, 2011, the parties signed the employment contract.

According to the contract, the Company will allocate to the optionee for no consideration 230,000 unlisted share options of the Company ("the options") that are exercisable into 230,000 Ordinary shares of the Company of NIS 0.01 par value each ("the underlying shares"). The exercise price is NIS 0.754 per each share option (the closing price for the Company's share on the day which preceded the receipt of the approval of the Company's Board, namely, February 14, 2011). The share options are exercisable ratably over a period of 4 years (1/16 each quarter) from the date of grant.

According to the binomial model, the average economic value of each share option as of the date when the Company's Board's accepted the decision was NIS 0.535. The following inputs were used as a basis in determining the economic value of the share options: the closing price for the Company's share on the date which preceded the receipt of the approval of the Company's Board was NIS 0.754, exercise price of NIS 0.754, ranges of risk-free interest of 3.05%-6.80%, life of options of 10 years, annual standard deviation of 46.01%-76.81% based on the weighted standard deviation of the share price in the period when it was traded.

The shares deriving from the exercise of the unlisted share options were admitted to trading on March 10, 2011.

13. As for the allocation of additional share options to senior interested parties, see Note 21c.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

c. Movement during the year:

The following table lists the number of share options, their weighted average exercise prices and modification in option plans of employees, directors and consultants during the current year:

	2011		2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		NIS		NIS		NIS
Share options at beginning of year	26,060,079	0.44	23,490,171	0.41	23,007,779	0.41
Share options granted during the year	230,000	0.75	2,825,464	0.64	550,000	0.56
Share options exercised during the year	(653,000)	0.45	(70,000)	0.31	(17,469)	0.01
Share options expired during the year	(95,187)	0.31	(185,556)	0.50	(50,139)	0.45
Share options at end of year	25,541,892	0.44	26,060,079	0.44	23,490,171	0.41
Share options exercisable at end of year	24,268,077	0.44	23,477,696	0.43	21,443,610	0.42

d. The weighted average remaining contractual life for the share options outstanding as of December 31, 2011, 2010 and 2009 was 3.71 years, 4.72 years and 5.89 years, respectively.

e. The range of exercise prices for share options outstanding as of December 31, 2011, 2010 and 2009 was between NIS 0.01 and NIS 1.247.

f. The weighted average fair value for the share options outstanding as of December 31, 2011, 2010 and 2009 was NIS 0.54, NIS 0.39 and NIS 0.23, respectively.

g. Measurement of the fair value of equity-settled share options:

The Company uses the binomial model when estimating the fair value of equity-settled share options with the assistance of an external valuer. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

For options granted to service providers, the fair value is remeasured as the services are received.

The expected life of the share options is based on historical data of the Company and is not necessarily indicative of the exercise patterns of share options that may occur in the future.

The expected volatility of the share price reflects the assumption that the historical volatility of the share price is reasonably indicative of expected future trend.

NOTE 16:- RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Professional consulting - clinical trials	6,007	2,554	5,411
Salary and related expenses	1,972	1,749	2,078
Royalties	590	235	387
Patents	677	635	610
Professional consulting - research and development	650	724	787
Subcontractors	1,786	2,761	3,110
Materials	468	506	539
Rent	383	382	382
Depreciation	149	199	313
Miscellaneous	287	248	224
	12,969	9,993	13,841

NOTE 17:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Professional consulting - management	715	980	1,126
Professional services	2,023	1,505	1,301
Salary and related expenses	1,861	1,196	1,429
Directors' fee	410	426	403
Rent	108	110	110
Travel abroad	360	311	301
Office and computer maintenance	317	314	165
Vehicle maintenance	300	262	212
Insurance	154	153	150
Depreciation	69	80	89
Brokerage commissions	-	80	85
Other	764	588	623
	7,081	6,005	5,994

NOTE 18:- OTHER INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Gain from sale of property, plant and equipment, net	88	-	-

NOTE 19:- FINANCE EXPENSES (INCOME)

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Finance expenses:			
Bank commissions	50	26	36
Net loss from exchange rate fluctuations	-	330	-
Issue expenses attributed to liabilities	182	-	-
	232	356	36
Finance income:			
Interest income on bank deposits	(89)	(110)	(79)
Net gain from exchange rate fluctuations	(10)	-	(128)
Net change in fair value of financial liabilities at fair value through profit or loss	(1,570)	(787)	(640)
	(1,669)	(897)	(847)

NOTE 20:- LOSS PER SHARE

a. Details of the number of shares and loss used in the computation of loss per share:

	Year ended December 31,					
	2011		2010		2009	
	Weighted number of shares	Loss	Weighted number of shares	Loss	Weighted number of shares	Loss
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands
Number of shares and loss used in the computation of basic and diluted loss per share	260,586	28,427	217,183	13,048	203,253	15,988

b. To compute diluted loss per share, the securities, detailed below, have not been taken into account since their conversion decreases the basic loss per share (anti-dilutive effect):

9,220,800 options exercisable into shares (series 3) - expired in 2010.
12,500,000 options exercisable into shares (series 4) - expired in 2010.
13,250,000 options exercisable into shares (series 5).
4,953,750 options exercisable into shares (series 6).
9,907,500 options exercisable into shares (series 7).
25,541,892 unlisted share options - share-based payment.
16,129,844 unlisted share options - other; 3,579,200 expired in 2010.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES

a. Benefits to related parties and interested parties:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Management and consulting fees to interested parties (including bonuses) (1)	1,109	1,265	1,327
Other expenses relating to an interested party	78	95	68
Directors' fee (2)	400	406	387
(1) Number of interested parties	2	2	2
(2) Number of directors	4	4	4

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

b. Benefits to key management personnel:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Share-based payment (1)	255	459	602
(1) Number of directors	1	2	2

c. Commitments:

1. In June 2002, the Company entered into a management agreement with A.C.R.C. Management Ltd. ("ACRC"), a company wholly owned by Dr. Ilan Cohen, a director in the Company and, at the time of the approval of the agreement, the Company's President and CEO. According to the terms of the agreement, ACRC shall render management services at accepted standard as those that a President and CEO of a biotechnology company render. As consideration for these management services, the Company shall pay ACRC $ 15 thousand a month plus VAT and ACRC shall be entitled to reimbursement of expenses. On September 15, 2004, ACRC notified on the termination of the agreement so that on March 15, 2005, the agreement was to terminate according to its clauses. In furtherance to said notice, on December 26, 2004, an agreement was signed between the parties which states that the management services would discontinue only on December 31, 2005 and that the payment for the management services would amount $ 90 thousand for the entire period of the notice of early termination of the agreement (namely, a period of 15 and a half months from September 15, 2004 to December 31, 2005).

   Through September 21, 2005, a total of 2,682,096 share options that are exercisable into 2,682,096 Ordinary shares of the Company of NIS 0.01 par value each were granted to Dr. Ilan Cohen. The value of the share options granted (computed on the date when the grants were approved) reaches approximately NIS 1,985 thousand.

   On September 22, 2005, after the approval of the meeting of the Company's shareholders (which was received on September 21, 2005), as part of the recapitalization before the public issuance, part of the share options owned by employees have been exercised or expired so that the outstanding share options granted to Dr. Ilan Cohen in the past is 292,357 share options that are exercisable into 292,357 Ordinary shares of the Company of NIS 0.01 par value each.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

On September 21, 2005, the meeting of the Company's shareholders approved another allocation of 2,260,729 share options to Dr. Ilan Cohen as to compensate him for the ongoing provision of services after the issuance ("the new share options"). Half of the new share options are exercisable immediately after the issuance according to the prospectus and the vesting term of the other half of the new share options is two years ratably each month for the exercise increment of NIS 0.01 subject to the ongoing provision of consulting services by Dr. Ilan Cohen. On September 22, 2005, an agreement which settles the conditions of the consulting services was signed with him.

According to the "Black and Scholes" formula, the economic value of all of the above share options as of the date of the approval of the meeting of the Company's shareholders was NIS 1.46 per share option. The following inputs were used as a basis in determining the economic value of the share options:

Share price of NIS 1.47, exercise price of NIS 0.01, annual discount rate of 4.5% based on the interest rate on unlinked Government bond, life of options of two years reflecting the exercise price on the last date as above, annual standard deviation of 0.577 based on the standard deviation of the share price in the period when it was traded whose probability is examined by reference to similar companies in the industry (Compugen, Hazera, Biocell and Brainstorm).

On March 21, 2007, the meeting of the Company's shareholders approved the Company's Board decision from November 26, 2006 regarding the allocation for no consideration of 2,032,136 share options to Dr. Ilan Cohen ("the optionee") to purchase Ordinary shares of the Company of NIS 0.01 par value each. The exercise price of the share options granted to the optionee is NIS 1.247 per each share option (subject to adjustments in cases of share dividend (bonus shares), share split and etc.), representing the share price on the Tel-Aviv Stock Exchange when the Company's Board accepted the decision to effect the allocation (November 29, 2006).

The optionee is entitled to exercise 50% of the share options granted to him immediately after the allocation and 50% are exercisable in four equal portions every half year from the date of allocation.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

According to the binomial model, the economic value of all share options as of the date when the Board decided to effect the allocation was NIS 0.507 per share option (on the date of the approval of the shareholders meeting - NIS 0.565 per share option). The following inputs were used as a basis in determining the economic value of the share options as of the date of the approval of the shareholders meeting: share price of NIS 1.329, exercise price of NIS 1.247, annual discount rate of 4.91%-6.28%, life of options of 5 years, annual standard deviation of 53.07%-53.24% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen and Hazera), early exercise coefficient of 2.61 which is based on other companies with similar pattern of award and employee turnover of 8.33%.

On November 27, 2007, the Company's Board approved, after receiving the approval of the Company's audit committee, to convene a special general meeting of the Company's shareholders to approve the agreement with Dr. Ilan Cohen to render consulting services in the field of management of the Company's patents portfolio and in the field of the business development of the Company (together, "the consulting services"). The fee for the consulting services shall be $ 240 per any actual working hour. The agreement approved by the special meeting is in effect for one year from September 21, 2007. On September 21, 2005, the Company entered into an agreement with that director for a two-year period ("the former agreement") to receive consulting services for the management of the Company's patents portfolio. The consideration for those consulting services was paid in unlisted share options. The former agreement expired on September 21, 2007.

The special general meeting of the Company's shareholders approved the terms of the agreement on January 7, 2008.

On August 31, 2008, the Company's Board approved, after receiving the approval of the Company's audit committee from August 28, 2008, to amend the Company's agreement with a patent firm ("the consulting agreement") dated January 10, 2008 regarding the receipt of consulting services through Mr. Ilan Cohen, a shareholder and director in the Company ("the consultant"). According to the amendment to the consulting agreement, the engagement period with the consultant will be extended by three years starting September 22, 2008 and the Company shall have the right to terminate the engagement period with the consultant before three years have elapsed and the payment for the consulting services provided shall be changed to a flat NIS amount of NIS 1,000 per any actual consulting hour. The remaining terms of the consulting agreement remain intact.

The general meeting approved the amendment to the agreement on December 10, 2008.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

As of the date of the approval of the financial statements, the agreement has not been extended because the Company receives those services in-house.

2. On September 27, 2002, an agreement as signed between F.D. Consulting International and Marketing Ltd. ("FD"), a company wholly owned by Prof. Pnina Fishman, the Company's founder and its director at that time, according to which FD will render management services to the Company and Prof. Pnina Fishman will act as Deputy CEO, Chief Scientist in the Company. As consideration for rendering the services, FD shall be entitled to an annual payment of $ 160 thousand plus VAT and the Company shall reimburse FD expenses and car. Through June 30, 2005, these consulting fees were recorded as part of research and development expenses. After this date, a relative portion was classified to general and administrative expenses in expenses relating to consulting fees. On June 30, 2005, Prof. Pnina Fishman was appointed as the Company's CEO.

   Through September 21, 2005, a total of 5,556,204 share options that are exercisable into 5,556,204 Ordinary shares of the Company of NIS 0.01 par value each were granted to Prof. Pnina Fishman. The value of the share options granted (computed on the date when the grants were approved) reaches approximately NIS 4,111 thousand.

   On September 22, 2005, after the approval of the meeting of the Company's shareholders (which was received on September 21, 2005), as part of the recapitalization before the public issuance, part of the share options owned by employees have been exercised or expired so that the outstanding share options granted to Prof. Pnina Fishman in the past is 605,645 share options that are exercisable into 605,645 Ordinary shares of the Company of NIS 0.01 par value each.

   On September 21, 2005, the meeting of the Company's shareholders approved another allocation of 5,434,688 share options to Prof. Pnina Fishman as to compensate her for the ongoing service at the Company after the issuance ("the new share options"). Half of the new share options are exercisable immediately after the issuance according to the prospectus and the vesting term of the other half of the share options is three years ratably each month for the exercise increment of NIS 0.01. If Prof. Pnina Fishman is dismissed or her employment conditions at the Company are modified so that she is appointed to a position which is not compatible to her qualifications, the outstanding new share options which have not been exercised up to that date shall become immediately exercisable.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

According to the "Black and Scholes" formula, the economic value of all of the above share options was NIS 1.46 per share option. The following inputs were used as a basis in determining the economic value of the share options:

Share price of NIS 1.47, exercise price of NIS 0.01, annual discount rate of 4.5%, life of options of 3 years, annual standard deviation of 0.577 based on the standard deviation of the share price in the period when it was traded whose probability is examined by reference to similar companies in the industry (Compugen, Hazera, Biocell and Brainstorm).

On July 4, 2006, the Company's Board accepted a decision which was later approved by the annual general meeting of the Company's shareholders which was convened on August 24, 2006, to grant to Prof. Pnina Fishman:

a) 4,890,760 share options to purchase for no consideration 4,890,760 Ordinary shares of NIS 0.01 par value each.

The exercise price of these share options is equivalent to 40% of the price of the Company's share on the Tel-Aviv Stock Exchange on the date when the Company's Board approved the grant, namely NIS 0.5 per option (subject to adjustments in cases of share dividend (bonus shares), share split and etc.). The Company's CEO is entitled to exercise the share options based on a vesting period of 1/48 each month starting October 2005. The last date on which these share options may be exercised under the plan is 10 years from the date of their allocation.

According to the "binomial" model, the economic value of the share options as of the date of the approval of the general meeting of shareholders was NIS 0.707 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 1.038, exercise price of NIS 0.5, annual discount rate of 6.06%-6.70%, life of options of 10 years, annual standard deviation of 46.97%-54.58% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen and Hazera), early exercise coefficient of 3.5 and employee turnover of 8.33%.

b) Increase in the monthly salary from $ 13 thousand to NIS 75 thousand.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

On January 13, 2011, the general meeting of shareholders approved the Company's Board decision from December 7, 2010 regarding the allocation for no consideration of 2,680,000 share options to the Company's CEO, a director and a shareholder to purchase Ordinary shares of the Company of NIS 0.01 par value each (see also 5 below).

3. On September 21, 2005, the Company's general meeting approved the employment conditions of the chairman of the Board Mr. Avigdor Kaplan as well as the allocation of 2,000,000 share options to purchase 2,000,000 shares of the Company. The share options are exercisable ratably over a period of 3 years (1/36 each month) from the date of grant at the exercise price equivalent to the share price on the date of the public offering. The last date on which these share options may be exercised under the plan is 10 years from the date of their allocation.

   According to the "Black and Scholes" formula, the economic value of all of the above share options was NIS 0.75 per share option. The following inputs were used as a basis in determining the economic value of the share options:

   Share price of NIS 1.47, exercise price of NIS 1.125, annual discount rate of 4.5%, life of options of 3 years, annual standard deviation of 0.577 based on the standard deviation of the share price in the period when it was traded whose probability is examined by reference to similar companies in the industry (Compugen, Hazera, Biocell and Brainstorm).

4. On August 17, 2010, the annual meeting of the Company decided to approve the agreement with a director in the Company to provide business consulting to the Company's management ("the consulting"). As consideration for the provision of the consulting services, the Company shall pay the director on a monthly basis an amount in NIS which shall be computed based on actual hours the director works for the Company in a given month and a fee of NIS 1,000 an hour. Also, the director shall be reimbursed for traveling expenses relating to the consulting in the amount of $ 2,000 for the first day and $ 1,000 for any additional day of the trip.

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND INTERESTED PARTIES (Cont.)

5. On January 13, 2011, after the Company's Board decision from December 7, 2010 and after the approval of the Company's audit committee from November 23, 2010, the general meeting of shareholders approved the allocation for no consideration of 2,680,000 share options to the Company's CEO, a director and a shareholder to purchase Ordinary shares of the Company of NIS 0.01 par value each ("the optionee").

   The exercise price of the share options granted to the optionee is NIS 0.644 per each share option, representing the average share price in the 60 trading days which preceded the date of the Board's decision.

   The optionee shall be entitled to receive the share options and to exercise them over a maximal period of 120 months from the date of their allocation, subject to the conditions outlined in this report and based on the periods detailed below:

   a) 1,240,000 share options may be exercised by the optionee immediately after their allocation.

   b) 1,440,000 share options may be exercised by the optionee in 24 equal portions, namely 60,000 share options every month over a period of 24 months which started on the date of approval by the meeting.

   According to the "binomial" model, the economic value of all share options as of the date when the Company's Board accepted the decision was NIS 0.337 per share option. The following inputs were used as a basis in determining the economic value of the share options: share price of NIS 0.730, exercise price of NIS 0.644, ranges of risk-free interest of 2.46%-6.23%, life of options of 10 years, annual standard deviation of 49.18%-79.89% based on the weighted standard deviation of the share price in the period when it was traded together with the multi-annual average of similar companies in the industry (Biocell, Compugen, TIM, Neurogen Corporation and Antigenics Inc.), early exercise coefficient of 3.5 and employee turnover based on the probability of departure by reference to the optionee's position at the Company of 20%.

   The shares deriving from the exercise of the unlisted share options were admitted to trading on January 6, 2011.

NOTE 22:- EVENTS AFTER THE REPORTING DATE

a. On February 16, 2012, 130,813 unlisted share options were exercised into 130,813 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options totaled approximately NIS 40 thousand.

b. On March 25, 2012, 32,701 unlisted share options were exercised into 32,701 Ordinary shares of the Company of NIS 0.01 par value each. The proceeds from the exercise of the share options aggregated to an insignificant amount.

c. On March 26, 2012, 23,333 share options (series 5) were exercised into 23,333 Ordinary shares of the Company of NIS 0.01 par value each in consideration of an exercise increment of approximately NIS 75 thousand.

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CAN-FITE BIOPHARMA LTD.

FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS

ATTRIBUTABLE TO THE COMPANY

AS OF DECEMBER 31, 2011

INDEX

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CAN-FITE BIOPHARMA LTD.

Special Report in accordance with Regulation 9c

Financial Data and Financial Information from the Consolidated Financial Statements

Attributable to the Company

The following separate financial data and financial information attributable to the Company are derived from the consolidated financial statements of the Group as of December 31, 2011 ("the consolidated financial statements") which were published in the periodic reports and which were disclosed in accordance with regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies followed in the presentation of this financial data were described in Note 2 to the consolidated financial statements.

Data relating to taxes on income was described in Note 12 to the consolidated financial statements.

A subsidiary as defined in Note 1.e to the consolidated financial statements.

ERNST & YOUNG

Kost Forer Gabbay & Kasierer
2 Pal-Yam Ave.
Haifa 33095, Israel

Tel: 972 (4)8654000
Fax: 972 (4)5633443
www.ey.com

To the shareholders of
Can-Fite Biopharma Ltd.

Re: Special auditor's report on the separate financial information in accordance with regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information disclosed in accordance with regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Can-Fite Biopharma Ltd. ("the Company') as of December 31, 2011 and 2010 and for each of the three years the last of which ended on December 31, 2011. The separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on the separate financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall presentation of the separate financial information. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the separate financial information is prepared, in all material respects, in accordance with regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Haifa, Israel
March 29, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Financial Data from the Consolidated Statements of Financial Position
Attributable to the Company

	Additional information	December 31, 2011	December 31, 2010
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	b	1,475	17,506
Subsidiary		2,710	-
Accounts receivable		1,574	550
		5,759	18,056
NON-CURRENT ASSETS:			
Investment in subsidiary		4,306	-
Royalty rights		5,488	-
Property, plant and equipment, net		278	490
		10,072	490
		15,831	18,546

The accompanying additional information is an integral part of the consolidated statements of financial position.

Financial Data from the Consolidated Statements of Financial Position Attributable to the Company

	Additional information	December 31, 2011	December 31, 2010
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		1,910	516
Other accounts payable	c	2,098	3,427
Options exercisable into shares (series 5)		138	-
Options exercisable into shares (series 6)		396	-
		4,542	3,943
NON-CURRENT LIABILITIES:			
Options exercisable into shares (series 5)		-	1,400
Options exercisable into shares (series 7)		793	-
Employee benefit liabilities, net		190	131
		983	1,531
		5,525	5,474
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital		2,606	2,321
Share premium		229,299	209,704
Capital reserve from share-based payment transactions		14,670	14,351
Treasury shares		(4,760)	-
Accumulated deficit		(231,509)	(213,304)
		10,306	13,072
		15,831	18,546

The accompanying additional information is an integral part of the consolidated statements of financial position.

March 29, 2012			
Date of approval of the financial statements	Mr. Avigdor Kaplan Chairman of the Board	Prof. Pnina Fishman Member of the Board and Chief Executive Officer	Mr. Motti Farbstein Chief Operating and Financial Officer

Financial Data from the Consolidated Statements of Comprehensive Income Attributable to the Company

	Year ended December 31,		
	2011	**2010**	**2009**
	NIS in thousands (except per share data)		
Revenues	1,785	2,644	3,299
Research an development expenses	12,183	9,993	13,841
General and administrative expenses	6,593	6,005	5,994
Other income	(88)	-	-
Operating loss	16,903	13,354	16,536
Expenses relating to the merger transaction	9,505	-	-
Finance expenses	42	356	36
Finance income	(5,408)	(897)	(847)
Loss before taxes on income	21,042	12,813	15,725
Taxes on income	191	235	263
Loss before equity losses	21,233	13,048	15,988
Equity losses	4,266	-	-
Loss	25,499	13,048	15,988
Other comprehensive income	75	-	-
Total comprehensive loss	25,424	13,048	15,988
Loss per share attributable to equity holders of the Company (in NIS):			
Basic and diluted loss per share	0.12	0.06	0.08

The accompanying additional information is an integral part of the consolidated statements of financial position.

Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company

	Year ended December 31,		
	2011	**2010**	**2009**
	NIS in thousands		
Cash flows from operating activities:			
Loss	(25,499)	(13,048)	(15,988)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation of property, plant and equipment	218	279	402
Cost of share-based payment	319	628	1,373
Revaluation of investment in subsidiary	(3,851)	-	-
Gain from sale of property, plant and equipment	(88)	-	-
Interest income on deposits	(86)	(110)	(79)
Increase in employee benefit liabilities, net	59	35	54
Equity losses	4,266	-	-
Taxes on income	11	224	256
Decrease in fair value of options exercisable into shares (series 2)	-	-	(120)
Decrease in fair value of options exercisable into shares (series 4)	-	(387)	(707)
Increase (decrease) in fair value of options exercisable into shares (series 5)	(1,262)	(400)	186
Increase in fair value of options exercisable into shares (series 6)	94	-	-
Decrease in fair value of options exercisable into shares (series 7)	(172)	-	-
Exchange differences on balances of cash and cash equivalents	(181)	417	30
Expenses relating to the merger transaction through profit or loss	9,069	-	-
	8,396	686	1,395
Changes in asset and liability items:			
Decrease (increase) in accounts receivable	(3,733)	(102)	422
Increase (decrease) in trade payable	1,394	(131)	(1,963)
Decrease in other accounts payable	(1,329)	(258)	(611)
	(3,668)	(491)	(2,152)
Cash paid and received during the year for:			
Interest received	86	110	79
Taxes paid	(11)	(224)	(256)
Taxes received	-	-	-
	75	(114)	(177)
Net cash used in operating activities	(20,696)	(12,967)	(16,922)

The accompanying additional information is an integral part of the consolidated statements of financial position.

Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company

	Year ended December 31,		
	2011	**2010**	**2009**
	NIS in thousands		
Cash flows from investing activities:			
Investment in subsidiary	(1,870)	-	-
Purchase of property, plant and equipment	(81)	(107)	(35)
Proceeds from sale of property, plant and equipment	163	-	-
Net cash used in investing activities	(1,788)	(107)	(35)
Cash flows from financing activities:			
Issue of share capital and share options (net of issue expenses)	4,710	-	13,307
Issue of share capital (net of issue expenses)	-	10,931	-
Exercise of share options (series 4) (net of issue expenses)	-	1,054	-
Proceeds on account of share options (net of issue expenses)	1,266	-	2,708
Exercise of share options	296	21	* -
Net cash provided by financing activities	6,272	12,006	16,015
Exchange differences on balances of cash and cash equivalents	181	(417)	(30)
Decrease in cash and cash equivalents	(16,031)	(1,485)	(972)
Cash and cash equivalents at the beginning of the year	17,506	18,991	19,963
Cash and cash equivalents at the end of the year	1,475	17,506	18,991

* Represents less than NIS 1 thousand.

The accompanying additional information is an integral part of the consolidated statements of financial position.

Additional Information

a. The Company incurred losses of approximately NIS 25,424 thousand for the year ended December 31, 2011 and, for the year then ended, negative cash flows from operating activities amounted approximately NIS 20,696 thousand. Further, the Company has ongoing losses from previous years. In the past, the Company financed its operation by capital raisings and cooperation with multi-national companies in the industry. Currently, the Company has not earned revenues from operation and it finances its operation by capital raisings from external sources through the issuance of equity instruments.

After the reporting period, the Company raised, through a public issuance, approximately NIS 5,350 thousand and received approximately NIS 1,600 thousand from the subsidiary as participation in expenses and also obtained the Chief Scientist's approval for participation in funding the development at the Company in 2012 with approximately NIS 1,700 thousand. Considering these conditions, among other conditions, the Company's management and Board are of the opinion that as of the date of the approval of the financial statements no difficulties are expected for the Company in financing its operating activities in the coming year.

b. **Balance of Cash and Cash Equivalents Attributable to the Company (Excluding Balances of Investees)**

December 31, 2011:

	In or linked to foreign currency		Linked to the CPI	Other linkage basis	Unlinked	Total
	U.S. dollar	Euro				
	NIS in thousands					
Cash	63	65	-	-	268	396
Cash equivalents	879	-	-	-	200	1,079
	942	65	-	-	468	1,475

December 31, 2010:

	In or linked to foreign currency		Linked to the CPI	Other linkage basis	Unlinked	Total
	U.S. dollar	Euro				
	NIS in thousands					
Cash	67	33	-	-	797	897
Cash equivalents	5,593	1,511	-	-	9,505	16,609
	5,660	1,544	-	-	10,302	17,506

c. Disclosure of Financial Liabilities Attributable to the Company (Excluding Balances of Investees)

1. Other accounts payable attributable to the Company:

	December 31,	
	2011	2010
	NIS in thousands	
Liabilities to employees and other liabilities for wage and salary	599	488
Deferred revenues	-	1,785
Accrued expenses	1,499	1,154
	2,098	3,427

The balances are to be settled within one year from the balance sheet date.

2. Linkage terms of financial liabilities attributable to the Company by groups of financial instruments pursuant to IAS 39:

December 31, 2011:

	In or linked to foreign currency		Linked to the CPI	Other linkage basis	Unlinked	Total
	U.S. dollar	Euro				
	NIS in thousands					
Financial liabilities measured at amortized cost	2,146	570	-	-	1,292	4,008

December 31, 2010:

	In or linked to foreign currency		Linked to the CPI	Other linkage basis	Unlinked	Total
	U.S. dollar	Euro				
	NIS in thousands					
Financial liabilities measured at amortized cost	1,067	-	-	-	1,091	2,158

Additional Information

d. Significant Balances and Commitments with Investees

Balances and transactions with investees:

1. Balances with investees:

Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Accounts receivable	2,710	-
Investments in interested party	7,359	-
Liabilities for royalty agreement	1,637	-

2. Financial income and expenses on transactions with investees:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Finance income	3,816	-	-

3. Commitments:

a) License agreement:

A license agreement was entered into between the Company and Eye-Fite ("the license agreement") according to which the Company granted Eye-Fite an exclusive license non-transferrable but in the way set forth in the license agreement for the use of the Company's know-how as specified in the license agreement solely in the field of ophthalmic diseases for research, development, commercialization and marketing throughout the world. Eye-Fite is allowed to sublicense subject to the license agreement and its directives. As consideration for the grant of the license according to the license agreement, the Company received 1,000 shares of Eye-Fite of NIS 0.01 each which conferred it 100% in the issued and outstanding share capital of Eye-Fite. Eye-Fite has undertaken to make all efforts to commence phase 3 trial in the indication that is licensed thereunder within one-year and it may get extensions as determined in the license agreement provided that the delay is not the outcome of circumstances that are not under Eye-Fite control. However, even if after such extensions the trial does not begin, due to circumstances that are not under Eye-Fite control, it shall be considered as a material breach of the license agreement.

d. Significant Balances and Commitments with Investees (Cont.)

According to the license agreement, as per the Company's liabilities to the USA National Institute of Health, the Centers for Disease Control and Prevention ("NIH"), Eye-Fite is obligated to make to the NIH royalty payments. All inventions resulting from the indication that is licensed thereunder shall belong to the Company whether it was invented solely by it, solely by Eye-Fite or by both in cooperation. However, the Company grants Eye-Fite an exclusive license to use these inventions in the field of ophthalmic diseases around the world at no consideration. The license will remain in effect until the expiration of the last patent licensed thereunder unless it is terminated sooner by a mutual agreement in writing or by one of the parties according to the clauses of the license agreement.

b) Service agreement:

In furtherance to the license agreement, the Company, OphtaliX and Eye-Fite (OphtaliX and Eye-Fite are collectively referred to as "the Group") entered into a service agreement ("the service agreement") which comprises rendering of management services to the Group by the Company of all pre-clinical and clinical research studies, production and supply of the compounds related to the license agreement and payment for consultants that are listed in the agreement for their involvement in the clinical trials and in all the activities to launch the ophthalmic indications. As consideration for the rendering of services, as above, the Company will be paid only for its costs and expenses incurred in rendering the services plus 15% as well as reimbursed for the expenses actually charged for the maintenance of patents underlying the license to Eye-Fite. Further, the Company will be entitled to an additional payment of 2.5% of any revenues received by the Group for the rights to use the transferred know-how ("the additional payment"). The Company is entitled during a 5-year period from the date of the approval of the service agreement, to convert its right to the additional payment into 2,160,102 shares of OphtaliX (representing about 5% of OphtaliX shares on a fully diluted basis as of the date of closing the spin off agreement) in consideration for the exercise price set in the service agreement. The service agreement shall remain in force for unlimited period of time however, following the first anniversary, each party is entitled to terminate the agreement by a six months' prior notice or, by special events, in an earlier notice as outlined in the service agreement.

c) Additional information about the commitment of the Company and its subsidiary is described in Note 5 to the consolidated financial statements.

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CHAPTER 4

Additional Information on the Company

Company name:	Can-Fite Biopharma Ltd.
Company Registrar No.:	51-202215-3
Address: (Regulation 25a)	10 Bareket St., Petach-Tikva, 47190
E-mail address: (Regulation 25a)	info@canfite.co.il
Telephone: (Regulation 25a)	03-9241114
Fax: (Regulation 25a)	03-9249378
Balance sheet date: (Regulation 9)	December 31, 2011
Date of report: (Regulations 1 and 7)	March 29, 2011

Regulation 10a: Condensed Statements of Income of the Company for each of the Quarters in the Reporting Year

	Three months ended			
	March 31, 2011	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**
	NIS in thousands			
Revenues	446	447	446	446
Expenses:				
Research and development expenses	4,104	3,127	2,614	3,124
General and administrative expenses	1,631	1,644	1,762	2,044
Other expenses, net	-	-	-	11,408
Finance expenses (income), net	(340)	(129)	(616)	(352)
Income (loss) before taxes on income	4,949	4,195	3,314	15,778
Taxes on income	47	46	49	49
Net loss	4,996	4,241	3,363	15,827
Other comprehensive income	-	-	-	92
Total comprehensive loss	4,996	4,241	3,363	15,735

Regulation 10c: Use of Proceeds from Securities with Reference to Proceed Targets According to the Prospectus

None.

Regulation 11: List of Investments in Subsidiaries and Related Companies as of the Balance Sheet Date

Company name	No. of listed shares	Type of shares	Adjusted cost (in NIS in thousands)	Adjusted carrying amount (in NIS in thousands)	Rate of holding in equity and in voting rights	Balance of credit at balance sheet date (in NIS in thousands)
Ultratrend Limited *	None	Ordinary	-	-	100%	-
EyeFite Ltd. **	None	Ordinary			100% **	
OphthaliX Inc. (formerly: Denali Concrete Management Inc.)	Traded on the OTC	Ordinary			82.3%	

* The subsidiary is inactive.

** On November 22, 2011, the Company transferred 100% of the issued share capital of EyeFite Ltd. to the subsidiary OphthaliX Inc.

Regulation 12b: Changes in Investments in Subsidiaries and Related Companies in the Reporting Period

Company name	Date of change	Principal transaction terms
Ultratrend Limited *	-	-
EyeFite Ltd.	November 11, 2011	Grant of an exclusive non-transferrable license, not according to the provisions of the license agreement, to use the Company's IP in the area of eye diseases only for the purpose of global research, development, commercialization and marketing to the subsidiary EyeFite Ltd. as detailed in the license agreement signed between the parties in the Denali transaction, as specified in the directors' report hereby attached to the periodic report for 2011.
OphthaliX Inc. (formerly: Denali Concrete Management Inc.)	November 11, 2011	Transfer of 100% of the issued share capital of the subsidiary EyeFite Ltd. to Denali in return for the allocation of shares of Denali to the Company in the context of the Denali transaction, as specified in the directors' report hereby attached to the periodic report for 2011.

* The subsidiary is inactive.

Regulation 13: Revenues of Subsidiaries and Related Companies and the Company's Share therein as of the Balance Sheet Date

Company name	Income (loss) before taxes	Income (loss) after taxes	Dividend	Sales royalties from the parent company	Interest
	NIS in thousands				
Ultratrend Limited *					
EyeFite Ltd.					
OphthaliX Inc. (formerly: Denali Concrete Management Inc.)					

* The subsidiary is inactive.

Regulation 14: List of Groups of Outstanding Loans granted as of the Balance Sheet Date if the Grant of Loans was one of the Corporation's Main Operations

None - the grant of loans is not one of the Company's main operations.

Regulation 20: Securities listed for Trade - Dates and Reasons for Discontinuance of Trade

On January 25, 2011, the Company allocated 15,230,644 unlisted options that are exercisable into 15,230,644 Ordinary shares of the Company of NIS 0.01 par value each, of which 2,680,000 unlisted options to purchase 2,680,000 Ordinary shares of the Company of NIS 0.01 par value each were allocated to the Company's CEO who is a director and shareholder in the Company.

On February 24, 2011, 450,000 unlisted options were exercised into 450,000 Ordinary shares of the Company of NIS 0.01 par value each.

On March 20, 2011, the Company allocated 230,000 unlisted options that are exercisable into 230,000 Ordinary shares of the Company of NIS 0.01 par value each to an officer in the Company.

On August 29, 2011, 203,000 unlisted options were exercised into 203,000 Ordinary shares of the Company of NIS 0.01 par value each and 65,000 unlisted options of the Company expired.

On November 21, 2011, trading began in 9,907,500 Ordinary shares of NIS 0.01 par value each, 4,953,750 share options (series 6) and 9,907,500 share options (series 7) of the Company based on the results of the shelf offering report issued by the Company on November 16, 2011.

On November 21, 2011, the Company allocated 17,873,054 Ordinary shares of the Company of NIS 0.01 par value each to OphthaliX Inc. (formerly: Denali Concrete Management Inc.) based on the material private placement effected by the Company on November 20, 2011. The value of the shares, according to the quoted market price of Company's share on the allocation date and based on the known U.S. dollar exchange rate as of November 18, 2011 approximates $ 2.4 million. The shares were offered in return for 2,097,626 shares of OphthaliX Inc. which had been allocated to the Company in the context of the Denali transaction for a price of $ 1.144 per share. The 17,873,054 shares are all dormant shares.

In the period after the balance sheet date, 163,513 unlisted options were exercised into 163,513 Ordinary shares of the Company in return for an immaterial consideration.

In the period after the balance sheet date, 23,333 share options (series 5) were exercised into 23,333 Ordinary shares of the Company in return for approximately NIS 75 thousand.

Regulation 21: Payments made to Senior Officers

Following are details of payments made by the Company and all outstanding payment obligations, including amounts accrued in respect of retirement pay, in the year ended December 31, 2011 and in the period after the reporting period through March 29, 2012, to each of the five highest salaried officers in the Company, all whether the payments made or the outstanding payment obligations were provided to the officers or to others on behalf of the officers, as included in the financial statements:

2011														
Details of remuneration recipients				Fees paid for services (NIS in thousands)							Other forms of remuneration			
Name	Position	Employment scope	Rate of interests in the corporation's equity *	Salary (NIS in thousands)	Grant	Share-based payment	Mgmt. fees	Consulting fees	Commission	Other **	Interest	Rental fees	Other	Total
Pnina Fishman (i)	CEO and director	100%	4.30			255	1,045			78				1,378
Avigdor Kaplan (ii)	COB	Partial	0.61	181										181
Ilan Cohn (iii)	Director	Partial ***	1.54						65					65
Motti Farbstein (iv)	COO and CFO	100%	0.28	770		16								786
Barak Singer	VP of Business Development	100%	0.07	392		23								415
Directors (v)	Directors	****	0.35						226					226

January 1, 2012 - March 29, 2012														
Details of remuneration recipients				Fees paid for services (NIS in thousands)							Other forms of remuneration			
Name	Position	Employment scope	Rate of interests in the corporation's equity *	Salary (NIS in thousands)	Grant	Share-based payment	Mgmt. fees	Consulting fees	Commission	Other **	Interest	Rental fees	Other	Total
Pnina Fishman (i)	CEO and director	100%	4.30			64	270			15				349
Avigdor Kaplan (ii)	COB	Partial	0.61				45							45
Ilan Cohn (iii)	Director	Partial ***	1.54					10						10
Motti Farbstein (iv)	COO and CFO	100%	0.28	177		4								181
Barak Singer	VP of Business Development	100%	0.07	126		6								132
Directors (v)	Directors	****	0.35					55						55

* On a fully diluted basis.

** Vehicle and phone expenses.

*** Mr. Ilan Cohn provides the Company services based on an hourly rate. The scope of hours of services granted by Mr. Ilan Cohn to the Company in 2011 is about 10 hours.

**** Three other directors (including two external directors).

(i) For details of the Company's engagement with Mrs. Pnina Fishman, see Note 19c(2) to the financial statements attached to the periodic report.

(ii) In the context of the Company's engagement with Mr. Avigdor Kaplan of September 2005, it was agreed that Mr. Kaplan would serve as Chairman of the Company's Board in return for a monthly fee of NIS 15,000, plus VAT, and the allocation of unlisted share options. For more details of the Company's engagement with Mr. Kaplan, see Note 19c(3) to the financial statements attached to the periodic report.

(iii) For details of the Company's engagement with Mr. Ilan Cohn, see Note 19c(1) to the financial statements attached to the periodic report.

(iv) Mr. Motti Farbstein is employed on a full-time basis as the Company's COO and CFO. Mr. Farbstein has been employed by the Company under an employment agreement since June 10, 2003, consisting, in addition to a monthly salary, of the following terms: accrued social benefits for an executive insurance policy and advanced study fund, vehicle, cellular phone and indemnification for reasonable expenses. Mr. Farbstein is also entitled to the allocation of options exercisable into the Company's shares based on the decisions of the Company's Board and according to the Company's option plan.

(v) One of the directors is a full director in the Company. That director was allocated 15,348 unlisted share options based on an agreement between the director and the Company signed on April 26, 2004. Also, on August 24, 2006, said director was allocated another 193,305 unlisted share options. See more details in Note 14b(4)(1) to the financial statements attached to the periodic report.

Regulation 21a: Control over the Company

The Company does not have a controlling shareholder.

Regulation 22: Transactions with Controlling Shareholder

None.

Regulation 24(a): Convertible Securities and Shares held by Interested Parties and Senior Officers in the Company, in a Subsidiary or a Related Company as of March 29, 2012

Name	No. of share	No. of unlisted options	% of equity and voting rights	% of equity and voting rights (on a fully diluted basis)
Giza Group	15,491,771	--	5.94%	4.74%
Ascend	15,951,786	--	6.12%	4.88%
Liora Lev (1)	874,118	--	0.34%	0.27%
Ilan Cohn (2)	447,077	4,585,222	0.17%	1.54%
Pnina Fishman (3)	455,511	13,611,093	0.17%	4.30%
Avraham Sartani (4)	--	208,653	--	0.06%
Avigdor Kaplan (5)	--	2,000,000	--	0.61%
Haya Shaked and Tal Shaked	30,594,910	--	11.73%	9.36%
Guy Regev	70,000	--	0.03%	0.02%
OphthaliX Inc.	17,873,054	--	6.85%	5.47%
Motti Farbstein	--	904,903	--	0.28%
Barak Singer	--	230,000	--	0.07%

(1) Director in the Company.
(2) Director in the Company.
(3) Director in the Company and Company CEO.
(4) Director in the Company.
(5) Chairman of the Company's Board.

Par value of shares which the Corporation has undertaken to sell:

None.

Par value of shares which the Interested party has undertaken to purchase:

None.

Regulation 24a: Authorized Share Capital, Issued Share Capital and Convertible Securities

Following are data of the Company's authorized and issued share capital and convertible securities as of the reporting date:

Authorized share capital	-	500,000,000
Issued share capital	-	260,772,528
Convertible securities		
Share options (series 5)	-	13,226,667
Share options (series 6)	-	4,953,750
Share options (series 7)	-	9,907,000
Unlisted share options	-	37,959,210

Regulation 24b: Registered Company Shareholders as of the Reporting Date

Name	No. of Ordinary shares
Bank Hapoalim Registration Company Ltd.	258,339,129
Reid Jilek	31,971
Howard Soule	3,968
Nabil Hana	6,944
Kamel Kahili	4,578
Bill Kerns	3,336
Kwang Dong Pharmaceutical Co. Ltd	2,382,602
	--

Regulation 26: the Corporation's Directors

26.1:

1. Name: **Avigdor Kaplan**. I.D. No. 09623554.
2. Date of birth: July 25, 1939.
3. Address: 18 Hashiryon Street, Ra'anana.
4. Residence: Israeli.
5. Membership on Board committees: No.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: Chairman of the Company's Board.
8. Date of commencement of term in the Company: September 21, 2005.
9. Education: first degree in economics and statistics; second degree in industrial engineering and management and third degree in health sciences from the Ben-Gurion University.
10. Major occupations in the last five years: Chairman of the Board of Clal Insurance Business Holdings and Chairman of the Board of Clal Insurance Company in the last three years; before that he served as CEO of Clal Insurance Business Holdings and CEO of Clal Insurance Company.

11. Details of corporations in which he/she act as director: Clal Insurance Business Holdings Ltd., Clal Insurance Company Ltd., Clal Finances Ltd., Clal Finances Batucha Ltd., Guard Insurance Group Corp and Subsidiaries, Titanium Asset Management Corp, Medleader Ltd. and Medleader FCE Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: Yes.

26.2:

1. Name: **Ilan Cohn**. I.D. No. 053395992.
2. Date of birth: May 31, 1955.
3. Address: 11 Dganya Street, Herzliya.
4. Residence: Israeli.
5. Membership on Board committees: No.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: No.
8. Date of commencement of term in the Company: September 19, 1994.
9. Education: Ph.D. in biology from the Hebrew University of Jerusalem.
10. Major occupations in the last five years: patent attorney and former CEO of the Company.
11. Details of corporations in which he/she act as director: A.C.R.C Management Ltd., Famillion BVI Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: No.

26.3:

1. Name: **Pnina Fishman**. I.D. No. 010951895.
2. Date of birth: November 17, 1948.
3. Address: 9 Asher Barash Street, Herzliya.
4. Residence: Israeli.
5. Membership on Board committees: No.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: Company CEO.
8. Date of commencement of term in the Company: September 12, 1994.
9. Education: Professor of Immunology from the Bar-Ilan University.
10. Major occupations in the last five years: head scientist and Company CEO.
11. Details of corporations in which he/she act as director: F.D. Consulting Ltd., OphthaliX Inc., EyeFite Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: No.

26.4:

1. Name: **Sartani Avraham**. I.D. No. 007718687.
2. Date of birth: November 28, 1946.
3. Address: Via Dei Platani 106/17, Arese (MI), Italy.
4. Residence: Israeli and Italian.
5. Membership on Board committees: No.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: No.
8. Date of commencement of term in the Company: July 18, 2001.
9. Education: MD.
10. Major occupations in the last five years: VP R&D at Recordati SpA until 2008; partner in Arkadia Pharma (Italy) and independent advisor since 2008.
11. Details of corporations in which he/she act as director: Life Watch AG (previously Card Guard) and Arkadia Pharma.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: No.

26.5:

1. Name: **Liora Lev**. I.D. No. 052028669.
2. Date of birth: September 6, 1953.
3. Address: 21 Yitzhar Street, Ramat-Hasharon.
4. Residence: Israeli.
5. Membership on Board committees: Audit Committee, Balance Sheet Committee.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: Yes.
8. Date of commencement of term in the Company: December 27, 2002.
9. Education: first degree in accounting and economics; second degree in business management (specializing in IT systems); the Harvard Business School's Executive Program.
10. Major occupations in the last five years: managing partner in Ascend Technology Ventures.
11. Details of corporations in which he/she act as director: IntellinX Ltd., Radvision and several other private companies.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: Yes.

26.6:

1. Name: **Gil Oren**. I.D. No. 051810265.
2. Year of birth: 1952.
3. Address: 37 Pesach Yifhar Street, Herzliya.
4. Residence: Israeli.
5. Membership on Board committees: Audit Committee, Balance Sheet Committee.
6. External director: Yes.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: No.
8. Date of commencement of term in the Company: July 10, 2008.
9. Education: BA in accounting and economics, MBA (specializing in financing).
10. Major occupations in the last five years: currently serves as business advisor for companies; in the past five years has served in the following positions: CEO and director in Ytong Industries (public company), director in Nirlat (public company), director in Alony (public company), director in Ytong, director in Carmit, CEO and COB of Orlite Industries (Inrom Industries), COB of Orlite Millennium, COB of Vulcan Casting, Deputy CEO of Ordan Industries (Greenstone Industries) (public company).
11. Details of corporations in which he/she act as director: Pointer Telocation Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: Yes.

26.7:

1. Name: **Yechezkel Barenholz**, I.D. No. 08243016.
2. Date of birth: April 27, 1941.
3. Address: Neve Shaanan, Jerusalem.
4. Residence: Israeli.
5. Membership on Board committees: Audit Committee, Balance Sheet Committee.
6. External director: Yes.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: No.
8. Date of commencement of term in the Company: December 22, 2005.
9. Education: Ph.D. in biochemistry, Hebrew University of Jerusalem.
10. Major occupations in the last five years: biophysical research, drug development.
11. Details of corporations in which he/she act as director: Mobeius Medical Ltd., Lipocure Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: No.

26.8:

1. Name: **Guy Regev**, I.D. No. 024297657.
2. Date of birth: March 17, 1969.
3. Address: 26 Dov Rodevsky Street, Mazkeret Batya.
4. Residence: Israeli.
5. Membership on Board committees: No.
6. External director: No.
7. Is he/she an employee of the Company, a subsidiary, a related company or an interested party: Yes.
8. Date of commencement of term in the Company: August 17, 2010.
9. Education: LLB from the Kiryat Ono Academic College, licensed attorney, BA in accounting from the Ramat-Gan College of Management.
10. Major occupations in the last five years: CEO of Shaked Global Group, VP Commercial Business at Shikun & Binui Holdings and CEO of Kachol Yarok (a subsidiary of Shikun & Binui).
11. Details of corporations in which he/she act as director: Knollan Ltd., Lotus Bio, Green Way Ltd., Yehuda Shtang Ltd., Raviv Revolution Ltd., Aeronautics Ltd., R.I.B.I. Ltd.
12. Is the director a family relation of another interested party in the Company: No.
13. Does the Company perceive the director as possessing financial accounting skills: Yes.

Regulation 26a: the Corporation's Senior Officers

26a.1:

1. Name: **Motti Farbstein**, I.D. No. 057682205.
2. Date of birth: October 4, 1963.
3. Position in the Company: COO and CFO (also in charge of the Company's risk management).
4. Position in the Company's subsidiary: None.
5. Is he/she a relative of another interested party in the Company: No.
6. Education: MA in computers, Bar-Ilan University.
7. Business experience in the last five years: COO in the Company.
8. Date of commencement of term in the Company: August 3, 2003.

26a.2:

1. Name: **Barak Singer**, I.D. No. 029092509.
2. Year of birth: 1972.
3. Position in the Company: VP Business Development.
4. Position in the Company's subsidiary or in an interested party therein: None.
5. Is he/she a relative of another senior officer or interested party in the Company: No.
6. Education: LLB and B.Sc. in business management from the Interdisciplinary Center Herzliya.
7. Business experience in the last five years: VP of Business Development in Xenia Venture Capital, joint director of the investment banking department (corporate financing) at Tamir Fishman.
8. Date of commencement of term in the Company: March 20, 2011.

26a.3:

1. Name: **Daniel Shapira**, I.D. No. 052755998.
2. Year of birth: 1954.
3. Position in the Company: internal auditor.
4. Position in the Company's subsidiary or in an interested party therein: None.
5. Is he/she a relative of another senior officer or interested party in the Company: No.
6. Education: BA in economics and accounting from the Bar-Ilan University.
7. Business experience in the last five years: CPA; owns an accounting and internal auditing firm which provides services to companies traded in Israel and abroad.
8. Date of commencement of term in the Company: March 6, 2006.

Regulation 26b: Company Signatories

As of the date of this report, the Company has no exclusive signatories, as defined in the Israeli Securities Authority directive of January 3, 2008.

Regulation 27: the Corporation's Auditors

Kost Forer Gabbay & Kasierer, 2 Pal-Yam Blvd., Haifa, Israel.

Regulation 28: Changes in Memos or Regulations

On July 3, 2011, the Company's general meeting approved an increase in the Company's authorized share capital to NIS 5,000,000, divided into 500,000,000 ordinary shares of NIS 0.01 par value each.

Regulation 29: Directors' Recommendations and Decisions

Subsection (a)(2) - on July 3, 2011, the Company's general meeting approved an increase in the Company's authorized share capital to NIS 5,000,000, divided into 500,000,000 ordinary shares of NIS 0.01 par value each.

Subsection (c) - see Regulation 29a below.

Regulation 29a: Company Decisions

On January 13, 2011, an extraordinary general meeting of the Company's shareholders approved the allocation, with no consideration, of 2,680,000 options to purchase Ordinary shares of the Company of NIS 0.01 par value each to the Company's CEO who is a director and shareholder in the Company.

Avigdor Kaplan, Chairman of the Board

Pnina Fhisman, CEO and Director

Date: March 29, 2012.

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CHAPTER 5

Annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9b(a)

Management, under the supervision of the board of directors of Can-Fite Biopharma Ltd. ("**the Company**"), is responsible for planning and maintaining adequate internal control over financial reporting and disclosure in the Company.

The executive officer in charge of this area is:
Mrs. Pnina Fishman, CEO;

The other executive officers are:
Mr. Motti Farbstein, COO
Mr. Itay Weinstein, Accounts Manager

Internal control over financial reporting and disclosure consists of the Company's existing controls and procedures that have been planned by the CEO and Chief Financial Officer or under their supervision, or by the equivalent acting officers, under the governance of the Company's board of directors, designed to provide reasonable assurance about the reliability of financial reporting and the preparation of the financial statements in compliance with applicable laws, and guarantee that all information that the Company is required to disclose in the financial statements issued by law is collected, processed, summarized and reported in a timely manner and according to the format prescribed by law.

Among other things, internal control includes controls and procedures planned to guarantee that all information that the Company is required to disclose as above is gathered and transferred to the Company's management, including the CEO and Chief Financial Officer, or the equivalent acting officers, in order to allow decision making on a timely basis with respect to the disclosure requirement.

Because of its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misstatements or omissions of information in the financial statements will be prevented or detected.

Management, under the supervision of the board of directors, has performed a test and assessment of the internal control over financial reporting and disclosure in the Company and its effectiveness.

The assessment of the effectiveness of internal control over financial reporting and disclosure performed by management, under the supervision of the board of directors, consisted of the following:

(1) Entity-level controls, including financial statement preparation and close process, Barne'a report and IT general controls ("ITGCs").
(2) The purchase process and the performance of clinical trials.

Based on the assessment of the effectiveness performed by management, under the supervision of the board of directors, as above, the board of directors and management have concluded that the internal control over financial reporting and disclosure in the Company as of December 31, 2011 is effective.

Chief Executive Officer's Statement pursuant to Regulation 9b(d)(1):

Letter of Representation
Chief Executive Officer's Statement

I, Pnina Fishman, hereby declare that:

(1) I have reviewed the periodic report of Can-Fite Biopharma Ltd. ("**the Company**") for 2011 ("**the reports**").

(2) To my knowledge, the reports do not contain any misrepresentation of any material facts and do not omit any representation of any material facts that are needed in order for the representations included therein, in view of the circumstances under which such representations were included, not to be misleading with reference to the period of the reports.

(3) To my knowledge, the financial statements and any other financial information included in the reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Company for the dates and periods addressed in the reports.

(4) I have disclosed to the Company's auditor, to the Company's board of directors and audit committee, based on my latest evaluation of internal control over financial reporting and disclosure:

   (a) All the significant deficiencies and the material weaknesses in the establishment or operation of internal control over financial reporting and disclosure that are liable to reasonably adversely affect the Company's ability to record, process, summarize or report financial information in a manner that is to impair the reliability of financial reporting and the preparation of the financial statements in accordance with applicable law; and

   (b) Any fraud, whether material or not, that involves the CEO or direct subordinates thereto or that involves other employees with a significant role in internal control over financial reporting and disclosure.

(5) I, alone or along with others in the Company:

   (a) Have established controls and procedures, or have secured the establishment and existence of such controls and procedures under my supervision, designed to guarantee that material information relating to the Company, including its subsidiaries as they are defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of the preparation of the reports; and

   (b) Have established controls and procedures, or have secured the establishment and existence of such controls and procedures under my supervision, designed to reasonably guarantee the reliability of financial reporting and the preparation of the financial statements in accordance with applicable law, including according to generally accepted accounting principles;

   (c) Have assessed the effectiveness of internal control over financial reporting and disclosure and have presented in this report the conclusions of the board of directors and management regarding the effectiveness of said internal control as of the date of the reports.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 29, 2012
Date

Pnina Fishman, CEO

Chief Financial Officer's Statement pursuant to Regulation 9b(d)(1):

Letter of Representation
Chief Financial Officer's Statement

I, Motti Farbstein, hereby declare that:

(1) I have reviewed the periodic report of Can-Fite Biopharma Ltd. ("**the Company**") for 2011 ("**the reports**").

(2) To my knowledge, the reports do not contain any misrepresentation of any material facts and do not omit any representation of any material facts that are needed in order for the representations included therein, in view of the circumstances under which such representations were included, not to be misleading with reference to the period of the reports.

(3) To my knowledge, the financial statements and any other financial information included in the reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Company for the dates and periods addressed in the reports.

(4) I have disclosed to the Company's auditor, to the Company's board of directors and audit committee, based on my latest evaluation of internal control over financial reporting and disclosure:

   (a) All the significant deficiencies and the material weaknesses in the establishment or operation of internal control over financial reporting and disclosure that are liable to reasonably adversely affect the Company's ability to record, process, summarize or report financial information in a manner that is to impair the reliability of financial reporting and the preparation of the financial statements in accordance with applicable law; and

   (b) Any fraud, whether material or not, that involves the CEO or direct subordinates thereto or that involves other employees with a significant role in internal control over financial reporting and disclosure.

(5) I, alone or along with others in the Company:

   (a) Have established controls and procedures, or have secured the establishment and existence of such controls and procedures under my supervision, designed to guarantee that material information relating to the Company, including its subsidiaries as they are defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my knowledge by others in the Company and in the subsidiaries, particularly during the period of the preparation of the reports; and

   (b) Have established controls and procedures, or have secured the establishment and existence of such controls and procedures under my supervision, designed to reasonably guarantee the reliability of financial reporting and the preparation of the financial statements in accordance with applicable law, including according to generally accepted accounting principles;

   (c) Have assessed the effectiveness of internal control over financial reporting and disclosure and have presented in this report the conclusions of the board of directors and management regarding the effectiveness of said internal control as of the date of the reports.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of anyone else, pursuant to any law.

March 29, 2012
Date

Motti Farbstein, COO and CFO

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